# Consolidated Financial Statements

## EDION Corporation
## and Consolidated Subsidiaries

*Year ended March 31, 2023*
*with Independent Auditor's Report*

EDION Corporation and Consolidated Subsidiaries

Consolidated Financial Statements

Year ended March 31, 2023

## Contents

# Independent Auditor’s Report

The Board of Directors
EDION Corporation

## Opinion

We have audited the accompanying consolidated financial statements of EDION Corporation and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2023, 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, 2023, 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.

<table>
<tr><td colspan="2">Recognition and measurement of impairment loss on property and equipment, net, related to stores operated by EDION Corporation and 3Q Group Co., Ltd.</td></tr>
<tr><th>Description of Key Audit Matter</th><th>Auditor’s Response</th></tr>
<tr><td>The Group has been mainly engaged in the business of the sales of home appliance products and others, where EDION Corporation and 3Q Group Co., Ltd. widely operate home electronics mass retailers from Hokkaido to Okinawa. Demand in the home appliance market have been stable mainly supported by a demand for replacement products, while the Group has taken various initiatives in order to respond to changes in</td><td>In considering the recognition and measurement of impairment loss on property and equipment related to stores, we mainly performed following audit procedures, among others:<br>(1) Evaluation of IT general controls<br>・ We evaluated the design and effectiveness of IT general controls in order to assess the reliability of enterprise system and</td></tr>
</table>

| | |
|---|---|
| business environment such as a decrease in the number of households and others and improve profitability and achieve sustainable growth.<br><br>As described in the Note 2 “Summary of Significant Accounting Policies (m) Significant accounting estimates,” the Group recognized property and equipment related to stores with a carrying value of ¥108,544 million ($812,881 thousand) (*), which represent 29.4% of total assets, as of March 31, 2023. Furthermore, the Company recognized impairment loss of ¥2,004 million ($15,008 thousand) (*) on the property and equipment due to a decline in profitability.<br><br>The Group groups cash generating units based on stores in the sales department, and the Group determines whether or not recognition of impairment loss is necessary. 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, 2024 (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.<br><br>As described in the Note 2 “Summary of Significant Accounting Policies (m) Significant accounting estimates,” significant assumptions used in estimating the future cash flows include sales growth rates and the discount rate.<br><br>As mentioned above, the sales growth rates as assumption is affected by uncertainties such as regional characteristics, the position of the Group in commercial area, the external | accounting system that manage the underlying data of the figures by individual store used in documentation for determining indication of impairment.<br><br>(2) Evaluation of reasonableness of estimation of future cash flows<br><br>・ We evaluated the consistency of the estimated future cash flows with the business plan, etc., approved by the Board of Directors and past performance.<br><br>・ 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.<br><br>・ We compared the cash flow projection period with the remaining economic lives of the major assets.<br><br>・ We assessed the sales growth rates 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.<br><br>・ We evaluated the consistency of the valuation methodologies of value in use with the accounting standards and the consistency of input data used to determine the discount rate together with external data. |

| | |
|---|---|
| environment and sales support, and requires management judgement, accordingly estimation of future cash flows is subject to material effects of uncertainty and subjectivity.<br><br>Therefore, in view of the magnitude of the potential impact of the quantitative materiality of property and equipment in the consolidated financial statements, we have determined that this matter be a key audit matter.<br><br>(*) The translation of Japanese yen amounts into U.S. dollar amounts has been made on the basis described in Note 1 to the consolidated financial statements. | |

**Other Information**

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

We have concluded that other information does not exist. Accordingly, we have not performed any work related to 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, 2023 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 9, 2023

/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, 2023

| | *Millions of yen* | | *Thousands of U.S. dollars (Note 1)* |
|---|---|---|---|
| | **2023** | 2022 | **2023** |
| **Assets** | | | |
| Current assets: | | | |
| Cash and cash equivalents *(Note 10)* | **¥ 13,236** | ¥ 29,885 | **$ 99,124** |
| Notes and accounts receivable: | | | |
| Notes receivable – trade *(Notes 10 and 18)* | **34** | 41 | **255** |
| Accounts receivable – trade *(Notes 10 and 18)* | **37,962** | 39,624 | **284,296** |
| Other | **13,524** | 10,056 | **101,281** |
| Allowance for doubtful receivables | **(103)** | (114) | **(771)** |
| | **51,417** | 49,607 | **385,061** |
| Inventories: | | | |
| Merchandise and products *(Note 7)* | **116,061** | 106,023 | **869,175** |
| Supplies | **442** | 396 | **3,310** |
| | **116,503** | 106,419 | **872,485** |
| Other | **4,583** | 4,686 | **34,321** |
| Total current assets | **185,739** | 190,597 | **1,390,991** |
| | | | |
| Property and equipment, at cost *(Notes 5 and 14)*: | | | |
| Land *(Notes 4, 6 and 7)* | **57,090** | 57,542 | **427,544** |
| Buildings and structures *(Notes 6 and 7)* | **169,192** | 169,488 | **1,267,071** |
| Tools, furniture, and fixtures | **35,049** | 34,956 | **262,480** |
| Leased assets *(Note 16)* | **7,346** | 5,444 | **55,014** |
| Construction in progress | **1,313** | 716 | **9,833** |
| Other | **1,639** | 1,611 | **12,275** |
| | **271,629** | 269,757 | **2,034,217** |
| Accumulated depreciation | **(149,502)** | (144,253) | **(1,119,614)** |
| Property and equipment, net | **122,127** | 125,504 | **914,603** |
| | | | |
| Investments and other assets: | | | |
| Investments in securities *(Notes 3 and 10)* | **3,920** | 3,296 | **29,357** |
| Investments in affiliates *(Notes 3 and 10)* | **100** | 372 | **749** |
| Goodwill *(Notes 14, 17 and 19)* | **1,620** | 2,455 | **12,132** |
| Guarantee deposits *(Note 10)* | **27,049** | 26,635 | **202,569** |
| Deferred tax assets *(Note 9)* | **18,614** | 18,736 | **139,399** |
| Other | **10,196** | 10,375 | **76,357** |
| Total investments and other assets | **61,499** | 61,869 | **460,563** |
| Total assets | **¥ 369,365** | ¥ 377,970 | **$ 2,766,157** |

EDION Corporation and Consolidated Subsidiaries

# Consolidated Balance Sheet (continued)

March 31, 2023

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2023** | 2022 | **2023** |
| **Liabilities and net assets** | | | |
| Current liabilities: | | | |
| Short-term loans payable *(Notes 7 and 10)* | **¥ 60** | ¥ 160 | **$ 449** |
| Current portion of long-term loans payable *(Notes 7 and 10)* | **10,680** | 10,234 | **79,982** |
| Notes and accounts payable: | | | |
| Trade *(Notes 7 and 10)* | **42,765** | 48,346 | **320,265** |
| Other | **10,985** | 11,431 | **82,266** |
| | **64,490** | 70,171 | **482,962** |
| Lease obligations *(Notes 7 and 10)* | **914** | 647 | **6,845** |
| Income taxes payable *(Note 9)* | **4,527** | 917 | **33,902** |
| Provision for bonuses | **5,554** | 5,587 | **41,594** |
| Contract liabilities *(Note 18)* | **28,653** | 29,399 | **214,581** |
| Other *(Note 7)* | **3,704** | 2,282 | **27,739** |
| Total current liabilities | **107,842** | 109,003 | **807,623** |
| Long-term liabilities: | | | |
| Long-term debt *(Notes 7 and 10)* | **29,682** | 40,683 | **222,287** |
| Liability for retirement benefits *(Note 8)* | **7,284** | 7,450 | **54,550** |
| Lease obligations *(Notes 7 and 10)* | **4,683** | 3,838 | **35,071** |
| Deferred tax liabilities *(Note 9)* | **427** | 522 | **3,198** |
| Deferred tax liabilities for land revaluation *(Notes 4 and 9)* | **1,585** | 1,590 | **11,870** |
| Asset retirement obligations *(Note 5)* | **10,678** | 10,085 | **79,967** |
| Other | **5,527** | 5,318 | **41,391** |
| Total long-term liabilities | **59,866** | 69,486 | **448,334** |
| Net assets | | | |
| Shareholders' equity *(Note 13)*: | | | |
| Capital stock | **11,940** | 11,940 | **89,418** |
| Capital surplus | **84,969** | 84,948 | **636,330** |
| Retained earnings | **125,078** | 118,175 | **936,703** |
| Treasury shares | **(14,993)** | (10,069) | **(112,282)** |
| Total shareholders' equity | **206,994** | 204,994 | **1,550,169** |
| Accumulated other comprehensive income (loss): | | | |
| Net unrealized gain on other securities | **139** | 87 | **1,041** |
| Revaluation reserve for land *(Note 4)* | **(4,850)** | (4,838) | **(36,321)** |
| Remeasurements of defined benefit plans *(Note 8)* | **(626)** | (762) | **(4,689)** |
| Total accumulated other comprehensive loss | **(5,337)** | (5,513) | **(39,969)** |
| Total net assets | **201,657** | 199,481 | **1,510,200** |
| Total liabilities and net assets | **¥ 369,365** | ¥ 377,970 | **$ 2,766,157** |

*See accompanying notes to consolidated financial statements.*

EDION Corporation and Consolidated Subsidiaries

## Consolidated Statement of Income

Year ended March 31, 2023

| | *Millions of yen* | | *Thousands of U.S. dollars (Note 1)* |
|---|---|---|---|
| | **2023** | 2022 | **2023** |
| Net sales *(Note 18)* | **¥ 720,584** | ¥ 713,768 | **$ 5,396,420** |
| Cost of sales *(Note 13)* | **509,707** | 504,087 | **3,817,172** |
| Gross profit | **210,877** | 209,681 | **1,579,248** |
| Selling, general and administrative expenses *(Note 6)* | **191,691** | 190,885 | **1,435,565** |
| Operating income | **19,186** | 18,796 | **143,683** |
| Non-operating income (expenses): | | | |
| Interest and dividend income | **122** | 89 | **914** |
| Interest expense | **(246)** | (249) | **(1,842)** |
| Commission income | **237** | 224 | **1,775** |
| Dividend income of insurance | **168** | 122 | **1,258** |
| Subsidy income | **49** | 2,429 | **367** |
| Gain on sales of investments in securities, net | **32** | 45 | **240** |
| Compensation for forced relocation | **96** | – | **719** |
| Settlement received | **70** | – | **524** |
| Equity in loss of affiliates | **(262)** | (8) | **(1,962)** |
| Contribution | **(600)** | (600) | **(4,493)** |
| Commission fee | **(286)** | (132) | **(2,142)** |
| Loss on sales and disposal of property and equipment, net | **(28)** | (58) | **(210)** |
| Impairment loss *(Notes 6, 14 and 19)* | **(2,434)** | (1,763) | **(18,228)** |
| Loss on cancellation of rental contracts | **(60)** | (10) | **(449)** |
| Infectious related loss | **–** | (43) | **–** |
| Other | **857** | 922 | **6,417** |
| | **(2,285)** | 968 | **(17,112)** |
| Profit before income taxes | **16,901** | 19,764 | **126,571** |
| Income taxes *(Note 9)*: | | | |
| Current | **5,534** | 3,553 | **41,444** |
| Deferred | **(26)** | 3,102 | **(195)** |
| Total income taxes | **5,508** | 6,655 | **41,249** |
| | **11,393** | 13,109 | **85,322** |
| Profit attributable to: | | | |
| Owners of parent | **¥ 11,393** | ¥ 13,109 | **$ 85,322** |

| | *Yen* | | *U.S. dollars* |
|---|---|---|---|
| Amounts per share: | | | |
| Profit attributable to owners of parent | | | |
| – Basic | **¥112.36** | ¥ 125.41 | **$ 0.84** |
| – Diluted | **100.32** | 112.60 | **0.75** |
| Cash dividends | **44** | 44 | **0.33** |

*See accompanying notes to consolidated financial statements.*

EDION Corporation and Consolidated Subsidiaries

# Consolidated Statement of Comprehensive Income

Year ended March 31, 2023

| | *Millions of yen* | | *Thousands of U.S. dollars (Note 1)* |
|---|---|---|---|
| | **2023** | 2022 | **2023** |
| Profit | **¥ 11,393** | ¥ 13,109 | **$ 85,322** |
| Other comprehensive income *(Note 16)*: | | | |
| Net unrealized gain on other securities | **52** | 28 | **389** |
| Remeasurements of defined benefit plans, net of tax | **136** | 321 | **1,018** |
| Other comprehensive income, net | **188** | 349 | **1,407** |
| Comprehensive income | **¥ 11,581** | ¥ 13,458 | **$ 86,729** |
| Comprehensive income attributable to: | | | |
| Owners of parent | **¥ 11,581** | ¥ 13,458 | **$ 86,729** |

*See accompanying notes to consolidated financial statements.*

# EDION Corporation and Consolidated Subsidiaries

## Consolidated Statement of Changes in Net Assets

### Year ended March 31, 2023

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | Capital stock | Capital surplus | Retained earnings | Treasury shares | Total 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 April 1, 2022 | **11,940** | **84,948** | **118,175** | **(10,069)** | **204,994** |
| Cash dividends | **–** | **–** | **(4,502)** | **–** | **(4,502)** |
| Reversal of land revaluation difference | **–** | **–** | **12** | **–** | **12** |
| Profit attributable to owners of parent | **–** | **–** | **11,393** | **–** | **11,393** |
| Purchases of treasury shares | **–** | **–** | **–** | **(5,001)** | **(5,001)** |
| Disposition of treasury shares | **–** | **21** | **–** | **77** | **98** |
| Net changes of items other than shareholders' equity | **–** | **–** | **–** | **–** | **–** |
| Balance at March 31, 2023 | **¥ 11,940** | **¥ 84,969** | **¥ 125,078** | **¥ (14,993)** | **¥ 206,994** |

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | Net unrealized gain 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 | ¥ 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 April 1, 2022 | **87** | **(4,838)** | **(762)** | **(5,513)** | **199,481** |
| Cash dividends | **–** | **–** | **–** | **–** | **(4,502)** |
| Reversal of land revaluation difference | **–** | **–** | **–** | **–** | **12** |
| Profit attributable to owners of parent | **–** | **–** | **–** | **–** | **11,393** |
| Purchases of treasury shares | **–** | **–** | **–** | **–** | **(5,001)** |
| Disposition of treasury shares | **–** | **–** | **–** | **–** | **98** |
| Net changes of items other than shareholders' equity | **52** | **(12)** | **136** | **176** | **176** |
| Balance at March 31, 2023 | **¥ 139** | **¥ (4,850)** | **¥ (626)** | **¥ (5,337)** | **¥ 201,657** |

EDION Corporation and Consolidated Subsidiaries

# Consolidated Statement of Changes in Net Assets (continued)

Year ended March 31, 2023

| | Capital stock | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
|---|---|---|---|---|---|
| | *Thousands of U.S. dollars (Note 1)* | | | | |
| Balance at April 1, 2022 | **$ 89,418** | **$ 636,173** | **$ 885,006** | **$ (75,407)** | **$ 1,535,190** |
| Cash dividends | – | – | **(33,715)** | – | **(33,715)** |
| Reversal of land revaluation difference | – | – | **90** | – | **90** |
| Profit attributable to owners of parent | – | – | **85,322** | – | **85,322** |
| Purchases of treasury shares | – | – | – | **(37,452)** | **(37,452)** |
| Disposition of treasury shares | – | **157** | – | **577** | **734** |
| Net changes of items other than shareholders' equity | – | – | – | – | – |
| Balance at March 31, 2023 | **$ 89,418** | **$ 636,330** | **$ 936,703** | **$(112,282)** | **$ 1,550,169** |

| | Net unrealized gain on other securities | Revaluation reserve for land | Remeasurements of defined benefit plans | Total accumulated other comprehensive loss | Total net assets |
|---|---|---|---|---|---|
| | *Thousands of U.S. dollars (Note 1)* | | | | |
| Balance at April 1, 2022 | **$ 652** | **$ (36,231)** | **$ (5,707)** | **$ (41,286)** | **$ 1,493,904** |
| Cash dividends | – | – | – | – | **(33,715)** |
| Reversal of land revaluation difference | – | – | – | – | **90** |
| Profit attributable to owners of parent | – | – | – | – | **85,322** |
| Purchases of treasury shares | – | – | – | – | **(37,452)** |
| Disposition of treasury shares | – | – | – | – | **734** |
| Net changes of items other than shareholders' equity | **389** | **(90)** | **1,018** | **1,317** | **1,317** |
| Balance at March 31, 2023 | **$1,041** | **$ (36,321)** | **$ (4,689)** | **$ (39,969)** | **$ 1,510,200** |

EDION Corporation and Consolidated Subsidiaries

## Consolidated Statement of Cash Flows

Year ended March 31, 2023

| | *Millions of yen* | | *Thousands of U.S. dollars (Note 1)* |
|---|---|---|---|
| | **2023** | 2022 | **2023** |
| **Cash flows from operating activities** | | | |
| Profit before income taxes | **¥ 16,901** | ¥ 19,764 | **$ 126,571** |
| Adjustments for: | | | |
| Depreciation and amortization | **10,580** | 11,026 | **79,233** |
| Impairment loss | **2,434** | 1,763 | **18,228** |
| Interest and dividend income | **(122)** | (89) | **(914)** |
| Interest expense | **246** | 249 | **1,842** |
| Decrease in provision for bonuses | **(34)** | (1,559) | **(255)** |
| Decrease in liability for retirement benefits | **(166)** | (400) | **(1,243)** |
| Loss on sales or disposal of property and equipment, net | **28** | 58 | **210** |
| Changes in operating assets and liabilities: | | | |
| Increase in notes and accounts receivable | **(1,800)** | (2,635) | **(13,480)** |
| Increase in inventories | **(10,123)** | (8,154) | **(75,811)** |
| (Decrease) increase in notes and accounts payable | **(6,184)** | 3,335 | **(46,312)** |
| (Decrease) increase in contract liabilities | **(746)** | 981 | **(5,587)** |
| Other, net | **2,196** | (2,458) | **16,447** |
| Subtotal | **13,210** | 21,881 | **98,929** |
| Interest and dividend income received | **83** | 52 | **622** |
| Interest expenses paid | **(233)** | (229) | **(1,745)** |
| Payment for infectious related loss | **–** | (43) | **–** |
| Subsidy income | **50** | 2,812 | **374** |
| Income taxes refunded | **2,070** | 148 | **15,502** |
| Income taxes paid | **(2,441)** | (13,444) | **(18,281)** |
| Other, net | **(600)** | (600) | **(4,493)** |
| Net cash provided by operating activities | **12,139** | 10,577 | **90,908** |
| | | | |
| **Cash flows from investing activities** | | | |
| Purchases of property and equipment | **(5,418)** | (7,441) | **(40,575)** |
| Proceeds from sales of property and equipment | **953** | 788 | **7,137** |
| Purchases of intangible assets | **(2,252)** | (1,941) | **(16,865)** |
| Payments of long-term prepaid expenses | **(55)** | (213) | **(412)** |
| Purchases of investments in securities | **(750)** | (960) | **(5,617)** |
| Proceeds from sales of investments in securities | **197** | 71 | **1,475** |
| Payments for leasehold deposits | **(1,071)** | (1,196) | **(8,021)** |
| Proceeds from leasehold deposits | **266** | 857 | **1,992** |
| Proceeds (repayment) of guarantee deposits received, net | **160** | (119) | **1,198** |
| Other, net | **(366)** | (365) | **(2,740)** |
| Net cash used in investing activities | **¥ (8,336)** | ¥ (10,519) | **$ (62,428)** |

EDION Corporation and Consolidated Subsidiaries

Consolidated Statements of Cash Flow (continued)

March 31, 2023

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2023** | 2022 | **2023** |
| **Cash flows from financing activities** | | | |
| Net decrease in short-term loans payable | **¥ (100)** | ¥ (28) | **$ (749)** |
| Proceeds from long-term loans payable | **–** | 200 | **–** |
| Repayments of long-term loans payable | **(10,423)** | (2,881) | **(78,057)** |
| Cash dividends paid | **(4,121)** | (4,661) | **(30,862)** |
| Purchase of treasury shares | **(5,001)** | (5,361) | **(37,452)** |
| Other, net | **(807)** | (514) | **(6,044)** |
| Net cash used in financing activities | **(20,452)** | (13,245) | **(153,164)** |
| Effect of exchange rate changes on cash and cash equivalents | **0** | (0) | **0** |
| Net decrease in cash and cash equivalents | **(16,649)** | (13,187) | **(124,684)** |
| Cash and cash equivalents at the beginning of the year | **29,885** | 43,072 | **223,808** |
| Cash and cash equivalents at the end of the year (*Note 17*) | **¥ 13,236** | ¥ 29,885 | **$ 99,124** |

EDION Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

March 31, 2023

## 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, 2022, to the 2023 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 ¥133.53 = U.S. $1.00, the approximate rate of exchange in effect on March 31, 2023. 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 twelve and thirteen as of March 31, 2023, and 2022, respectively.

On October 1, 2022, an absorption-type merger was conducted with Nwork Co., Ltd., a consolidated subsidiary of the Company, as the surviving company, and Hampstead Co., Ltd., a former consolidated subsidiary of the Company, as the absorbed company. As a result, Hampstead Co., Ltd. has been excluded from the scope of consolidation.

Nwork Co., Ltd. has changed its company name to EDION Cross Ventures Co., Ltd.

## 2. Summary of Significant Accounting Policies (continued)

### (a) Consolidation (continued)

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 for the years ended March 31, 2023, and 2022.

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

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) Investments in securities

Investments in 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.

## 2. Summary of Significant Accounting Policies (continued)

### (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.

### (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 calculate 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 recognized revenue 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 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. The performance obligation related to the repair warranty service is considered to be satisfied over time, and accordingly, corresponding 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.

## 2. Summary of Significant Accounting Policies (continued)

### (m) Significant accounting estimates

Recognition and measurement of impairment loss on property and equipment

(1) The amounts recorded in the consolidated financial statements for the years ended March 31, 2023 and 2022 are as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2023** | 2022 | **2023** |
| Impairment loss | **¥ 2,005** | ¥ 904 | **$ 15,015** |
| of which, the asset group related to stores | **2,005** | 860 | **15,015** |
| Property and equipment | **122,127** | 125,504 | **914,603** |
| of which, the asset group related to stores | **108,544** | 111,653 | **812,881** |

(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, 2024, a budget for each asset group for the year ending March 31, 2024, and store opening plans for new stores covering about ten years ahead.

## 2. Summary of Significant Accounting Policies (continued)

### (m) Significant accounting estimates (continued)

Recognition and measurement of impairment loss on 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 16.4%) and the discount rate (4.6%). (Some stores that were temporarily closed are excluded from the range of above sales growth rates because their sales growth rates after reopening are likely to be an abnormal value.)

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.

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

The sales growth rates used as one of significant assumptions involve uncertainties and are expected to fluctuate in a range from negative 9.6% to 37.2%.

As a result of fluctuation of the sales growth rates, impairment loss may be recorded in the range of between ¥0 million to ¥7,722 million ($0 thousand to $57,830 thousand) in the following year.

## 2. Summary of Significant Accounting Policies (continued)

### (m) Significant accounting estimates (continued)

Recognition and measurement of impairment loss on goodwill and other intangible assets

(1) The amounts recorded in the consolidated financial statements for the years ended March 31, 2023 and 2022 are as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2023** | 2022 | **2023** |
| Impairment loss | **¥ 429** | ¥ 859 | **$ 3,213** |
| Goodwill (*1) | **1,620** | 2,455 | **12,132** |
| Other intangible assets (*2) | **1,422** | 1,686 | **10,649** |

(*1) The main components of the corresponding goodwill for the year ended March 31, 2023 are as follows:

| | |
|---|---|
| Jtop Co., Ltd. | ¥196 million ($1,468 thousand) |
| Yumemiru Co., Ltd. | ¥150 million ($1,123 thousand) |
| Hampstead Co., Ltd. (*a) | ¥1,142 million ($8,552 thousand) |

(*a) Hampstead Co., Ltd. is currently named EDION Cross Ventures Co., Ltd.

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

| | |
|---|---|
| Customer-related assets | |
| Forest Co., Ltd. | ¥1,013 million ($7,586 thousand) |
| Jtop Co., Ltd. | ¥67 million ($502 thousand) |
| Hampstead Co., Ltd. (*a) | ¥38 million ($285 thousand) |
| | |
| Technology-related assets | |
| Hampstead Co., Ltd. (*a) | ¥303 million ($2,269 thousand) |

(*a) Hampstead Co., Ltd. is currently named EDION Cross Ventures Co., Ltd.

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, 2023.

## 2. Summary of Significant Accounting Policies (continued)

### (m) Significant accounting estimates (continued)

Recognition and measurement of impairment loss on 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, customer-related assets and technology-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, 2024.

## 2. Summary of Significant Accounting Policies (continued)

### (m) Significant accounting estimates (continued)

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

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

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 and discount rate (12.1%).

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 1.0% to 3.9%.

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 minus 3.3% to 6.8%.

## 2. Summary of Significant Accounting Policies (continued)

### (m) Significant accounting estimates (continued)

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

(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 12.6%.

Hampstead Co., Ltd. merged with Nwork Co., Ltd. on October 1, 2022 and changed its company name to EDION Cross Ventures Co., Ltd. It 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 1.0% to 13.5%.

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

The sales growth rates used as one of the significant assumptions involve uncertainties for estimation.

In the event that Forest Co., Ltd.'s sales for each fiscal year ending March 31, 2024 and after were 90% 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 ¥280 million ($2,097 thousand).

In the event that Jtop Co., Ltd.'s sales for each fiscal year ending March 31 2024 and after were 95% of the amount used in the calculation, an impairment loss on customer-related assets associated with the acquisition of Jtop Co., Ltd. might be incurred in the amount of ¥13 million ($97 thousand).

**2. Summary of Significant Accounting Policies (continued)**

**(m) Significant accounting estimates (continued)**

Recognition and measurement of impairment loss on 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 ending March 31, 2024 and after were 90% 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 ¥110 million ($824 thousand).

In the event that EDION Cross Ventures Co., Ltd.'s sales for each fiscal year ending March 31, 2024 and after were 95% of the amount used in the calculation, an impairment loss on goodwill associated with the acquisition of Hampstead Co., Ltd. might be incurred in the amount of ¥697 million ($5,220 thousand).

(Note) The analysis above shows the percentage of decrease in sales at each subsidiary that results in 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.

**(n) Changes in accounting policies**

**Adoption of Implementation Guidance on Accounting Standard for Fair Value Measurement**

"Implementation Guidance for Accounting Standards for Fair Value Measurement" ((ASBJ Guidance No.31, June 17, 2021), hereinafter the "Guidance") has been adopted from the beginning of the current fiscal year. In accordance with the transitional treatment prescribed in Paragraph 27-2 of the Guidance, new accounting policies prescribed by the Guidance are applied prospectively. This change has no effect on the consolidated financial statements for the current fiscal year.

## 2. Summary of Significant Accounting Policies (continued)

### (o) Accounting standards issued but not yet effective

“Accounting Standard for Current Income Taxes" (ASBJ Statement No.27, October 28, 2022)

“Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No.25, October 28, 2022)

“Guidance on Accounting Standard for Tax Effect Accounting" (ASBJ Guidance No.28, October 28, 2022)

(1) Overview

In February 2018, ASBJ Statement No. 28, “Partial Revisions to ‘Accounting Standard for Tax Effect Accounting’” (hereinafter the “Standard”) was announced, and the Practical Guidance on Accounting Standard for Tax Effect Accounting was issued to complete the transfer from the Japanese Institute of Certified Public Accountants to ASBJ. In the process of deliberations, the following two issues, which were to be re-examined after the publication of the Standard, were examined and announced.

- Classification of tax expense (taxation on other comprehensive income)
- Tax effect on sale of subsidiary shares, etc. (subsidiary or affiliated company shares) when group taxation rules are applied.

(2) Scheduled date of adoption

The Group adopt the accounting standard and related implementation guidance from the beginning of the fiscal year ending March 31, 2025.

(3) Impact of adoption of revised accounting standard and related implementation guidance

The Group is currently evaluating the effect of the adoption of accounting standard and related implementation guidance on its consolidated financial statements.

## 3. Investments in Securities and Investments in Affiliates

1. Information regarding investments in securities classified as other securities as of March 31, 2023, and 2022 was summarized as follows:

| | *Millions of yen* | | | | | |
|---|---|---|---|---|---|---|
| | **2023** | | | 2022 | | |
| | **Carrying value** | **Acquisition costs** | **Unrealized gain (loss)** | Carrying value | Acquisition costs | Unrealized gain (loss) |
| Securities whose carrying value exceeds their acquisition costs: | | | | | | |
| Equity securities | **¥ 998** | **¥ 614** | **¥ 384** | ¥ 1,047 | ¥ 724 | ¥ 323 |
| Subtotal | **998** | **614** | **384** | 1,047 | 724 | 323 |
| Securities whose carrying value does not exceed their acquisition costs: | | | | | | |
| Equity securities | **731** | **944** | **(213)** | 808 | 998 | (190) |
| Subtotal | **731** | **944** | **(213)** | 808 | 998 | (190) |
| Total (*a) | **¥ 1,729** | **¥ 1,558** | **¥ 171** | ¥ 1,855 | ¥ 1,722 | ¥ 133 |

| | *Thousands of U.S. dollars* | | |
|---|---|---|---|
| | **2023** | | |
| | **Carrying value** | **Acquisition costs** | **Unrealized gain (loss)** |
| Securities whose carrying value exceeds their acquisition costs: | | | |
| Equity securities | **$ 7,474** | **$ 4,598** | **$ 2,876** |
| Subtotal | **7,474** | **4,598** | **2,876** |
| Securities whose carrying value does not exceed their acquisition costs: | | | |
| Equity securities | **5,474** | **7,069** | **(1,595)** |
| Subtotal | **5,474** | **7,069** | **(1,595)** |
| Total (*a) | **$ 12,948** | **$ 11,667** | **$ 1,281** |

Notes:

(*a) Since no quoted market price is available, unlisted equity securities are not included in the table above. The carrying values of such unlisted equity securities amounted to ¥2,191 million ($16,409 thousand) and ¥1,441 million as of March 31, 2023, and 2022, respectively.

## 3. Investments in Securities and Investments in Affiliates (continued)

2. Proceeds from sales and gross realized gain or loss on other securities for the fiscal years ended March 31, 2023, and 2022 are as follows:

| | *Millions of yen* | | *Thousands of U.S dollars* |
|---|---|---|---|
| | **2023** | 2022 | **2023** |
| Proceeds from sales | **¥ 197** | ¥ 71 | **$ 1,475** |
| Gross realized gain | **31** | 52 | **232** |
| Gross realized loss | **–** | (8) | **–** |

3. Losses on impairment of investment in securities of nil and ¥8 million were recognized in "Other" in the consolidated statements of income for the years ended March 31, 2023, and 2022, 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 ¥4,584 million ($34,329 thousand) and ¥4,607 million as of March 31, 2023 and 2022, respectively, of which a certain portion of this land, in the amount of ¥ 1,477 million ($11,061 thousand) and ¥1,499 million, are corresponded to real estate for lease as of March 31, 2023, and 2022, 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, 2023 and 2022 were as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2023** | 2022 | **2023** |
| Balance at the beginning of the year | **¥ 10,085** | ¥ 9,231 | **$ 75,526** |
| Liabilities incurred due to the acquisition of property and equipment | **553** | 1,016 | **4,141** |
| Accretion expense | **81** | 82 | **607** |
| Liabilities settled | **(41)** | (244) | **(307)** |
| Balance at the end of the year | **¥ 10,678** | ¥ 10,085 | **$ 79,967** |

## 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 ¥305 million ($2,284 thousand) and ¥303 million for the years ended March 31, 2023, and 2022, respectively. Rental income was included in net sales, and rental expenses were mainly included in selling, general and administrative expenses. Impairment loss on rental property was recognized in the amount of nil and ¥3 million for the years ended March 31, 2023, and 2022, 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* | | | |
|---|---|---|---|
| **2023** | | | |
| **Carrying Value** | | | **Fair Value** |
| **March 31, 2022** | **Net change** | **March 31, 2023** | **March 31, 2023** |
| **¥ 10,735** | **¥ (346)** | **¥ 10,389** | **¥ 9,310** |

| *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 |

| *Thousands of U.S. dollars* | | | |
|---|---|---|---|
| **2023** | | | |
| **Carrying Value** | | | **Fair Value** |
| **March 31, 2022** | **Net change** | **March 31, 2023** | **March 31, 2023** |
| **$ 80,394** | **$ (2,591)** | **$ 77,803** | **$ 69,722** |

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 transfer of properties of ¥366 million ($2,741 thousand) and decreases due to sales of ¥574 million ($4,299 thousand) for the year ended March 31, 2023. The main component of net change in the carrying value are the increases due to acquisition of properties of ¥9 million and decreases due to sales of ¥540 million for the year ended March 31, 2022.

3. The fair value at the end of the fiscal year was mainly based on the values that were internally calculated in accordance with real estate appraisal standards and such values were included those adjusted by an index and others.

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

Long-term debt as of March 31, 2023 and 2022 consisted of the following:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2023** | 2022 | **2023** |
| Unsecured convertible bonds (with stock acquisition rights) due June 19, 2025 | **¥ 13,824** | ¥ 13,831 | **$ 103,527** |
| Unsecured loans principally from banks and insurance companies | **26,169** | 36,593 | **195,979** |
| Long-term loans | **369** | 493 | **2,763** |
| | **40,362** | 50,917 | **302,269** |
| Less: Current portion of long-term loans payable | **(10,680)** | (10,234) | **(79,982)** |
| | **¥ 29,682** | ¥ 40,683 | **$ 222,287** |

Zero coupon unsecured convertible bonds (with stock acquisition rights) issued on June 19, 2015 are convertible at ¥1,131.7 ($8.48) 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, 2023 were summarized as follows:

| Year ending March 31, | *Millions of yen* | *Thousands of U.S. dollars* |
|---|---|---|
| 2024 | ¥ 10,680 | $ 79,982 |
| 2025 | 8,208 | 61,469 |
| 2026 | 804 | 6,021 |
| 2027 | 6,490 | 48,604 |
| 2028 | 241 | 1,805 |
| 2029 and thereafter | 115 | 861 |
| Total | ¥ 26,538 | $ 198,742 |

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

The aggregate annual maturities of lease obligations subsequent to March 31, 2023 were summarized as follows:

| Year ending March 31, | *Millions of yen* | *Thousands of U.S. dollars* |
|---|---|---|
| 2024 | ¥ 914 | $ 6,845 |
| 2025 | 913 | 6,838 |
| 2026 | 898 | 6,725 |
| 2027 | 815 | 6,104 |
| 2028 | 784 | 5,871 |
| 2029 and thereafter | 1,273 | 9,533 |
| Total | ¥ 5,597 | $ 41,916 |

The assets pledged as collateral for notes and accounts payable-trade of ¥50 million ($374 thousand), long-term loans and the current portion of long-term loans of ¥369 million ($2,763 thousand) and guarantee deposits from lessees included in other (long-term liabilities) of ¥397 million ($2,973 thousand) were as follows:

| | *Millions of yen* | *Thousands of U.S. dollars* |
|---|---|---|
| Merchandise and products | ¥ 43 | $ 322 |
| Land | 239 | 1,790 |
| Buildings and structures – net of accumulated depreciation | 782 | 5,856 |
| Total | ¥ 1,064 | $ 7,968 |

In order to achieve more efficient and flexible financing, the Group has concluded bank overdraft agreements with 21 banks and line-of-credit agreements with 10 banks. Total committed lines of credit under such agreements amounted to ¥111,600 million ($835,767 thousand) and full amount was available as of March 31, 2023.

## 8. Retirement Benefit Plans

1. Outline of retirement benefits for employees

The Company and 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 to provide for employee retirement benefits. In addition, an extra retirement allowance may be paid when an employee retires.

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.

2. Defined benefit plan (excluding simplified method)

(1) The changes in the retirement benefit obligation during the years ended March 31, 2023 and 2022 are as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2023** | 2022 | **2023** |
| Retirement benefit obligation at the beginning of the year | **¥ 13,699** | ¥ 14,291 | **$ 102,591** |
| Service cost | **332** | 344 | **2,486** |
| Interest cost | **27** | 28 | **202** |
| Actuarial gain (loss) | **2** | (113) | **15** |
| Retirement benefit paid | **(867)** | (851) | **(6,492)** |
| Retirement benefit obligation at the end of the year | **¥ 13,193** | ¥ 13,699 | **$ 98,802** |

**8. Retirement Benefit Plans (continued)**

2. Defined benefit plan (excluding simplified method) (continued)

(2) The changes in plan assets at fair value during the years ended March 31, 2023 and 2022 are as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2023** | 2022 | **2023** |
| Plan assets at fair value at the beginning of the year | **¥ 6,294** | ¥ 6,485 | **$ 47,135** |
| Expected return on plan assets | **113** | 123 | **846** |
| Actuarial gain (loss) | **(193)** | (58) | **(1,445)** |
| Contribution by the Company | **186** | 187 | **1,393** |
| Retirement benefit paid | **(442)** | (443) | **(3,310)** |
| Plan assets at fair value at the end of the year | **¥ 5,958** | ¥ 6,294 | **$ 44,619** |

(3) 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, 2023 and 2022 are as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2023** | 2022 | **2023** |
| Funded retirement benefit obligation | **¥ 7,300** | ¥ 7,570 | **$ 54,669** |
| Plan assets at fair value | **(5,958)** | (6,294) | **(44,619)** |
| | **1,342** | 1,276 | **10,050** |
| Unfunded retirement benefit obligation | **5,893** | 6,129 | **44,133** |
| Net liability for retirement benefit in the balance sheet | **7,235** | 7,405 | **54,183** |
| Liabilities for retirement benefit | **7,235** | 7,405 | **54,183** |
| Net liability for retirement benefit in the balance sheet | **¥ 7,235** | ¥ 7,405 | **$ 54,183** |

## 8. Retirement Benefit Plans (continued)

2. Defined benefit plan (excluding simplified method) (continued)

(4) The components of retirement benefit expense for the years ended March 31, 2023 and 2022 are as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2023** | 2022 | **2023** |
| Service cost | **¥ 332** | ¥ 345 | **$ 2,486** |
| Interest cost | **27** | 28 | **202** |
| Expected return on plan assets | **(113)** | (123) | **(846)** |
| Amortization of actuarial loss | **395** | 388 | **2,959** |
| Amortization of prior service cost | **(3)** | 21 | **(23)** |
| Retirement benefit expense | **¥ 638** | ¥ 659 | **$ 4,778** |

(5) The components of remeasurements of defined benefit plans included in other comprehensive income (before tax effect) for the years ended March 31, 2023 and 2022 are as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2023** | 2022 | **2023** |
| Prior service cost | **¥ (3)** | ¥ 21 | **$ (23)** |
| Actuarial loss | **200** | 444 | **1,498** |
| Total | **¥ 197** | ¥ 465 | **$ 1,475** |

(6) The components of remeasurements of defined benefit plans included in accumulated other comprehensive income (before tax effect) as of March 31, 2023 and 2022 are as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2023** | 2022 | **2023** |
| Unrecognized prior service cost | **¥ –** | ¥ 3 | **$ –** |
| Unrecognized actuarial loss | **(904)** | (1,104) | **(6,770)** |
| Total | **¥ (904)** | ¥ (1,101) | **$ (6,770)** |

**8. Retirement Benefit Plans (continued)**

2. Defined benefit plan (excluding simplified method) (continued)

(7) The components of plan assets, by major category, as a percentage of total plan assets as of March 31, 2023 and 2022 are as follows:

| | **2023** | 2022 |
|---|---|---|
| Bonds | **27%** | 28% |
| Stocks | **19** | 15 |
| General accounts | **46** | 53 |
| Other | **8** | 4 |
| 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.

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

| | **2023** | 2022 |
|---|---|---|
| Discount rates | **0.1%-0.2%** | 0.1%-0.2% |
| Expected long-term rates of return on plan assets | **1.7%** | 1.8% |
| Expected rates of salary increase | **0.9%** | 1.6% |

3. Defined benefit plan (simplified method)

(1) The changes in plan assets at fair value during the year ended March 31, 2023 and 2022 are as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2023** | 2022 | **2023** |
| Plan assets at fair value at the beginning of the year | **¥ 42** | ¥ 38 | **$ 315** |
| Retirement benefit expense | **(31)** | 4 | **(232)** |
| Contribution to the pension plan | **22** | – | **165** |
| Plan assets at fair value at the end of the year | **¥ 33** | ¥ 42 | **$ 248** |

## 8. Retirement Benefit Plans (continued)

3. Defined benefit plan (simplified method) (continued)

(2) The changes in retirement benefit obligation at fair value during the years ended March 31, 2023 and 2022 are as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2023** | 2022 | **2023** |
| Retirement benefits obligation at fair value at the beginning of the year | **¥ 45** | ¥ 43 | **$ 337** |
| Retirement benefit expense | **4** | 5 | **30** |
| Retirement benefit paid | **(0)** | (3) | **(0)** |
| Retirement benefit obligation at the end of the year | **¥ 49** | ¥ 45 | **$ 367** |

(3) 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, 2023 and 2022 are as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2023** | 2022 | **2023** |
| Funded retirement benefit obligation | **¥ 288** | ¥ 284 | **$ 2,157** |
| Plan assets at fair value | **(272)** | (280) | **(2,037)** |
| | **16** | 4 | **120** |
| Net liability for retirement benefit in the balance sheet | **16** | 3 | **120** |
| Liability for retirement benefit | **49** | 45 | **367** |
| Assets for retirement benefit | **(33)** | (42) | **(247)** |
| Net liability for retirement benefit in the balance sheet | **¥ 16** | ¥ 3 | **$ 120** |

**8. Retirement Benefit Plans (continued)**

3. Defined benefit plan (simplified method) (continued)

(4) The retirement benefit expense for the years ended March 31, 2023 and 2022 are as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2023** | 2022 | **2023** |
| Retirement benefit expense calculated by simplified method | **¥ 35** | ¥ 1 | **$ 262** |

4. Defined contribution pension plan

The Company and certain consolidated subsidiaries charged contributions of ¥2,271 million ($17,007 thousand) and ¥2,333 million to the defined contribution pension plans to income for the years ended March 31, 2023 and 2022, respectively.

5. Multi-employer pension plan

The Company paid contributions of ¥289 million ($2,164 thousand) and ¥308 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, 2023 and 2022, respectively.

(1) The recent funding status of multi-employer plan for the year ended June 30, 2022 and 2021 are as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2023** | 2022 | **2023** |
| Plan assets | **¥ 77,272** | ¥ 62,838 | **$ 578,687** |
| Total of the amount of actuarial obligations under pension funding program and minimum policy reserves | **(75,264)** | (61,220) | **(563,649)** |
| Difference | **¥ 2,008** | ¥ 1,618 | **$ 15,038** |

(2) Ratio of Group contributions to total contributions in the multi-employer pension plan are 1.5% and 1.7% in 2023 and 2022, respectively.

**8. Retirement Benefit Plans (continued)**

5. Multi-employer pension plan (continued)

(3) Supplemental information

The main component of the difference in Note (1) is retained earnings of ¥390 million ($2,921 thousand) and ¥428 million, general reserve of ¥1,618 million ($12,117 thousand) and ¥1,190 million for the years ended March 31, 2023 and 2022, 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 of the Group contributions referred to Note (2) does not correspond to the actual contribution of the Group.

**9. Income Taxes**

The effective tax rates for the years ended March 31, 2023 and 2022 differed from the corresponding statutory tax rates for the following reasons:

| | **2023** | 2022 |
|---|---|---|
| Statutory tax rates: | **30.6%** | 30.6% |
| Expenses not deductible for income tax purposes | **0.8** | 0.5 |
| Inhabitants' per capita taxes | **2.3** | 1.9 |
| Change in valuation allowance | **(2.2)** | 0.6 |
| Other, net | **1.1** | 0.1 |
| Effective tax rates | **32.6%** | 33.7% |

## 9. Income Taxes (continued)

The significant components of the deferred tax assets and liabilities of the Group as of March 31, 2023 and 2022 were summarized as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2023** | 2022 | **2023** |
| Deferred tax assets: | | | |
| Depreciation | **¥ 2,585** | ¥ 2,335 | **$ 19,359** |
| Allowance for doubtful receivables | **312** | 329 | **2,337** |
| Provision for bonuses | **1,722** | 1,732 | **12,896** |
| Accrued legal welfare expense | **269** | 271 | **2,015** |
| Impairment loss | **5,662** | 6,022 | **42,402** |
| Liability for retirement benefits | **2,259** | 2,310 | **16,918** |
| Enterprise tax payable | **422** | 178 | **3,160** |
| Contract liability | **2,231** | 2,970 | **16,708** |
| Unrealized loss on revaluation of land acquired by merger | **1,391** | 1,391 | **10,417** |
| Asset retirement obligations | **3,309** | 3,124 | **24,781** |
| Net operating tax loss carryforwards (Note) | **310** | 322 | **2,321** |
| Other | **5,027** | 4,772 | **37,647** |
| Total gross deferred tax assets | **25,499** | 25,756 | **190,961** |
| Valuation allowance for net operating loss carryforwards (Note) | **(301)** | (314) | **(2,254)** |
| Valuation allowance for deductible temporary differences | **(4,991)** | (5,326) | **(37,378)** |
| Total valuation allowance | **(5,292)** | (5,640) | **(39,632)** |
| Total deferred tax assets | **20,207** | 20,116 | **151,329** |
| Deferred tax liabilities: | | | |
| Reserve for reduction entry of buildings | **(106)** | (107) | **(794)** |
| Retirement cost corresponding to asset retirement obligations | **(936)** | (954) | **(7,010)** |
| Net unrealized gain on other securities | **(95)** | (102) | **(711)** |
| Other | **(883)** | (739) | **(6,613)** |
| Total deferred tax liabilities | **(2,020)** | (1,902) | **(15,128)** |
| Net deferred tax assets | **¥ 18,187** | ¥ 18,214 | **$ 136,201** |

## 9. Income Taxes (continued)

(Note) A breakdown of net operating loss carryforwards and valuation allowance by expiry date as of March 31, 2023 is as follows:

| | *Millions of yen* | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2024** | **2025** | **2026** | **2027** | **2028** | **2029 and thereafter** | **Total** |
| Expiration schedule as of March 31, 2023 | | | | | | | |
| Net operating loss carryforwards (*1) (*2) | ¥ 26 | ¥ 1 | ¥ 0 | ¥ 21 | ¥ 5 | ¥ 257 | ¥ 310 |
| Valuation allowance | (17) | (1) | (0) | (21) | (5) | (257) | (301) |
| Deferred tax assets | 9 | – | – | – | – | – | 9 |

| | *Thousands of U.S. dollars* | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2024** | **2025** | **2026** | **2027** | **2028** | **2029 and thereafter** | **Total** |
| Expiration schedule as of March 31, 2023 | | | | | | | |
| Net operating loss carryforwards (*1) (*2) | $ 195 | $ 7 | $ 0 | $ 157 | $ 37 | $ 1,925 | $ 2,321 |
| Valuation allowance | (128) | (7) | (0) | (157) | (37) | (1,925) | (2,254) |
| Deferred tax assets | 67 | – | – | – | – | – | 67 |

(*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 ¥9 million ($67 thousand) for net operating loss carryforwards in the amount of ¥310 million ($2,321 thousand). This resulted from net loss before income tax recorded by some subsidiaries and deferred tax assets due to the net operating loss carryforwards 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 related to interest rate 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, 2023 and 2022 were shown in the following table.

| | *Millions of yen* | | | | | |
|---|---|---|---|---|---|---|
| | **2023** | | | 2022 | | |
| | **Carrying value** | **Estimated fair value** | **Difference** | Carrying value | Estimated fair value | Difference |
| Assets: | | | | | | |
| Investments in securities, inclusive marketable securities: | | | | | | |
| Other securities (*2) | **¥ 1,729** | **¥ 1,729** | **¥ –** | ¥ 1,855 | ¥ 1,855 | ¥ – |
| Guarantee deposits | **27,049** | **25,549** | **(1,500)** | 26,635 | 25,562 | (1,073) |
| Total assets | **¥ 28,778** | **¥ 27,278** | **¥ (1,500)** | ¥ 28,490 | ¥ 27,417 | ¥ (1,073) |
| Liabilities: | | | | | | |
| Convertible bonds (with stock acquisition rights) (*3) | **¥ 13,824** | **¥ 15,964** | **¥ 2,140** | ¥ 13,831 | ¥ 15,032 | ¥ 1,201 |
| Long-term loans (*3) | **26,538** | **26,552** | **14** | 37,086 | 37,154 | 68 |
| Lease obligations (*3) | **5,597** | **5,549** | **(48)** | 4,485 | 4,571 | 86 |
| Total liabilities | **¥ 45,959** | **¥ 48,065** | **¥ 2,106** | ¥ 55,402 | ¥ 56,757 | ¥ 1,355 |
| Derivatives | **¥ –** | **¥ –** | **¥ –** | ¥ – | ¥ – | ¥ – |

## 10. Financial Instruments (continued)

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

| | *Thousands of U.S. dollars* | | |
|---|---|---|---|
| | **2023** | | |
| | **Carrying value** | **Estimated fair value** | **Difference** |
| Assets: | | | |
| Investments in securities, inclusive marketable securities: | | | |
| Other securities (*2) | **$ 12,948** | **$ 12,948** | **$ –** |
| Guarantee deposits | **202,569** | **191,336** | **(11,233)** |
| Total assets | **$ 215,517** | **$ 204,284** | **$ (11,233)** |
| Liabilities: | | | |
| Convertible bonds (with stock acquisition rights) (*3) | **$ 103,527** | **$ 119,553** | **$ 16,026** |
| Long-term loans (*3) | **198,742** | **198,847** | **105** |
| Lease obligations (*3) | **41,916** | **41,557** | **(359)** |
| Total liabilities | **$ 344,185** | **$ 359,957** | **$ 15,772** |
| Derivatives | **$ –** | **$ –** | **$ –** |

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, which are not included in investments in securities, inclusive marketable securities, as of March 31, 2023 and 2022 are as follows.

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2023** | 2022 | **2023** |
| Unlisted stocks | **¥ 2,191** | ¥ 1,441 | **$ 16,409** |
| Investments in affiliates | **100** | 372 | **749** |

(*3) Long-term loans and lease obligations include the current portion of long-term loans and lease 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, 2023 were as follows:

| | *Millions of yen* | | | |
|---|---|---|---|---|
| | **2023** | | | |
| | **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 | **¥ 9,863** | **¥ –** | **¥ –** | **¥ –** |
| Notes receivable – trade | **34** | **–** | **–** | **–** |
| Notes and accounts receivable – trade | **37,962** | **–** | **–** | **–** |
| Guarantee deposits | **3,636** | **6,272** | **7,954** | **9,187** |
| | **¥ 51,495** | **¥ 6,272** | **¥ 7,954** | **¥ 9,187** |

| | *Thousands of U.S. dollars* | | | |
|---|---|---|---|---|
| | **2023** | | | |
| | **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 | **$ 73,864** | **$ –** | **$ –** | **$ –** |
| Notes receivable – trade | **255** | **–** | **–** | **–** |
| Notes and accounts receivable – trade | **284,296** | **–** | **–** | **–** |
| Guarantee deposits | **27,230** | **46,971** | **59,567** | **68,801** |
| | **$ 385,644** | **$ 46,971** | **$ 59,567** | **$ 68,801** |

Cash and cash equivalents in the table above do not include cash on hand of ¥3,373 million ($25,260 thousand) as of March 31, 2023.

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, 2023 and 2022 are as follows:

| | *Millions of yen* | | | |
|---|---|---|---|---|
| | **2023** | | | |
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Assets: | | | | |
| Investment in securities, inclusive marketable securities: | | | | |
| Other securities | **¥ 1,729** | **¥ –** | **¥ –** | **¥ 1,729** |
| Total assets | **¥ 1,729** | **¥ –** | **¥ –** | **¥ 1,729** |

| | *Millions of yen* | | | |
|---|---|---|---|---|
| | 2022 | | | |
| | 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 |

## 10. Financial Instruments (continued)

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

| | *Thousands of U.S. dollars* | | | |
|---|---|---|---|---|
| | **2023** | | | |
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Assets: | | | | |
| Investment in securities, inclusive marketable securities: | | | | |
| Other securities | **$ 12,948** | **$ –** | **$ –** | **$ 12,948** |
| Total assets | **$ 12,948** | **$ –** | **$ –** | **$ 12,948** |

Financial instruments other than those recorded at fair value on the consolidated balance sheets as of March 31, 2023 and 2022 are as follows:

| | *Millions of yen* | | | |
|---|---|---|---|---|
| | **2023** | | | |
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Assets: | | | | |
| Guarantee deposits | **¥ –** | **¥ 25,549** | **¥ –** | **¥ 25,549** |
| Total assets | **¥ –** | **¥ 25,549** | **¥ –** | **¥ 25,549** |
| Liabilities: | | | | |
| Convertible bonds with stock acquisition rights | **¥ –** | **¥ 15,964** | **¥ –** | **¥ 15,964** |
| Long-term loans | **–** | **26,552** | **–** | **26,552** |
| Lease obligations | **–** | **5,549** | **–** | **5,549** |
| Total liabilities | **¥ –** | **¥ 48,065** | **¥ –** | **¥ 48,065** |

| | *Millions of yen* | | | |
|---|---|---|---|---|
| | 2022 | | | |
| | 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 |

## 10. Financial Instruments (continued)

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

| | *Thousands of U.S. dollars* | | | |
|---|---|---|---|---|
| | **2023** | | | |
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Assets: | | | | |
| Guarantee deposits | **$ –** | **$ 191,336** | **$ –** | **$ 191,336** |
| Total assets | **$ –** | **$ 191,336** | **$ –** | **$ 191,336** |
| Liabilities: | | | | |
| Convertible bonds with stock acquisition rights | **$ –** | **$ 119,553** | **$ –** | **$ 119,553** |
| Long-term loans | **–** | **198,847** | **–** | **198,847** |
| Lease obligations | **–** | **41,557** | **–** | **41,557** |
| Total liabilities | **$ –** | **$ 359,957** | **$ –** | **$ 359,957** |

Notes:

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.

2. Description of valuation techniques used to measure fair value and inputs related to fair value measurement

   Investments in securities

   Fair values of listed stocks and investment trusts are determined by using quoted prices. Fair values of listed stocks and investment trusts 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 stock acquisition rights are categorized as Level 2 because they are not traded in active markets although they have market prices.

## 10. Financial Instruments (continued)

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

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

Long-term borrowings and lease obligations

Fair values are measured using the discounted present value method as if the similar loans are made with 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. They are categorized as Level 2.

## 11. Derivatives

Derivative transactions to which hedge accounting is applied

Interest rate-related transactions:

| | | | *Millions of yen* | | |
|---|---|---|---|---|---|
| | | | **2023** | | |
| **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 | **¥ –** | **¥ –** | **(*)** |

| | | | *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 | (*) |

| | | | *Thousands of U.S. dollars* | | |
|---|---|---|---|---|---|
| | | | **2023** | | |
| **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 | **$ –** | **$ –** | **(*)** |

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 year ended March 31, 2023.

## 12. Shareholders' Equity

Movements in capital stock and treasury shares for the years ended March 31, 2023 and 2022 were summarized as follows:

| | | *Number of shares* | | | |
|---|---|---|---|---|---|
| | | **2023** | | | |
| | Notes | April 1, 2022 | Increase | Decrease | March 31, 2023 |
| Capital stock | | **112,005,636** | **–** | **–** | **112,005,636** |
| Treasury shares | (a) and (b) | **9,714,361** | **3,916,052** | **75,650** | **13,554,763** |

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

Notes:

(a) The increase in treasury shares of 3,916,052 common shares for the year ended March 31, 2023 was due to purchase of 3,914,500 shares in the Tokyo Stock Exchange by resolution of the Board of Directors held on November 4, 2022, 400 shares upon refund of the restricted stock compensation plan and the purchase of 1,152 fractional shares.

(b) The decrease in treasury shares of 75,650 common shares for the year ended March 31, 2023 was due to the disposal of 75,500 treasury shares for the restricted stock compensation plan that was approved at the 17th General Shareholders' Meeting held on June 28, 2018 and the sale of 150 of fractional shares.

(c) 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.

(d) 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.

## 12. Shareholders' Equity (continued)

Movements in stock acquisition rights during the years ended March 31, 2023 and 2022 were summarized as follows:

| | *Thousands of shares* | | | |
|---|---|---|---|---|
| | **2023** | | | |
| | **April 1, 2022** | **Increase** | **Decrease** | **March 31, 2023** |
| Stock acquisition rights attached to convertible bonds due June 19, 2025 (Notes 1 and 2) | **11,930** | **273** | – | **12,203** |
| | – | – | – | – |

| | *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 3) | 93 | – | 93 | – |
| Stock acquisition rights attached to convertible bonds due June 19, 2025 (Notes 1 and 2) | 11,597 | 333 | – | 11,930 |
| | – | – | – | – |

Notes:
1. Stock acquisition rights attached to convertible bonds were not accounted for separately.

2. The increase in stock acquisition rights attached to convertible bonds due June 19, 2025 was due to the adjustment of the conversion price.

3. The decrease in stock acquisition rights attached to convertible bonds due October 1, 2021 was due to the exercise of stock acquisition rights.

## 13. Cost of Sales

Loss (gain) on inventory valuation included in cost of sales was ¥66 million ($494 thousand) and ¥(232) million for the years ended March 31, 2023 and 2022, respectively.

## 14. Impairment Loss

The Group recognized impairment loss of ¥2,434 million ($18,228 thousand) and ¥1,763 million for the years ended March 31, 2023 and 2022, respectively, as follows:

**2023**

| Use | Classification | Location |
|---|---|---|
| Store | Buildings and structures, Tools, furniture and fixtures, and other | Osaka Prefecture and other |
| Other | Goodwill | Osaka Prefecture |

2022

| Use | Classification | Location |
|---|---|---|
| Store | Buildings and structures, Tools, furniture and fixtures, and other | Hyogo 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 |

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, 2023, 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 ¥2,005 million ($15,015 thousand). In addition, a loss on impairment of other was ¥429 million ($3,213 thousand).

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, a loss on impairment of rental property was ¥9 million and loss on impairment of other was ¥894 million.

## 14. Impairment Loss (continued)

For the years ended March 31, 2023 and 2022, the principal components of loss on impairment by asset classification were buildings and structures of ¥1,453 million ($10,881 thousand) and ¥524 million, tools, furniture and fixtures of ¥399 million ($2,988 thousand) and ¥291 million, goodwill of ¥429 million ($3,213 thousand) and ¥718 million, and other of ¥153 million ($1,146 thousand) and ¥230 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 professional appraisals based on real estate appraisal standards. Value in use is measured as the sum of anticipated future cash flows discounted by weighted average costs of capital of 4.6% and 4.4% for property and equipment such as sales stores, and 12.1% and 10.8% for goodwill and other intangible assets such as customer-related assets for the years ended March 31, 2023 and 2022, respectively.

## 15. Other Comprehensive Income

Reclassification adjustments and tax effects for each component of other comprehensive income for the years ended March 31, 2023 and 2022 were as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2023** | 2022 | **2023** |
| **Net unrealized gain on other securities:** | | | |
| Amount arising during the year | **¥ 64** | ¥ 21 | **$ 479** |
| Reclassification adjustments | **(25)** | 9 | **(187)** |
| Before tax effect | **39** | 30 | **292** |
| Tax effect | **13** | (2) | **97** |
| Total | **52** | 28 | **389** |
| **Remeasurements of defined benefit plans:** | | | |
| Amount arising during the year | **(196)** | 55 | **(1,468)** |
| Reclassification adjustments | **393** | 410 | **2,943** |
| Before tax effect | **197** | 465 | **1,475** |
| Tax effect | **(61)** | (144) | **(457)** |
| Total | **136** | 321 | **1,018** |
| Total other comprehensive gain | **¥ 188** | ¥ 349 | **$ 1,407** |

## 16. Leases

The Group utilizes finance leases for store equipment (Buildings and structures). 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, 2023 and 2022 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, while the relevant contracts were terminated for the year ended March 31, 2023:

| | *Millions of yen* | | | | | |
|---|---|---|---|---|---|---|
| | **2023** | | | 2022 | | |
| | **Acquisition cost** | **Accumulated depreciation** | **Net book value** | Acquisition cost | Accumulated depreciation | Net book value |
| Buildings and structures | **¥ –** | **¥ –** | **¥ –** | ¥ 3,924 | ¥ 3,826 | ¥ 98 |

| | *Thousands of U.S. dollars* | | |
|---|---|---|---|
| | **2023** | | |
| | **Acquisition cost** | **Accumulated depreciation** | **Net book value** |
| Buildings and structures | **$ –** | **$ –** | **$ –** |

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, 2023 and 2022 were summarized as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2023** | 2022 | **2023** |
| Lease payments | **¥ 144** | ¥ 216 | **$ 1,078** |
| Depreciation | **98** | 196 | **734** |
| Interest expense | **1** | 3 | **7** |

Future minimum lease payments subsequent to March 31, 2023 for finance leases accounted for as operating leases were nil.

## 16. Leases (continued)

Future minimum lease payments subsequent to March 31, 2023 for non-cancelable operating leases as a lessee were summarized as follows:

| Year ending March 31, | *Millions of yen* | *Thousands of U.S. dollars* |
|---|---|---|
| 2024 | ¥ 5,362 | $ 40,156 |
| 2025 and thereafter | 36,680 | 274,695 |
| Total | ¥ 42,042 | $ 314,851 |

Future minimum lease receipts subsequent to March 31, 2023 for non-cancelable operating leases as a lessor were summarized as follows:

| Year ending March 31, | *Millions of yen* | *Thousands of U.S. dollars* |
|---|---|---|
| 2024 | ¥ 258 | $ 1,932 |
| 2025 and thereafter | 2,669 | 19,988 |
| Total | ¥ 2,927 | $ 21,920 |

## 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* |
|---|---|---|---|
| | **2023** | 2022 | **2023** |
| Increase in asset retirement obligations | **¥ 634** | ¥1,098 | **$ 4,748** |

Leased assets and lease obligations related to finance leases newly entered into during the years ended March 31, 2023 and 2022:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2023** | 2022 | **2023** |
| Leased assets and lease obligations related to finance leases | **¥ 1,912** | ¥2,205 | **$ 14,319** |

## 18. Revenue Recognition

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

| | *Millions of Yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2023** | 2022 | **2023** |
| Revenue arising from contracts with customers | | | |
| Directly managed home appliances store sales | **¥ 663,406** | ¥ 660,171 | **$ 4,968,217** |
| Franchise sales | **24,479** | 25,194 | **183,322** |
| Others | **28,636** | 24,196 | **214,453** |
| | **716,521** | 709,561 | **5,365,992** |
| Lease revenue | **4,063** | 4,207 | **30,428** |
| Other revenue | **4,063** | 4,207 | **30,428** |
| Net sales to external customers | **¥ 720,584** | ¥ 713,768 | **$ 5,396,420** |

(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* |
|---|---|---|---|
| | **2023** | 2022 | **2023** |
| Beginning balance- | | | |
| Receivables arising from contracts with customers | **¥ 39,665** | ¥ 39,074 | **$ 297,049** |
| Contract liabilities | **29,399** | 28,255 | **220,168** |
| Ending balance- | | | |
| Receivables arising from contracts with customers | **37,996** | 39,665 | **284,550** |
| Contract liabilities | **28,653** | 29,399 | **214,581** |

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 the advance received. Contract liabilities are reversed as revenue is recognized.

Revenue recognized during the years ended March 31, 2023 and 2022 included in the balance of contract liabilities at the beginning of the respective years amounted to ¥23,599 million ($176,732 thousand), and ¥22,194 million, respectively.

The main reason for the decrease in contract liabilities by ¥746 million ($5,587 thousand) in the year ended March 31, 2023 is the decrease in advances received due to the decrease in the balance of unshipped products at the end of the year.

The main reason for the increase in contract liabilities by ¥1,144 million 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.

**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 (continued)

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* |
|---|---|---|---|
| | **2023** | 2022 | **2023** |
| Less than 1 year | **¥ 21,673** | ¥ 22,633 | **$ 162,308** |
| More than 1 year but less than 2 years | **4,065** | 3,877 | **30,443** |
| More than 2 years but less than 3 years | **1,041** | 1,023 | **7,796** |
| More than 3 years | **1,874** | 1,866 | **14,034** |
| Total | **¥ 28,653** | ¥ 29,399 | **$ 214,581** |

**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, 2023 and 2022 has been omitted.

Impairment loss for all segments was recorded in the amounts of ¥2,434 million ($18,228 thousand) and ¥1,763 million for the years ended March 31, 2023 and 2022, respectively.

Amortization of goodwill for all segments was recorded in the amounts of ¥405 million ($3,033 thousand) and ¥695 million for the years ended March 31, 2023 and 2022, respectively. Remaining balance of goodwill for all segments was recorded in the amounts of ¥1,620 million ($12,132 thousand) and ¥2,455 million as of March 31, 2023 and 2022, 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, 2023 and 2022 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, 2023 and 2022 has been omitted.

## 19. Segment Information (continued)

As there was no property and equipment located overseas, the disclosure of property and equipment by geographical region as of March 31, 2023 and 2022 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, 2023 and 2022 has been omitted.

## 20. Related Party Transactions

(a) Principal transactions between the Company and related parties during the years ended March 31, 2023 and 2022 were summarized as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2023** | 2022 | **2023** |
| DAIICHI Co., Ltd.: | | | |
| Sales of shares of an affiliated company | **¥ –** | ¥ 30 | **$ –** |
| Masataka Kubo: | | | |
| Disposition of treasury stock | **38** | 39 | **285** |
| Kazutoshi Tomonori: | | | |
| Advisory fee | **24** | 24 | **180** |

No outstanding balances with DAIICHI Co., Ltd., Masataka Kubo and Kazutoshi Tomonori as of March 31, 2023 and 2022, respectively.

DAIICHI Co., Ltd. is a majority owned company by a director and the director's relatives, located in Hiroshima City, Hiroshima Prefecture. Masataka Kubo is a President of the Company, and Kazutoshi Tomonori is an advisor of the Company as of March 31, 2023 and 2022, respectively.

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, 2023 and 2022 were omitted because of immateriality involved.

## 21. Business Combination

### Business combination under common control

Nwork Co., Ltd, ‘a consolidated subsidiary of the Company, absorbed and merged with Hampstead Co., Ltd, a former consolidated subsidiary of the Company, effective on October 1, 2022.

1. Outline of the business combination

(1) Name and business description of acquired company

i. Surviving company

Name of company: Nwork Co., Ltd
Business description: Operation and development of IT systems

ii. Absorbed company

Name of company: Hampstead Co., Ltd
Business description: System development and digital marketing business

(2) Date of the business combination

October 1, 2022 (Effective date)

(3) Legal form of the business combination

Absorption-type merger treating Nwork Co., Ltd. as a surviving company and Hampstead Co., Ltd. as an absorbed company

(4) Company name after the business combination

EDION Cross Ventures Co., Ltd.

## 21. Business Combination (continued)

1. Outline of the business combination (continued)

   (5) Outline for the business combination including reasons for the transaction

   The Company has been promoting in-house system development along with implementation of DX in order to provide “new purchase experiences” as part of the Medium-Term Management Vision and we have been working to achieve this goal. With this merger, the strengths of each company in such areas of infrastructure, hardware, digital marketing and creative production are integrated, enabling seamless and speedy system development.

   We will consider revision to the current policies for recruitment standards and salary levels along with speeding up in-house system development, and establish an organizational structure that enables to actively recruit the talents with IT and digital capabilities in Japan and abroad who are essential for the implementation of DX.

2. Outline of the accounting treatment

   The merger is accounted for as transactions under common control in accordance with “Accounting Standard for Business Combinations” (ASBJ No. 21 issued on January 16, 2019) and “Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10 issued on January 16, 2019).

## 22. Subsequent Events

### 1. Distribution of retained earnings of the Company

The following distribution of retained earnings at March 31, 2023 was approved at the Company’s annual general meeting of shareholders held on June 29, 2023:

| | *Millions of yen* | *Thousands of U.S. dollars* |
|---|---|---|
| Year-end cash dividends of ¥22.00 ($0.16) per share | **¥ 2,166** | **$ 16,221** |

### 2. Acquisition of shares through a third party allotment of equity-method affiliate

Sanfrecce Hiroshima FC Co., Ltd., the Company’s equity-method affiliate, has resolved at its extraordinary shareholders meeting held on July 27, 2023 to issue new shares through a third party allotment and the Company has undertaken a part of the allotment. Due to the acquisition, Sanfrecce Hiroshima Co., Ltd. will become the Company’s consolidated subsidiary.

**22. Subsequent Events (continued)**

**2. Acquisition of shares through a third party allotment of equity-method affiliate (continued)**

**Outline of business combination**

(1) Name and description of business of acquired company

Name: Sanfrecce Hiroshima FC Co., Ltd.
Description of business: Management of a professional football club

(2) Major reasons for business combination

We have been focusing on the activities that contribute to local community through sports, and we have been supporting Sanfrecce Hiroshima Co., Ltd. together with other local companies since its establishment.

We decided to undertake the third party allotment since we believe that the capital increase is essential for Sanfrecce Hiroshima Co., Ltd. to further develop as a local community-based football club.

We believe that such activities closely connected to local community will contribute to enhancing the enterprise value of the Group given that market share of the Company is particularly high in in Chugoku and Shikoku region.

(3) Dates of the business combination

September 30, 2023 (Scheduled)

(4) Legal form of the business combination

Acquisition of shares through a third party allotment

(5) Company name after the business combination

There will be no change

## 22. Subsequent Events (continued)

### 2. Acquisition of shares through a third party allotment of equity-method affiliate (continued)

(6) Percentage of voting rights to be acquired

Voting rights before business combination: 46.96%
Voting rights acquired on the date of business combination: 29.14%
Voting rights after business combination: 76.10%

(The ratio of voting rights to be additionally acquired due to acquisition of shares and the ratio of voting rights after the acquisition of shares may vary depending on the circumstances of other shareholders.)

(7) Major reason for determination of acquirer

This is due to the fact that Company acquires the shares of the acquired company in exchange for cash

(8) Acquisition cost of the acquired company and its breakdown by types of consideration

| | |
|---|---|
| Fait value of equity interests held before business combination on the date of business combination: | Undetermined |
| Consideration of the shares to be additionally acquired on the date of the business combination: | ¥1,500 million |
| Acquisition cost: | Undetermined |

(9) Difference between the acquisition cost of the acquired company and the aggregate amount of acquisition cost by transaction related to the acquisition

Undetermined

(10) Details and amounts of major acquisition-related expenses

Undetermined

(11) Amount of goodwill recognized, reason of its recognition, and method and period of amortization

Undetermined

(12) Amounts of assets and liabilities to be acquired and major items of them

Undetermined