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Disclosure Update: Losses of Consolidated Subsidiary

On December 14, 2023, Datasection Inc. (hereinafter referred to as the "Company") issued a "Notice on Losses of Consolidated Subsidiary," and on February 14, 2024, followed up with a "Disclosure Update: Losses of Consolidated Subsidiary." These disclosures pertain to the handling of preferred dividend rights within Jach Technology SpA (a Chilean corporation, hereinafter referred to as "Jach"), a major consolidated subsidiary of the Company. The structure for handling these preferred dividend rights has been finalized, and the transaction has been closed. We hereby announce the details as follows.

1. Background of the Case

As announced on December 14, 2023, Jach issued a class of non-voting shares (preferred shares with preferred dividend rights linked to certain performance conditions). According to the contract with the preferred shareholders (hereinafter referred to as "the Shareholders"), the preferred dividend rights would be triggered after the Shareholders designated the performance calculation period and received approval at Jach's shareholders' meeting. Once the performance calculation period was specified and the achievement of the performance conditions was confirmed, the Company began negotiations with the Shareholders regarding the handling of these preferred dividend rights. At that time, the potential for recording losses in Jach, a major consolidated subsidiary of the Company, due to the handling of the preferred dividend rights arose, leading to the timely disclosure made in December 2023.

Thereafter, negotiations with the Shareholders continued toward the payment of the preferred dividends. In February 2024, it was agreed that the existing claims held by the Company's group (long-term loans through Jach) against the Shareholders would be offset against the preferred dividend rights to be acquired by the Shareholders after the rights were triggered. In this case, the Company's group would not need to pay the preferred dividends based on the preferred dividend rights to the Shareholders, but it would also not receive repayment of the long-term loans as per the contract. Consequently, the Company decided to recognize a full allowance for doubtful accounts on the long-term loans.

As a result, while the estimated loss amount disclosed on December 14, 2023 (USD 3,299,158 maximum) was slightly adjusted, the decision to offset these claims was made to reduce future cash outflows from the Company's group and to enable earlier and more secure recovery of the long-term loans owed by the Shareholders. This decision was made considering economic rationality and other relevant factors.

We have now completed detailed negotiations with the Shareholders, and with all transactions closed, we provide this final report as an update on the progress of the disclosure matters.

2. Details of the Structure of the Case

- 1) The existing claims held by the Company's group (long-term loans through Jach) against the Shareholders were offset against the preferred dividend rights acquired by the Shareholders after the rights were triggered.
- 2) Any differences arising from the offset of these claims were settled separately within the

Company's group. Additionally, the preferred shares were converted into common shares, all of which were purchased by the Company. Consequently, all shares issued by Jach are now owned by the Company.

3. Overview of the Long-Term Loan

(1) Creditor	Jach
(2) Debtor	Non-disclosed (Shareholder of Jach's preferred shares)
(3) Claim Amount	Total principal and interest of USD 3,334,804 (USD-denominated claim)
(4) Other	The source of funds for the long-term loan was a group loan from the Company to Jach. (Regarding this group loan, the principal amount and a portion of the interest have been recovered through a debt-equity swap and other set-offs of claims and liabilities.)

Note: In the consolidated financial results for the third quarter of the fiscal year ending March 2024, the Company recorded a special loss of JPY 505 million as a bad debt loss.

4. Overview of the Preferred Shares (December 14, 2023 Disclosure)

(1) Type of Shares	Preferred shares
(2) Number of Issued Shares	30,545,002 shares
(3) Shareholders' Rights	No voting rights Preferred dividend rights where the dividend amount itself is linked to the achievement of certain performance conditions
(4) Preferred Dividend Amount	USD 3,299,158 (maximum)
(5) Preferred Shareholders	Non-disclosed as a result of negotiations with the preferred shareholders

5. Impact on Financial Results

The total allowance for doubtful accounts of JPY 505 million has been fully recorded as a special loss in the consolidated financial results for the third quarter of the fiscal year ending March 2024. Furthermore, the cash outflow from the Company's group due to this case was minimal (USD 10,000), and the preferred shares were converted into common shares and purchased by the Company, leading to the closing of the transaction.

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