Consolidated Financial Statements

EDION Corporation
and Consolidated Subsidiaries

Year ended March 31, 2022
with Independent Auditor's Report

EDION Corporation and Consolidated Subsidiaries

Consolidated Financial Statements

Year ended March 31, 2022

Contents

Independent Auditor's Report

The Board of Directors
EDION Corporation

Opinion

We have audited the accompanying consolidated financial statements of EDION Corporation (the Company) and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2022, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

Recognition and measurement of impairment of property and equipment related to stores	
Description of Key Audit Matter	**Auditor's Response**
As described in Note 2, "Summary of Significant Accounting Policies (q) Significant accounting estimates," the Company recognized property and equipment related to stores with a carrying value of ¥111,653 million, which represent 29.5% of	The audit procedures we performed to assess impairment loss on property and equipment related to stores include the following, among others: ・ We compared the cash flow projection period with the remaining economic lives

total assets, as of March 31, 2022. In addition, the Company recognized impairment loss of ¥859 million on the property and equipment due to a decline in profitability. The Company groups cash generating units based on stores in sales department, the Company determines whether recognition of impairment loss is necessary or not. When the Company determines that an asset or an asset group is impaired, the Company reduces the carrying amount to the recoverable amount and recognizes an impairment loss. The recoverable amount was the higher of net realizable value or value in use calculated as the present value of estimated future cash flows. In determining the recognition of impairment loss and calculation of value in use, the estimated future cash flows obtained from an asset group are determined based on the Company-wide business plan, budget by each asset group and store opening business plan for the year ending March 31, 2023 (hereinafter the "business plan, etc."), and also the growth rates estimated based on the past results taking into consideration of the regional characteristics, the position of the commercial area, the external environment and the impact of sales support. As described in Note 2 "Summary of Significant Accounting Policies (q) Significant accounting estimates," significant assumptions used in estimating the future cash flows include sales growth rates and the discount rates. As mentioned above, the sales growth rate as an assumption is affected by uncertainties such as regional characteristics, the position of the commercial area, the external environment and the impact of sales support, which requires management judgement subject to material effects of uncertainty and subjectivity. Therefore, in view of the potential impact of the quantitative materiality of property and equipment in the consolidated financial statements, we have	of the major assets. ・ We compared the estimated future cash flows with the business plan approved by the Board of Directors to evaluate consistency. ・ We compared the Company's estimation for prior years with actual results to evaluate the effectiveness of management's estimation process for future cash flows. ・ We assessed the sales growth rate used to calculate future cash flows by discussing with the management, performed trend analysis based on past performance, and by reviewing available external data for some asset groups to evaluate management's assessment of future uncertainties. ・ We evaluated the consistency of the valuation methodologies of value in use with the accounting standards and the consistency of input data used for the discount rates with external data.

determined that this matter be a key audit matter.	

Recognition and measurement of impairment of goodwill and other intangible assets	
Description of Key Audit Matter	**Auditor's Response**
As described in Note 2, "Summary of Significant Accounting Policies (q) Significant accounting estimates," the Company recognized goodwill and other intangible assets (hereinafter "goodwill, etc.") of ¥2,454 million yen and ¥1,685 million yen, respectively, on the consolidated balance sheet as of March 31, 2022. These assets were mainly recognized arising from acquisitions of subsidiaries, and breakdown is as follows: ・ Goodwill Forest Co., Ltd. ¥102 million Jtop Co., Ltd. ¥225 million Yumemiru Co., Ltd. ¥665 million Hampstead Co., Ltd. ¥1,285 million ・ Other intangible assets Forest Co., Ltd. ¥1,120 million (Customer related assets) Jtop Co., Ltd. ¥85 million (Customer related assets) Hamapstead Co., Ltd ¥77 million (Customer related assets) Hamapstead Co,. Ltd. ¥404 million (Technology related assets) The Company determined that there was an indication of impairment on the above goodwill and recognized impairment loss of ¥860 million due to a decline in profitability caused by changes in the business environment. After grouping by each subsidiary or business unit, the Company determines whether recognition of the impairment loss is necessary or not, and if the Company determines that the impairment loss should be recognized, the book value is reduced to the recoverable amount and the relevant	The audit procedures we performed to assess the recognition and measurement of impairment loss on goodwill, etc. include the following: ・ We compared the cash flow projection period with the remaining economic lives of the major assets. ・ We compared the estimated future cash flows with the business plan approved by the Board of Directors to evaluate consistency. ・ We compared the Company's business plans in the past years with the relevant actual results to evaluate the effectiveness of management's estimation process for business planning. ・ We assessed the business environment and business outlook which serve as the basis of the business plan, by discussing with management at each subsidiary and performed trend analysis on the sales growth rates based on past performance. ・ We assessed sales growth rate by reviewing available external data relating to market trends to evaluate management's assessment of future uncertainties. ・ We evaluated the consistency of the valuation methodologies of value in use with the accounting standards, and also the consistency of input data used for the discount rates with external data.

impairment loss is recorded. The recoverable amount is the higher of net realizable value or value in use, and value in use is calculated as the present value of estimated future cash flows. In determining the recognition of impairment loss and calculation of value in use, the estimated future cash flows obtained from an asset group are determined based on business plan approved by the Board of Directors for the year ending March 31, 2023, and the sales growth rates for the periods estimated based on past results. As described in the Note 2, "Summary of Significant Accounting Policies (q) Significant accounting estimates," significant assumptions used in estimating the future cash flows include sales growth rates, which serve as the basis of the business plan, the sales growth rates for the periods subsequent to the period covered by the business plan and the discount rates. Given that the significant assumptions used to estimate the future cash flow are subject to uncertainty and require management's judgement, we determined impairment of goodwill, etc. to be a key audit matter.	

Other Information

The other information comprises the information included in the disclosure document that contains audited consolidated financial statements but does not include the consolidated financial statements and our auditor's report thereon.

We have concluded that the other information does not exist. Accordingly, we have not performed any work related to the other information.

Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditor and the Board of Corporate Auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Corporate Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the consolidated financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Corporate Auditor and the Board of Corporate Auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2022 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Osaka, Japan

August 12, 2022

/s/ Hiroyuki Koichi
Hiroyuki Koichi
Designated Engagement Partner
Certified Public Accountant

/s/ Naotaka Sasayama
Naotaka Sasayama
Designated Engagement Partner
Certified Public Accountant

EDION Corporation and Consolidated Subsidiaries

Consolidated Balance Sheet

March 31, 2022

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2022	2021	**2022**
Assets			
Current assets:			
Cash and cash equivalents *(Note 10)*	**¥ 29,885**	¥ 43,072	**$ 244,178**
Notes and accounts receivable:			
Trade *(Notes 10 and 18)*	**–**	39,074	**–**
Notes receivable - trade *(Notes 10 and 18)*	**41**	–	**335**
Accounts receivable - trade *(Notes 10 and 18)*	**39,624**	–	**323,752**
Other	**10,056**	7,694	**82,164**
Allowance for doubtful receivables	**(114)**	(62)	**(931)**
	49,607	46,706	**405,320**
Inventories:			
Merchandise and products *(Note 7)*	**106,023**	97,919	**866,272**
Supplies	**396**	342	**3,236**
	106,419	98,261	**869,508**
Other	**4,686**	4,511	**38,286**
Total current assets	**190,597**	192,550	**1,557,292**
Property and equipment, at cost *(Notes 5 and 14)*:			
Land *(Notes 4, 6 and 7)*	**57,542**	57,942	**470,153**
Buildings and structures *(Notes 6 and 7)*	**169,488**	167,510	**1,384,819**
Tools, furniture, and fixtures	**34,956**	32,592	**285,612**
Leased assets *(Note 16)*	**5,444**	3,274	**44,481**
Construction in progress	**716**	1,640	**5,850**
Other	**1,611**	1,622	**13,163**
	269,757	264,580	**2,204,078**
Accumulated depreciation	**(144,253)**	(138,716)	**(1,178,634)**
Property and equipment, net	**125,504**	125,864	**1,025,444**
Investments and other assets:			
Investments in securities *(Notes 3 and 10)*	**3,296**	2,350	**26,930**
Investments in affiliates *(Notes 3 and 10)*	**372**	392	**3,039**
Goodwill *(Notes 14, 17 and 19)*	**2,455**	3,869	**20,059**
Guarantee deposits *(Note 10)*	**26,635**	26,616	**217,624**
Deferred tax assets *(Note 9)*	**18,736**	23,253	**153,084**
Other	**10,375**	11,531	**84,771**
Total investments and other assets	**61,869**	68,011	**505,507**
Total assets	**¥ 377,970**	¥ 386,425	**$ 3,088,243**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	**2022**
Liabilities and net assets			
Current liabilities:			
Short-term loans payable *(Notes 7 and 10)*	**¥ 160**	¥ 188	**$ 1,307**
Current portion of long-term loans payable *(Notes 7 and 10)*	**10,234**	2,525	**83,618**
Current portion of convertible bonds *(Notes 7 and 10)*	**–**	80	**–**
Notes and accounts payable:			
Trade *(Notes 7 and 10)*	**48,346**	43,906	**395,016**
Other	**11,431**	13,517	**93,398**
	70,171	60,216	**573,339**
Lease obligations *(Notes 7 and 10)*	**647**	332	**5,286**
Income taxes payable *(Note 9)*	**917**	9,229	**7,492**
Provision for bonuses	**5,587**	7,147	**45,649**
Contract liabilities *(Note 18)*	**29,399**	–	**240,208**
Provision for point card certificates	**–**	9,082	**–**
Other *(Note 7)*	**2,282**	17,793	**18,646**
Total current liabilities	**109,003**	103,799	**890,620**
Long-term liabilities:			
Long-term debt *(Notes 7 and 10)*	**40,683**	51,202	**332,405**
Liability for retirement benefits *(Note 8)*	**7,450**	7,849	**60,871**
Lease obligations *(Notes 7 and 10)*	**3,838**	2,442	**31,359**
Deferred tax liabilities *(Note 9)*	**522**	696	**4,265**
Deferred tax liabilities for land revaluation *(Notes 4 and 9)*	**1,590**	1,591	**12,991**
Provision for merchandise warranties	**–**	10,400	**–**
Asset retirement obligations *(Note 5)*	**10,085**	9,231	**82,401**
Other	**5,318**	5,374	**43,451**
Total long-term liabilities	**69,486**	88,785	**567,743**
Net assets			
Shareholders' equity *(Note 13)*:			
Capital stock	**11,940**	11,940	**97,557**
Capital surplus	**84,948**	84,952	**694,076**
Retained earnings	**118,175**	107,698	**965,561**
Treasury shares	**(10,069)**	(4,890)	**(82,269)**
Total shareholders' equity	**204,994**	199,700	**1,674,925**
Accumulated other comprehensive income (loss):			
Net unrealized gain on other securities	**87**	59	**711**
Revaluation reserve for land (Note 4)	**(4,838)**	(4,835)	**(39,530)**
Remeasurements of defined benefit plans (Note 8)	**(762)**	(1,083)	**(6,226)**
Total accumulated other comprehensive loss	**(5,513)**	(5,859)	**(45,045)**
Total net assets	**199,481**	193,841	**1,629,880**
Total liabilities and net assets	**¥ 377,970**	¥ 386,425	**$ 3,088,243**

See accompanying notes to consolidated financial statements.

EDION Corporation and Consolidated Subsidiaries

Consolidated Statement of Income

Year ended March 31, 2022

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2022	2021	**2022**
Net sales *(Note 18)*	**¥ 713,768**	¥ 768,114	**$ 5,831,914**
Cost of sales *(Note 13)*	**504,087**	542,475	**4,118,694**
Gross profit	**209,681**	225,639	**1,713,220**
Selling, general and administrative expenses *(Note 6)*	**190,885**	198,853	**1,559,645**
Operating income	**18,796**	26,786	**153,575**
Non-operating income (expenses):			
Interest and dividend income	**89**	91	**727**
Interest expense	**(249)**	(247)	**(2,034)**
Commission income	**224**	220	**1,831**
Subsidy income	**2,429**	877	**19,846**
Penalty income	**13**	101	**106**
Gain on sales of investment in securities, net	**45**	0	**368**
Equity in loss of affiliates	**(8)**	(63)	**(65)**
Contribution	**(600)**	(600)	**(4,902)**
Loss on sales and disposal of property and equipment	**(58)**	(534)	**(474)**
Impairment loss *(Notes 6, 14 and 19)*	**(1,763)**	(1,350)	**(14,405)**
Infectious related loss	**(43)**	(585)	**(351)**
Other	**889**	578	**7,262**
	968	(1,512)	**7,909**
Profit before income taxes	**19,764**	25,274	**161,484**
Income taxes *(Note 9)*:			
Current	**3,553**	9,543	**29,030**
Deferred	**3,102**	(903)	**25,345**
Total income taxes	**6,655**	8,640	**54,375**
	13,109	16,634	**107,109**
Profit attributable to:			
Owners of parent	**¥ 13,109**	¥ 16,634	**$ 107,109**

	Yen		*U.S. dollars*
Amounts per share:			
Profit attributable to owners of parent			
– Basic	**¥ 125.41**	¥ 155.34	**$ 1.02**
– Diluted	**112.60**	139.79	**0.92**
Cash dividends	**44**	46	**0.36**

See accompanying notes to consolidated financial statements.

EDION Corporation and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income

Year ended March 31, 2022

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2022	2021	**2022**
Profit	**¥ 13,109**	¥ 16,634	**$ 107,109**
Other comprehensive income *(Note 16)*:			
Net unrealized gain on other securities	**28**	295	**229**
Remeasurements of defined benefit plans, net of tax	**321**	278	**2,623**
Other comprehensive income, net	**349**	573	**2,852**
Comprehensive income	**¥ 13,458**	¥ 17,207	**$ 109,961**
Comprehensive income attributable to:			
Owners of parent	**¥ 13,458**	¥ 17,207	**$ 109,961**

See accompanying notes to consolidated financial statements.

EDION Corporation and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2022

	Millions of yen				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at April 1, 2020	¥ 11,940	¥ 84,946	¥ 94,979	¥ (4,972)	¥ 186,893
Cash dividends	–	–	(3,855)	–	(3,855)
Reversal of land revaluation difference	–	–	(60)	–	(60)
Profit attributable to owners of parent	–	–	16,634	–	16,634
Purchases of treasury shares	–	–	–	(1)	(1)
Disposition of treasury shares	–	6	–	83	89
Net changes of items other than shareholders' equity	–	–	–	–	–
Balance at April 1, 2021	**11,940**	**84,952**	**107,698**	**(4,890)**	**199,700**
Cumulative effects of changes in accounting policies	**–**	**–**	**2,444**	**–**	**2,444**
Restated balance	**11,940**	**84,952**	**110,142**	**(4,890)**	**202,144**
Cash dividends	**–**	**–**	**(5,079)**	**–**	**(5,079)**
Reversal of land revaluation difference	**–**	**–**	**3**	**–**	**3**
Profit attributable to owners of parent	**–**	**–**	**13,109**	**–**	**13,109**
Purchases of treasury shares	**–**	**–**	**–**	**(5,361)**	**(5,361)**
Disposition of treasury shares	**–**	**(4)**	**–**	**182**	**178**
Net changes of items other than shareholders' equity	**–**	**–**	**–**	**–**	**–**
Balance at March 31, 2022	**¥ 11,940**	**¥ 84,948**	**¥ 118,175**	**¥ (10,069)**	**¥ 204,994**

	Millions of yen				
	Net unrealized gain (loss) on other securities	Revaluation reserve for land	Remeasurements of defined benefit plans	Total accumulated other comprehensive loss	Total net assets
Balance at April 1, 2020	¥ (236)	¥ (4,895)	¥ (1,361)	¥ (6,492)	¥ 180,401
Cash dividends	–	–	–	–	(3,855)
Reversal of land revaluation difference	–	–	–	–	(60)
Profit attributable to owners of parent	–	–	–	–	16,634
Purchases of treasury shares	–	–	–	–	(1)
Disposition of treasury shares	–	–	–	–	89
Net changes of items other than shareholders' equity	295	60	278	633	633
Balance at April 1, 2021	**59**	**(4,835)**	**(1,083)**	**(5,859)**	**193,841**
Cumulative effects of changes in accounting policies	**–**	**–**	**–**	**–**	**2,444**
Restated balance	**59**	**(4,835)**	**(1,083)**	**(5,859)**	**196,285**
Cash dividends	**–**	**–**	**–**	**–**	**(5,079)**
Reversal of land revaluation difference	**–**	**–**	**–**	**–**	**3**
Profit attributable to owners of parent	**–**	**–**	**–**	**–**	**13,109**
Purchases of treasury shares	**–**	**–**	**–**	**–**	**(5,361)**
Disposition of treasury shares	**–**	**–**	**–**	**–**	**178**
Net changes of items other than shareholders' equity	**28**	**(3)**	**321**	**346**	**346**
Balance at March 31, 2022	**¥ 87**	**¥ (4,838)**	**¥ (762)**	**¥ (5,513)**	**¥ 199,481**

EDION Corporation and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets (continued)

Year ended March 31, 2022

	Thousands of U.S. dollars (Note 1)				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at April 1, 2021	**$ 97,557**	**$ 694,109**	**$ 879,957**	**$ (39,954)**	**$ 1,631,669**
Cumulative effects of changes in accounting policies	–	–	**19,969**	–	**19,969**
Restated balance	**97,557**	**694,109**	**899,926**	**(39,954)**	**1,651,638**
Cash dividends	–	–	**(41,499)**	–	**(41,499)**
Reversal of land revaluation difference	–	–	**25**	–	**25**
Profit attributable to owners of parent	–	–	**107,109**	–	**107,109**
Purchases of treasury shares	–	–	–	**(43,803)**	**(43,803)**
Disposition of treasury shares	–	**(33)**	–	**1,488**	**1,455**
Net changes of items other than shareholders' equity	–	–	–	–	–
Balance at March 31, 2022	**$ 97,557**	**$ 694,076**	**$ 965,561**	**$ (82,269)**	**$ 1,674,925**

	Thousands of U.S. dollars (Note 1)				
	Net unrealized gain (loss) on other securities	Revaluation reserve for land	Remeasurements of defined benefit plans	Total accumulated other comprehensive loss	Total net assets
Balance at April 1, 2021	**$ 482**	**$ (39,505)**	**$ (8,849)**	**$ (47,872)**	**$ 1,583,797**
Cumulative effects of changes in accounting policies	–	–	–	–	**$19,969**
Restated balance	**482**	**(39,505)**	**(8,849)**	**(47,872)**	**1,603,766**
Cash dividends	–	–	–	–	**(41,499)**
Reversal of land revaluation difference	–	–	–	–	**25**
Profit attributable to owners of parent	–	–	–	–	**107,109**
Purchases of treasury shares	–	–	–	–	**(43,803)**
Disposition of treasury shares	–	–	–	–	**1,455**
Net changes of items other than shareholders' equity	**229**	**(25)**	**2,623**	**2,827**	**2,827**
Balance at March 31, 2022	**$ 711**	**$ (39,530)**	**$ (6,226)**	**$ (45,045)**	**$ 1,629,880**

See accompanying notes to consolidated financial statements.

EDION Corporation and Consolidated Subsidiaries

Consolidated Statement of Cash Flows

Year ended March 31, 2022

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2022	2021	**2022**
Cash flows from operating activities			
Profit before income taxes	**¥ 19,764**	¥ 25,274	**$ 161,484**
Adjustments for:			
Depreciation and amortization	**11,026**	10,630	**90,089**
Impairment loss	**1,763**	1,350	**14,405**
Interest and dividend income	**(89)**	(91)	**(727)**
Interest expense	**249**	247	**2,034**
(Decrease) increase in provision for bonuses	**(1,559)**	1,687	**(12,738)**
Decrease in provision for point card certificates	**–**	(1,973)	**–**
Decrease in liability for retirement benefits	**(400)**	(445)	**(3,268)**
Loss on sales or disposal of property and equipment	**58**	534	**474**
Changes in operating assets and liabilities:			
Increase in notes and accounts receivable	**(2,635)**	(4,491)	**(21,530)**
Increase in inventories	**(8,154)**	(6,593)	**(66,623)**
Increase in notes and accounts payable	**3,335**	10,658	**27,249**
Increase in advances received	**–**	1,598	**–**
Increase in contract liabilities	**981**	–	**8,015**
Other, net	**(2,458)**	5,573	**(20,083)**
Subtotal	**21,881**	43,958	**178,781**
Interest and dividend income received	**52**	50	**425**
Interest expenses paid	**(229)**	(221)	**(1,871)**
Payment for infectious related loss	**(43)**	(554)	**(351)**
Subsidy income	**2,812**	802	**22,976**
Income taxes refunded	**148**	1,410	**1,209**
Income taxes paid	**(13,444)**	(1,880)	**(109,846)**
Other, net	**(600)**	(601)	**(4,902)**
Net cash provided by operating activities	**10,577**	42,964	**86,421**
Cash flows from investing activities			
Purchases of property and equipment	**(7,441)**	(5,559)	**(60,797)**
Proceeds from sales of property and equipment	**788**	2,730	**6,438**
Purchases of intangible assets	**(1,941)**	(2,100)	**(15,859)**
Payments of long-term prepaid expenses	**(213)**	(176)	**(1,740)**
Purchases of investments in securities	**(960)**	(15)	**(7,844)**
Proceeds from sales of investments in securities	**71**	13	**580**
Purchase of shares of subsidiaries resulting in change in scope of consolidation *(Note 17)*	**–**	(1,535)	**–**
Payments for leasehold deposits	**(1,196)**	(1,327)	**(9,772)**
Proceeds from leasehold deposits	**857**	346	**7,002**
(Repayment) proceeds of guarantee deposits received, net	**(119)**	157	**(972)**
Other, net	**(365)**	(509)	**(2,983)**
Net cash used in investing activities	**¥ (10,519)**	¥ (7,975)	**$ (85,947)**

EDION Corporation and Consolidated Subsidiaries

Consolidated Statements of Cash Flow (continued)

March 31, 2022

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2022	2021	**2022**
Cash flows from financing activities			
Net decrease in short-term loans payable	**¥ (28)**	¥ –	**$ (229)**
Proceeds from long-term loans payable	**200**	290	**1,634**
Repayments of long-term loans payable	**(2,881)**	(3,030)	**(23,540)**
Cash dividends paid	**(4,661)**	(3,550)	**(38,083)**
Purchase of treasury shares	**(5,361)**	(1)	**(43,803)**
Other, net	**(514)**	(1,601)	**(4,199)**
Net cash used in financing activities	**(13,245)**	(7,892)	**(108,220)**
Effect of exchange rate changes on cash and cash equivalents	**(0)**	0	**(0)**
Net (decrease) increase in cash and cash equivalents	**(13,187)**	27,097	**(107,746)**
Cash and cash equivalents at the beginning of the year	**43,072**	15,975	**351,924**
Cash and cash equivalents at the end of the year (*Note 17*)	**¥ 29,885**	¥ 43,072	**$ 244,178**

See accompanying notes to consolidated financial statements.

EDION Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

March 31, 2022

1. Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements of EDION Corporation (the "Company") and consolidated subsidiaries (collectively, the "Group") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards ("IFRS"), and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a format which is more familiar to readers outside Japan.

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2021, to the 2022 presentation. Such reclassifications had no effect on consolidated profit, net assets or net cash flow.

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at ¥122.39 = U.S. $1.00, the approximate rate of exchange in effect on March 31, 2022. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

2. Summary of Significant Accounting Policies

(a) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and all significant companies controlled directly or indirectly by the Company. The numbers of consolidated subsidiaries are thirteen both as of March 31, 2022, and 2021.

Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the accompanying consolidated financial statements on an equity basis. The Company has applied the equity method to investments in an affiliate and two affiliates for the years ended March 31, 2022, and 2021, respectively.

All significant intercompany accounts, transactions and unrealized profit and loss have been eliminated in consolidation.

2. Summary of Significant Accounting Policies (continued)

(a) Consolidation (continued)

Differences between the acquisition costs and the underlying net equities in investments in consolidated subsidiaries are recorded as goodwill in the consolidated balance sheets and amortized using the straight-line method over their estimated useful lives or a period of five years.

The fiscal year end for all consolidated subsidiaries is the same as the Company's fiscal year end.

(b) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and demand deposits. Cash and cash equivalents also include short-term investments with a maturity date within three months of the date of acquisition, which are readily convertible into cash and are exposed to an insignificant risk of change in value.

(c) Investment in securities

Securities have been classified into one category as other securities. Quoted securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of accumulated other comprehensive income or loss, and cost of securities sold is determined by the moving average method. Unquoted securities classified as other securities are carried at cost determined principally by the moving average method.

The Group recognizes impairment loss on investment in securities in cases where the fair value of a security declines by more than 50% of the carrying value. When the fair value declines by 30% to 50%, the Group recognizes impairment loss at an amount deemed necessary by considering the significance of the amount of the decline in fair value, the recoverability of fair value and so forth.

(d) Inventories

Inventories such as consumer electronics merchandise are stated principally at the lower of cost or net selling value, cost being determined by the moving average method. Supplies are stated at cost determined by the last purchase price method.

2. Summary of Significant Accounting Policies (continued)

(e) Property and equipment (other than leased assets)

Property and equipment are stated at cost. Depreciation is computed principally by the declining-balance method over the estimated useful lives of the respective assets, except for buildings (other than facilities attached to buildings) acquired on or after April 1, 1998 and facilities attached to buildings and structures acquired on or after April 1, 2016, which are depreciated by the straight-line method. The range of estimated useful lives is principally from 2 to 60 years for buildings and structures, and from 2 to 20 years for tools, furniture and fixtures.

(f) Intangible assets (other than leased assets)

Intangible assets are amortized by the straight-line method. Expenditures related to computer software developed for internal use are charged to income when incurred, except if they are deemed to contribute to the generation of income or to future cost savings. Such expenditures are capitalized as intangible assets and amortized over an estimated useful life of 5 years.

(g) Leased assets

Leased assets arising from finance lease transactions which do not transfer ownership to the lessee are depreciated to a residual value of zero by the straight-line method using the contract term as the useful life.

Finance lease transactions which do not transfer ownership to the lessee and commenced prior to April 1, 2008, were accounted for as operating leases.

(h) Allowance for doubtful receivables

Allowance for doubtful receivables is provided at an amount calculated based on historical experience of bad debts on ordinary receivables, plus an additional estimate of probable specific bad debts from customers experiencing financial difficulties.

(i) Provision for bonuses

Provision for bonuses is provided to allocate to the current fiscal year among the estimated amounts of bonuses to be paid to the employees in the following year.

2. Summary of Significant Accounting Policies (continued)

(j) Liability for retirement benefits

The Company and most consolidated subsidiaries have defined benefit pension plans, retirement benefit plans and defined contribution pension plans covering substantially all employees.

Liability for retirement benefits is provided based on the amount of the projected benefit obligation after deducting the pension plan assets at fair value at the year-end. The retirement benefit obligation is attributed to each period by the benefit-formula basis over the estimated remaining years of service of the eligible employees.

Prior service cost is amortized by the straight-line method over a period of 10 years, which falls within the estimated average remaining years of service of the eligible employees.

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized, principally by the straight-line method over a period of 10 years, which falls within the estimated average remaining years of service of the eligible employees.

Some consolidated subsidiaries apply the Simplified method to calculated retirement benefit liabilities and retirement benefit expenses, where the net defined liability is based on the amount which would be payable at year end if all eligible employees terminated their service voluntarily.

(k) Significant revenue and expense

The Group has adopted “Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan (the “ASBJ”) Statement No.29, March 30, 2020, hereinafter referred to as “Revenue Recognition Standards”) and related standards and guidance and revenue is recognized in the amount expected to be received in exchange for applicable goods or services when control of the promised good or service is transferred to the customer.

For (1) loyalty reward point program and (2) repair warranty service, a description of performance obligations and the normal point in time of satisfaction of performance obligations (the normal point in time of revenue recognition) are as below.

For the sale of goods in which the Group acts as an agent, such as the consignment buying and the supply of goods to some franchisees, the net amount of consideration received in exchange for the goods supplied by another party, after deducting the amount paid to that party, is recognized as revenue.

2. Summary of Significant Accounting Policies (continued)

(k) Significant revenue and expense (continued)

i. Revenue recognition for loyalty reward point program

The Group has introduced its own loyalty reward point program and grants points to the customers who join the membership system based on the purchases such as household appliance products. The Group identified points granted to the customers as a performance obligation, to which the transaction price is allocated, and contract liabilities are recorded. In addition, the performance obligation related to the points granted to the customers are deemed to be satisfied when the points are used and corresponding revenue is recognized at the time.

ii. Revenue recognition for the repair warranty service

The Group guarantees repair warranty service to customers who join the membership system when the Group sells household appliance products. In case of providing a card member with repair warranty service for free, the relevant repair warranty service are identified as a separate performance obligation, to which the transaction price is allocated, and contract liabilities are recorded. In addition, the performance obligation related to the repair warranty service is considered to be satisfied over time, and accordingly, the relevant revenue is recognized by allocating the transaction price equally over the contract period of the repair warranty service.

(l) Significant hedge accounting method

Interest rate swap transactions are applied to a portion of borrowings so as to convert interest payment terms. The relevant interest rate swap and the borrowings subject to such interest rate conversion meet hedge accounting requirements. The relevant notional amount, payment terms of interest and contract period are almost identical to those for the borrowings, and accordingly, the interest rate swap is not measured at fair value, but the net amount of money received and paid is added to or deducted from the interest expenses of hedge borrowings.

(m) Income taxes

Income taxes are calculated based on taxable income and charged to income on an accrual basis. Certain temporary differences exist between taxable income and income reported for financial statement purposes which enter into the determination of taxable income in a different period. The Group has recognized the tax effect of such temporary differences in the accompanying consolidated financial statements.

2. Summary of Significant Accounting Policies (continued)

(n) Derivatives and hedging activities

Derivatives positions are carried at fair value with any changes charged to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred.

The Company enters into interest-rate swap contracts for certain long-term loans to avoid the risk arising from fluctuation in interest rate.

If interest-rate swap contracts are used as hedges and meet certain hedging criteria, the net amounts to be paid or received under the interest-rate swap contracts are added to or deducted from the interest on certain long-term loans for which the swap contracts are executed (“Special treatment”).

(o) Per share information

Basic profit attributable to owners of parent per share is computed based on the profit attributable to shareholders of capital stock and the weighted-average number of shares of capital stock outstanding during the year. Diluted profit attributable to owners of parent per share assumes that outstanding convertible bonds were converted into capital stock at the beginning of the period at the current conversion price, and stock acquisition rights were exercised into capital stock at the time of issue at the average stock price. Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective years including dividends to be paid after the end of such years.

The average number of shares of capital stock used to compute basic profit attributable to owners of parent per share for the years ended March 31, 2022, and 2021 were 104,529 thousand and 107,082 thousand, respectively. The dilutive potential of shares of capital stock for the year ended March 31, 2022, and 2021 were 11,894 thousand and 11,907 thousand, respectively.

Amounts per share of net assets are computed based on the number of shares of capital stock outstanding at the year-end. Amounts per share of net assets as of March 31, 2022 and 2021 were ¥1,950.13 ($15.93) and ¥1,809.68, respectively.

(p) Distribution of retained earnings

Under the Corporation Law of Japan (the “Law”), the distribution of retained earnings with respect to a given financial period is made by resolution of the shareholders at an annual meeting held subsequent to the close of the financial period. The accounts for that period do not, therefore, reflect such distributions (see Note 21 “Subsequent Events”).

2. Summary of Significant Accounting Policies (continued)

(q) Significant accounting estimates

Recognition and measurement of impairment of property and equipment

(1) The amounts recorded in the consolidated financial statements for the years ended March 31, 2022 and 2021 are as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2022	2021	**2022**
Impairment loss	**¥ 904**	¥ 1,007	**$ 7,386**
of which, the asset group related to stores	**860**	780	**7,027**
Property and equipment	**125,504**	125,864	**1,025,443**
of which, the asset group related to stores	**111,653**	110,168	**912,272**

(2) Information on significant accounting estimates regarding the identified items

i. Calculation method

The Group groups its property and equipment by sales department based on a store as a basis of unit, and the Group also groups idle assets which are not currently utilized for its operations individually in measuring impairment loss.

As a result of the measurement, if the operating results of the asset group are expected to continue to be negative, the carrying amount is reduced to the recoverable amount and an impairment loss is recognized.

The recoverable amount of the asset group is the higher of either the realizable value or value in use.

The value in use is the present value of estimated future cash flows which are calculated based on the business plan approved by the Board of Directors and sales growth rates for the periods subsequent to the period covered by the business plan calculated based on actual results in the past. The discount rate is calculated based on the weighted average cost of capital. The business plans consist of a company-wide business plan for the year ending March 31, 2023, a budget for each asset group for the year ending March 31, 2023, and store opening plans for new stores covering about ten years ahead.

2. Summary of Significant Accounting Policies (continued)

(q) Significant accounting estimates (continued)

Recognition and measurement of impairment of property and equipment (continued)

(2) Information on significant accounting estimates regarding the identified items (continued)

ii. Significant assumptions

The significant assumptions used in the calculation of future cash flows are the sales growth rates (0.0% to 15.9%) and the discount rate (4.4%).

The sales growth rates for the periods subsequent to the period covered by the business plan are calculated according to the past results taking into consideration of the regional characteristics, the Group's position of the commercial area considering the history of sales activities, changes in the external environment such as regional development and the impact of sales support.

At present, the impact of COVID-19 may cause a temporary decrease in sales due to store closures in the short term over several months, but recovery is expected after the business resumes. Therefore, the Company does not expect it to have a significant impact on the medium to long-term business plan used to measure impairment losses.

iii. Impact on the consolidated financial statements for the following year

Due to uncertainties, the sales growth rate, which is one of the significant assumptions, is expected to fluctuate in a range between a 20% decline and a 20% increase.

Impairment losses of ¥0 million to ¥8,809 million ($0 thousand to $71,975 thousand) may be recorded in the following year depending on any fluctuations in the growth rate.

2. Summary of Significant Accounting Policies (continued)

(q) Significant accounting estimates (continued)

Recognition and measurement of impairment of goodwill and other intangible assets

(1) The amounts recorded in the consolidated financial statements for the years ended March 31, 2022 and 2021 are as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2022	2021	**2022**
Impairment loss	**¥ 859**	¥ 342	**$ 7,019**
Goodwill (*1)	**2,455**	3,869	**20,059**
Other intangible assets (*2)	**1,686**	2,120	**13,776**

(*1) The main components of the corresponding goodwill for the year ended March 31, 2022 are as follows:

Forest Co., Ltd.	¥102 million ($833 thousand)
Jtop Co., Ltd.	¥225 million ($1,838 thousand)
Yumemiru Co., Ltd.	¥665 million ($5,433 thousand)
Hampstead Co., Ltd.	¥1,285 million ($10,499 thousand)

(*2) The main components of the corresponding other intangible assets are as follows:

Customer-related assets	
Forest Co., Ltd.	¥1,120 million ($9,151 thousand)
Jtop Co., Ltd.	¥85 million ($695 thousand)
Hampstead Co., Ltd.	¥77 million ($629 thousand)
Technology-related assets	
Hampstead Co., Ltd.	¥404 million ($3,301 thousand)

The amounts of customer-related assets and technology-related assets are included in “Other” under “Investments and other assets” in the consolidated balance sheet as of March 31, 2022.

(*3) For the year ended March 31, 2022, the Group finalized the provisional accounting for a business combination and goodwill and other intangible assets acquired in the previous fiscal year and the amounts for the year ended March 31, 2021, are presented after reflecting the significant revision of the initial purchase price allocation in accordance with the finalization of the provisional accounting.

2. Summary of Significant Accounting Policies (continued)

(q) Significant accounting estimates (continued)

Recognition and measurement of impairment of goodwill and other intangible assets (continued)

(2) Information on significant accounting estimates regarding the identified items

i. Calculation method

The Group groups intangible assets such as goodwill and customer-related assets based on consolidated subsidiaries or a business function when the Group measures impairment loss.

As a result of the measurement, if the operating results generated by the asset group are expected to continue to be negative, the carrying amount is reduced to the recoverable amount and the Group recognizes impairment loss.

The recoverable amount is the present value of estimated future cashflows, which is calculated based on the business plans approved by the Board of Directors and the sales growth rates for the periods subsequent to the period covered by the business plan calculated based on actual results in the past. The discount rate is calculated based on the weighted average cost of capital.

The business plan approved by the Board of Directors is the business plan of each subsidiary for the fiscal year ending March 31, 2023.

ii. Significant assumptions

The significant assumptions used in the calculation of future cash flows are the sales growth rates, which are the basis of the business plans approved by the Board of Directors, the sales growth rates for the periods beyond the business plan (a range between -2% and 49.2%) and discount rates (10.8% to 15.2%). Forest Co., Ltd. sells office supplies, daily necessities, various business supplies, etc. in Omiya-ku, Saitama City. Sales of office supplies, mainly sales to corporate customers, are stable and the Group is making efforts to sell to retail consumers as well. The sales growth rates are expected to be 1.7% to 9.5%.

Jtop Co., Ltd. is engaged in delivery of general cargo such as free papers, job magazines and other magazines in Nakamura-ku, Nagoya city. Demand for free papers and job magazines has temporarily declined due to the effects of the COVID-19, but efforts are being made to expand the service delivery field that can offer added value and to expect the sales growth rates to be -2.0% to 6.5%.

2. Summary of Significant Accounting Policies (continued)

(q) Significant accounting estimates (continued)

<u>Recognition and measurement of impairment of goodwill and other intangible assets (continued)</u>

(2) Information on significant accounting estimates regarding the identified items (continued)

ii. Significant assumptions (continued)

Yumemiru Co., Ltd. operates a programming school etc. in Kita-ku, Sakai city. In response to the growing demand for programming education under the “GIGA School Concept,” Yumemiru Co., Ltd. is actively opening new classrooms centered on the Kansai region in the name of “Robodan,” and the sales growth rates are expected to be 0.0% to 49.2%.

Hampstead Co., Ltd. is engaged in a wide range of system development and digital marketing activities such as order management system and official site production for J-League and professional baseball teams. The relevant sales growth rate is expected to be 0.0% to 0.2%.

As for the impact on COVID-19 at this point, the business environment has changed due to the pandemic, and sales have declined in the businesses of the four subsidiaries above. Therefore, future business plans are being reviewed and updated by taking into consideration of their business performance affected in the current fiscal year.

iii. Impact on the consolidated financial statements for the following year

The sales growth rate, one of the significant assumptions, involves estimation uncertainties.

In the event that Forest Co., Ltd.’s sales for each fiscal year after 2023 were 75% of the amount used in the calculation, an impairment loss on customer-related assets associated with the acquisition of Forest Co., Ltd. might be incurred in the amount of ¥618 million ($5,049 thousand).

In the event that Jtop Co., Ltd.’s sales for each fiscal year after 2023 were 95% of the amount used in the calculation, an impairment loss on goodwill associated with the acquisition of Jtop Co., Ltd. might be incurred in the amount of ¥169 million ($1,381 thousand).

2. Summary of Significant Accounting Policies (continued)

(q) Significant accounting estimates (continued)

Recognition and measurement of impairment of goodwill and other intangible assets (continued)

(2) Information on significant accounting estimates regarding the identified items (continued)

iii. Impact on the consolidated financial statements for the following year (continued)

In the event that Yumemiru Co., Ltd.'s sales for each fiscal year after 2023 were 80% of the amount used in the calculation, an impairment loss on goodwill associated with the acquisition of Yumemiru Co., Ltd. might be incurred in the amount of ¥301 million ($2,459 thousand).

In the event that Hampstead Co., Ltd.'s sales for each fiscal year after 2023 were 95% of the amount used in the calculation, an impairment loss on goodwill and customer-related assets associated with the acquisition of Hampstead Co., Ltd. might be incurred in the amount of ¥819 million ($6,692 thousand).

(Note) The analysis above shows the percentage of sales at each subsidiary, which are expected to cause an impairment loss when the sales after the next fiscal year are reduced in increments of 5.0% from the amount used in the original calculation, and the relevant amount of impairment loss.

(r) Changes in accounting policies

(1) Application of accounting standards for revenue recognition

"Accounting Standard for Revenue Recognition" (ASBJ Statement No.29, March 31, 2020) has been adopted from the beginning of the fiscal year ended March 31, 2022, and revenue is recognized in the amount expected to be received in exchange for applicable goods or services when control of the promised good or service is transferred to the customer. As a result, main changes are as follows:

2. Summary of Significant Accounting Policies (continued)

(r) Changes in accounting policies (continued)

(1) Application of accounting standards for revenue recognition (continued)

i. Revenue recognition for the loyalty reward point program

The Group has introduced its own loyalty reward point program and grants points to the customers who join the membership system based on the purchases such as household appliance products. In order to prepare for the use of the granted points, the Group had previously recognized provision for point card certificates as an amount expected to be used in the future. However, the Group identified points granted to the customers as performance obligations, to which the transaction price is allocated, and recorded contract liabilities. In addition, the performance obligation related to the points granted to the customers are deemed to be satisfied when the points are used and corresponding revenue is recognized at the time.

In addition, expenses related to the loyalty reward point program, such as the provision for points and point sales promotion expenses, were previously recorded as selling, general and administrative expenses, but the method is changed to deduct from sales.

ii. Revenue recognition for the repair warranty service

The Group guarantees repair warranty service to customers who join the membership system when the Group sells household appliance products. In order to prepare for repair costs related to the repair warranty during the warranty period, the Group had previously recorded product warranty reserve as an estimated future repair cost based on the historical data for repair expenses, etc. However, in case of providing a card member with repair warranty service for free, the relevant repair warranty service are identified as a separate performance obligation, to which the transaction price is allocated, and contract liabilities are recorded. In addition, the performance obligation involving the repair warranty service is considered to be satisfied over time, and accordingly, the relevant revenue is recognized by allocating the transaction price equally over contract period of the repair warranty service.

2. Summary of Significant Accounting Policies (continued)

(r) Changes in accounting policies (continued)

(1) Application of accounting standards for revenue recognition (continued)

iii. Revenue recognition for agent transactions

For the consignment buying and the supply of goods to some franchisees, the Group previously recognized revenue on a gross basis. However, for the sale of goods in which the Group acts as an agent, the net amount of the consideration received in exchange for the goods supplied by another party, after deducting the amount paid to that party, is recognized as revenue.

The Revenue Recognition Standard has been applied effective from the beginning of the current fiscal year in accordance with the transitional treatment prescribed in Paragraph 84 of the Revenue Recognition Standards, and the cumulative effects of retroactively applying new accounting policies have been reflected in the beginning balance of retained earnings for the current fiscal year.

As a result, in the consolidated statement of income for the year ended March 31, 2022, sales decreased by ¥23,640 million ($193,153 thousand), cost of sales decreased by ¥17,133 million ($139,987 thousand), selling, general and administrative expenses decreased by ¥5,896 million ($48,174 thousand) and operating income and profit before income taxes decreased by ¥611 million ($4,992 thousand), respectively. Also, in the consolidated balance sheet as of March 31, 2022, retained earnings at the beginning of the year ended March 31, 2022 increased by ¥2,444 million ($19,969 thousand), accounts receivable increased by ¥193 million ($1,577 thousand) and deferred tax assets decreased by ¥1,092 million ($8,922 thousand), respectively.

In addition, for the application of the Revenue Recognition Standard, "trade notes and accounts receivable" presented in current assets in the consolidated balance sheet for the prior fiscal year have been separately presented as "notes" and "accounts receivable" from the current fiscal year.

However, in accordance with the transitional treatment provided for in Paragraph 89-2 of the Revenue Recognition Standard, no reclassification has been made for the previous fiscal year using the new presentation method.

2. Summary of Significant Accounting Policies (continued)

(r) Changes in accounting policies (continued)

(2) Application of Accounting Standard for Fair Value Measurement

The Company has applied the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019; hereinafter “Fair Value Measurement Standard”) and other standards from the beginning of the fiscal year, and will prospectively apply the new accounting policies stipulated by the Fair Value Measurement Standard, etc., in accordance with the transitional treatment provided in Paragraph 19 of the Fair Value Measurement Standard and Paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019). There is no impact on the consolidated financial statements.

The Company disclosed information on items such as the breakdown of the fair value of financial instruments by level of fair value in Notes 10, “Financial Instruments.” However, in accordance with the transitional provisions stipulated in Paragraph 7-4 of the “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, July 4, 2019), the related notes for the previous fiscal year were omitted.

(s) Accounting standards issued but not yet effective

“Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No.31, June 17, 2021)

(1) Overview

The amendment of “Implementation Guidance on Accounting Standard for Fair Value Measurement” was revised and announced because at the time of the announcement on July 4, 2019, a certain period of time was considered necessary for discussions with related parties, etc. and the notes on the fair value of "Investment in businesses, etc. with a net amount equivalent to equity on the balance sheet" were to be reviewed, generally over a one-year period after the announcement of the "Accounting Standard for Calculation of Fair Value" because of the necessity of certain considerations.

(2) Scheduled date of adoption

It will be applied from the beginning of the fiscal year ending March 31, 2023.

2. Summary of Significant Accounting Policies (continued)

(s) Accounting standards issued but not yet effective (continued)

“Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No.31, June 17, 2021) (continued)

(3) Impact of adopting revised implementation guidance

The impact of the application of the “Implementation Guidance on Accounting Standard for Fair Value Measurement” on the consolidated financial statements is currently being evaluated.

(t) Additional information

The effects of COVID-19

The Japanese government declared a state of emergency and issued priority measures of prevention of spread for certain prefectures sequentially since FY2020, in response to the spread of COVID-19.

There is a risk that the Group will experience a decline in sales since some stores were closed, business hours were shortened and the number of customers visiting its stores decreased during the period in which the state of emergency was in place.

The Group estimates that the effect on the accounting estimates such as recoverability of deferred tax assets is minor, however due to uncertainties about the economic circumstances from the spread of COVID-19, its financial condition and business performance may be affected if there is a change in the assumption shown above.

3. Investment in Securities and Investment in Affiliates

(a) Information regarding investment in securities classified as other securities as of March 31, 2022, and 2021 was summarized as follows:

	Millions of yen					
	2022			2021		
	Carrying value	**Acquisition costs**	**Unrealized gain (loss)**	Carrying value	Acquisition costs	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:						
Equity securities	**¥ 1,047**	**¥ 724**	**¥ 323**	¥ 973	¥ 708	¥ 265
Subtotal	**1,047**	**724**	**323**	973	708	265
Securities whose carrying value does not exceed their acquisition costs:						
Equity securities	**808**	**998**	**(190)**	884	1,047	(163)
Subtotal	**808**	**998**	**(190)**	884	1,047	(163)
Total (*a)	**¥ 1,855**	**¥ 1,722**	**¥ 133**	¥ 1,857	¥ 1,755	¥ 102

	Thousands of U.S. dollars		
	2022		
	Carrying value	**Acquisition costs**	**Unrealized gain (loss)**
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	**$ 8,554**	**$ 5,916**	**$ 2,638**
Subtotal	**8,554**	**5,916**	**2,638**
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	**6,602**	**8,154**	**(1,552)**
Subtotal	**6,602**	**8,154**	**(1,552)**
Total (*a)	**$ 15,156**	**$ 14,070**	**$ 1,086**

Notes:

(*a) Because no quoted market price is available and it is extremely difficult to determine the fair value, unlisted equity securities are not included in the table above. The carrying values of such unlisted equity securities amounted to ¥1,441 million ($11,774 thousand) and ¥493 million as of March 31, 2022, and 2021, respectively.

3. Investment in Securities and Investment in Affiliates (continued)

(b) Proceeds from sales and gross realized gain or loss on other securities for the fiscal years ended March 31, 2022, and 2021 are as follows:

	Millions of yen		*Thousands of U.S dollars*
	2022	2021	**2022**
Proceeds from sales	**¥ 71**	¥ 13	**$ 580**
Gross realized gain	**52**	0	**425**
Gross realized loss	**(8)**	–	**(65)**

(c) Losses on impairment of investment in securities of ¥8 million ($65 thousand) and nil were recognized in "Other" in the consolidated statements of income for the years ended March 31, 2022, and 2021, respectively.

Impairment loss on securities is recognized in cases where the fair value of a security declines by more than 50% of carrying value, and also, necessary amount of impairment loss is recognized by considering materiality of amount and recoverability in cases where the fair value declines by 30% to 50%.

4. Revaluation Reserve for Land

The Company revaluated land held for business use, in accordance with the "Law on Land Revaluation" as of March 28 and March 31, 2002. Differences on land revaluation have been accounted for as "Revaluation reserve for land" under net assets at the net amount of the relevant tax effect. The method followed in determining the land revaluations was based on reasonable adjustments to property tax evaluation amount in accordance with the "Enforcement Act Concerning Land Revaluation." The carrying value of this land exceeded its fair value by ¥4,607 million ($37,642 thousand) and ¥6,826 million as of March 31, 2022 and 2021, respectively, of which a certain portion of this land, in the amount of ¥ 1,499 million ($12,248 thousand) and ¥1,582 million, are corresponded to real estate for lease as of March 31, 2022, and 2021, respectively.

5. Asset Retirement Obligations

Asset retirement obligations mainly consist of restoration costs related to lease contracts for stores and rental property.

The amount of asset retirement obligations is calculated by the estimated useful life according to the terms of the agreement or mostly 15 years (in the case of agreements under the former Act on Land and Building Leases) using discount rates ranging from 0% to 2.8%.

Changes in asset retirement obligations during the years ended March 31, 2022 and 2021 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2022	2021	**2022**
Balance at the beginning of the year	**¥ 9,231**	¥ 8,842	**$ 75,423**
Liabilities incurred due to the acquisition of property and equipment	**1,016**	379	**8,301**
Accretion expense	**82**	85	**670**
Liabilities settled	**(244)**	(75)	**(1,993)**
Balance at the end of the year	**¥ 10,085**	¥ 9,231	**$ 82,401**

6. Investment and Rental Property

The Company and certain consolidated subsidiaries own store properties including buildings and land for rent mainly in the main cities of Osaka, Aichi and other prefectures. Net rental income for these properties was recognized in the amount of ¥303 million ($2,476 thousand) and ¥159 million for the years ended March 31, 2022, and 2021, respectively. Rental income was included in net sales, and rental expenses were mainly included in selling, general and administrative expenses. Impairment of rental property of ¥3 million ($25 thousand) and ¥226 million was recognized in impairment loss for the years ended March 31, 2022, and 2021, respectively.

6. Investment and Rental Property (continued)

The carrying value of rental property in the consolidated balance sheet, net change in the carrying value and corresponding fair value of those properties were as follows:

Millions of yen

2022			
Carrying Value			**Fair Value**
March 31, 2021	**Net change**	**March 31, 2022**	**March 31, 2022**
¥ 11,447	**¥ (712)**	**¥ 10,735**	**¥ 9,362**

Millions of yen

2021			
Carrying Value			Fair Value
March 31, 2020	Net change	March 31, 2021	March 31, 2021
¥ 12,502	¥ (1,055)	¥ 11,447	¥ 10,178

Thousands of U.S. dollars

2022			
Carrying Value			**Fair Value**
March 31, 2021	**Net change**	**March 31, 2022**	**March 31, 2022**
$ 93,529	**$ (5,817)**	**$ 87,712**	**$ 76,493**

Notes:

1. The carrying value represents the acquisition cost less accumulated depreciation and accumulated impairment loss.

2. The main component of net change in the carrying value are the increases due to acquisition of properties of ¥9 million ($74 thousand) and decreases due to sales of ¥540 million ($4,412 thousand) for the year ended March 31, 2022. The main component of net change in the carrying value are the increases due to acquisition of properties of ¥261 million and decreases due to sales of ¥850 million for the year ended March 31, 2021.

3. The fair value was based on the real estate appraisals issued by the third-party professional appraisers for main properties, and also internal computations including the adjustment by an index and others in accordance with appraisal standards for other properties.

7. Short-Term Loans Payable, Long-Term Debt and Lease Obligations

Short-term loans payable as of March 31, 2022 consisted of bank overdrafts. The annual average interest rates applicable to the short-term loans payable were 0.21% and 0.47% for the years ended March 31, 2022 and 2021, respectively.

Long-term debt as of March 31, 2022 and 2021 consisted of the following:

	Millions of yen		*Thousands of U.S. dollars*
	2022	2021	**2022**
Zero coupon unsecured convertible bonds (with stock acquisition rights) due October 1, 2021	**¥ –**	¥ 80	**$ –**
Zero coupon unsecured convertible bonds (with stock acquisition rights) due June 19, 2025	**13,831**	13,838	**113,008**
Unsecured loans principally from banks and insurance companies with an average interest rate of 0.34%	**36,593**	39,274	**298,987**
Long-term loans with an interest rate of 2.06%	**493**	615	**4,028**
	50,917	53,807	**416,023**
Less: Current portion of long-term loans payable	**(10,234)**	(2,525)	**(83,618)**
Less: Current portion of convertible bonds	**–**	(80)	**–**
	¥ 40,683	¥ 51,202	**$ 332,405**

Zero coupon unsecured convertible bonds (with stock acquisition rights) issued on June 19, 2015 are convertible at ¥1,157.6 ($9.46) per share in the period from July 3, 2015 to June 5, 2025 subject to adjustment in certain circumstances.

The aggregate annual maturities of long-term loans payables subsequent to March 31, 2022 were summarized as follows:

Year ending March 31,	*Millions of yen*	*Thousands of U.S. dollars*
2023	¥ 10,234	$ 83,618
2024	10,893	89,002
2025	8,208	67,064
2026	815	6,659
2027	6,511	53,199
2028 and thereafter	425	3,473
Total	¥ 37,086	$ 303,015

7. Short-Term Loans Payable, Long-Term Debt and Lease Obligations (continued)

The average interest rates applicable to the lease obligations under current liabilities and long-term liabilities were 1.84% and 2.43% as of March 31, 2022 and 2021, respectively.

The aggregate annual maturities of lease obligations subsequent to March 31, 2022 were summarized as follows:

Year ending March 31,	*Millions of yen*	*Thousands of U.S. dollars*
2023	¥ 647	$ 5,286
2024	650	5,311
2025	644	5,262
2026	627	5,123
2027	540	4,412
2028 and thereafter	1,377	11,251
Total	¥ 4,485	$ 36,645

The assets pledged as collateral for notes and accounts payable-trade of ¥52 million ($425 thousand), long-term loans and the current portion of long-term loans of ¥493 million ($4,028 thousand) and guarantee deposits from lessees included in other (long-term liabilities) of ¥432 million ($3,530 thousand) were as follows:

	Millions of yen	*Thousands of U.S. dollars*
Merchandise and products	¥ 37	$ 302
Land	749	6,120
Buildings and structures – net of accumulated depreciation	856	6,994
Total	¥ 1,642	$ 13,416

In order to achieve more efficient and flexible financing, the Group has concluded bank overdraft agreements with 20 banks and line-of-credit agreements with 10 banks. Total committed lines of credit under such agreements amounted to ¥110,600 million ($903,669 thousand) and full amount was available as of March 31, 2022.

8. Retirement Benefit Plans

The Company and most consolidated subsidiaries have defined benefit pension plans (contract type defined benefit corporate pension system, fund type defined benefit corporate pension system and lump-sum retirement allowance system) and defined contribution pension plans covering substantially all employees. In addition, an extra retirement allowance may be paid when an employee retires.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum payment from the Company and the consolidated subsidiaries and annuity payments from a trustee. In addition to the retirement benefit plans described above, the Company and certain consolidated subsidiaries pay additional retirement benefits under certain conditions.

In addition, certain consolidated subsidiaries apply the simplified method to calculated retirement benefit liabilities and retirement benefit expenses, where the required contributions to the pension fund are accounted for as retirement benefit expenses.

Moreover, the Company has participated in the multi-employer pension plan as a funded retirement benefit plan for fixed-term employees (contract employees, temporary employees and part-time employees, etc.). When the pension assets held by the multi-employer pension plan corresponding to the Company's contribution cannot be reliably determined, the accounting treatment applied is the same as that for a defined contribution plan.

(a) Defined benefit plan (excluding simplified method)

The changes in the retirement benefit obligation during the years ended March 31, 2022 and 2021 are as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2022	2021	**2022**
Retirement benefit obligation at the beginning of the year	**¥ 14,291**	¥ 14,637	**$ 116,766**
Service cost	**344**	352	**2,810**
Interest cost	**28**	29	**229**
Actuarial loss	**(113)**	177	**(923)**
Retirement benefit paid	**(851)**	(904)	**(6,953)**
Retirement benefit obligation at the end of the year	**¥ 13,699**	¥ 14,291	**$ 111,929**

8. Retirement Benefit Plans (continued)

(a) Defined benefit plan (excluding simplified method) (continued)

The changes in plan assets at fair value during the years ended March 31, 2022 and 2021 are as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2022	2021	**2022**
Plan assets at fair value at the beginning of the year	**¥ 6,485**	¥ 6,386	**$ 52,986**
Expected return on plan assets	**123**	45	**1,005**
Actuarial gain (loss)	**(58)**	306	**(474)**
Contribution by the Company	**187**	186	**1,528**
Retirement benefit paid	**(443)**	(438)	**(3,619)**
Plan assets at fair value at the end of the year	**¥ 6,294**	¥ 6,485	**$ 51,426**

The balances of retirement benefit obligation and plan assets at fair value and liabilities and assets recognized in the consolidated balance sheets as of March 31, 2022 and 2021 are as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2022	2021	**2022**
Funded retirement benefit obligation	**¥ 7,570**	¥ 7,886	**$ 61,851**
Plan assets at fair value	**(6,294)**	(6,485)	**(51,426)**
	1,276	1,401	**10,425**
Unfunded retirement benefit obligation	**6,129**	6,405	**50,078**
Liability for retirement benefits	**7,405**	7,806	**60,503**
Liabilities for retirement benefit	**7,405**	7,806	**60,503**
Liability for retirement benefits	**¥ 7,405**	¥ 7,806	**$ 60,503**

8. Retirement Benefit Plans (continued)

(a) Defined benefit plan (excluding simplified method) (continued)

The components of retirement benefit expense for the years ended March 31, 2022 and 2021 are as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2022	2021	**2022**
Service cost	**¥ 345**	¥ 352	**$ 2,819**
Interest cost	**28**	29	**229**
Expected return on plan assets	**(123)**	(45)	**(1,005)**
Amortization of actuarial loss	**388**	434	**3,170**
Amortization of prior service cost	**21**	(158)	**171**
Retirement benefit expense	**¥ 659**	¥ 612	**$ 5,384**

The components of remeasurements of defined benefit plans included in other comprehensive income (before tax effect) for the years ended March 31, 2022 and 2021 are as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2022	2021	**2022**
Prior service cost	**¥ 21**	¥ (158)	**$ 171**
Actuarial loss	**444**	562	**3,628**
Total	**¥ 465**	¥ 404	**$ 3,799**

The components of remeasurements of defined benefit plans included in accumulated other comprehensive income (before tax effect) as of March 31, 2022 and 2021 are as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2022	2021	**2022**
Unrecognized prior service cost	**¥ 3**	¥ (19)	**$ 24**
Unrecognized actuarial loss	**(1,104)**	(1,548)	**(9,020)**
Total	**¥ (1,101)**	¥ (1,567)	**$ (8,996)**

8. Retirement Benefit Plans (continued)

(a) Defined benefit plan (excluding simplified method) (continued)

The components of plan assets, by major category, as a percentage of total plan assets as of March 31, 2022 and 2021 are as follows:

	2022	2021
Bonds	**28%**	24%
Stocks	**15**	17
General accounts	**53**	54
Other	**4**	5
Total	**100%**	100%

The expected long-term rate of return on plan assets is determined as a result of consideration of both the portfolio allocation at present and in the future and long-term expected rate of return from multiple plan assets at present and in the future.

The assumptions used in accounting for the above plans were as follows:

	2022	2021
Discount rates	**0.1%-0.2%**	0.1%-0.2%
Expected long-term rates of return on plan assets	**1.8%**	1.9%
Expected rates of salary increase	**1.6%**	2.2%

Note:
In addition to the above, the Company and certain consolidated subsidiaries charged contributions of ¥2,333 million ($19,062 thousand) and ¥2,281 million to the defined contribution pension plans to income for the years ended March 31, 2022 and 2021, respectively.

(b) Defined benefit plan (simplified method)

The changes in plan assets at fair value during the year ended March 31, 2022 and 2021 are as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2022	2021	**2022**
Plan assets at fair value at the beginning of the year	**¥ 38**	¥ 32	**$ 310**
Retirement benefit expense	**4**	6	**33**
Retirement benefit paid	**–**	–	**–**
Plan assets at fair value at the end of the year	**¥ 42**	¥ 38	**$ 343**

8. Retirement Benefit Plans (continued)

(b) Defined benefit plan (simplified method)

The changes in retirement benefit obligation at fair value during the years ended March 31, 2022 and 2021 are as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2022	2021	**2022**
Retirement benefits obligation at fair value at the beginning of the year	**¥ 43**	¥ –	**$ 351**
Increase from acquiring new consolidated subsidiaries	**–**	43	**–**
Retirement benefit expense	**5**	–	**41**
Retirement benefit paid	**(3)**	–	**(24)**
Retirement benefit obligation at the end of the year	**¥ 45**	¥ 43	**$ 368**

The balances of retirement benefit obligation and plan assets at fair value and liabilities and assets recognized in the consolidated balance sheet as of March 31, 2022 and 2021 are as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2022	2021	**2022**
Funded retirement benefit obligation	**¥ 284**	¥ 277	**$ 2,321**
Plan assets at fair value	**(280)**	(272)	**(2,288)**
	4	5	**33**
Unfunded retirement benefit obligation	**–**	–	**–**
Net liability (assets) for retirement benefit in the balance sheet	**3**	5	**25**
Liability for retirement benefit	**45**	43	**368**
Assets for retirement benefit	**(42)**	(38)	**(343)**
Net liability (assets) for retirement benefit in the balance sheet	**¥ 3**	¥ 5	**$ 25**

	Millions of yen		*Thousands of U.S. dollars*
	2022	2021	**2022**
Retirement benefit expense calculated by simplified method	**¥ 1**	¥ (6)	**$ 8**

8. Retirement Benefit Plans (continued)

(c) Multi-employer pension plan

The Company paid contributions of ¥308 million ($2,517 thousand) and ¥291 million to the multi-employer pension plan, which were accounted in the same way as the defined contribution pension plan for the year ended March 31, 2022 and 2021, respectively.

The recent funding status of multi-employer plan for the year ended March 31, 2022 and 2021 are as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2022	2021	**2022**
Plan assets	**¥ 62,838**	¥ 50,275	**$ 513,424**
Total of the amount of actuarial obligations under pension funding program and minimum policy reserves	**(61,220)**	(49,085)	**(500,204)**
Difference	**¥ 1,618**	¥ 1,190	**$ 13,220**

Ratio of Group contributions to total contributions in the multi-employer pension plan are 1.7% and 1.9% in 2022 and 2021, respectively. This ratio does not necessarily correspond to the actual contribution ratio of the Group.

The main component of the difference is retained earnings of ¥428 million ($3,497 thousand) and ¥203 million, general reserve of ¥1,190 million ($9,723 thousand) and ¥986 million for the ended March 31, 2022 and 2021, respectively.

The carryover deficit in pension funding program will be dealt with by methods such as raising the special contribution ratio as necessary based on the fiscal recalculation. The ratio referred to above does not correspond to the actual contribution of the Group.

9. Income Taxes

Income taxes applicable to the Group comprise corporation tax, inhabitants' taxes and enterprise taxes which, in the aggregate, resulted in the statutory tax rates of 30.6% for the years ended March 31, 2022 and 2021.

The effective tax rates for the years ended March 31, 2022 and 2021 differed from the corresponding statutory tax rates for the following reasons:

	2022	2021
Statutory tax rates:	**30.6%**	30.6%
Expenses not deductible for income tax purposes	**0.5**	0.2
Inhabitants' per capita taxes	**1.9**	1.5
Change in valuation allowance	**0.6**	1.4
Other, net	**0.1**	0.5
Effective tax rates	**33.7%**	34.2%

9. Income Taxes (continued)

Deferred income taxes reflect the net tax effect of the temporary differences between the carrying amounts of the assets and liabilities calculated for financial reporting purposes and the corresponding tax bases reported for income tax purposes. The significant components of the deferred tax assets and liabilities of the Group as of March 31, 2022 and 2021 were summarized as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2022	2021	**2022**
Deferred tax assets:			
Depreciation	**¥ 2,335**	¥ 2,266	**$ 19,078**
Provision for bonuses	**1,732**	2,212	**14,151**
Impairment loss	**6,022**	6,477	**49,203**
Liability for retirement benefits	**2,310**	2,433	**18,874**
Provision for point card certificates	**–**	2,798	**–**
Provision for merchandise warranties	**–**	3,219	**–**
Contract liability	**2,970**	–	**24,267**
Unrealized loss on revaluation of land acquired by merger	**1,391**	1,391	**11,365**
Asset retirement obligations	**3,124**	2,860	**25,525**
Net operating tax loss carryforwards (Note)	**322**	364	**2,631**
Other	**5,550**	5,903	**45,346**
Total gross deferred tax assets	**25,756**	29,923	**210,440**
Valuation allowance for net operating loss carryforwards (Note)	**(314)**	(306)	**(2,565)**
Valuation allowance for deductible temporary differences	**(5,326)**	(5,185)	**(43,516)**
Total valuation allowance	**(5,640)**	(5,491)	**(46,081)**
Total deferred tax assets	**20,116**	24,432	**164,359**
Deferred tax liabilities:			
Asset retirement obligations	**(954)**	(771)	**(7,795)**
Unrealized holding gain on other securities	**(102)**	(93)	**(833)**
Other	**(846)**	(797)	**(6,912)**
Total deferred tax liabilities	**(1,902)**	(1,661)	**(15,540)**
Net deferred tax assets	**¥ 18,214**	¥ 22,771	**$ 148,819**

9. Income Taxes (continued)

(Note) A breakdown of net operating loss carryforwards and valuation allowance by expiry date as of March 31, 2022 is as follows:

	Millions of yen						
	2023	**2024**	**2025**	**2026**	**2027**	**2028 and thereafter**	**Total**
Expiration schedule as of March 31, 2022							
Net operating loss carryforwards (*1) (*2)	¥ 2	¥ 36	¥ 1	¥ 0	¥ 22	¥ 261	¥ 322
Valuation allowance	(2)	(28)	(1)	0	(22)	(261)	(314)
Deferred tax assets	–	8	–	–	–	0	8

	Thousands of U.S. dollars						
	2023	**2024**	**2025**	**2026**	**2027**	**2028 and thereafter**	**Total**
Expiration schedule as of March 31, 2022							
Net operating loss carryforwards (*1) (*2)	$ 16	$ 294	$ 8	$ 0	$ 180	$ 2,133	$ 2,631
Valuation allowance	(16)	(229)	(8)	0	(180)	(2,133)	(2,566)
Deferred tax assets	–	65	–	–	–	0	65

(*1) The amount is determined by multiplying the corresponding net operating loss carryforwards and the effective statutory rate.

(*2) Deferred tax assets were recorded in the amount of ¥8 million ($65 thousand) for net operating loss carryforwards in the amount of ¥322 million ($2,631 thousand). This resulted from net loss before income tax recorded by some subsidiaries and it is more likely than not that there will be sufficient taxable income to realize these deferred tax assets.

10. Financial Instruments

Overview

(a) Policy for financial instruments

The Group manages its funds by investing in short-term deposits and safe financial assets. In consideration of plans for capital investment, the Group finances necessary funds mainly by bank borrowings, bond issuances, and other means. The Group utilizes derivatives to avoid the risk of fluctuation in market interest rates.

(b) Types of financial instruments, related risks and risk management

Trade receivables, such as notes and accounts receivables, are exposed to credit risk of customers. To respond to this risk, the Group manages settlement due dates and balances of each customer and also monitors the financial conditions of customers when appropriate.

Investments in securities inclusive quoted securities are mainly shares of companies with which the Group has business relationships. Investments in securities inclusive quoted securities are subject to the risk of market price fluctuations. Unquoted securities are exposed to the risk of impairment due to the decline in the financial results of the issuers. To correspond to this risk, the Group periodically monitors their market values and corporate values and reports information to meetings of the Board of Directors if the Group identifies significant fluctuations.

The guarantee deposit is mainly related to lease contracts for such as stores, offices and parking lots. The guarantee deposit is exposed to the credit risk of the lessors, but the Group manages the credit risks by understanding the credit status of the lessors when the Group enters into lease contracts and monitoring regularly during the contract period in order to reduce the risks.

Trade payables, such as notes and accounts payable, are all due within one year.

Short-term loans payable is mainly utilized for business operations of the Group and long-term loans are mainly utilized for capital investments. Loans with floating rates are exposed to the risk of fluctuation of interest rates. Certain long-term loans are hedged by utilizing derivative transactions, such as interest rate swap agreements, to avoid the risk of fluctuation of interest rates to fix the interest rates. Effectiveness testing for hedging instruments and hedged items is omitted because the conditions are satisfied with the requirements for special treatment of interest rate swaps.

The execution and control of derivative transactions of the Group are made in accordance with internal policy including the authorization process. In addition, to mitigate the risk of counterparty nonperformance, the Group enters into transactions only with the financial institutions with high credit ratings.

10. Financial Instruments (continued)

Overview (continued)

(b) Types of financial instruments, related risks and risk management (continued)

In addition, trade payables and loans are exposed to liquidity risk. This risk is managed by the adoption of a cash management system in the Group.

(c) Supplementary explanation of fair value of financial instruments

Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value.

(d) Estimated fair value of financial instruments

Carrying value, estimated fair value and the difference between them of financial instruments on the consolidated balance sheets as of March 31, 2022 and 2021 were shown in the following table.

	Millions of yen					
	2022			2021		
	Carrying value	**Estimated fair value**	**Difference**	Carrying value	Estimated fair value	Difference
Assets:						
Investment in securities, inclusive marketable securities:						
Other securities (*2)	**¥ 1,855**	**¥ 1,855**	**¥ –**	¥ 1,857	¥ 1,857	¥ –
Guarantee deposits	**26,635**	**25,562**	**(1,073)**	–	–	–
Total assets	**¥ 28,490**	**¥ 27,417**	**¥ (1,073)**	¥ 1,857	¥ 1,857	¥ –
Liabilities:						
Convertible bonds (with stock acquisition rights) (*3)	**¥ 13,831**	**¥ 15,032**	**¥ 1,201**	¥ 13,918	¥ 15,727	¥ 1,809
Long-term loans (*3)	**37,086**	**37,154**	**68**	39,889	40,161	272
Lease obligations (*3)	**4,485**	**4,571**	**86**	2,774	2,929	155
Total liabilities	**¥ 55,402**	**¥ 56,757**	**¥ 1,355**	¥ 56,581	¥ 58,817	¥ 2,236

10. Financial Instruments (continued)

(d) Estimated fair value of financial instruments (continued)

	Thousands of U.S. dollars		
	2022		
	Carrying value	**Estimated fair value**	**Difference**
Assets:			
Investment in securities, inclusive marketable securities:			
Other securities (*2)	**$ 15,156**	**$ 15,156**	**$ –**
Guarantee deposits	**217,624**	**208,857**	**(8,767)**
Total assets	**$ 232,780**	**$ 224,013**	**$ (8,767)**
Liabilities:			
Convertible bonds (with stock acquisition rights) (*3)	**$ 113,008**	**$ 122,820**	**$ 9,812**
Long-term loans (*3)	**303,015**	**303,571**	**556**
Lease obligations (*3)	**36,645**	**37,348**	**703**
Total liabilities	**$ 452,668**	**$ 463,739**	**$ 11,071**

Notes:

(*1) "Cash on hand and in banks," "Trade notes and accounts receivable," "Trade notes and accounts payable," and "Short-term borrowings" are omitted because these are cash items and their fair values approximate their carrying values due to their short maturities.

(*2) Unquoted securities as of March 31, 2022 and 2021are as follows.

	Millions of yen		*Thousands of U.S. dollars*
	2022	2021	**2022**
Unlisted stocks	**¥ 1,441**	¥ 493	**$ 11,774**
Investment in affiliates	**372**	392	**3,039**
Guarantee deposits	–	26,616	–

Because no quoted market price is available and it is extremely difficult to determine the fair value, the financial instruments above are not included in the preceding table.

(*3) Convertible bonds, long-term loans and lease obligations include the current portion of convertible bonds, long-term loans payable.

10. Financial Instruments (continued)

(e) Redemption schedules

Redemption schedules for cash and cash equivalents, and notes and accounts receivable – trade with maturity dates as of March 31, 2022 and 2021 were as follows:

	Millions of yen			
	2022			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	**¥ 26,553**	**¥ –**	**¥ –**	**¥ –**
Notes receivable – trade	**41**	**–**	**–**	**–**
Accounts receivable – trade	**39,624**	**–**	**–**	**–**
Guarantee deposits	**3,216**	**5,476**	**8,999**	**8,944**
	¥ 69,434	**¥ 5,476**	**¥ 8,999**	**¥ 8,944**

	Thousands of U.S. dollars			
	2022			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	**$ 216,954**	**$ –**	**$ –**	**$ –**
Notes receivable – trade	**335**	**–**	**–**	**–**
Accounts receivable – trade	**323,752**	**–**	**–**	**–**
Guarantee deposits	**26,277**	**44,742**	**73,527**	**73,078**
	$ 567,318	**$ 44,742**	**$ 73,527**	**$ 73,078**

Cash and cash equivalents in the table above do not include cash on hand of ¥3,332 million ($27,224 thousand) and ¥3,011 million as of March 31, 2022 and 2021, respectively.

Refer to Note 7. "Short-term Loans Payable, Long-Term Debt and Lease Obligations" for the redemption schedule for long-term debt.

10. Financial Instruments (continued)

(f) Breakdown of fair value of financial instruments by level

Fair values of financial instruments are categorized into three levels as described below on the basis of the observability and the materiality of the inputs used in the fair value measurement.

Level 1: Fair values measured using quoted prices of identical assets or liabilities in active markets among observable valuation inputs
Level 2: Fair values measured using inputs other than inputs included within Level 1 among observable valuation inputs
Level 3: Fair values measured using unobservable valuation inputs

When several inputs that have significant impact on fair value measurement are used and those inputs are categorized into different levels, the fair value is categorized into the lowest hierarchy level for fair value measurement among those in which each of the inputs belongs.

Financial instruments recorded at fair value on the consolidated balance sheets as of March 31, 2022 are as follows:

	Millions of yen			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Investment in securities, inclusive marketable securities:				
Other securities	**¥ 1,855**	**¥ –**	**¥ –**	**¥ 1,855**
Total assets	**¥ 1,855**	**¥ –**	**¥ –**	**¥ 1,855**

	Thousands of U.S. dollars			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Investment in securities, inclusive marketable securities:				
Other securities	**$ 15,156**	**$ –**	**$ –**	**$ 15,156**
Total assets	**$ 15,156**	**$ –**	**$ –**	**$ 15,156**

10. Financial Instruments (continued)

(f) Breakdown of fair value of financial instruments by level (continued)

Financial instruments other than those recorded at fair value on the consolidated balance sheets as of March 31, 2022 are as follows:

	Millions of yen			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Guarantee deposits	**¥ –**	**¥ 25,562**	**¥ –**	**¥ 25,562**
Total assets	**¥ –**	**¥ 25,562**	**¥ –**	**¥ 25,562**
Liabilities:				
Convertible bonds with stock acquisition rights	**¥ –**	**¥ 15,032**	**¥ –**	**¥ 15,032**
Long-term loans	**–**	**37,154**	**–**	**37,154**
Lease obligations	**–**	**4,571**	**–**	**4,571**
Total liabilities	**¥ –**	**¥ 56,757**	**¥ –**	**¥ 56,757**

	Thousands of U.S. dollars			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Guarantee deposits	**$ –**	**$ 208,857**	**$ –**	**$ 208,857**
Total assets	**$ –**	**$ 208,857**	**$ –**	**$ 208,857**
Liabilities:				
Convertible bonds with stock acquisition rights	**$ –**	**$ 122,820**	**$ –**	**$ 122,820**
Long-term loans	**–**	**303,571**	**–**	**303,571**
Lease obligations	**–**	**37,348**	**–**	**37,348**
Total liabilities	**$ –**	**$ 463,739**	**$ –**	**$ 463,739**

(Note 1) “Cash on hand and in banks,” “Trade notes and accounts receivable,” “Trade notes and accounts payable,” “Short-term borrowings,” “Income taxes payable” and “notes payable-facilities” are omitted because they are cash items and their fair values approximate their carrying values due to their short maturities.

10. Financial Instruments (continued)

(f) Breakdown of fair value of financial instruments by level (continued)

(Note 2) Description of valuation techniques used to measure fair value and inputs related to fair value measurement

Investment in securities

Fair values of listed stocks, national and local government bonds, and corporate bonds are determined by using quoted prices. Fair values of listed stocks and government bonds are categorized as Level 1 since they are traded in active markets.

Guarantee deposits

Fair values are measured using the discounted present value method based on the total amount of principal and interest, remaining maturity, and interest rates taking into account credit risk, and are categorized as Level 2.

Convertible Bonds with stock acquisition rights

Fair values of convertible bonds with stock acquisition rights issued by the Company are measured based on market prices. The fair values of convertible bonds with share acquisition rights are categorized as Level 2 because they are not traded in active markets although they have market prices.

Long-term borrowings and lease obligations

Fair values are measured using the discounted present value method based on the total amount of principal and interest, remaining maturity, and interest rates taking into account credit risk, and are categorized as Level 2.

Of the long-term borrowings with variable interest rates, the market value of those that are subject to special treatment of interest rate swaps is calculated by the discounted present value method based on the reasonably estimated interest rate as if the similar loans were made with total amount of principal and interest under the subject interest rate swaps. It is categorized as Level 2.

11. Derivatives

Derivative transactions to which hedge accounting is applied

Interest rate-related transactions:

			Millions of yen		
			2022		
Method of hedge accounting	**Transaction**	**Hedged item**	**Notional amount**	**Notional amount maturing in more than one year**	**Fair value**
Special treatment for interest rate swap	Interest rate swap Receive / floating and pay / fixed	Long-term loans	**¥ 6,232**	**¥ 194**	**(*)**

			Millions of yen		
			2021		
Method of hedge accounting	Transaction	Hedged item	Notional amount	Notional amount maturing in more than one year	Fair value
Special treatment for interest rate swap	Interest rate swap Receive / floating and pay / fixed	Long-term loans	¥ 6,271	¥ 6,232	(*)

			Thousands of U.S. dollars		
			2022		
Method of hedge accounting	**Transaction**	**Hedged item**	**Notional amount**	**Notional amount maturing in more than one year**	**Fair value**
Special treatment for interest rate swap	Interest rate swap Receive / floating and pay / fixed	Long-term loans	**$ 50,919**	**$ 1,585**	**(*)**

Notes:
(*) Because interest rate swap agreements are accounted for as if the contract rate applied to the swap agreement had originally applied to the underlying long-term loans, their fair values are included in those of the underlying long-term loans.

There are no derivative transactions to which hedge accounting is applied for the years ended March 31, 2022 and 2021.

12. Shareholders' Equity

The Law provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals to 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

The legal reserve of the Company was nil as of March 31, 2022 and 2021.

Movements in capital stock and treasury shares for the years ended March 31, 2022 and 2021 were summarized as follows:

		Number of shares			
		2022			
	Notes	April 1, 2021	Increase	Decrease	March 31, 2022
Capital stock		**112,005,636**	–	–	**112,005,636**
Treasury shares	(a) and (b)	**4,892,126**	**5,001,194**	**178,959**	**9,714,361**

		Number of shares			
		2021			
	Notes	April 1, 2020	Increase	Decrease	March 31, 2021
Capital stock		112,005,636	–	–	112,005,636
Treasury shares	(c) and (d)	4,974,637	1,089	83,600	4,892,126

(a) The increase in treasury shares of 5,001,194 common shares for the year ended March 31, 2022 was due to purchase of 5,000,000 shares in the Tokyo Stock Exchange by resolution of the Board of Directors held on June 29, 2021 and the purchase of 1,194 fractional shares.

(b) The decrease in treasury shares of 178,959 common shares for the year ended March 31, 2022 was due to the share-based compensation of 85,900 shares to directors and officers, the exercise of stock acquisition rights of 92,980 shares and the sale of 79 of fractional shares.

(c) The increase in treasury shares of 1,089 common shares for the year ended March 31, 2021 was due to the purchase of fractional shares.

(d) The decrease in treasury shares of 83,600 common shares for the year ended March 31, 2021 was due to the share-based compensation to directors and officers.

12. Shareholders' Equity (continued)

Movements in stock acquisition rights during the years ended March 31, 2022 and 2021 were summarized as follows:

	Thousands of shares			
	2022			
	April 1, 2021	**Increase**	**Decrease**	**March 31, 2022**
Stock acquisition rights attached to convertible bonds due October 1, 2021 (Notes 1 and 2)	**93**	–	**93**	–
Stock acquisition rights attached to convertible bonds due June 19, 2025 (Notes 1 and 3)	**11,597**	**333**	–	**11,930**
	11,690	**333**	**93**	**11,930**

	Thousands of shares			
	2021			
	April 1, 2020	Increase	Decrease	March 31, 2021
Stock acquisition rights attached to convertible bonds due October 1, 2021 (Notes 1 and 4)	92	1	–	93
Stock acquisition rights attached to convertible bonds due June 19, 2025 (Notes 1, 3 and 5)	12,420	176	999	11,597
	12,512	177	999	11,690

Notes:
1. Stock acquisition rights attached to convertible bonds were not accounted for separately.
2. The decrease in stock acquisition rights attached to convertible bonds due October 1, 2021 was due to the exercise of stock acquisition rights.
3. The increase in stock acquisition rights attached to convertible bonds due June 19, 2025 was due to the adjustment of the conversion price.
4. The increase in stock acquisition rights attached to convertible bonds due October 1, 2021 was due to the adjustment of the conversion price.
5. The decrease in stock acquisition rights attached to convertible bonds due June 19, 2025 was due to the pre-maturity redemption by exercising put options.

13. Cost of Sales

Loss on inventory valuation included in cost of sales was ¥232 million ($1,896 thousand) and ¥308 million for the years ended March 31, 2022 and 2021, respectively.

14. Impairment Loss

The Group recognized impairment loss of ¥1,763 million ($14,405 thousand) and ¥1,350 million for the years ended March 31, 2022 and 2021, respectively, as follows:

2022

Use	Classification	Location
Store	Buildings and structures, Tools, furniture and fixtures, and other	Osaka Prefecture and other
Rental property	Buildings and structures, and machinery	Kyoto Prefecture and other
Other	Building and structures, Tools, furniture and fixtures, tangible leased assets, Land, goodwill and other	Aichi Prefecture and other

2021

Use	Classification	Location
Store	Buildings and structures, Tools, furniture and fixtures, and other	Hyogo Prefecture and other
Rental property	Buildings and structures, Land, and other	Hiroshima Prefecture and other
Other	Building and structures, Tools, furniture and fixtures, Land and other	Aichi Prefecture and other

The Group groups its property and equipment based on store as a basis of unit which is the smallest identifiable group of assets that generates cash flows that are largely independent of the cash inflows from other assets or group of assets. It also groups assets which are not currently utilized for its operations and are not anticipated to be utilized in the future as idle assets individually. Intangible fixed assets such as goodwill and customer-related assets are grouped by the relevant subsidiary or business as a basis of unit.

For the above assets, the book value of the asset group, whose profit from operating activities is continuously negative, has been reduced to the recoverable amount.

As a result, for the year ended March 31, 2022, the Group reduced the book value of the assets and asset groups listed above to their respective recoverable amounts and a loss on impairment of store was recognized in the amount of ¥860 million ($7,027 thousand). In addition, a loss on impairment of rental property was ¥9 million ($74 thousand) and loss on impairment of other was ¥894 million ($7,304 thousand).

14. Impairment Loss (continued)

For the year ended March 31, 2021, the Group reduced the book value of the assets and asset groups listed above to their respective recoverable amounts and a loss on impairment of store was recognized in the amount of ¥780 million. In addition, a loss on impairment of rental property was ¥227 million and loss on impairment of other was ¥343 million.

For the years ended March 31, 2022 and 2021, the principal components of loss on impairment by asset classification were buildings and structures of ¥524 million ($4,281 thousand) and ¥675 million, tools, furniture and fixtures of ¥291 million ($2,378 thousand) and ¥227 million, goodwill of ¥718 million ($5,866 thousand) and nil, and other of ¥230 million ($1,880 thousand) and ¥448 million, respectively.

The recoverable amounts of asset groups are measured at the higher of their net selling value or value in use. The net selling value of significant assets is based on professional appraisals. Value in use is measured as the sum of anticipated future cash flows discounted by weighted average costs of capital of 4.4% and 4.2% for property and equipment such as sales stores, and 10.8% and 9.3% for goodwill and other intangible assets such as customer-related assets for the years ended March 31, 2022 and 2021, respectively.

15. Other Comprehensive Income

Reclassification adjustments and tax effects for each component of other comprehensive income for the years ended March 31, 2021 and 2020 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2022	2021	**2022**
Net unrealized gain on other securities:			
Amount arising during the year	**¥ 21**	¥ 426	**$ 172**
Reclassification adjustments	**9**	–	**73**
Before tax effect	**30**	426	**245**
Tax effect	**(2)**	(131)	**(16)**
Total	**28**	295	**229**
Remeasurements of defined benefit plans:			
Amount arising during the year	**55**	129	**449**
Reclassification adjustments	**410**	276	**3,350**
Before tax effect	**465**	405	**3,799**
Tax effect	**(144)**	(127)	**(1,176)**
Total	**321**	278	**2,623**
Total other comprehensive gain	**¥ 349**	¥ 573	**$ 2,852**

16. Leases

The Group utilizes finance leases for store equipment. Leased assets arising from finance lease transactions which do not transfer ownership to the lessee are depreciated to a residual value of zero by the straight-line method using the contract term as the useful life.

The Group continues to account for finance lease transactions not involving the transfer of ownership that commenced prior to April 1, 2008 as operating lease transactions.

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as of March 31, 2022 and 2021 which would have been reflected in the accompanying consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen					
	2022			2021		
	Acquisition cost	**Accumulated depreciation**	**Net book value**	Acquisition cost	Accumulated depreciation	Net book value
Buildings and structures	**¥ 3,924**	**¥ 3,826**	**¥ 98**	¥ 3,924	¥ 3,630	¥ 294

	Thousands of U.S. dollars		
	2022		
	Acquisition cost	**Accumulated depreciation**	**Net book value**
Buildings and structures	**$ 32,061**	**$ 31,261**	**$ 800**

16. Leases (continued)

Lease payments relating to finance leases accounted for as operating leases, the corresponding depreciation computed by the straight-line method for the respective lease periods assuming a nil residual value, interest expense computed by the interest method, and accounted for as operating leases for the years ended March 31, 2022 and 2021 were summarized as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2022	2021	**2022**
Lease payments	**¥ 216**	¥ 216	**$ 1,765**
Depreciation	**196**	196	**1,601**
Interest expense	**3**	5	**25**

Future minimum lease payments subsequent to March 31, 2022 for finance leases accounted for as operating leases were summarized as follows:

Year ending March 31,	*Millions of yen*	*Thousands of U.S. dollars*
2023	¥ 143	$ 1,168
2024 and thereafter	–	–
Total	¥ 143	$ 1,168

Future minimum lease payments subsequent to March 31, 2022 for non-cancelable operating leases as a lessee were summarized as follows:

Year ending March 31,	*Millions of yen*	*Thousands of U.S. dollars*
2023	¥ 4,926	$ 40,248
2024 and thereafter	35,789	292,418
Total	¥ 40,715	$ 332,666

Future minimum lease receipts subsequent to March 31, 2022 for non-cancelable operating leases as a lessor were summarized as follows:

Year ending March 31,	*Millions of yen*	*Thousands of U.S. dollars*
2023	¥ 230	$ 1,879
2024 and thereafter	2,544	20,786
Total	¥ 2,774	$ 22,665

17. Supplementary Information on the Consolidated Statement of Cash Flows

Information on significant non-cash transactions:

Asset retirement obligations

	Millions of yen		*Thousands of U.S. dollars*
	2022	2021	**2022**
Increase in asset retirement obligations	**¥ 1,098**	¥ 464	**$ 8,971**

Leased assets and lease obligations related to finance leases newly entered into during the years ended March 31, 2022 and 2021:

	Millions of yen		*Thousands of U.S. dollars*
	2022	2021	**2022**
Leased assets and lease obligations related to finance leases	**¥ 2,205**	¥ 674	**$ 18,016**

17. Supplementary Information on the Consolidated Statement of Cash Flows (continued)

Summarized below are assets and liabilities at the start of consolidation of PTN Co., Ltd. and its subsidiaries Prime Station Co., Ltd., Hampstead Co., Ltd., and Ed Bank Co., Ltd. through acquisition of shares, as well as acquisition cost and net payment for acquisition of stocks for the year ended March 31, 2021:

	Million of Yen
	2021
Current assets	¥ 1,433
Long-term assets	1,177
Customer-related intangible assets	–
Goodwill	1,733
Current liabilities	(785)
Long-term liabilities	(1,258)
Deferred tax liabilities	–
Acquisition cost of stock	2,300
Cash and cash equivalents of acquired companies	(765)
Net payment for acquisition of stocks	¥ 1,535

(Note) The business combination with PTN Co., Ltd., took place on March 31, 2021, which was provisionally accounted for in the previous fiscal year, was finalized in the current fiscal year. As a result of the finalization of this provisional accounting treatment, the initial allocation of acquisition costs has been significantly revised and reflected in the breakdown of assets and liabilities at the start of consolidation.

18. Revenue Recognition

(1) Information on disaggregation of revenues arising from contracts with customers

	Millions of Yen	*Thousands of U.S. dollars*
	2022	**2022**
Revenue arising from contracts with customers		
Directly managed home appliances store sales	**¥ 660,171**	**$ 5,393,995**
Franchise sales	**25,194**	**205,850**
Others	**24,196**	**197,695**
	709,561	**5,797,540**
Lease revenue	**4,207**	**34,374**
Other revenue	**4,207**	**34,374**
Net sales to external customers	**¥ 713,768**	**$ 5,831,914**

(2) Information that is the basis for understanding revenues by contract with a customers

i. Directly managed home appliance store sales

Directly managed home appliance store sales includes sales of home electric appliances and related services by the home electronics mass retailers operated by the Group and the sales offices of certain subsidiaries.

For sales of home electric appliances and related services, revenue is recognized when the control of goods or services is transferred to the customer, such as the delivery of the product to the customer. In addition, for certain transactions, in which the Group is deemed to act as an agent in accordance with the nature of the contracts, the net amount is recognized as revenue.

The Group has introduced its own loyalty reward point program and grants points to the customers who join the membership system for purchases such as household appliance products.

The Group also guarantees repair warranty service to a customer who join the membership system when the Group sells household appliance products.

The nature of the performance obligations for the Company's point system and repair warranty service as well as the normal point in time when the performance obligations are satisfied are described in "(k) Recognition policy of significant revenue and expenses in "2. Summary of Significant Accounting Policies."

18. Revenue Recognition (continued)

(2) Information on disaggregation of revenues arising from contracts with customers (continued)

ii. Franchise sales

Franchise sales include sales of the supply of household electrical appliances and the related services to franchise member stores.

As for the supply of household electric appliances, the performance obligation in the contract is satisfied at the time of delivery to the franchise member store, and therefore the revenue is recognized at that time. In addition, for certain transactions, in which the Group is deemed to act as an agent in accordance with the contents of contracts, the net amount is recognized as revenue.

The Group receives royalties from the franchise member stores, which operate sales of household electrical appliances, by providing know-how on store management and product sales as well as continuous management guidance in accordance with the franchise contract. The royalty income is recognized on an accrual basis in accordance with the relevant contract.

iii. Others

Others include such as commission from business partners and sales by subsidiaries engaged in other businesses than household electrical appliances sales. These revenues are measured by deducting discounts from the consideration promised in the contract with the customer.

iv. Leased revenue

Revenue related to leasing is sales from renting real estate, equipment and so on.

18. Revenue Recognition (continued)

(3) Information about the relationship between satisfaction of performance obligations under contracts with customers and cash flows from these contracts, and the amount and timing of revenue from contracts with existing customers at the end of the fiscal year that are expected to be recognized in the following fiscal year or beyond

i. Balance of contract assets and contract liabilities

	Millions of Yen	*Thousands of U.S. dollars*
	2022	**2022**
Beginning balance-		
Receivables arising from contracts with customers	**¥ 39,074**	**$ 319,258**
Contract liabilities	**28,255**	**230,860**
Ending balance-		
Receivables arising from contracts with customers	**39,665**	**324,087**
Contract liabilities	**29,399**	**240,208**

Contract liabilities are mainly the amount of points granted for the loyalty reward point system, the estimated amount of future repair costs related to the repair warranty service provided free of charge to cardholder members and advance received. Contract liabilities are reversed as revenue is recognized.

Revenue recognized during the year ended March 31, 2022 included in the balance of contract liabilities at the beginning of the year was ¥22,194 million ($181,338 thousand).

The main reason for the increase in contract liabilities by ¥1,144 million ($9,347 thousand) in the year ended March 31, 2022 is the increase in advances received due to the increase in the balance of unshipped products at the end of the year.

ii. Transaction price allocated to remaining performance obligations

The total transaction price allocated to the remaining performance obligations and the period during which revenue is expected to be recognized are as follows.

	Millions of Yen	*Thousands of U.S. dollars*
	2022	**2022**
Less than 1 year	**¥ 22,633**	**$ 184,926**
More than 1 year but less than 2 years	**3,877**	**31,677**
More than 2 years but less than 3 years	**1,023**	**8,359**
More than 3 years	**1,866**	**15,246**
Total	**¥ 29,399**	**$ 240,208**

19. Segment Information

Reportable segments of the Group are "Sales of home electric appliances" and "Others." As the "Others" segment is immaterial to the segment total, the disclosure of segment information for the years ended March 31, 2022 and 2021 has been omitted.

Impairment loss for all segments was recorded in the amounts of ¥1,763 million ($14,405 thousand) and ¥1,350 million for the years ended March 31, 2022 and 2021, respectively.

Amortization of goodwill for all segments was recorded in the amounts of ¥695 million ($5,679 thousand) and ¥854 million for the years ended March 31, 2022 and 2021, respectively. Remaining balance of goodwill for all segments was recorded in the amounts of ¥2,455 million ($20,059 thousand) and ¥3,869 million as of March 31, 2022 and 2021, respectively.

As sales of products and services to external customers in a single segment account for more than 90% of net sales in the consolidated statement of income, the disclosure of the segment information by product and service for the years ended March 31, 2022 and 2021 has been omitted.

As there were no overseas sales of products and services to external customers, the disclosure of net sales by geographical region for the years ended March 31, 2022 and 2021 has been omitted.

As there was no property and equipment located overseas, the disclosure of property and equipment by geographical region as of March 31, 2022 and 2021 has been omitted.

As sales of products and services to specific customers account for less than 10% of net sales in the consolidated statement of income, the disclosure of information by major customers for the years ended March 31, 2022 and 2021 has been omitted.

20. Related Party Transactions

(a) Principal transactions between the Company and related parties during the years ended March 31, 2022 and 2021 were summarized as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2022	2021	**2022**
DAIICHI Co., Ltd.:			
Sales of shares of an affiliated company	**¥ 30**	¥ –	**$ 245**
Masataka Kubo:			
Disposition of treasury stock	**39**	37	**319**
Kazutoshi Tomonori:			
Advisory fee	**24**	24	**196**

No outstanding balances with DAIICHI Co., Ltd., Masataka Kubo and Kazutoshi Tomonori as of March 31, 2022 and 2021, respectively.

DAIICHI Co., Ltd. is a majority owned company by a director and the director's relatives, located in Hiroshima City, Hiroshima Prefecture. The capital amount of DAIICHI Co., Ltd. was ¥95 million ($776 thousand) as of March 31, 2022. Masataka Kubo is a President of the Company, and Kazutoshi Tomonori is an advisor of the Company as of March 31, 2022 and 2021, respectively.

The selling price of the shares of affiliated companies is decided after discussions based on the net asset price of the target company. Disposition of treasury stock is due to allocation of treasury stock based upon a system of remuneration of shares with restriction on transfer. Advisory fee is determined upon mutual consultation.

(b) The disclosure of principal transactions between the Company's subsidiaries and related parties during the years ended March 31, 2022 and 2021 were omitted because of immateriality involved.

21. Subsequent Events

Distribution of retained earnings of the Company

The following distribution of retained earnings at March 31, 2022 was approved at the Company's annual general meeting of shareholders held on June 29, 2022:

	Millions of yen	*Thousands of U.S. dollars*
Year-end cash dividends of ¥22.00 ($0.18) per share	**¥ 2,250**	**$ 18,384**