INTERNET RESEARCH INSTITUTE LTD

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

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AUDITORS' REPORT

To the shareholders of

Internet Research Institute Ltd

We have audited the accompanying consolidated statements of financial position of Internet Research Institute Ltd ("The Company") as of December 31, 2020 and 2019, and the Consolidated Statement of profit or loss and other comprehensive income or loss, changes in equity and cash flow for each of the three years then ended. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditor's Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and its consolidated companies as of December 31, 2020 and 2019, and the results of their operations, changes in equity and their cash flows for each of the three years in the period ended December 31, 2020, in conformity with International Financial Reporting Standards (IFRS) and with the provisions of the Securities Regulations (Annual Financial Statements) – 2010.

Without qualifying our opinion, we draw attention to Note 1b of the financial statements, according to which as part of an organizational restructuring that the group is undergoing, the Company submitted an application for approval to distribute a dividend which does not meet the profit test and to distribute the shares of Internet Research Institute, Inc to IRI Acquisition Ltd (hereinafter – the parent company) so that the entire transferred shares will be held directly by the parent company, after which the company will be dissolved.

Tel-Aviv, Israel	Kesselman & Kesselman
March 24, 2021	Certified Public Accountants (lsr.)
	A member firm of PricewaterhouseCoopers International Limited

INTERNET RESEARCH INSTITUTE LTD
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	USD (In thousands) December 31 2019	2020
ASSET			
CURRENT ASSETS			
Cash and cash equivalents	19	7,251	7,438
Trade receivables		360	203
Contract assets	5	332	191
Related parties	27	17	15
Income tax receivables		32	33
Other current assets	18	844	595
TOTAL CURRENT ASSETS		8,836	8,475
NON-CURRENT ASSETS			
Right-of-use assets		5,997	5,203
Investments accounted for using the equity method	26	13,894	14,968
Other financial assets	17	1,228	1,065
Property, plant and equipment	14	597	511
Intangible assets		265	212
Deferred tax assets	25	92	-
Other non – current assets		9	6
TOTAL NON-CURRENT ASSETS		22,082	21,965
TOTAL ASSETS		30,918	30,440
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Trade payable		487	341
Borrowings	22	230	107
Contract liabilities	5	2,784	4,671
Accruals and other payables	21	1,740	1,233
Current lease liabilities	25	1,221	1,213
Related parties	27	46	44
Current Provisions		119	126
TOTAL CURRENT LIABILITIES		6,627	7,735
NON-CURRENT LIABILITIES			
Non-current lease liabilities	25	5,055	4,110
Non-Current Provisions	23	412	308
Borrowings	22	-	2,619
TOTAL NON-CURRENT LIABILITIES		5,467	7,037
TOTAL LIABILITIES		12,094	14,772
EQUITY			
Share capital	20	-;-	-;-
Capital surplus		14,845	14,845
Accumulated other comprehensive income		1,707	2,217
Exchange differences on translation from functional currency to presentation currency		1,693	2,818
Retained earnings (accumulated deficit)		1,039	(5,020)
		19,284	14,860
Non- controlling interests		(460)	808
TOTAL EQUITY		18,824	15,668
TOTAL LIABILITIES AND EQUITY		30,918	30,440

March 24, 2021 Approval date of financial statements	Hiroshi Fujiwara Chairman of the Board of Directors and CEO	Mirei Kuroda CFO

The accompanying notes are an integral part of the Consolidated Financial Statements.

INTERNET RESEARCH INSTITUTE LTD
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		USD (In thousands)		
		Year ended December 31		
	Note	2018	2019	2020
Revenue		10,455	12,120	5,272
Operating costs and expenses:				
Cost of sales	6	(3,455)	(4,538)	(1,680)
Selling, general and administrative	7	(9,771)	(11,569)	(9,694)
Research and Development expenses		(33)	(1,743)	(1,620)
Other operational income (expenses), net	8.1	16	216	225
Total operating costs and expenses		(13,243)	(17,634)	(12,769)
Operating loss		(2,788)	(5,514)	(7,497)
Other expenses	8.2	(955)	(18)	-;-
Finance income	10	90	88	4
Finance expense	10	(8)	(108)	(328)
Finance income (expense), net		82	(20)	(324)
Share of profit of investments accounted for using the equity method	15	993	(2,791)	668
Gain on change in share of investments accounted for using equity method		112	1,849	439
Loss before income taxes		(2,556)	(6,494)	(6,714)
Income tax expense	11	(259)	(489)	14
Loss for the year		(2,815)	(6,983)	(6,700)
Loss for the period attributable to:				
Owners of the parent		(2,815)	(6,850)	(6,059)
Non-Controlling interest		-	(133)	(641)
Total Loss for the year		(2,815)	(6,983)	(6,700)
Loss for the year				
Other comprehensive income, net of tax:				
Items that may be reclassified to profit or loss				
Share of other comprehensive income of investments accounted for using equity method, net of tax	15	34	1	(2)
Items that will not be classified to profit or loss				
Differences from translation of financial statements from functional currency to presentation currency		644	198	1,125
Change in fair value of equity securities at FVOCI		5	10	(230)
Share of other comprehensive income (loss) of investments accounted for using equity method, net of tax	15	394	44	280

Total other comprehensive income, net of tax		1,077	253	1,173
Comprehensive income (loss) for the year		(1,738)	(6,730)	(5,527)
Attribution of the total loss for the year:				
Owners of the parent		-;-	(6,597)	(4,886)
Non-Controlling interest		-;-	(133)	(641)
Total Loss for the year			(6,730)	(5,527)
Earnings per share attributable to owners of the parent				
Basic (USD)	12	(0.071)	(0.147)	(0.130)
Diluted (USD)	12	(0.071)	(0.147)	(0.130)

The accompanying notes are an integral part of the Consolidated Financial Statements.

INTERNET RESEARCH INSTITUTE LTD
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Note	Share capital	Capital surplus	Retained earnings	Accumulated other comprehensive income	Non-Controlling interest	Exchange differences on translation from functional currency to presentation currency	Total equity
Balance as of December 31,2019		-;-	14,845	1,039	1,707	(460)	1,693	18,824
Loss for the year		-;-	-;-	(6,059)	-;-	(641)	-;-	(6,700)
Other comprehensive income, net of tax		-;-		-;-	48	-;-	1,125	1,173
Issuance of preferred shares by subsidiary		-	-	-	-	1,836	-	1,836
Share-based compensation		-	-	-	-	36	-	36
Change in interest in subsidiaries		-;-		-;-	462	37	-;-	499
Balance as of December 31,2020		-;-	14,845	(5,020)	2,217	808	2,818	15,668

The accompanying notes are an integral part of the Consolidated Financial Statements.

INTERNET RESEARCH INSTITUTE LTD

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

		USD (In thousands) Equity attributable to owners of the parent						
	Note	Share capital	Capital surplus	Retained earnings	Accumulated other comprehensive income	Non-Controlling interest	Exchange differences on translation from functional currency to presentation currency	Total equity
Balance as of December 31,2018		-;-	14,845	10,624	352	-;-	1,495	27,316
Adjustment on adoption of new accounting standard		-;-	-;-	(2,735)	-;-	-;-	-;-	(2,735)
Balance as of January 1,2019 (restated)		-;-	14,845	7,889	352	-;-	1,495	24,581
Loss for the year		-;-	-;-	(6,850)	-;-	(133)	-;-	(6,982)
Other comprehensive income, net of tax		-;-		-;-	55	-;-	198	252
Change in interest in subsidiaries		-;-		-;-	1,300	(327)	-;-	973
Balance as of December 31,2019		-;-	14,845	1,039	1,707	(460)	1,693	18,824

The accompanying notes are an integral part of the Consolidated Financial Statements.

	Note	2018	2019	2020
		USD (In thousands) Year Ended December 31		
Cash flows from operating activities:				
Profit (loss) before income taxes		(2,556)	(6,494)	(6,714)
Depreciation and amortization		117	1,301	1,275
Impairment loss of right-of-use assets		-;-	345	-
Loss on sale of the investments accounted for using equity method		-	-	40
Share of profit of investments accounted for using equity method	15	(993)	2,791	(668)
Gain on change in share of investments accounted for using equity method		(112)	(1,849)	(479)
Finance income and finance expense, net		1	22	79
Share-based compensation expenses	10	-;-	-;-	35
Change in assets and liabilities				
Trade receivables		412	(299)	181
Contract assets	5	(81)	(61)	153
Trade payable		(38)	319	(176)
Accruals and other payables	21	(283)	(267)	(3)
Contract liabilities	5	184	(199)	1,680
Provisions	23	-;-	297	(121)
Others		(372)	(343)	329
Dividends received	15	2,540	206	205
Interest received		-;-	4	-
Interest paid		(1)	(108)	(108)
Income taxes received (paid)		(352)	270	(342)
Net cash used in operating activities		(1,534)	(4,065)	(4,634)
Cash flows from investing activities:				
Acquisitions of property, plant and equipment		(486)	(12)	(9)
Proceeds from sales of investments accounted for using the equity method		-	-	1,017
Acquisitions of intangible assets		(7)	(282)	-
Acquisition of IOT		-;-	142	-
Acquisition of Investment Securities		(282)	(7)	(29)

Acquisition of subsidiary, net of cash payments		-;-	-;-	(69)
Proceeds from sales of shares of subsidiaries		-;-	-;-	97
Proceeds from sales of investment securities		96	-;-	19
Acquisition of other financial assets		(2)	(7)	(1)
Net cash used in (provided by) investing activities		(681)	(166)	1,025
Cash flows from financing activities:				
Payments for borrowings		-;-	-;-	(163)
Proceeds from short-term loans	22	-;-	230	-
Proceeds from issuance of common shares	20	4,367	-;-	-;-
Proceeds from borrowings		-;-	-;-	2,528
Repayments of obligations under finance leases		(46)	(1,110)	(1,241)
Issuance of shares in a subsidiary		-;-	973	2,241
Net cash provided by financing activities		4,321	93	3,365
Net change in cash and cash equivalents		2,106	(4,138)	(244)
Cash and cash equivalents at beginning of year		8,949	11,282	7,251
Capital fund from translation differences		227	107	431
Cash and cash equivalents at end of year		11,282	7,251	7,438

The accompanying notes are an integral part of the Consolidated Financial Statements.

Regarding the acquisition of NOM through the exchange of shares, see Note 2b (4).

NOTE 1 – GENERAL

a. General Information

Internet Research Institute Ltd (hereinafter - the Company) was incorporated and registered in Israel as a private company on August 8, 2017. The Company listed shares of its common stock on the Tel-Aviv Stock Exchange on August 9, 2018. The Company wholly holds in Internet Research Institute, Inc. (hereinafter – IRI Japan), a private company that was incorporated in Japan on December 9, 1996. IRI Japan registered address is in Tokyo, Japan.

The Company's operations, via IRI Japan and its subsidiaries (hereinafter – the Group), are focused on Internet technologies (and, in particular, ECBO), cyber security and AI (see the definitions of these terms above), and include consultation, research, investments, and production of conferences and events in these fields.

Upon its incorporation in Israel, the Company was wholly owned by Dr. Hiroshi Fujiwara. After the Company's incorporation, Dr. Fujiwara set up a company that was wholly owned by him, which was incorporated under Japanese law (the "New IRI Japan") the entire issued capital of which was transferred by Dr. Fujiwara to the Company immediately following its incorporation. Just prior to the date of the incorporation, a merger transaction (under Japanese law, hereinafter: the "Merger") was effected, in which the following actions were performed at the same time: (i) Dr. Fujiwara transferred 34,786 shares of the Company (out of the 34,787 shares existing in the issued capital of the Company) to the New IRI Japan; (ii) the operations of (the original) IRI Japan were merged into the New IRI Japan; and (iii) the New IRI Japan transferred the shares of the Company to the shareholders of (the original) IRI Japan at a ratio of 1:2 (i.e., two shares of the Company for each share of the original IRI Japan). For the purpose of the merger, 756 ordinary A shares of (the original) IRI Japan were converted for ordinary shares of (the original) IRI Japan, at a ratio of 1:1.

As a result of the above, after the completion of the above-mentioned merger, the shareholders of the Company were the persons who were the shareholders of (the original) IRI Japan.

Pursuant to the law that is applicable in Japan, on the date of the merger, the New IRI Japan, as the recipient corporation in the merger, accepted all of the assets and liabilities of the original IRI Japan as such had been on the date of the merger. Therefore, in these financial statements, the term "IRI Japan" shall refer to the original IRI Japan and to the New IRI Japan, without distinction.

After completing the foregoing merger, the Company allotted bonus shares to its shareholders, so that an additional 999 shares were allotted for each share of the Company.

b. Structural change

In accordance with the Companies Law, 1999, the Securities Law, 1968 and the Securities Regulations, 2000 (Tender Offer Regulations), on July 13, 2020, IRI Acquisition Ltd. applied a request to purchase all the Company's shares held by the public, in such a way that after the purchase, the Company will become a privately owned company of IRI Acquisition Ltd (hereinafter – the Parent Company). The purchase occurred on September 22, 2020.

On January 7, 2021, as part of an organizational restructuring that the group is undergoing and towards the dissolution of the company, the Company submitted to the Tel Aviv-Yafo District Court an application for approval of division - according to section 303 of the Companies Law (TA 13299-01-21). As part of the application, the court was asked to authorize the Company to distribute a dividend which does not meet the profit test and to distribute its subsidiary, IRI Inc., to the Parent Company, so that the entire transferred shares will be held directly by the Parent Company.

In accordance with the court's decision from January 11, 2021 the Company submitted the application to the Commissioner for Insolvency and Economic Rehabilitation Proceedings (hereinafter: the “Commissioner”) (as well as to the relevant bodies in the Tax Authority); The Commissioner is required to submit his response to the division request to the court by April 11, 2021.

c. Covid-19 implications:

The outbreak of the COVID-19 virus (hereafter, the "Corona virus") in the world in the first quarter of 2020 and its spread, as of the reporting date of this consolidated financial statements, causes great uncertainty in Israeli and Japanese markets, causing a significant upheaval in the global economy.

In dealing with the outbreak of the Corona virus and attempting to curb its spread, widespread regulatory measures that significantly restrict people's mobility and public gathering are being taken in wide areas of the world, as well as in Israel and Japan.

As of the date of issuance of the financial reporting, a number of conferences that were expected to take place in Japan as part of NOM's activities in planning, organizing, producing and conducting conferences, exhibitions, seminars and other business events, including the Interop Conference, which is NOM's main conference, were canceled due to the spread of Corona virus and the relevant authorities’ guidelines in this regard.

As a result, a material negative effect on NOM’s revenues occurred in the year ended December 31, 2020 and it resulted that NOM’s revenues significantly decreased in the period. However, the impact on NOM's cash flow is smaller than the effect on its revenue, since advances paid for attending the conferences will not be refunded by NOM and clients will be credited with invitations to conferences next year, and because of the cost reduction due to the event cancelation.

In addition, given the uncertainty regarding the continued spread of the virus and the resulting regulatory restrictions, the Company's management estimates that there may be another significant impact on NOM's results in the current year, depending on the situation's duration, which the Company's management cannot estimate at this time.

According to the Company's management, BBT's operations were not significantly affected by the Corona virus.

In light of the above, the Board of Directors and the Company's management have approved a streamlining plan (hereinafter, the "Management Plan"), as follows:

1. Given the fact that ECBO has operating losses (see Note 29), the Company will not continue financing ECBO's activities from the Group's resources and will take actions to achieve external financing such as equity investment or loan to ECBO. See also Note 32 (b).
2. Make efforts to reduce costs in the Group companies.
3. Partial realization of the Company's investment in BBT.
4. Apply for a special long-term loan, due to the impact of Corona virus, which is limited to US $ 2.78 million from Japanese banks. The loan funded by Japan's Finance Corporation is awarded to companies whose operations have been significantly damaged by the Corona virus impact. Company's management believes that the Company meets the loan criteria.

In the Company's management opinion, based on the management plan as stated above, the Company is able to meet its liabilities and the expected cash flow will enable the Company to finance its activities for the coming year.

d. Terms

In these financial statements:

The Company, IRI Israel –Internet Research Institute Ltd.

The Group – the Company and its subsidiaries and its affiliates.

IRI Japan – Internet Research Institute, Inc., a private company that is wholly owned by the Company, and that was incorporated in Japan.

NOM – Nano-Opt Media, Inc., a private company that is wholly owned by IRI Japan, which was incorporated in Japan.

ECBO – ECBO square, Inc., a private company in which IRI Japan holds 71% of the issued and paid-up share capital, which was incorporated in Japan.

FAEV – Fintech A-Eye Ventures, Inc., a private company that is wholly owned by IRI Japan, which was incorporated in Japan.

BBT – BroadBand Tower, Inc., a public company incorporated in Japan, the shares of which are listed for trading on the Tokyo Stock Exchange, in which IRI Japan holds 19% of the issued and paid-up share capital.

MIC – Mobile Internet Capital, Inc., a private company which was incorporated in Japan in which IRI Japan holds 30% of the issued and paid-up share capital.

Stake holders and controlling interests – As defined in TASE ordinance

Related Parties – As defined in IAS 24

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied through the years ended December 31, 2020 and 2019, unless otherwise stated.

The consolidated financial statements are measured in thousands of Japanese YEN ("¥"), which is the Group's functional currency as it is the currency of the primary economic environment in which the Group operates. And the consolidated financial statements are presented in thousands of U.S. Dollars (USD or $ or dollar), unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group ("the financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standard Board (the "IASB") for the purpose of preparation for the consolidated financial statements of IRI Israel. The financial statements were included in the consolidated financial statements of IRI Israel which were approved by Representative Director, President Hiroshi Fujiwara and Chief executive officer, Mirei Kuroda, and external Director, on March 24, 2021.

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements are disclosed in Note 4.

Also note that all comparative financial information for the year ended December 31, 2019 were presented in these financial statements, which were prepared at IRI Israel's consolidated basis, whereas all current financial information for the year ended December 31, 2020 were prepared at IRI Japan's sub consolidated basis.

2.1.1. New and amended standards adopted by the Group

The group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2019:

- IFRS 16 Leases

The Group had to change its accounting policies as a result of adopting IFRS16. The group elected to adopt the new rules retrospectively but recognized the cumulative effect of initially applying the new standard on January 1, 2019. This is disclosed in Note 2.20.

2.1.2. New standards and amendments to existing standards not yet adopted by the Group

Certain new accounting standards and interpretations have been published that are not mandatory for December 31,2020 reporting periods and have not been early adopted by the group. These standards are not expected to have a material impact on the early in the current or future reporting periods and on foreseeable future transactions.

2.2 Basis of consolidation

(a) Subsidiaries

Subsidiaries are all entities (including a structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(b) Associates

An associate is an entity in which the Group has significant influence, but not control, over the entity's financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity, unless it can be clearly demonstrated that it is not the case.
The Group's investments in associates are accounted for using the equity method. Under the equity method, the investment in an associate is initially recognized at cost and the carrying amount is adjusted to recognize the Group's share of the profit or loss and changes in equity of the associate after the date of acquisition, including its share in the associate's other comprehensive income. Dividends received or receivable from associates and joint ventures are recognized as a reduction in the carrying amount of the investment.
If an associate uses accounting policies different from those of the Group for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in applying the equity method.
Changes in ownership interests in associates that do not change the significant influence status in such associate, are accounted for as follows: the difference between any consideration received for sale of the associate shares, and the change in the carrying amount of the investment, is carried to income; a proportionate share of the associate's other comprehensive income is reclassified to profit or loss.

(c) Transactions with non-controlling interests which does not results with loss of control

Transactions with non-controlling interests which does not results with loss of control accounted as transactions with owners. In these transactions, the difference between the fair value of any proceed paid or received and the amount where non-controlling interests disclosed in order to reflect the changes in its proportional rights in the subsidiaries, recognized in the owners' equity.

(d) Business combinations under common control

On December 21, 2018, Internet Research Institute, Inc. ("original IRI Japan") which was established as a limited company in Japan engaged with ECBO in an agreement to purchase 100% of its common shares. According the agreement terms, the purchase accomplished on January 4, 2019, accordingly, ECBO is consolidated in the Company reports from this day onward. Over 2019, and until December 31, 2019, ECBO issued new shares to a third party. Accordingly, IRI holding decreased to 77% from 100% initially.

(e) Business combinations by establishment of a new entity

On September 2018, Internet Research Institute, Inc. ("original IRI Japan") which was established as a limited company in Japan established Fintech A-Eye Ventures, Inc. (hereto "FAEV"). Accordingly, the company is a full owner of FAEV.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Chief Operating Decision-Maker ("CODM"), who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the CEO of the Group that makes strategic decisions.

2.4 Property, plant and equipment

Property, plant and equipment are measured on a historical cost basis, less accumulated depreciation and accumulated impairment losses. Historical cost includes costs directly attributable to the acquisition of the asset and the initial estimated costs related to disassembly, retirement and site restoration.
Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Leasehold improvement	4 to 12 years
- Equipment	2 to 12 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting date.
An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.
Gains and losses on disposals are determined by comparing the proceeds with carrying amount and are recognized within "Other (expenses)/incomes, net" in the profit or loss.

2.5 Intangible assets

Computer software

Computer software is stated at cost less accumulated amortization and impairment losses. Amortization is calculated using the straight-line method to allocate the cost over their estimated useful lives, which does not exceed five years.

Nano-opt Media Inc. ("NOM") has entered into a license agreement for use of a trademark, with United Business Media, LLC. ("UBM"), which holds the rights related to Interop events around the world, under which UBM granted an exclusive license to NOM to use three registered trademarks for Interop events in Japan. In consideration for the right of use of the trademarks as aforesaid, NOM shall provide UBM with royalties in the sum of 5% of the net revenues of more than JPY 500 million, which may be received from any event. If the net revenues from the event are less than JPY 500 million, no royalties will be paid for the event. The royalties paid to UBM are contingent payments which are not capitalized upfront but rather expensed as incurred.

2.6 Impairment of non-financial assets

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.7 Government grants

ECBO as a new subsidiary of the Company received USD 66 thousand and USD 114 thousands of government grants and they were recorded as "other incomes" in the consolidated statements of profit or loss for the period ended December 31, 2019 and 2020, respectively. As of December 31, 2020, there are no unfulfilled conditions or other contingencies attaching to these grants. ECBO did not benefit directly from any other forms of government assistance.

2.8 Financial assets

(a) Classification of financial assets

Based on the Group's business model for managing the financial assets and the characteristics of contractual cash flow of the financial assets, the Group classifies the financial assets by following categories. Gains and losses arising from assets measured at fair value are either recorded in profit or loss or other comprehensive income, depending on the Group's intention.

i. Financial assets as amortized cost

Financial assets measured at amortized cost are debt instruments held for collection of contractual cash flows and those cash flows represent solely payments of principal and interest.

ii. Financial assets at fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income are debt instruments whose contractual cash flows represent solely payments of principal and interest on the principal amount outstanding and which are held within a business model both to collect contractual cash flows and sell and equity instruments which the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

iii. Financial assets at fair value through profit or loss

Subsequent to initial recognition, financial assets are measured at fair value. A gain or loss on debt instruments which is not part of a hedging relationship is recognized in profit or loss.

(b) Measurement of financial assets

Initial measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset at fair value through other comprehensive income, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Subsequent measurement

Debt instruments:

i. Amortized cost

Financial assets at amortized cost are measured at amortized cost using the effective interest method, and related interest income is included in finance income. When the asset is derecognized or impaired, a gain or loss on a debt investment is recognized in profit or loss.

ii. Fair value through other comprehensive income (FVOCI)

Subsequent to initial recognition, financial assets are measured at fair value and gains or losses arising from changes in the fair value are recorded in other comprehensive income, except for the recognition of interest revenue, foreign exchange gains or losses and expected credit losses which are recognized in profit or loss.

iii. Fair value through profit or loss

Subsequent to initial recognition, financial assets are measured at fair value. A gain or loss on debt instruments which is not part of a hedging relationship is recognized in profit or loss.

Equity instruments:

Where the Group has irrevocably elected to designate equity instruments as financial assets measured at fair value through other comprehensive income, movements in the carrying amount by fair value measurement are recognized as other comprehensive income.
There is no subsequent reclassification of cumulative gains or losses previously recognized in other comprehensive income to profit or loss. Where the Group has not elected to designate equity instruments as financial assets at fair value through other comprehensive income, movements in the carrying amount by fair value measurement are recognized in profit or loss.
Dividends from equity investments are recognized in profit or loss as “Finance income” when the Group’s right to receive payments is established.

(c) De-recognition of a financial asset

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability. If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

(d) Financial Liabilities

The Group recognizes financial liabilities in the Consolidated Statements of Financial Position when the Group becomes a party to the contractual provisions of the financial liability. At the date of initial recognition, financial liabilities are measured at fair value, net of transaction costs. Subsequent to initial recognition, financial liabilities are measured at amortized cost using the effective interest method.

The Group derecognizes financial liabilities from the Consolidated Statements of Financial Position when it is extinguished (i.e. when the obligation specified in the contract is discharged, canceled or expires).

(e) Impairment of financial assets

The Group assesses the expected credit losses associated with its assets carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables only, the Group applies the simplified approach permitted by IFRS9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

2.9 Cash and cash equivalents

In the consolidated statements of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months. In the consolidated statements of financial position, bank overdrafts are shown within borrowings in current liabilities.

2.10 Trade receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets.
Trade and other receivables are recognized initially at fair value less provision for impairment. At the end of each reporting period, the Group assesses the recognition of any impairment of financial assets on whether there is a significant increase in credit risk from the initial recognition.

2.11 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary shares of business from suppliers. Accounts payable are classified as current liabilities if payable is due within one year or less. Trade payable are recognized initially at fair value, and subsequently measured at amortized cost.

2.12 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statements of financial position date in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred tax is recognized using the asset-liability method in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purpose and the amounts used for taxation purposes. A deferred tax liability is recognized for all temporary differences. A deferred tax asset is recognized for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that a taxable profit will be available against which they can be utilized. However, deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit or loss nor taxable income.

The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries and associates, except to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. The Group recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries and associates, to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax assets to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow, in a manner that the Group expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied on the same taxable entity by the same tax authority.

2.13 Employee benefits

(a) Profit-sharing and bonus plans

The Group recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(b) Employees leave entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the year-end date.

Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

(c) Share-based payments

The Group has granted stock options to directors and employees. The fair values of the stock options are measured at the grant dates. Compensation expenses related to stock options are recognized over the vesting period. Refer to Note 21 Share-based Payments for more details on the valuation methodology of stock options and the assumptions used in such valuation

2.14 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The Company is required to incur certain costs in respect of liability to dismantle and remove assets and to restore sites on which the assets were located. The dismantling costs are calculated according to best estimate of future expected payments discounted at a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as finance costs (unwinding of discount).

2.15 Borrowings

Borrowings recognized initially in their fair value, net of transaction costs. In subsequent periods the borrowings measured in an amortized cost. Any differences between the proceeds (net of transaction costs) to the redemption amount sorted to the profit and loss over the loan period according to the effective interest method.

Borrowings are classified as a current liability, unless the group possess an unconditional right to postpone the loans installments for at least 12 months after the reporting period, if applicable the loans will be classified as non-current liabilities.

2.16 Revenue recognition

The Group has applied the following accounting policies in accordance with IFRS 15 commencing on January 1, 2018.

As discussed in Note 30 Segment Reporting, the Group mainly provides the following two business.

<u>Information technology</u>
The business is mainly to provide consultancy services, research services and the reviewing of market trends in the field of internet technologies for companies, organizations and government institutions in Japan. In addition, ECBO who has become a subsidiary of the Company during the year ended December 31, 2019, the subsidiary mainly provides IoT solutions and consultation services in the field of data security, maintenance services for solar power facilities, and the design and production of films. The business is determined as operating segment.

The business mainly consists of a) providing research report/deliverables of design and production of films to the customer and b) providing consulting/lecture/IoT solution service to the customer and the Group recognizes the revenues as follows.

a) Providing research report/deliverables of design and production of films to the customer
Based on the contracts with the customer, the Group has an obligation to provide the research report to their customer in such a field of internet technologies in Japan etc. and to provide deliverables of the design and production of films etc.
The obligation is satisfied at a point in time when the research report or the deliverables was delivered to the customer or accepted by them, and accordingly, the Group recognizes its revenues at the time.

b) Providing consulting/lecture/IoT solution services and maintenance services for solar power facilities to the customer
Based on the contracts with the customer, the Group has an obligation to provide the consulting/ lecture/IoT solution services and maintenance services for solar power facilities to the customer over the contract period.
The obligation satisfied over time, and the customer equally receives the benefit from the service over the contract period.
Accordingly, the Group recognizes its revenues based on the straight-line method over the contract period.

<u>Information service business</u>
The business is mainly to provide planning, organization, production and management of conferences, exhibitions, seminars and other business in the fields of internet technology, hi-tech,

cyber security etc. The business mainly consists of a) host event business and b) private event support service, and the Group recognizes the revenues as follows.

a) Host event business
The business is to plan, hold, operate and manage conferences, exhibitions and seminars (hereafter "host event") by the Group as an organizer entirely, and it is the performance obligation of the Group.
The customer of the business are mainly exhibitors and sponsors of the host events, and they receive the benefit of the business provided by the Group over the event period. Therefore, the Group's performance obligation is evenly satisfied over time and assessed that a straight-line method over event period.
Accordingly, the Group recognizes its revenues based on the straight-line method over the event period.

b) Private event support service
The service is to provide support service for the private event held by the customer who is an organizer of the event. The support service is mainly providing the promotion activities and the reception of the private event etc. behalf of the customer, and the content of the service depends on each contract and accordingly, the performance obligation is different in each contract. Based on the performance obligation in each contract, the Group mainly recognizes its revenue based on the method as "At a point in time when the event has been totally completed." or "Over the contract period on a cost method due to the facts that outcome of its performance obligation will be clear in the late stage of the services on around relevant event date."

There are no significant financing components (i.e. payment terms exceeding one year) within the services provided to the customer by the Group.

2.17 Research and development expenses

Research and development expenses are charged to the statement of income as incurred unless all of following conditions have been met:

(a) The technical feasibility of completing the intangible asset so that it will be available for use or sales.
(b) Its intention to complete the intangible asset and use or sell it.
(c) Its ability to use or sell the intangible asset.
(d) How the intangible asset will generate probable future economic benefits. Among other things, the entity demonstrates the existence or a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
(e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
(f) Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

As of December 31, 2020 and 2019, the above criteria for capitalization have not been met.

2.18 Leases

As explained in Note 2.1.1 above, the group has changed its accounting policy for leases where the group is the lessee. The new policy and its impact of the change in Note 2.20.
Until December 31, 2018, leases of property, plant and equipment where the group, as lessee, had substantially all the risks and rewards of ownership been classified as finance leases.
Finance leases were capitalized at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in other short-term and long-term payables.

Each lease payment was allocated between the liability and finance cost. The finance cost was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases was depreciated over the asset's useful life, or over the shorter of the asset's useful life and the lease term if there is no reasonable certainly that the group will obtain ownership at the end of the lease term.
Leases in which a significant portion of the rewards of ownership were not transferred to the group as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

2.19 Share capital

Ordinary shares are classified as equity. Company's share acquired by the Company (treasury shares) are presented as a reduction of equity, at the consideration paid, including any incremental attributable costs, net of tax. Treasury shares do not have a right to receive dividends or to vote.

2.20 Earnings per share (EPS)

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year excluding ordinary shares in issue during the year excluding ordinary shares purchased by the Company and held as treasury shares.
Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume exercise of all dilutive potential ordinary shares. The instruments that are potential dilutive ordinary shares are equity instruments granted to employees. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

NOTE 3 – FINANCIAL RISK MANAGEMENT:

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group does not use any derivative financial instruments for speculative purposes.

Risk management is carried out by management of the Group. Formal and informal management meetings are held to identify significant risks and to develop procedures to deal with any risks in relation to the Group's businesses.

(a) Market risk

The Group's interest rate risk arises from bank balances which are carried at variable rates, which expose the Group to cash flow interest rate risk.

The Group's fair value interest rate risk arises from bank balances which are carried at fixed rates, which expose the Group to fair value interest rate risk.

(b) Credit risk

Credit risk is the risk of financial losses to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investments.
In regards of the bank deposits, the Group only deals with banks with high credit ratings, as assigned by external rating agencies, so as to minimize the credit risks.

Maximum amounts of possible financial loss to the Group due to credit risk as of December 31, 2020 and 2019 are as follows:

	December 31, 2019 Book value (In thousands)	December 31, 2020 Book value (In thousands)
Cash at bank (1)	7,248	7,438
Trade receivable (1)(2)	360	203
Other receivables (1)(2)	8	23
Related parties (2)	21	15
Office security deposits (1)	889	925
Total	8,526	8,604

(*) less than thousand US dollars.

(1) None of these assets were past due or impaired at the end of the respective reporting period.
(2) The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group regularly performs credit assessments on customers and counterparties considering their financial position and historical data in order to manage the credit risk.

Management makes periodic assessment on the recoverability of trade and other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any disputes with the debtors. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the directors are of the opinion that adequate provision for uncollectible receivables has been made in the Financial Information.

In case e of impairment of financial assets, the Group does not directly write off such assets by reducing the carrying amount, but instead records an allowance for doubtful accounts. However, in the event that there is no realistic prospect of future recovery, financial assets are directly written off.

Below is the movement in the allowance for doubtful accounts:

	Allowance for doubtful accounts USD (In thousands)
Balance on December 31, 2018	77
Allowance for bad debt	-;-

Reversal	(3)
Utilized	(43)
Translation difference	4
Balance at December 31, 2019	35
Allowance for bad debt	-;-
Reversal	-;-
Utilized	-;-
Translation difference	62
Balance at December 31, 2020	97

(*) less than thousand US dollars.

(c) Liquidity risk

Liquidity risk refers to the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial assets.

Prudent liquidity risk management implies maintaining sufficient cash and bank balances, the availability of funding from an adequate amount of committed credit facilities from leading banks and the ability to close out market position.

The Group maintains liquidity by a number of sources including orderly realization of short-term financial assets and receivables; and long-term financing including long-term borrowings. The Group aims to maintain flexibility in funding by keeping sufficient bank balances, committed credit lines available and interest-bearing borrowings which enable the Group to continue its business for the foreseeable future.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal to their carrying amounts as the impact of discounting is not significant.

	Within 1 year	Between 1 and 2 years	Over 2 years	Total
	USD thousands	USD thousands	USD thousands	USD thousands
As of December 31, 2019				
Trade payables	487	-;-	-;-	487
Other payables (excluding accruals and provisions)	728	-;-	-;-	728
Obligation under finance lease	1,221	1,152	3,904	6,277
Amounts due to related parties	230	-;-	-;-	230
	2,720	1,152	3,904	7,776
As of December 31, 2020				
Trade payables	341	-;-	-;-	341
Other payables (excluding accruals and provisions)	571	-;-	-;-	571
Obligation under finance lease	1,213	1,077	3,032	5,323
Borrowings	107	94	2,525	2,726
	2,232	1,171	5,557	8,961

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the number of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

	Level 1 USD thousands	Level 2 USD thousands	Level 3 USD thousands	Total USD thousands
As of December 31, 2019				
Assets				
Financial assets at Fair value through profit and loss – equity securities			87	87
Financial assets available for sale for equity securities			252	252
Total			339	339
As of December 31, 2020				
Assets				
Financial assets at Fair value through profit and loss – equity securities			41	41
Financial assets available for sale for equity securities			88	88
Total			129	129

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the statements of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 represent listed equity investments classified as fair value through other comprehensive income which were not held for trading purpose.

(b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

(c) Financial instruments in level 3

If one or more of the significant inputs is not based on observable market data, the instruments is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instrument.

The table below presents the changes in level 3 instruments for the relevant periods:

	Available for sale financial assets USD (In thousands)
Balance as of January 1, 2019	304
Purchases	21
Fair value gain/(loss) on valuation	10
Translation differences	4
Balance as of December 31, 2019	339
Balance as of January 1,2020	339
Purchases	29
Decrease due to sales	(15)
Fair value gain/(loss) on valuation	(230)
Translation differences	6
Balance as of December 31, 2020	129

(*) less than thousand US dollars.

There were no transfers between levels 1, 2 and 3 during the relevant periods.

3.4 Offsetting financial assets and financial liabilities

As of December 31, 2020 and 2019, there were no financial assets or financial liabilities which were subject to offsetting, enforceable master netting or similar agreements.

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Group's consolidated financial statements requires management to make estimates and assumptions are based on the best judgement of the management in light of historical experience and various factors deemed to be reasonable as of the fiscal year end date. Given their nature, uncertainty about these assumptions and estimates could result the outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The estimates and assumptions are continuously reviewed by the management. The effects of a change in estimates and assumptions are recognized in the period of the change or in the period of the change and future periods. Among estimates and assumptions made by the management, the following are ones that may have a material effect on the amounts recognized in the consolidated financial statements of the Group.

(a) Impairment

- Non-financial assets

Non-current assets, such as property and equipment, and investments in associates, are assessed for indications of impairment at the end of reporting period. The Group evaluates both internal and external sources of information to assess whether impairment indicators exist. Some of the impairment indicators are evidence of obsolescence or significant adverse changes in the technological, market, economic or legal environment of the market in which the Group operates, or the asset is dedicated. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss. Likewise, the determination of the assets' recoverable amounts involves the use of estimates by the management that can have a material impact on the respective values and ultimately the amount of any impairment.

- Financial assets measured at amortized cost

Regarding the financial assets measured at amortized cost, the Group assesses whether there is any objective evidence that financial assets are impaired on a quarterly basis. If there is any objective evidence, the Group recognizes the difference between carrying value of the asset and the present value of estimated future cash flows as an impairment loss. When the Group estimates the future cash flows, the management considers the probability of failure of credit, time of recovery and past trend of losses, and decides whether the actual loss, which reflects current economic and credit conditions, is more or less that past trend. The Group considers these estimates to be significant because any adjustments may significantly affect the amount of an impairment loss for the financial assets measured at amortized cost.

(b) Recoverability of deferred tax assets

Deferred tax assets are recognized for all deductible temporary differences, unused tax losses carryforward and unused tax credits carryforward to the extent that it is probable that taxable income will be available. The elimination of future taxable income is calculated based on financial budgets approved by management of the Group, and it is based on management's subjective judgements and assumptions. The Group considers these estimates to be significant because any adjustments in the assumed conditions and amendments of tax laws in the future may significantly affect the amounts of deferred tax assets and deferred tax liabilities.

(c) Method of determining fair value for financial instruments measured at fair value with unobservable inputs

Certain financial assets and financial liabilities held by the Group measured at fair value require using valuation techniques that incorporate unobservable inputs based on the judgement and assumptions of Group management, such as experience assumption, and the use of specific numerical calculation models.

(d) Provisions (d)

The Group recognizes asset retirement obligations related to assets leased under operating leases in the consolidated statements of financial position. These provisions are recognized based on the best estimates of the costs expected to incur for the restoration of the operating lease properties to the state as specified in the rental agreements upon termination of the operating leases. The estimation takes risks and uncertainty related to the obligation into account as of the fiscal year end date.

NOTE 5 – REVENUES FROM CONTRACTS WITH CUSTOMERS

5.1 Disaggregation of revenue from contracts with customers

Details regarding disaggregated revenue included at segments reporting note (see Note 30).

5.2 Assets and liabilities related to contracts with customers

The Group has recognized the following revenue-related contract assets and liabilities.

	December 31, 2019	December 31, 2020
Contract assets (1)	332	191
Contract liabilities (2)	2,784	4,671

(1) Contract assets consist of "Costs to fulfil a contract" which is attributed to the host or the customer's event in information services business.
(2) Contract liabilities consist of "Unsatisfied performance obligations" which is related to information services business. The obligations will be satisfied within a year.

As shown in the above table, there was no significant changes in contract assets and liabilities during the year ended December 31, 2020.

The USD 683 thousand out of USD 2,784 thousand recognized in contract liabilities as of December 31,2020 have been recognized as revenue for the year ended December 31,2020.

5.3 Accounting policies and significant judgements

The accounting policies and significant judgements for the group's revenues from contracts with customers are explained in Note 2.16.

NOTE 6 – COST OF SALES

	USD thousand	
	December 31	
	2019	2020
Labor costs	442	124
Outsourcing expenses	2,021	793
Rental expenses for exhibition space etc.	1,701	580
Other	374	183
Total	4,538	1,680

NOTE 7 – SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	USD thousand		
	Year Ended December 31		
	2018	2019	2020
Advertising expenses	1,534	1,330	686
Salaries, bonuses and other employee expenses	3,167	4,381	4,463
Share-based compensation expenses	-;-	-;-	34
Traveling and transportation expenses	468	637	240
Rent expenses	940	-;-	-;-
Depreciation and amortization	117	1,301	1,277
Impairment loss of right-of-use assets	-;-	345	-
Professional fee	2,311	1,821	1,617
Donation	419	407	405
Entertainment	133	184	56
Bad debt expense	-;-	297	-
Other	682	866	916
Total	9,771	11,569	9,694

NOTE 8 – OTHER INCOME AND OTHER EXPENSES

8.1 Other incomes

	USD thousand		
	Year Ended December 31		
	2018	2019	2020
Other incomes	18	216	254
Other expenses:			
Loss on retirement of property, plant and equipment	(2)	-	-
Foreign exchange loss	-	-	(29)
	16	216	225

8.2 Other expenses

	USD thousand		
	Year Ended December 31		
	2018	2019	2020
Impairment of financial assets	(945)	(19)	-
Loss of changes in fair value of financial assets	(10)	1	-
	(955)	(18)	-

NOTE 9 – EMPLOYEE BENEFITS EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	USD thousand		
	Year Ended December 31		
	2018	2019	2020
Salaries, bonuses and allowances	2,830	4,601	4,090
Other employee benefits	337	564	549
Total	3,167	5,165	4,639

NOTE 10 – FINANCE INCOME (EXPENSE), NET

	USD thousand		
	Year Ended December 31		
	2018	2019	2020
Finance income –			
Interest income and exchange rate differences	90	88	(313)
Finance expense			
Interest expense	(8)	(108)	(11)
Finance income (expense), net	82	(20)	(324)

NOTE 11 – INCOME TAX EXPENSES

11.1 The Company's tax rates

In January 2016, the Law for the Amendment of the Income Tax Ordinance (No. 216) was published, enacting a reduction of corporate tax rate in 2016 and thereafter, from 26.5% to 25%.

In December 2016, the Economic Efficiency Law (Legislative Amendments for Implementing the Economic Policy for the 2017 and 2018 Budget Year), 2016 was published, introducing a gradual reduction in corporate tax rate from 25% to 23%. However, the law also included a temporary provision setting the corporate tax rate in 2017 at 24%. As a result, the corporate tax rate will be 24% in 2017 and 23% in 2018 and thereafter.

11.2 Income tax expenses in statements of income:

1) As follows:

	USD (In thousands)		
	Year Ended December 31		
	2018	2019	2020
Current income tax			
- Japan corporate income tax for the year	164	454	32
Deferred income tax expenses (Note 24)	95	35	(46)
	259	489	(14)

Japan corporate income tax has been calculated on the estimated assessable profit for the relevant periods at the rates of taxation prevailing in Japan in which the Group operates.

The tax on the Group’s profit before income tax differs from the theoretical amount that would arise using the income tax rate of Israel as follows:

	USD (In thousand)		
	December 31		
	2018	2019	2020
Loss before income tax	(2,556)	(6,494)	(6,713)
Tax Calculated at applicable Israel corporate income tax	(588)	(1,494)	(1,544)

Increase (decrease) regarding tax rates differences of subsidiaries in Japan	(50)	(773)	(685)
Permanent non-deductible expenses	232	217	37
Permanent exempt income	(429)	(35)	(34)
Equity method investment gain	(373)	317	(258)
Assessment of the recoverability of deferred tax assets	1,456	2,032	2,640
Other	11	11	(37)
Tax expense	259	275	119

The Group is subject to national corporate income tax, inhabitants' tax, and enterprise tax in Japan, which, in aggregate, resulted in effective tax rates approximately 33.59% for the years ended December 31, 2019 and December 31, 2020.

Under Japanese tax law and regulations, every company is required to submit an annual tax return to tax authorities. The statute of limitations to request a correction of prior year tax liabilities is five years from when the original tax return was filed.
After filling of tax return, it may take a tax inspection by the tax authorities on an irregular base. Most recently, Nano-opt Media Inc. took the tax inspection in July 2019. As a result of the tax inspection, Nano-opt Media Inc. amended its tax return, but the amended amount was immaterial.

The following table sets forth the applicable tax rate for the company during the period and the formula in calculating each type of tax.

	December 31		
	2018	2019	2020
1. Corporate tax rate:	23.40%	23.20%	23.20%
2. Local corporate tax rate:	4.4%	4.4%	10.3%
3. Inhabitants' tax rate (At Tokyo):	12.90%	12.90%	7.00%
4. Enterprise tax rate (At Tokyo):			
(a)Profit-based tax rate	6.70%	6.70%	7.00%
(b)Special local corporate tax rate	43.20%	43.20%	37.00%
Effective tax rate	33.80%	33.59%	33.59%

1. Corporate tax rate is imposed on a corporation's taxable income. Amendments to the Japanese tax regulations were enacted into law on March 29, 2016 and it resulted that the corporate tax rate has been reduced to 23.40% effective from the year ended December 31, 2017 and 23.20% effective from the year ending December 31, 2019.

2. Local corporate tax rate is imposed on total of a corporation's corporate tax and income tax credit. Amendments to the Japanese tax regulations were enacted into law on November 28, 2016 and it resulted that the local corporate tax rate is scheduled to be increased to 10.30% effective from the year ending December 31,2020.

3. Inhabitants' tax rate is imposed on total of a corporation's corporate tax and income tax credit allocated to each prefecture in Japan. This allocation is generally made on the basis of the number of employees and number of offices in each location. The applied tax rate is different in each prefecture. Amendments to the Japanese tax regulations were enacted into law on November 28, 2016 and it resulted that the inhabitants' tax rate is scheduled to be reduced to 7.00% effective from the year ending December 31, 2020.

4. Enterprise tax rate is imposed on a corporation's taxable income allocated to each prefecture in Japan and it comprise of (a) Profit-based tax and (b) Special local corporate tax rate. This allocation is generally made on the basis of the number of employees and number of offices in each location. The applied tax rate is different in each prefecture. Amendments to the Japanese tax regulations were enacted into law on November 28, 2016. As a result of this amendment, (a) Profit-based tax rate is scheduled to be increased to 9.60% effective from the year ending December 31, 2020, while, (b) Special local corporate tax, which is rate multiplied by the income portion of enterprise tax, is scheduled to be abolished from the year ending December 31, 2020 and replaced by enterprise tax.

The detailed formulas for calculating each tape of taxes are as follows. Corporate tax consists mostly of the effective tax rate, and the change in the rate of corporate tax would result in a similar change ratio of the effective tax rate.

1. Corporate tax = (Taxable income×Corporate tax rate) – Income tax credit
2. Local corporate tax = (Corporate tax + Income tax credit) × Local corporate tax rate
3. Inhabitants tax = (Corporate tax + Income tax credit) ×Inhabitant tax rate
4. Enterprise tax is calculated as the sum of the followings:

(a) Profit-based tax = Taxable income×Profit-based tax rate
(b) Special local corporate tax = Taxable income×Special local corporate tax rate

5. Effective tax rate is calculated as:

$$\frac{\text{Corporate tax rate}\times(1+\text{Local corporate tax rate} + \text{Inhabitant tax rate})+\text{Enterprise tax rate(a)}+\text{Enterprise tax rate(a)}\times\text{Enterprise tax rate(b)}}{1+\text{Enterprise tax rate(a)}+\text{Enterprise tax rate(a)}\times\text{Enterprise tax rate(b)}}$$

NOTE 12 – EARNING PER SHARE

Earnings per share attributable to owners of the parent for the years ended December 31 2020, 2019 and 2018 are calculated based on the following information.

	2018	2019	2020
Basic	(0.071)	(0.147)	(0.130)
Diluted Earnings (losses) per share attributable to owners of the parent (USD)	(0.071)	(0.147)	(0.130)
Numerator (thousands of USD)			
Profit (loss) for the year attributable to owners of the parent	(2,815)	(6,850)	(6,774)
Denominator (Shares)			
Weighted average number of common shares outstanding, basic	39,537,516	46,502,800	46,630,205
Effect of dilutive securities:			
Weighted average number of common shares outstanding, diluted	39,537,516	46,502,800	46,630,205

The outstanding preferred shares and the stock options issued by ECBO through the year ended December 31, 2020 were excluded from the calculation of diluted per share for the year ended December 31, 2020 as they had an anti-dilutive impact on losses per share attributable to owners of the parent

NOTE 13 – DIVIDENDS

So far, the company has not declared or paid any dividend.

In accordance with the Japanese Companies Law, dividend can be distributed from the balance of retained earnings, includes dividend income from affiliated companies, and does not includes the retained earnings of affiliated companies that were defined in accordance with J-GAAP as distributable in further periods. This takes into consideration that IRI Israel has no control over the distribution of dividend by its affiliates.

In accordance with the Japanese Companies Law, the amount of JPY 437,231, thousand, equal to USD 4,242 thousand, translated according to the exchange rate as of December 31, 2020, can be distributed in IRI Japan in the year ended December 31, 2020.

NOTE 14 – PROPERTY, PLANT AND EQUIPMENT

Year ended December 31, 2019				
Opening net book amount	483	241	-;-	724
Adjustment on adoption of new accounting standards - Acquisition cost	-;-	(80)	-;-	(80)
Adjustment on adoption of new accounting standards - Accumulated depreciations	-;-	3	-;-	3
Additions	-;-	12	-;-	12
Acquisition of subsidiary - Acquisition cost	33	49	-;-	82
Acquisition of subsidiary - Accumulated depreciations	(4)	(25)	-;-	(29)
Depreciation	(72)	(52)	-;-	(124)
Retirement	-;-	-;-	-;-	-;-
Translation differences	6	3	-;-	9
Closing net book amount	446	151	-;-	597
As of December 31, 2019				
Acquisition cost	588	321	-;-	909
Accumulated depreciation	(142)	(170)	-;-	(312)
Net book amount	446	151	-;-	597
Year ended December 31, 2020				
Opening net book amount	446	151	-;-	597
Adjustment on adoption of new accounting standards - Acquisition cost	-;-	-;-	-;-	-;-
Adjustment on adoption of new accounting standards - Accumulated depreciations	-;-	-;-	-;-	-;-
Additions	-;-	9	-;-	9
Acquisition of subsidiary - Acquisition cost	-;-	-;-	-;-	-;-
Acquisition of subsidiary - Accumulated depreciations	-;-	-;-	-;-	-;-
Depreciation	(73)	(49)	-;-	(122)
Retirement	-;-	-;-	-;-	-;-
Translation differences	20	7	-;-	27
Closing net book amount	393	118	-;-	511
As of December 31, 2020				
Acquisition cost	619	339	-;-	958
Accumulated depreciation	(226)	(221)	-;-	(446)
Net book amount	393	118	-;-	511

Depreciation expenses of 122 thousands of USD have been charged in Selling, general and administrative for the years ended December 31,2020.

NOTE 15 – INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

1. General Information

Set out below are the associates of the Group as of December 31, 2019 and 2020. The entities listed below have share capital consisting solely of ordinary shares, which are held directly by the Group. The country of incorporation or registration is also their principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held.

Name of Company	Main Business	% of ownership interest (3) December 31 2019	2020	Nature of relationship	Place of business
BroadBand Tower, Inc.	・Computer plat form ・AI solutions business ・Media solutions business	19%	18%	Associate (1)	Tokyo Japan
Mobile Internet Capital, Inc.	Investment management	30%	30%	Associate (2)	Tokyo Japan

Carrying amount of each investment as of December 31 2020 and 2019, and dividend received from each affiliate are as follows.

Name of Company	USD (In thousands) Carrying amount December 31 2019	2020	Dividend received December 31 2019	2020
BroadBand Tower, Inc.	11,573	11,905	206	205
Mobile Internet Capital, Inc.	2,319	3,063	-;-	-;-

Quoted fair value of BroadBand Tower, Inc. as of December 31 2019 and 2020, are USD 26,905 thousand and USD 34,049 thousand, respectively.

(1) BroadBand Tower, Inc. is a trailblazer in the specialty Internet data center business, as a service evolved from ICT for modern businesses, through its advanced technological capabilities, experienced staff, and high-grade facilities and services. BroadBand Tower, Inc. has subsidiaries and affiliates, and they provide planning, construction, and providing dedicated platform services (video, voice, data delivery) and support of VNO setup/operation services to cable television operators.

As shown in the table above, during the year ended December 31, 2020, the Company's ownership interest ratio has decreased mainly due to sale of a part of shares owned by the Company.

As of December 31, 2020, the Company holds 18% of the voting rights, two directors of the Company are also designated as directors of this entity and they participate in all significant financial and operating decisions of the entity. Therefore, the Group determined that it has significant influence over this entity. BBT's common stock is listed and traded in the Tokyo Stock Exchange, and above BBT's quoted fair value is categorized as level 1 under IFRS 13, which is quoted prices in active markets.

(2) Mobile Internet Capital, Inc. is a venture capital investing in ICT related venture companies. The Company holds 30% of the voting rights, therefore the Company has determined that it has significant influence over this entity.

(3) Impact from the change in ownership interest at BBT recorded as a gain on change in share of investments accounted for using the equity method in statement of income, due to the following contributions: (a) Gain on sale on owner dilution in the holding percentage of BBT; (b) Reclassification of a portion of BBT's accumulated OCI following such sale or dilution, and; (c) The company's share in equity movement in BBT not resulting from its comprehensive income.

2. The summary financial statement of BroadBand Tower, Inc. adjusted to IFRS is as follows:

	USD (In thousands)	
	December 31, 2019	December 31, 2020
Current assets	81,075	86,186
Non-current assets	297,139	290,674
Total assets	378,214	376,860
Current liabilities	66,401	72,180
Non-current liabilities	215,842	200,053
Total liabilities	282,243	272,233
Total Net assets	95,971	104,627
Group's share in %	19%	18%
Carrying amount	11,573	11,905

	Year ended December 31,2019	Year ended December 31,2020
Revenue	131,001	145,909
Expense	144,872	145,876
Profit (loss) from continuing operations	(13,871)	33
Profit (loss)	(13,871)	33
Profit attributable to:		
Owners of the parent of the company	(14,778)	539
Non-controlling interests	907	(506)
Other comprehensive income (loss)	1,307	915
Total comprehensive income	(12,564)	948

Total comprehensive income attributable to:		
Owners of the parent of the company	(14,277)	2,467
Non-controlling interests	1,713	(1,519)
lost attributable to owners of the parent of the company	(14,777)	539
Group's share in %	19%	18%
Share of profit of investments accounted for using the equity method	(2,810)	96

Individually immaterial associates*

	December 31	
	2019 USD (In thousands)	2020 USD (In thousands)
Aggregate carrying amount of individually immaterial associates	7,730	10,212
The investments in Mobile Internet Capital Inc.	2,319	3,063
Profit from continuing operations	63	1,804
Other comprehensive income	(93)	197
Total comprehensive income	(30)	2,001

1. **Share of profit and of other comprehensive income (loss) of investments accounted for using the equity method**

(a) Share of profit of investments accounted for using equity method

	December 31 2018	December 31 2019	December 31 2020
		USD (In thousands)	
Profit (loss) attributable to owners of BBT	(7,587)	(14,778)	539
Group's share in BBT %	22%	19%	18%
Share of profit (loss)of BBT	(1,668)	(2,810)	127
Profit attributable to owners of MIC	8,870	63	1,804
Group's share in MIC %	30%	30%	30%
Share of profit of MIC	2,661	19	541
Share of profit of investments accounted for using the equity method	**993**	**(2,791)**	**668**

(b) Share of other comprehensive income (loss) of investments accounted for using equity method

Six months ended December 31 2018	Year ended December 31 2019	Year ended December 31 2020
	USD (In thousands)	

Other comprehensive income (loss) attributable to owners of BBT	1,146	471	1,929
Group's share in BBT %	22%	19%	18%
Share of other comprehensive income (loss) of BBT	252	93	360
Other comprehensive income (loss) attributable to owners of MIC	1,292	(93)	197
Group's share in MIC %	30%	30%	30%
Share of Other comprehensive income (loss) of MIC	388	(28)	59
Share of other comprehensive income (loss) of investments accounted for using the equity method	**428**	**65**	**419**

NOTE 16 – FINANCIAL INSTRUMENTS BY CATEGORY

	USD thousand	
	December 31	
	2019	2020
Financial assets:		
Available-for-sale for equity securities	-	-
Financial assets at FVOCI –equity securities	252	41
Financial assets at Fair value through profit and loss –equity securities	87	88
Other financial assets at amortized cost, mainly office security deposits	889	936
	1,228	1,065
Financial assets at amortized cost:		
Trade receivables	360	203
Deposits and other receivables (including amounts due from related parties)	29	39
Cash and cash equivalents	7,251	7,438
	7,640	7,680
	8,868	8,745
Financial liabilities:		
Financial liabilities at amortized cost	487	341
Trade payables	1,133	882
Other payables	12	3
Amounts due to related parties	6,276	5,322
Obligations under finance lease	230	2,726
	8,138	9,274

NOTE 17 –OTHER FINANCIAL ASSETS:

	USD thousand	
	December 31	
	2019	2020
Non-current		
Financial assets at Fair value through OCI	252	41
Financial assets at Fair value through profit and loss	87	88
Other financial assets at amortized cost, mainly office security deposits	889	936
	1,228	1,065

Hereby details regarding investments in financial assets as of December 31, 2020:

(a) Investment in Beta-O2 Technologies Ltd.
On September 3, 2018, IRI Japan executed an investment agreement with Beta-O2 Technologies Ltd. (hereinafter – BO2), a company incorporated in Israel, which deals in the field of biomedicine,

in the context of which IRI Japan invested the sum of USD 202 thousands in BO2, as part of round B investment in BO2, in consideration for an issue of shares of BO2, which constitute approximately 0.46% of its issued and paid up capital.

(b) Investment in Arch Medical Devices Ltd.

The Company purchased shares of Arch Medical Devices Ltd. (hereinafter – Arch) from Capital Point, in consideration for the sum of USD 650 thousands, and invested an additional sum of USD 25 thousands in the shares of Arch. As of the date of the Report, the Company holds approximately 9% of the share capital of Arch (fully diluted base). The Company appraise the fair value of Arch at a negligible amount, and therefore reduced the full value of its investment in Arch. The Company together with Capital Point is exploring several possible arrangements which may partially compensate the Company for the loss the Company suffered from depreciating these investments.

(c) Investment in Dia Imaging Analysis Ltd.
The Company has purchased shares of Dia Imaging Analysis Ltd. (hereinafter – Dia), which constitutes approximately 0.43% of the shares of Dia, from Capital Point, in consideration for the sum of USD 350 thousands, and invested an additional sum of USD 25 thousands in January 2019. The Company appraise the fair value of its investment in Dia in amount of USD 87 thousands, and therefore recognized impairment in amount of USD 288 thousands in its financial statements. The Company together with Capital Point is exploring several possible arrangements which may partially compensate the Company for the loss the Company suffered from depreciating these investments.

NOTE 18 – OTHER CURRENT ASSETS

	USD thousand	
	December 31	
	2019	2020
Prepaid expense	646	305
Consumption tax receivable	180	262
Other receivables	16	28
	843	595

NOTE 19 – CASH AND CASH EQUIVALENTS

	USD thousand	
	December 31	
	2019	2020
Cash in hand	3	1
Bank deposits	7,248	7,437
	7,251	7,438

NOTE 20 – EQUITY

a. Share Capital

The Company's total number of shares authorized and issued for the years ended December 31, 2019 and 2020 are as follows:

	December 31	
	2019	2020
Total number of common shares, no par value:		
Authorized shares	10,000,000,000	10,000,000,000
Issued shares	46,502,000	46,502,000

The number of shares outstanding of the Company have been adjusted to reflect the effect of the triangle merger and allotted bonus shares, as described in note 1.1.

All shares issued as of December 31, 2020 and 2019 have been fully paid-up.

Changes in the issued and paid-up share capital during the year ended December 31, 2018:

In August 2018, the Company completed a first initial public offering (hereinafter – IPO) and listing of its shares for trade on the Tel Aviv Stock Exchange Ltd. (hereinafter – TASE). On August 9, 2018, the trading in the Company's shares was commenced on TASE. The Company issued 11,715,800 ordinary shares for price of NIS 1.73 per share. As a result, the Company raised NIS 16,218 thousand, equals to USD 4,367 thousands, after deduction of issuance expenses paid in cash. Net amounts received at the Company's bank account close to the issue date.

Changes in the issued and paid-up share capital during the year ended December 31, 2017:

(a) Issuance of common stock to a director, employee and other investors
At the annual extraordinary general meeting of shareholders held on 12 January 2017, IRI Japan resolved to issue 30,000 common stock to a director of the company, 20,000 ordinary stocks to employee and 600,000 ordinary stocks to general investors and to authorize the board of directors to determine the subscription requirements. The details of the common stock are as follows:

Issuance of common stock on 12 January 2017

Candidates and numbers of candidates	One director, one employee and three general investors.
Total number of common stocks issued	650,000 shares
Amount of proceeds for common stock (*)	JPY 105 per share, equal to USD 0.92 per share
Payment period	From 23 January 2017 to 31 January 2017
The share capital and capital reserve to be increase	Under the Companies act of Japan, at least 50% of the proceeds of certain issuances of share capital shall be credited to share capital. The remaining proceeds shall be credited to share premium.

(*) The fair value of IRI Japan's share on 12 January 2017 is estimated at JPY 125 per share which is based on the issue-price of 17 May 2017 (see paragraph (b)). Therefore, the share-based compensation expenses of USD 9 thousand have been charged in the second quarter of 2017.

(b) Issuance of common stock to Media Do Co., Ltd.
Issuance of common stock on 17 May 2017

Candidates and numbers of candidates	Media Do Co., Ltd.
Total number of common stock issued	7,000,000 shares
Amount of proceeds for common stock	125 yen per share, equal to 1.11 U.S dollars per share
Payment date	31 May 2017
The share capital and capital	Under the Companies act of Japan, at least 50% of the proceeds of

reserve to be increase	certain issuances of share capital shall be credited to share capital. The remaining proceeds shall be credited to share premium.

b. Capital Surplus and Retained Earnings

Capital surplus consists of capital reserves and other capital surplus that is derived from equity transactions and not recorded in share capital. The primary component of capital surplus is capital reserves. The Companies Act of Japan provides that no less than 50% of the paid-in amount or proceeds of issuance of shares shall be incorporated in share capital, and that the remaining shall be incorporated in capital reserves. Capital reserves are restricted to distribute as dividend and may be, if necessary, incorporated share capital and other capital surplus upon approval of the General Meeting of Shareholders.

IRI Japan has not declared or paid cash dividends to date, and therefore no legal earnings reserves have been recorded as of December 31, 2019 and 2020.

c. Incorporation of accumulated earnings into share capital in a subsidiary

IRI Japan's general meeting of shareholders held on March 15,2018, resolved the incorporation of accumulated earnings into share capital in accordance with the Companies Act of Japan. The effective date is the same date with the resolution and the incorporation amount is JPY 96,100 thousand, equal to USD 874 thousands.

NOTE 21 – ACCRUALS AND OTHER PAYABLES

	USD thousand	
	December 31	
	2019	2020
Accounts payable	288	297
Accrued expenses	658	466
Accrued consumption taxes	93	129
Income tax payable	395	61
Expense payable due to withholding tax	141	88
Accrued vacation payable	115	152
Accrued bonuses	46	31
Other	4	9
	1,740	1,233

NOTE 22 – BORROWINGS

The Group's borrowings as of December 31, 2020 is comprised of the short term borrowings by ECBO and the long term borrowings by ECBO and NOM.
ECBO entered into loan agreement with its director on 16 September 2020. The maturity date of borrowing is 15 September 2021.
In the agreement, the borrowings should be repaid by cash, but in the case where ECBO executes third-party allotments before the maturity date of borrowings, the directors as lender can select an option that they can acquire ECBO's common shares which is equivalent to the amounts of borrowings as alternative method of settlement of the borrowings. The Group determined the borrowing as financial liabilities under IAS 32.
Due to the outbreak of the Corona virus in Japan, the special loan funded by Japan Finance Corporation ("JFC") is awarded to companies whose operations have been significantly damaged by the Corona virus impact. Since NOM is awarded to the special loan, NOM applied the special loan on 2 October 2020 and 582 thousand USD of the relevant loan was recorded as of December 31, 2020. A partial repayment of the loan is required from after three years from the borrowing date.
ECBO entered into the loan agreement with SBI Estate Finance on 5 October 2020 and 2,037 thousand

USD of the relevant loan was recorded as of December 31, 2020. A partial repayment of the loan is required from 5 May 2022.

	USD thousand	
	December 31	
	2019	2020
Current portion		
Borrowing from ECBO's management	230	107
Non-current portion		
Borrowing from Japanese government-controlled bank - Japan Finance Corporation (JFC)		582
Borrowing from external party	-;-	2,037
Total borrowings	230	2,726

As of December 31,2019 and 2020, the Group's borrowings were repayable as follows:

	USD thousand	
	December 31	
	2019	2020
Within 1 year	230	107
Between 1 and 2 years	-;-	94
Between 2 and 5 years	-;-	886
Over 5 years	-;-	1,639
	230	2,726

NOTE 23 – Asset Retirement Obligations

Changes in Asset Retirement Obligation

	USD thousand
	Asset Retirement Obligations
On December 31, 2019	209
Arising during the year	21
Utilized	-;-
Unwinding of discount and changes in the discount rate	-;-
	3
On December 31, 2019	233
Acquisition of subsidiary	-;-
Utilized	-;-
Unwinding of discount and changes in the discount rate	-;-
Translation differences	12
On December 31, 2020	245

The Group records provisions for Asset Retirement Obligations related to its properties as the Group is required to restore these properties upon termination of its properties to the state specified in the rental agreement.

Changes in provision for onerous contract in relation to CyberGym business

	USD thousand For the year ended December 31, 2019
Balance as of December 31,2019	299
Arising during the year	(121)
Translation differences	11
Balance as of December 31,2020	189

The Group records a provision for certain maintenance expense payable to the third-party vendors in relation to Cybergym business since relevant contract is determined as Onerous contract under IAS37.

NOTE 24 – LEASES

The Group, as lessee, mainly leases properties. The lease contracts may contain extension options but do not include material purchase options, escalation clause and restrictions imposed by leases, such as additional financing and additional leases.
Information for the year ended December 31, 2019 and 2020 are disclosed based on IFRS 16 Leases.

(i) The expenses relating to leases are as follows.

	USD thousand For the year ended December 31, 2019	USD thousand For the year ended December 31, 2020
Depreciation of right-of-use assets		
Buildings	(1,028)	(1,053)
Equipment	(107)	(17)
Total depreciation expenses	(1,135)	(1,070)
Interest expenses relating to lease liabilities	(108)	(94)
Expenses relating to leases of low-value assets	(4)	(4)

(ii) The carrying amounts of the right-of-use assets and lease liabilities are as follows.

	USD thousand December 31, 2019	USD thousand December 31, 2020
Right-of-use assets		
Buildings	5,905	5,127
Equipment	92	76
Total	5,997	5,203
Lease liabilities		
Current	1,221	1,213
Non-current	5,055	4,110
Total	6,276	5,323

(iii) The changes in the carrying amounts of the right-of-use assets are as follows:

	USD thousand	USD thousand
	December 31, 2019	December 31, 2020
Balance at 1 January, under finance lease transactions	80	-;-
Adjustments on adoption of IFRS16	6,230	-;-
Balance at 1 January, (adjusted)	6,310	5,997
New lease transactions	599	-;-
Acquisition of subsidiary	537	-;-
Depreciation	(1,135)	(1,070)
Impairment loss (*)	(345)	-;-
Translation differences	31	276
Balance at December 31	5,997	5,203

(*) The Group determined that there were indications of impairment on right-of-use assets in connection with CyberGym business within technology information segment. As a result, impairment of right-of-use assets in the amounts of USD 345 thousand was recognized for the year ended December 31, 2019.

(iv) The changes in the lease liabilities are as follows:

	USD thousand	USD thousand
	December 31, 2019	December 31, 2020
Balance at 1 January, under finance lease transactions	78	-;-
Adjustments on adoption of IFRS16	6,155	-;-
Balance at 1 January (adjusted)	6,233	6,276
New lease transactions	599	-;-
Acquisition of subsidiary	516	-;-
Repayment	(1,110)	(1,241)
Translation differences	38	288
Balance on December 31	6,276	5,323

As of December 31, 2019 and 2020, there are no lease contracts not yet commenced.

NOTE 25– DEFERRED TAX BALANCES

	USD thousand December 31	
Deferred tax assets	2019	2020
The balance comprises temporary differences attributable to:		
Tax losses	1,078	1,224
Prepaid expense	35	-;-
Allowance for paid leave	18	-;-
Allowance for bonus	16	-;-
Bad debt allowance	7	-;-
Property plant and equipment	5	-;-
Lease obligations	931	-;-
Others	32	-;-
Total deferred income tax assets	2,122	1,224

Deferred income tax liabilities
The balance comprises temporary differences attributable to:

Undistributed earnings relating to investments in affiliate	(1,070)	(1,221)
Depreciation	(15)	-;-
Right-of-use assets	(937)	-;-
Other comprehensive income	(8)	(3)
Total deferred income tax liabilities	(2,030)	(1,224)
Net deferred tax assets	92	-;-

Undistributed earnings relating to investments in affiliate recorded in deferred income tax liabilities are derived from taxable temporary differences due to distributable retained amounts in BBT and MIC.

Deferred income tax assets

Movements	USD thousand								
	Tax losses	Lease liabilities	Prepaid expense	Accrued enterprise taxes	Allowance for paid leave	Allowance for bonus	Bad debt allowance	Others	Total
Balances on December 31, 2019	1,078	931	35	32[illegible]	1[illegible]	16	7	5	2,122
Adjustment on adoption of new accounting standards	-;-	-;-	-;-	-;-	-;-	-;-	-;-	-;-	-;-
Translation difference	60	15	1	[illegible]	[illegible]	0	(0)	(0)	77
Credited/(charged) to profit or loss	85	(946)	(36)	(33[illegible]	(18)	(16)	(7)	(5)	(975)
Balances on December 31, 2020	1,224	-;	-;	-;-	-	-;	-;-	-;	1,224

Deferred income tax liabilities

Movements	USD (In thousands)				
	Undistributed earnings relating to investments in affiliate	Right-of-use Assets	Depreciation	Other comprehensive income	Total
Balances on December 31, 2019	(1,070)	(937)	(14)	(8)	(2,029)
Adjustment on adoption of new accounting standards	-;-	-;-	-;-	-;-	-;-
Charged to other comprehensive income	-;-	-;-	-;-	5	5
Translation difference	(60)	(15)	(0)	(0)	(75)
Credited/(charged) to profit or loss	(91)	952	14	-;-	875
Balances on December 31,2020	(1,221)	-;-	-;-	(3)	(1,224)

The Group takes into account the probability that deductible temporary differences or tax losses carried forward can be utilised against future taxable profits on recognition of deferred income tax assets. In assessing recoverability of deferred income tax assets, the Group takes into account scheduled reversal of deferred income tax liabilities, projected future taxable profit and tax planning.

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

As a result of the assessment of the recoverability of deferred income tax assets, the Group does not recognise deferred income tax assets for a portion of deductible temporary differences or tax losses carried forward as of December 31, 2019 and 2020. The amounts of deductible temporary differences and tax losses carried forward for which deferred income tax assets that are not recognised as of December 31, 2019 and 2020 are as follows:

	USD thousand	
	December 31	
	2019	2020
Deductible temporary differences	826	2,044
Losses carried forward	22,405	18,722
Total	23,231	20,766

The expiration of tax losses carried forward for which deferred income tax assets are not recognised is as follows:

	USD thousand	
	December 31	
	2019	2020
Grand total		
1st Year	7,246	82
2nd Year	1,241	414
3rd Year	393	908
4th Year	862	967
5th Year and thereafter	12,663	16,351
Total	22,405	18,722

The amount of tax losses carried forward are shown in the above table, which are related to IRI Japan, NOM and ECBO.

NOTE 26 – CONTINGENCIES AND COMMITMENTS

As of December 31, 2020 and 2019, the Group and the Company did not have any significant contingent liabilities.
IRI Japan entered into a donation agreement with the Israel Technological Institute (the "Technion") and with the Technion Japan on March, 2017. IRI Japan undertook to donate the sum of USD 4 million (in 10 equal installments over 10 years) to the Technion, which would be used to support the research and development operations of the Cyber Security Research Center at the Technion from July 1, 2017 to June 30, 2027, which would be called the Hiroshi Fujiwara Cyber Security Research Center.
The agreement is treated as an executory contract in accordance with IFRS 9 and accordingly, an expense is recognized over the 10-year agreement period, starting July 1, 2017.

On September 8, 2016, IRI Japan entered into a memorandum with Technion Japan Co., Ltd. ("Technion Japan"), the branch of the Technion in Japan, under which IRI Japan would have a first right upon any sales and/or production on the Japanese market of products developed by startup companies from the Technion, or located by the Technion, which deal in research and development in the fields of medicine, life sciences, biology, food and hygiene.

NOTE 27 – RELATED PARTY TRANSACTIONS AND BALANCES

For the purposes of this Financial Information, parties are considered to be related to the Group if the party has the ability, directly or indirectly, to exercise significant influence over the Group in making financial and operating decisions. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals. Parties are also considered to be related if they are subject to common control.

The directors are of the view that the following individuals and companies were related parties that had transactions or balances with the Group for the reporting periods ended December 31, 2019 and 2020, are as follows.

Name of related parties	**Relationship with the Company/Group**
Hiroshi Fujiwara	Director of the parent company, Chairman of the board of directors and CEO, and Representative director of IRI Japan, President and CEO
Mieko Nakagawa	Director of the Company, and Director of IRI Japan, COO
Mirei Kuroda	CFO of the Group
Elchanan Harel	Director of the parent company
IRI Israel	Parent company
NANO Opt Media, Inc.	Subsidiary
ECBO Square, Inc.	Subsidiary
Fintech A-Eye ventures Inc.	Subsidiary
BroadBand Tower, Inc.	Affiliate
Mobile Internet Capital Inc.	Affiliate
Japan Cable Cast Inc.	Subsidiary of affiliate
Unimo, Inc.	Company owned by director
Remote Sensing Technology Center of Japan	Company owned by director
Internet Association Japan	Company owned by director

(a) Balances classified as related parties:

The following balances were financial assets and liabilities attributed to related parties:

	USD thousand	
	December 31	
	2019	2020
Current assets		
Booked in IRI Japan:		
Trade Receivable to a company own by director	10	10
Trade Receivable to ECBO Square, Inc.		
Allowance for Doubtful accounts to a company own by director	(10)	(10)
Booked in NOM:		
Other receivable to a company own by director	21	-;-
Allowance for Doubtful accounts to a company own by director	(21)	-;-

Booked in ECBO Square, Inc.:		
Trade Receivable to Broad band Tower, Inc.	8	9
Prepaid expense to Broad band Tower, Inc.	9	6
Total	17	15
Current liabilities		
Booked in the Company –		
Account payable to BroadBand Tower, Inc.	4	-;-
Account payable for Hiroshi Fujiwara	15	15
Account payable for Directors of the Company	9	8
Account payable for the Group's CFO	8	18
Booked in NOM –		
Account payable to BroadBand Tower, Inc.	3	1
Booked in ECBO Square, Inc.:		
-Trade Payable to Broad band Tower, Inc.	4	2
-Account payable for Broad band Tower, Inc.	3	-;-
Total	48	44

All of the above transactions with related parties were conducted in the ordinary course of the business of the Group based on the terms mutually agreed between the relevant parties.

(b) Transactions with related parties:

	USD thousand		
	Year ended December 31		
	2018	2019	2020
Transaction with Other Related Parties in IRI Japan:			
Purchase of common shares of ECBO Square, Inc. from BroadBand Tower, Inc.	-;-	71	-;-
Outsourcing cost to BroadBand Tower, Inc.	(14)	(11)	(12)
Sales to ECBO Square, Inc.	13	-;-	-;-
Sales to a company own by director	136	-;-	-;-
Revisions of contract amount in relation to sales transactions with Internet Association Japan	-;-	(50)	-;-
Payment of membership fee to a company own by director	(1)	(2)	(2)
Transaction with Other Related Parties in NOM:			
Sales to BBT	-;-	11	-;-
Sales to a company own by director	-;-	1	-;-
Consulting fee to a company own by director	(181)	-;-	-;-
Outsourcing cost to BBT	(2)	-;-	-;-
Booked in ECBO square, Inc.:			
-Sales to BroadBand Tower, Inc.	-;-	108	111
-Sales to Remote Sensing Technology Center of Japan	-;-	9	-;-
-Outsourcing cost to BroadBand Tower, Inc.	-;-	(63)	(25)
Total	(48)	74	72

(C) Key management compensation

As discussed in the above, until the change in reporting entity occurred on November 20, 2017, key management personal includes 5 directors and 1 corporate auditors of IRI Japan. After the date, key management has been changed to 3 directors and 1 CFO of the Company. The compensation paid or payable to key management for employee services for the year ended December 31, 2020, 2019 and 2018 are respectively shown below:

	USD thousand		
	Year ended December 31		
	2018	2019	2020
Executive compensation	323	236	205
Total	323	236	205

(D) Guarantees provided by shareholders and directors

As of January 1, 2017, the company's bank accounts are guaranteed by a personal guarantee provided by the controlling shareholder, Dr. Hiroshi Fujiwara. The guarantee related to bank loans for NOM subsidiary and restricted to these loans extant.
On November 15, 2017 the above loan was fully repaid. Accordingly, the personal guarantee was invalid.

NOTE 28 – BUSINESS COMBINATION

As discussed in Note 1.1, on March 31, 2020, the Company acquired a 51% controlling interest of the authorized and issued shares of Digit Inc. ("Digit"), which provides consulting services to enterprises in Japan in the HR field especially in business behavior assessment, skills management and organization and strategic consulting. On June 30, 2020, the Company sold its entire shareholding in Digit, resulting in an insignificant loss on disposal. Digit's results were consolidated in the consolidated statement of income from its acquisition date through its disposal.

NOTE 29 –SEGMENT INFORMATION

(1) General information

Operating segments were determined based on the reports reviewed by the Chief Executive Officer (CEO) who is responsible for allocating resources and assessing performance of the operating segments, who is the Chief Operating Decision Maker ("CODM") of IRI Israel as the Company's parent company.
An operating segment of the Group is a component for which discrete financial information is available. No operating segments have been aggregated to form the reportable segments.

The CEO considers the business from two areas of activities, as follows:

(a) Information technology, which includes three operating segments:

(i) IRI- it mainly provides consultancy services, research services and the reviewing of market trends in the field of internet technologies for companies, organizations and government institutions in Japan.
In addition, from the second half of the year ended December 31, 2019, IRI provides Cybersecurity Training and Technology Arena in Tokyo ("CyberGym business") under the strategic collaboration with CyberGym Control Ltd. and Strategic Cyber Holdings LLC.

(ii) BBT- it mainly provides data center services, cloud services, storage solutions, AI (artificial intelligence) solutions, dedicated platform services and support of VNO setup/operation services to cable television operators. In addition, BBT deals in renewable energy and is the owner of a number of solar power stations. Revenue from a single external customer was approximately 33,418 thousands USD for the year ended December 31, 2019 and 30,331 thousands USD for the year ended December 31, 2020, respectively.

(iii) ECBO – it mainly provides IOT solutions and consultation services in the field of data security, the design and production of films and production services, maintenance services for solar power facilities, and the design and production of films.

(b) Information service business
(i) NOM – it mainly provides planning, organization, production and management of conferences, exhibitions, seminars and other business events in the fields of internet technology, hi-tech, cyber security, etc.

(c) Other
Other comprise of the investments in MIC. It is a general partner in an investment fund that mainly invests in startups in the technology and services industry, which focus on next generation ICT (information and communications technology) companies and in related areas.

Each segment is divided to services and equipment relating to revenues and cost of revenues. The reportable operating segments include the following measures: Revenues, Operating profit (loss), and Interest expenses and incomes, Tax, Depreciation and Assets.

	Year ended December 31, 2019							
	Technology Information							
	IRI	**BBT**	**IOT**	**NOM**	**Other**	**Sub total**	**Adjustments**	**Total**
Segment revenue from external customers	139	130,990	1,031	10,830	-;-	142,990	(130,870)	12,120
Inter-segment revenues	-;-	11	123	11	-;-	145	(145)	-;-
Segment revenues	139	131,001	1,154	10,841	-;-	143,135	(131,015)	12,120
Operating profit (loss)	(3,314)	(11,224)	(3,022)	823	-;-	(16,737)	(11,224)	(5,513)
Share of profit (loss) of investments accounted for using the equity method	(2,810)	-;-	-;-	-;-	19	(2,791)	-;-	(2,791)
Gain on change in share of investments accounted for using equity method	1,849	-;-	-;-	-;-	-;-	1,849	-;-	1,849
Profit (loss) before income tax	(6,886)	(11,630)	(3,067)	774	19	(20,790)	14,296	(6,495)
Income tax expenses (benefit)	8	(2,241)	(6)	(481)	(10)	(2,729)	2,241	(448)
Profit (loss) from continued operations	(6,877)	(13,871)	(3,073)	293	9	(23,520)	16,538	(6,983)
Other segment items								
Finance income	123	1,672	-;-	-;-	-;-	1,795	(1,624)	(87)
Finance expense	(2,716)	(2,078)	(45)	(49)	-;-	(4,888)	4,781	(107)
Depreciation and amortization	(1,060)	(11,395)	(160)	(81)	-;-	(12,696)	(11,395)	(1,301)
Capital expenditure	7	35,139	5	282	-;-	35,433	(35,159)	292

*Reclassified.
**Discontinued operation in a year ended on December 31, 2017 refers to the partial sale of BBT subsidiary BBF, Inc. on June 30, 2017, the sale of BBT subsidiary IoT on January 4, 2019.

	Year ended December 31, 2020							
	Technology Information							
	IRI	**BBT**	**IOT**	**NOM**	**Other**	**Sub total**	**Adjustments**	**Total**
Segment revenue from external customers	362	145,896	196	4,580	24	151,058	(145,786)	5,272
Inter-segment revenues	-;-	12	203	-;-	-;-	216	(216)	-;-
Segment revenues	362	145,909	399	4,580	24	151,274	(146,002)	5,272
Operating profit (loss)	(1,958)	2,491	(3,198)	(2,158)	(184)	(5,007)	(2,491)	(7,498)
Loss on sale of the investment in subsidiaries	(40)	-;-	-;-	-;-	-;-	(40)	-;-	(40)
Share of profit (loss) of investments accounted for using the equity method	127	6	-;-	-;-	541	674	(6)	668
Gain on change in share of investments accounted for using equity method	479	-;-	-;-	-;-	-;-	479	-;-	479
Profit (loss) before income tax	(2,445)	1,389	(3,270)	(2,208)	355	(6,179)	(535)	(6,714)
Income tax expenses (benefit)	103	(1,356)	(6)	(103)	20	(1,342)	1,356	14
Profit (loss) from continued operations	(2,342)	33	(3,276)	(2,311)	375	(7,521)	821	(6,700)
Other segment items								
Finance income	55	467	-;-	-;-	-;-	522	(519)	3
Finance expense	(1,109)	(1,576)	(72)	(50)	-;-	(2,807)	2,480	(327)
Depreciation and amortization	(990)	(30,356)	(166)	(121)	-;-	(31,633)	30,356	(1,277)
Capital expenditure	-;-	5,779	-;-	7	-;-	5,786	(5,779)	7

	Year ended December 31, 2019						
	Information technology						
	IRI	**BBT**	**IOT**	**NOM**	**Other**	**Adjustments**	**Total**
Segment assets	18,748	378,214	986	9,288	2,319	(378,637)	30,918

	Year ended December 31, 2020						
	Information technology						
	IRI	**BBT**	**IOT**	**NOM**	**Other**	**Adjustments**	**Total**
Segment assets	16,241	376,859	1,800	9,790	3,063	(377,313)	30,440

NOTE 30 – PRINCIPAL SUBSIDIARIES

(1) General information
The Group has 3 consolidated subsidiaries as of December 31, 2020 as follows.

Name	Main business	% of ownership interest December 31 2019	2020
Nano-opt Media Inc.	Refer to Note 31	100%	100%
Fintech A-Eye ventures Inc.	Operating venture fund business as GP	100%	100%
ECBOsquare, Inc. (*)	Refer to Note 31	77%	71%

(*) ECBO (which was renamed from IoT Square Inc. in October 2020) has become a subsidiary of the Company on January 4, 2019. During the year ended December 31, 2019, ECBO issued new common shares through a third-party allotment. As a result, the Group's ownership interest in ECBO decreased from 100% to 77% and recorded 1,300 thousand USD of Capital surplus and 327 thousand USD of Non-Controlling interest, respectively.
In addition, during the year ended December 31, 2020, ECBO additionally issued new common shares through a third-party allotment. As a result, the Group's ownership interest in ECBO decreased from 77% to 71% and recorded 461 thousand USD of Capital surplus and 38 thousand USD of Non-Controlling interest, respectively.
On April 10, 2020, an investment agreement has been signed between SBI Holdings ("SBI"), a Japanese financial services company that deals, inter alia, in the card field, and ECBO as a subsidiary of the Group. Based on the agreement, SBI invested a total sum of JPY 200 million (which is equivalent to 1,836 thousand USD) in consideration to 5,000 A Preferred shares newly issued by ECBO. Considering the term and conditions of the A Preferred shares, the Group determined to classify it into "Equity instruments" and recorded as "Non-controlling interests" in the interim condensed consolidated financial position. The A preferred shares can be converted to ordinary shares at any time when SBI exercises the conversion right. If the whole A preferred shares are converted to ordinary shares as of December 31, 2020, the Group ownership interest ratio decreased to 51%.

(2) The summarized financial information for the subsidiary which the Group recognize non-controlling interest is as follows.

	ECBOsquare, Inc. USD thousand December 31, 2019	ECBOsquare, Inc. USD thousand December 31, 2020
Current assets	387	1,356
Non-current assets	600	444
Current liabilities	1,855	1,965
Non-current liabilities	1,155	3,057
Equity	(2,025)	(3,222)
Accumulated non-controlling interest	(460)	808
Proportionate share of non-controlling interest	23%	29%

	ECBOsquare, Inc. USD thousand December 31, 2019	ECBOsquare, Inc. USD thousand December 31, 2020
Revenue	1,154	399
Loss for the year	(3,073)	(3,276)
Other comprehensive income	-;-	-;-
Total comprehensive income for the year	(3,073)	(3,276)
Profit attribute to non-controlling interest	(133)	(641)
Dividend paid to non-controlling interest	-;-	-;-

	ECBOsquare, Inc.	ECBOsquare, Inc.
	USD thousand	USD thousand
	December 31, 2019	December 31, 2020
Cash flows from operating activities	(3,219)	(2,882)
Cash flows from investing activities	(9)	(2)
Cash flows from financing activities	3,094	3,910
Net decrease in cash and cash equivalent	(134)	1,026

NOTE 31 – SUBSEQUENT EVENTS

Application of a special loan from JFC by ECBO square, Inc.

As discussed in Note 22, the special loan funded by Japan Finance Corporation ("JFC") is awarded to companies whose operations have been significantly damaged by the Corona virus impact. Since ECBO is awarded to the special loan, ECBO applied the special loan on 22 February 2021 and the loan amount is 20,000 thousand JPY (which is equivalent to 194 thousand USD based on using currency exchange ratio as of December 31, 2020). A partial repayment of the loan is required from after three years from the borrowing date.

NOTE 32 – RECONCILIATION of BBT's FINANCIAL STATEMENTS FROM J-GAAP TO IFRS

Below is transition from Japanese GAAP to IFRS at BBT as of and for the 12 months ended December 31, 2019 and 2020. Since BBT's financial information under Japanese GAAP is denominated in JPY, the reconciliation below is presented in thousands of JPY.

Consolidated statement of financial position

JPY (in thousand)

	As of December 31, 2019				
Presentation under J-GAAP	**Note**	**Reported under Japanese GAAP**	**Effect of transition to IFRS**	**IFRS**	**Presentation under IFRS**
Current assets					**Current assets**
Cash and cash equivalents		5,914,296	-;-	5,914,296	Cash and cash equivalents
Notes and accounts receivable - trade	J	2,121,401	(5,499)	2,115,902	Notes and accounts receivable - trade
Inventories		306,760	-;-	306,760	Inventories
Current assets - Others		607,364	(146,158)	461,206	Current assets – Others
Allowance for doubtful accounts	J	(5,499)	5,499	-;-	Allowance for doubtful accounts
Total current assets		**8,944,322**	**(146,158)**	**8,798,164**	**Total current assets**
Non-current assets					**Non-current assets**
Property, plant and equipment	G,H	8,458,443	(428,990)	8,029,453	Property, plant and equipment

-;-	G	-;-	15,694,574	15,694,574	Right-of-use assets
Intangible assets		2,395,199	7,386	2,402,585	Intangible assets
Goodwill	B	605,672	75,370	681,042	Goodwill
Investment securities	E,J	2,378,706	(2,362,464)	16,242	Investments accounted for using the equity method
-;-	E	-;-	3,119,187	3,119,187	Financial assets at fair value through comprehensive income
-;-	E	-;-	197,910	197,910	Financial assets at fair value through profit or loss
Deferred tax assets	C	101,282	298,922	400,204	Deferred tax assets – non-current
Lease and guarantee deposits		1,335,438	-;-	1,335,438	Lease and guarantee deposits
Non-current assets - Others		163,956	204,543	368,499	Non-current assets – Others
Total non-current assets		**15,438,696**	**16,806,438**	**32,245,134**	**Total non-current assets**
Total assets		**24,383,018**	**16,660,280**	**41,043,298**	**Total assets**

JPY (in thousand)

Presentation under J-GAAP	**Note**	**As of December 31, 2019** **Reported under Japanese GAAP**	**Effect of transition to IFRS**	**IFRS**	**Presentation under IFRS**
Current liabilities					**Current liabilities**
Accounts payable-trade		983,528	-;-	983,528	Trade payable
Short-term borrowings		1,820,736	-;-	1,820,736	Short-term borrowings
Lease obligations - - current	G	12,630	3,018,192	3,030,822	Obligation under finance leases – current
Accounts payable-other		322,018	-;-	322,018	Accruals, provisions and other payables
Income taxes payable		108,662	-;-	108,662	Income taxes payable
-;-	F	-;-	559,154	559,154	Contract liabilities
Others	D	922,730	(541,848)	380,882	Other current liabilities
Total current liabilities		**4,170,304**	**3,035,498**	**7,205,802**	**Total current liabilities**
Non-current liabilities					**Non-current liabilities**
Lease obligations	G	29,714	14,489,683	14,519,397	Obligation under finance leases

Long-term borrowings	I	5,893,430	(68,328)	5,825,102	Long-term borrowings
Asset retirement obligations		1,704,982	-;-	1,704,982	Asset retirement obligations
Deferred tax liabilities	C	592,369	113,140	705,509	Deferred tax liabilities – non-current
-;-	F	-;-	306,589	306,589	Contract liabilities – non-current
Non-current liabilities - Others		323,973	37,318	361,291	Other non-current liabilities
Total non-current liabilities		**8,544,468**	**14,878,402**	**23,422,870**	**Total non-current liabilities**
Total liabilities		**12,714,772**	**17,913,900**	**30,628,672**	**Total liabilities**
Equity Shareholders' equity					**Equity Shareholders' equity**
Capital stock		3,322,421	-;-	3,322,421	Capital stock
Capital surplus		3,809,480	12,777	3,822,257	Capital surplus
Retained earnings	K	1,226,728	(1,646,907)	(420,179)	Retained earnings
Treasury shares		(87,662)	-;-	(87,662)	Treasury shares
Total shareholders' equity		**8,270,967**	**(1,634,130)**	**6,636,837**	**Total shareholders' equity**
Other comprehensive income					**Other comprehensive income**
Valuation differences of available-for-sale investments	E	(5,235)	62,935	57,700	Valuation differences of available-for-sale investments
Foreign currency translation adjustment		(22,598)	-;-	(22,598)	Foreign currency translation adjustment
Total other comprehensive income		**(27,833)**	**62,935**	**35,102**	**Total other comprehensive income**
Non-controlling interests		3,425,112	317,575	3,742,687	Non-controlling interests
Total equity		**11,668,246**	**(1,253,620)**	**10,414,626**	**Total equity**
Total liabilities and equity		**24,383,018**	**16,660,280**	**41,043,298**	**Total liabilities and equity**

JPY (in thousand)

		As of December 31, 2020			
Presentation under J-GAAP	**Note**	**Reported under Japanese GAAP**	**Effect of transition to IFRS**	**IFRS**	**Presentation under IFRS**
Current assets					**Current assets**

Cash and cash equivalents		6,127,521	-;-	6,127,521	Cash and cash equivalents
Notes and accounts receivable - trade	J	1,977,243	(6,971)	1,970,272	Notes and accounts receivable - trade
Inventories		266,472	-;-	266,472	Inventories
Current assets - Others		573,853	(54,549)	519,304	Current assets – Others
Allowance for doubtful accounts	J	(6,971)	6,971	-;-	Allowance for doubtful accounts
Total current assets		**8,938,118**	**(54,549)**	**8,883,569**	**Total current assets**
Non-current assets					**Non-current assets**
Property, plant and equipment	G,H	7,819,064	(424,461)	7,394,603	Property, plant and equipment
-;-	G	-;-	13,738,059	13,738,059	Right-of-use assets
Intangible assets		2,045,487	5,016	2,050,503	Intangible assets
Goodwill	B	558,168	122,874	681,042	Goodwill
Investment securities	E,J	2,567,578	(2,550,700)	16,878	Investments accounted for using the equity method
-;-	E	-;-	3,690,230	3,690,230	Financial assets at fair value through comprehensive income
-;-	E	-;-	220,083	220,083	Financial assets at fair value through profit or loss
Deferred tax assets	C	54,632	279,782	334,414	Deferred tax assets – non-current
Lease and guarantee deposits		1,300,352	-;-	1,300,352	Lease and guarantee deposits
Non-current assets - Others		76,466	458,438	534,904	Non-current assets – Others
Total non-current assets		**14,421,747**	**15,539,321**	**29,961,068**	**Total non-current assets**
Total assets		**23,359,865**	**15,484,772**	**38,844,637**	**Total assets**

JPY (in thousand)

	As of December 31, 2020				
Presentation under J-GAAP	**Note**	**Reported under Japanese GAAP**	**Effect of transition to IFRS**	**IFRS**	**Presentation under IFRS**
Current liabilities					**Current liabilities**
Accounts payable-trade		750,259	-;-	750,259	Trade payable
Short-term borrowings		1,840,736	-;-	1,840,736	Short-term borrowings
Lease obligations - - current	G	12,351	3,031,755	3,044,106	Obligation under finance leases – current

Accounts payable-other		294,473	-;-	294,473	Accruals, provisions and other payables
Income taxes payable		141,086	-;-	141,086	Income taxes payable
-;-	F	-;-	717,844	717,844	Contract liabilities
Others	D	1,136,488	(485,071)	651,417	Other current liabilities
Total current liabilities		**4,175,393**	**3,264,528**	**7,439,921**	**Total current liabilities**
Non-current liabilities					**Non-current liabilities**
Lease obligations	G	17,363	12,677,049	12,694,412	Obligation under finance leases
Long-term borrowings	I	4,552,694	(50,649)	4,502,045	Long-term borrowings
Asset retirement obligations		1,705,000	-;-	1,705,000	Asset retirement obligations
Deferred tax liabilities	C	524,148	216,157	740,305	Deferred tax liabilities – non-current
-;-	F	-;-	628,315	628,315	Contract liabilities – non-current
Non-current liabilities - Others		318,710	31,629	350,339	Other non-current liabilities
Total non-current liabilities		**7,117,915**	**13,502,501**	**20,620,416**	**Total non-current liabilities**
Total liabilities		**11,293,308**	**16,767,029**	**28,060,337**	**Total liabilities**
Equity Shareholders' equity					**Equity Shareholders' equity**
Capital stock		3,331,331	-	3,331,331	Capital stock
Capital surplus		3,827,201	12,968	3,840,169	Capital surplus
Retained earnings	K	1,449,703	(1,931,876)	(482,173)	Retained earnings
Treasury shares		(87,677)	-	(87,677)	Treasury shares
Total shareholders' equity		**8,520,558**	**(1,918,908)**	**6,601,650**	**Total shareholders' equity**
Other comprehensive income					**Other comprehensive income**
Valuation differences of available-for-sale investments	E	(25,473)	302,344	276,871	Valuation differences of available-for-sale investments
Foreign currency translation adjustment		(31,122)	-	(31,122)	Foreign currency translation adjustment
Total other comprehensive income		**(56,595)**	**302,344**	**245,749**	**Total other comprehensive income**

Non-controlling interests	3,602,594	334,307	3,936,901	Non-controlling interests
Total equity	**12,066,557**	**(1,282,257)**	**10,784,300**	**Total equity**
Total liabilities and equity	**23,359,865**	**15,484,772**	**38,844,637**	**Total liabilities and equity**

Consolidated statement of income

JPY (in thousand)

		Year ended December 31, 2019			
Presentation under J-GAAP	**Note**	**Reported under Japanese GAAP**	**Effect of transition to IFRS**	**IFRS**	**Presentation under IFRS**
Net revenue	F	14,660,370	(379,198)	14,281,172	Revenue
Cost of revenue	F,G, H	(11,133,347)	(732,932)	(11,866,279)	Cost of sales
Gross profit		**3,527,023**	**(1,112,130)**	**2,414,893**	**Gross profit**
Selling, general and administrative expenses	B,D, G	(3,830,742)	143,077	(3,687,665)	Selling, general and administrative expenses
-;-	J	-;-	63,859	63,859	Other income
-;-	J	-;-	(14,647)	(14,647)	Other expense
Operating profit(Loss)		**(303,719)**	**(919,841)**	**(1,223,560)**	**Operating profit/(Loss)**
Non-operating income	J	63,015	(63,015)	-;-	-;-
Non-operating expenses	J	(111,555)	111,555	-;-	-;-
-;-	J	-;-	182,328	182,328	Finance income
-;-	J	-;-	(226,579)	(226,579)	Finance expense
-;-	J	-;-	(16)	(16)	Share of loss of investments accounted for using the equity method
Ordinary profit		(352,259)	(915,568)	(1,267,827)	-;-
Extraordinary income	J	-;-	-;-	-;-	-;-
Extraordinary loss	J	(308,382)	308,382	-;-	-;-
Profit before income taxes		**(660,641)**	**(607,186)**	**(1,267,827)**	**Profit/(Loss) before income taxes**
Income taxes	C	(297,524)	53,131	(244,393)	Income taxes expense
Profit after income taxes		**(958,165)**	**(554,055)**	**(1,512,220)**	**Profit for the period from continuing operations**
Minority interest		45,312	(144,130)	(98,818)	Minority interest
Profit (loss) attributable to owners of parent		**(912,853)**	**(698,185)**	**(1,611,038)**	**Profit (loss) attributable to owners of parent**

Profit after income taxes		**(958,165)**	**(554,055)**	**(1,512,220)**	**Profit/(Loss) for the period from continuing operations**
Other comprehensive income (loss), net of tax:					Other comprehensive income (loss), net of tax:
Valuation difference on available-for-sale investment	E	(14,112)	159,402	145,290	Change in fair value of available-for-sale financial assets
Foreign currency translation adjustment		(2,767)	-;-	(2,767)	Foreign currency translation adjustment
Total other comprehensive income (loss), net of tax		**(16,879)**	**159,402**	**142,523**	**Total other comprehensive income, net of tax**
Comprehensive income		**(975,044)**	**(394,653)**	**(1,369,697)**	**Comprehensive income**
Comprehensive income attributable to					Comprehensive income attributable to
Owners of parent		(919,195)	(637,167)	(1,556,362)	Owners of parent
Non-controlling interests		(55,849)	242,514	186,665	Non-controlling interests

JPY (in thousand)

Presentation under J-GAAP	**Note**	**Year ended December 31, 2020** **Reported under Japanese GAAP**	**Effect of transition to IFRS**	**IFRS**	**Presentation under IFRS**
Net revenue	F	16,077,000	(493,833)	15,583,167	Revenue
Cost of revenue	F,G,H	(12,109,799)	90,879	(12,018,920)	Cost of sales
Gross profit		**3,967,201**	**(402,954)**	**3,564,247**	**Gross profit**
Selling, general and administrative expenses	B,D,G	(3,442,319)	89,547	(3,352,772)	Selling, general and administrative expenses
-;-	J	-;-	62,088	62,088	Other income
-;-	J	-;-	(7,480)	(7,480)	Other expense
Operating profit(Loss)		**524,882**	**(258,799)**	**266,083**	**Operating profit(Loss)**
Non-operating income	J	71,332	(71,332)	-;-	-;-

Non-operating expenses	J	(65,886)	65,886	-;-	-;-
-;-	J	-;-	49,873	49,873	Finance income
-;-	J	-;-	(168,293)	(168,293)	Finance expense
-;-	J	-;-	637	637	Share of loss of investments accounted for using the equity method
Ordinary profit		**530,328**	**(382,028)**	**148,300**	-;-
Extraordinary income	J	24,236	(24,236)	-;-	-;-
Extraordinary loss	J	(162,802)	162,802	-;-	-;-
Profit before income taxes		**391,762**	**(243,462)**	**148,300**	**Profit(Loss) before income taxes**
Income taxes	C	(127,328)	(17,487)	(144,815)	Income taxes expense
Profit after income taxes		**264,434**	**(260,949)**	**3,485**	**Profit for the period from continuing operations**
Minority interest		78,073	(24,019)	54,054	Minority interest
Profit (loss) attributable to owners of parent		**342,507**	**(284,968)**	**57,539**	**Profit (loss) attributable to owners of parent**
Profit after income taxes		**264,434**	**(260,949)**	**3,485**	**Profit(Loss) for the period from continuing operations**
Other comprehensive income (loss), net of tax:					Other comprehensive income (loss), net of tax:
Valuation difference on available-for-sale investment	E	(130,099)	236,353	106,254	Change in fair value of available-for-sale financial assets
Foreign currency translation adjustment		(8,524)	-;-	(8,524)	Foreign currency translation adjustment
Total other comprehensive income (loss), net of tax		**(138,623)**	**236,353**	**97,730**	**Total other comprehensive income, net of tax**
Comprehensive income		**125,811**	**(24,596)**	**101,215**	**Comprehensive income**
Comprehensive income attributable to					Comprehensive income attributable to
Owners of parent		313,023	(49,518)	263,505	Owners of parent
Non-controlling interests		(187,212)	24,922	(162,290)	Non-controlling interests

A) Acquisition of TSS LINK, Inc.

Pursuant to the share exchange agreement executed on 21 December 2018, the Company completed a share exchange on 31 January 2019, whereby the Company became a wholly owning parent company resulting from share exchange, and TSS LINK, Inc. ("TSS") became a wholly owned subsidiary resulting from share exchange, with the aim of enhancing its computer platform business to increase competitiveness. As a result of the above, the Company acquired 100% voting rights in TSS and made it a consolidated subsidiary.

Assets acquired and liabilities assumed

The identifiable assets and liabilities of TSS, which are measured at fair value as of the date of acquisition in accordance with IFRS, were as follows:

	(In thousands of yen) Fair Value recognized on acquisition
Assets	
Current asset	140,069
Non-current asset	178,955
Total assets	319,024
Liabilities	
Current liabilities	(49,837)
Non-current liabilities	(52,490)
Total liabilities	(102,327)
Total identifiable net assets at fair value	216,697
Total consideration	216,697

Detail of purchase consideration is as follow.

	(In thousands of yen)
Cash paid	10,203
Loss on step acquisition	(3,785)
Ordinary shares issued	210,279
Total purchase consideration	216,697

As of end of June 2019, the difference between the net book value and the acquisition price was recorded as goodwill, but due to the confirmation of accounting, intangible assets were recorded at 171,425 thousand yen and deferred tax liabilities of 52,490 thousand yen. On the other hand, goodwill decreased by 118,934 thousand yen. From the date of acquisition, TSS had contributed JPY 179,365 thousand to the revenue of BBT and had increased profit from continuing operations of BBT by JPY 30,278 thousand, for the 12 months ended December 31, 2019. Also, TSS had contributed JPY 127,098 thousand to the revenue of BBT and had increased profit from continuing operations of BBT by JPY 15,047 thousand, for the 12 months ended December 31, 2020. If the business combination had taken place on 1 January 2019, consolidated pro-forma revenue and loss from continuing operations would have been JPY 14,291,218 thousand and JPY 1,654,887 thousand for the 12 months ended December 31, 2019.

B) Goodwill and intangibles

As allowed under Japanese GAAP, goodwill is amortized for a period of less than 20 years. Under IFRS, goodwill is not amortized, and the impairment test is performed at least annually, or more frequently upon occurrence of a trigger event.
As a result, JPY 681,042 thousand of goodwill is recorded under IFRS as of December 31, 2019 and December 31, 2020, respectively. Subsequently, JCC, which is a subsidiary of BBT, acquired OCN on 3 October 2018. Goodwill arising from OCN acquisition is newly included as of December 31, 2018 and December 31, 2019.

Reconciliation of goodwill between Japanese GAAP and IFRS December 31, 2019 and December 31, 2020 are as follow.

		JPY (In thousands)
	December 31, 2019	December 31, 2020
Goodwill under Japanese GAAP	605,672	558,168
Reversal of amortization expense of goodwill under Japanese GAAP	47,504	97,138
GAAP adjustment from Japanese GAAP to IFRS related to JCC and OCN as of the date of initial acquisition	27,866	25,736
Goodwill under IFRS	681,042	681,042

The Company tests whether goodwill has suffered any impairment on an annual basis at every December 31 under IFRS. The recoverable amount of a cash generating unit (CGU) is determined based on the value-in-use calculations which require the use of the assumptions. The calculations use cash flow projections based on the financial budget covering a five-year period for JCC and a three-year period for OCN. Cash flows beyond each covering period are extrapolated using the estimated growth rates stated below. These growth rates are consistent with forecasts included in the industry reports specific to the industry in which each CGU operates.

When the recoverable amount of the CGU which includes goodwill is lower than the carrying amount of such CGU, an impairment loss is recognized.

	JCC Year ended December 31, 2020	OCN Year ended December 31, 2020
Budgeted operating profit margin (%)	3.3%	4.1%
Long-term growth rate (%)	0%	0%
Pre-tax discount rate (%)	7.45%	7.33%

The Company's management has determined the values assigned to each of the above key assumptions as follows:

Assumption	Approach used to determine values
Budgeted operating profit margin (%)	Based on past performance and management's expectations for the future.
Long-term growth rate (%)	This is the weighted average growth rate used to extrapol ate cash flows beyond the budgeted period. The rates are consistent with forecasts included in the industry report.
Pre-tax discount rate (%)	Reflect specific risks relating to the relevant CGU.

The Company tests whether goodwill has suffered any impairment on an annual basis at every December 31 under IFRS. The Company did not perform the impairment test, because there was no indication of potential impairment as of December 31, 2020.

C) Deferred tax assets and deferred tax liabilities

Japanese GAAP provides detailed guidance on assessing the recoverability of deferred tax assets. An entity is classified into 5 categories by its profitability and the extent of the recoverability of deferred tax assets and the length of estimated future periods to assess the recoverability of deferred tax assets are determined by such categories, and the scheduling of estimated future taxable income and the

amounts thereof is taken into account in recording deferred tax assets by assessing the recoverability of assets in terms of the sufficiency of taxable income based on profitability, existence of tax planning and sufficiency of taxable temporary differences.
Under IFRS, the recoverability of deferred tax assets is assessed as they are recognized in terms of whether it is probable that taxable profits will be available against which the assets can be utilized. Deferred taxes recognized for other temporary differences arising from adjustments related to IFRS are also adjusted.

As a result, JPY 298,922 thousand and JPY 279,781 thousand of deferred tax assets are adjusted as the 1) differences of the treatment of recoverability of deferred taxes under Japanese GAAP and IFRS, 2) recorded from the adjustment accounting entries from Japanese GAAP to IFRS and 3) off set the deferred tax assets with the liabilities, as of December 31, 2019 and 2020, respectively.

D) Unused paid absences
Under Japanese GAAP, no provision is made for employees' unused rights to paid absences. Under IFRS, they are recognized in other current liabilities. Additionally, obligations associated with special leave and remuneration that are granted based on specified years of service and which do not require recognition under Japanese GAAP are recognized and included in other non-current liabilities under IFRS.
For the 12 months ended December 31, 2019 and 2020, the expense relating to the unused paid absence at JPY 4,969(profit) thousand and JPY 10,361(expense) thousand are included as the adjustment from Japanese GAAP to IFRS, respectively. In addition, others in the current liability are increased by JPY 48,799 thousand and JPY 59,159 thousand, respectively, due to the adjustment from Japanese GAAP to IFRS.

E) Fair value measurement
Under Japanese GAAP, if a financial asset does not have a quoted market value, then where an entity is able to reasonably calculate a price which can be considered to be a quasi-quoted price, such price may be used for that financial asset as a market value. The "reasonably calculated price" represents, a price calculated using reasonable estimates of management.
Under IFRS, the Company referred to the levels of the fair value hierarchy for financial instruments measured at fair value on the reconciliation based on the following inputs:
– Level 1 inputs are quoted prices in active markets for identical assets or liabilities.

– Level 2 inputs are quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

– Level 3 inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable, which reflect the reporting entity's own assumptions that market participants would use in establishing a price.

(1) Fair value measurements by fair value hierarchy
Assets measured at fair values on a recurring basis in the reconciliation as of December 31, 2019 and 2020 are as follows:

JPY (In thousands)

	Level 1	Level 2	Level 3	Total
As of December31, 2019				
Assets				
Financial assets at fair value through other comprehensive income	-;-	-;-	3,119,187	3,119,187
Financial assets at fair value through profit or loss	-;-	-;-	197,910	197,910

Total	-;-	-;-	3,317,097	3,317,097

	Level 1	Level 2	Level 3	JPY (In thousands) Total
As of December 31, 2020				
Assets				
Financial assets at fair value through other comprehensive income	-;-	-;-	3,690,230	3,690,230
Financial assets at fair value through profit or loss	-;-	-;-	220,083	220,083
Total	-;-	-;-	3,910,313	3,910,313

The table below presents the changes in level 3 instruments for the relevant periods:

	Level 3 JPY (In thousands)
Balance at 1 January 2019	2,498,769
Additions of financial assets	686,740
Disposal of financial assets	(222,000)
Transfer to investment in subsidiary	-;-
Fair value gain/(loss) on valuation carried to other comprehensive income	237,624
Fair value gain/(loss) through profit or loss	158,112
Loss on valuation of financial assets	(44,491)
Others	2,343
Balance on December 31,2019	3,317,097
Balance on January 1, 2020	3,317,097
Additions of financial assets	353,577
Disposal of financial assets	-;-
Transfer to investment in subsidiary	-;-
Fair value gain/(loss) on valuation carried to other comprehensive income	265,637
Fair value gain/(loss) through profit or loss	24,746
Loss on valuation of financial assets	(50,744)
Others	-;-
Balance on December 31, 2020	3,910,313

There were no transfers between levels 1, 2 and 3 during the relevant periods.

F) Revenue recognition

BBT derives more than 90% of its revenues from recurring revenue streams, consisting primarily of 1) Computer platform business; 2) IoT/AI solution business; 3) Media solution business.

1) <u>Computer platform business</u>
Main component in the computer platform business is data center business, consisting primarily of 1) colocation, which includes the licensing of cabinet space and power; (2) interconnection offerings; (3) managed infrastructure solutions. The remainder of the revenues are from non-recurring revenue streams, such as installation revenues, professional services and equipment sales. Under the

revenue accounting guidance under IFRS15, revenues are recognized when control of these products and services is transferred to its customers, in an amount that reflects the consideration it expects to be entitled to in exchange for the products and services. Revenues from recurring revenue streams are generally billed monthly and recognized ratably over the term of the contract, generally one to three years for data center customers. Non-recurring installation fees, although generally paid upfront upon installation, are deferred and recognized ratably over the average customer relationship periods. Professional service fees and equipment sales are recognized in the period when the services were provided.

2) IoT/AI solution business
IoT/AI solution business mainly supports contact centers and help desks operators through natural language analysis technology. Under the revenue accounting guidance under IFRS15, revenues are recognized when control of these services is transferred to its customers, in an amount that reflects the consideration it expects to be entitled to in exchange for the services. Revenue from the services is recognized in the period when the services were provided.

3) Media solution business
Media solution business provides the telecommunications network business for cable television operators and program suppliers throughout Japan. The remainder of the revenues are from non-recurring revenue streams, such as installation revenues, professional services and equipment sales. Under the revenue accounting guidance under IFRS15, revenues are recognized when control of these products and services is transferred to its customers, in an amount that reflects the consideration it expects to be entitled to in exchange for the products and services. Revenues from recurring revenue streams are generally billed monthly and recognized ratably over the term of the contract, generally one to three years for cable television operators and program suppliers. Non-recurring installation fees are recognized in the period when the services were provided.

Under Japanese GAAP, revenue is recognized when each good is accepted by the Company's customer or for the contractual period when each service is provided. The revenue from initial installation services at the datacenter business is recognized at the time of installation.
However, under IFRS 15, which has been adopted from 1 January 2018, the Company recognize revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset. The Company has concluded that the current methods of revenue recognition and measurement under Japanese GAAP are in accordance with both IFRS 15 and former IAS18, with the exception of installation services. Under both IFRS 15 and former IAS18, the initial installation services is recognized over the period of the expected period of the customer relationship.
As a result of the adjustment at revenue recognition, the revenue for the 12 months ended December 31, 2019 decreased by JPY 379,198 thousand and the revenue for the 12 months ended December 31, 2020 decreased by JPY 493,833 thousand, and also the cost of sales for the 12 months ended December 31, 2019 decreased by JPY 307,715 thousand and the cost of sales for the 12 months ended December 31 2020 decreased by JPY 359,752 thousand.
The Company has provided the services to various customers. In the computer platform business of BBT, Yahoo Japan Corporation is the largest customer for more than 10 percent of total segment revenue under J-GAAP at JPY 3,643,106 thousand and JPY 3,239,335 thousand for the 12 months ended December 2019 and December 2020, respectively.

G) Lease
BBT has adopted IFRS 16 Leases from the fiscal year beginning 1 January 2019. The Group has applied the modified retrospective method permitted by IFRS 16 and recognized the cumulative amount of the impact as of 1 January 2019 upon adoption of the standard. As a result, the Group has not restated the amounts in the comparative reporting period prior to adoption of IFRS 16.

IFRS 16 sets out the principal for the recognition, measurement, presentation and disclosure of lease contracts for lessees and lessors. Under IFRS 16, lessees no longer make a distinction between finance and operating leases as required under IAS 17, and apply a single accounting model. At the commencement date of a lease, lessees recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use assets).

Subsequently, lessees are required to recognize separately the interest expense on the lease liability and the depreciation expense on the right-of-use assets. The right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life of the assets or the lease term. Lessors accounting under IFRS 16 remains substantially unchanged from IAS 17.

Upon the adoption of IFRS 16, the Group recognized lease liabilities for its leases previously classified as operating lease under IAS 17. The lease liabilities were measured at the present value of the remaining lease payments, discounted at the incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate used for the lease liabilities as of January 1, 2019 was 0.51%.

BBT applied the following practical expedients permitted by IFRS 16 when applying IFRS 16:

- Accounted operating leases with less than 12 months of lease term remaining as of January 1, 2019 for as short-term leases and low value leases.
- Used hindsight when determining the lease term of contract including extension options and/or termination options.
- By class of underlying asset, not to separate non-lease components from lease components, and instead accounts for each lease component and any associated non-lease components as a single lease component.

BBT elected not to apply IFRS 16 to the agreements that were not identified as containing a lease component applying IAS 17 and IFRS 4 *Determining whether an Arrangement contains a Lease.*

JPY (in thousands)

Commitments for operating lease as of December 31, 2018 as disclosed in the Group's consolidated financial statements	18,057,304
Discounted using the group's incremental borrowing rate of 0.51%	(713,862)
Add: finance lease liabilities recognized as of December 31, 2018	296,975
(Less): short term leases and low value leases recognized on straight-line basis as expense	(26,239)
Add: adjustments as a result of different treatment of extension and termination options	17,726
Lease liabilities recognized on 1 January 2019	17,631,904
Current lease liabilities	3,019,815
Non-current lease liabilities	14,612,089

As a result of above, the Group recognized JPY 15,678,935 thousand for the right-of-use assets, the amount of impairment was JPY 1,476,841 thousand, and JPY 17,334,928 thousand for the lease liabilities, in the annual condensed consolidated financial position as of January 1, 2019. As of December 31, 2019 and 2020, the Group's right-of-use assets consist almost entirely of Buildings.

Due to the adoption of IFRS 16, cost of revenue and rent expense which included operating lease expenses decreased by JPY 2,693,264 thousand and 421,729 thousand, respectively for the period ended December 31, 2020. The depreciation and amortization expenses which included the depreciation expenses of right-of-use assets, and finance costs which included interest expenses for lease liabilities increased by JPY 1,979,368 thousand and JPY 94,675 thousand, respectively for the period ended December 31, 2020.

The accounting policies applied by the Group in accordance with the IFRS 16 as of January 1, 2019 are as follows:

The Group, as a lessee, mainly leases properties. Lease contracts are normally entered into the fixed term from 1 years to 15 years.

Leases are recognized as right-of-use assets and the corresponding liabilities when the lease assets become available for use by the Group. Each lease payment is apportioned between repayments of the lease liability and finance costs. The finance costs are accounted for as expenses over the lease term and calculated based on constant periodic rate of interest on the remaining balance of the lease liability. The right-of-use assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

The assets and liabilities arising from leases are measured at the present value of the lease at the commencement date. The lease liability includes the net present value of the following lease payments:

- fixed payments less any lease incentives
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option. to terminate the lease

Lease payments are determined using the Group's incremental borrowing rate, since the implicit rate in the lease cannot be readily determined.
The right-of-use assets is measured at cost shall comprise:

- the amount of the initial measurement of the lease liability
- any lease payments made at or before the commencement date, less any lease incentives received
- any initial direct cost
- cost of restoring the underlying asset to the original condition

The lease payments associated with short-term lease and leases of low-value assets are recognized as expenses on a straight-line basis.

A short-term lease is a lease that, at the commencement date, has a lease term of 12 months or less. A lease of low-value asset, for example, comprises low value assets such as office furniture and fixture.

The Group's property leases include extension options and termination options.

Extension option shall be included in the lease term only if the lessee is reasonably certain to exercise that option.

For the year ended December 31, 2020

(i) The expenses relating to leases are as follows.

	JPY (In thousands)
	For the year ended December 31, 2020
Depreciation of right-of-use assets	
Buildings	(1,599,957)
Equipment	(379,411)
Total depreciation expenses	(1,979,368)
Interest expenses relating to lease liabilities	(94,675)
Expenses relating to leases of low-value assets	(18,752)

(ii) The carrying amounts of the right-of-use assets are as follows.

	JPY (In thousands)
	December 31, 2020
Right-of-use assets	
Buildings	13,597,339
Equipment	140,720
Total	13,738,059

Lease liabilities

Current	(3,044,106)
Non-current	(12,694,412)
Total	(15,738,518)

(iii) The changes in the carrying amounts of the right-of-use assets are as follows:

	JPY (In thousands)
	December 31, 2020
Balance on January 1, 2020 under finance lease transactions	468,672
Adjustments on adoption of IFRS16	15,225,903
Balance on January 1, 2020 (adjusted)	15,694,575
New lease transactions	1,227,838
Depreciation	(1,979,368)
Impairment loss (*)	(1,240,791)
Others	35,805
Balance on December 31, 2020	13,738,059

(*) The Group determined that there were indications of impairment on right-of-use assets, mainly in connection with the first site, the third site, and the fifth site. As a result, impairment of right-of-use assets in the amounts of 1,240,790 thousand yen was recognized for the year ended December 31, 2020.

(iv) The changes in the carrying amounts of the right-of-use liabilities are as follows:

	JPY (In thousands)
	December 31, 2020
Balance on January 1, 2020 under finance lease transactions	42,345
Adjustments on adoption of IFRS16	17,507,875
Balance on January 1, 2020 (adjusted)	17,550,220
New lease transactions	1,227,838
Repayment	(3,039,539)
Balance on December 31, 2020	15,738,519

H) Impairment of plant, property and equipment

Under Japanese GAAP, an impairment loss is recognized when there is an indicator of impairment and (1) The undiscounted value of total future cash flows is below the asset's carrying amount; then (2) The recoverable amount of an asset is below its carrying amount. There are two steps for recognition of an impairment loss.
Under IFRS, an impairment loss is recognized when there is an indication of impairment and when the recoverable amount of an asset is below its carrying amount. Step 1 under Japanese GAAP is not required under IFRS.

I) Loan covenants

To raise funds flexibly for investment demand in the new data center established in August 2018, BBT has signed a commitment-type syndicated loan agreement of 4.0 billion yen in total with five banks including our counterparties arranged by Sumitomo Mitsui Banking Corporation in March 2018 and the agreement was updated in December 2018. This agreement includes financial conditions as follows.
1) At the end of the fiscal year ended June 30, 2018 and every subsequent fiscal year-end, the total amount of net assets on the consolidated balance sheet shall not be less than the higher of either: an amount equivalent to 80% of total net assets on the consolidated balance sheet at the end of the fiscal year ended June 30, 2017; or an amount equivalent to 80% of total net assets on the consolidated balance sheet at the end of the most recent fiscal year.
2) The ordinary loss recorded in the consolidated statement of income at the end of the fiscal year ended December 31, 2020 and every subsequent fiscal year-end thereafter shall not be recorded for the second

consecutive year.
3) At the second quarter end of the fiscal year ended December 31, 2020, an ordinary loss on the consolidated statement of income shall not be recorded.
The Company has complied with these covenants throughout the reporting period.

J) Reclassification

a) Allowance for doubtful accounts

Under Japanese GAAP, the allowance for doubtful accounts is separately presented on the balance sheet. Under IFRS, allowances for doubtful accounts are offset against the applicable accounts (i.e., accounts receivable).
As a result, JPY 5,499 and JPY 6,971 thousand included in the account of the allowance for doubtful accounts are transferred to Notes and accounts receivables – trade as of December 31, 2019 and 2020, respectively.

b) Investment securities

Under Japanese GAAP, investments accounted for using the equity method are presented as a part of investment securities with the investment securities, however, under IFRS, it's independently presented as the investment accounted for using the equity method.
As a result, the investment accounted for using the equity method of JPY 16,242 thousand and JPY 16,878 thousand included in the account of the investment securities are independently presented as of December 31, 2019 and 2020, respectively.

c) Non-operating income & expense and Extraordinary income & loss

Under Japanese GAAP, non-operating income and expense are presented below operating profit.
These accounts consist of financial income and expense, foreign exchange gain (loss), profit (loss) under equity method investment and others. In addition, exceptional items are required to be presented as "Extraordinary income and loss" on the face of the income statement. The definition of "special" is broader compared to IFRS and includes some extraordinary items.
Under IFRS, financial income, financial expense and profit (loss) under equity method investment is usually shown below operating profit. The term exceptional items is not used or defined, however, separate disclosure is required (either on the face of the comprehensive income statement or in the notes) when it is necessary to allow an entity to explain its performance for the period as a result of the size, nature or incidence of certain items of income and expense. It is prohibited to present any items as "Extraordinary" under IFRS.

K) Retained earnings

Reconciliation of retained earnings under Japanese GAAP and IFRS is below-

	December 31, 2019 JPY (in thousand)	**December 31, 2020 JPY (in thousand)**
Reported under Japanese GAAP	1,226,728	1,449,703
Reversal of amortization of goodwill	101,470	140,311
Deferred taxes	364,404	346,586
Unused paid absences	(28,612)	(38,972)
Impairment of Property, Plant & Equipment (include effect of application of IFRS 16)	(2,335,102)	(2,542,158)
Revenue recognition	(120,951)	(255,032)
Impairment of investment securities	(11,828)	(11,828)
Non-controlling interests	(141,474)	(144,919)
Adjustment for application of Effective interest method	69,986	54,300
Effect of application of IFRS 9	452,202	463,209
Others	2,998	56,627
Reported under IFRS	(420,179)	(482,173)