# Summary of Financial Statements of the First Quarter Ended June 30, 2021
[Japan GAAP] (Consolidated)

August 6, 2021

Name of the Company: DESCENTE LTD.
Listed Exchange: TSE
Code No.: 8114
URL: https://www.descente.co.jp
Representative: Shuichi Koseki, President and Representative Director
Person responsible for inquiry: Akira Tsuchihashi, Director, Managing Executive Officer (TEL)+81-3-5979-6111
Scheduled Date of Submission of Quarterly Report: August 10, 2021
Scheduled Date of Dividend Payments: -
Preparation of Supplementary Financial Statements: Yes
Holding of Financial Results Briefing: Yes (For institutional investors and securities analysts)

(Note: Amounts less than one million yen are rounded down)

## 1. Consolidated Results for the First Quarter Ended June 30, 2021 (April 1, 2021 - June 30, 2021)

### (1) Consolidated Operating Results (Cumulative)

(Percentages indicate year-on-year changes.)

| | Net sales | | Operating income | | Ordinary income | | Profit attributable to owners of parent | |
|---|---|---|---|---|---|---|---|---|
| | Yen in millions | % | Yen in millions | % | Yen in millions | % | Yen in millions | % |
| First Quarter of Fiscal Year Ending March 2022 | 22,481 | 44.5 | 1,032 | - | 1,561 | - | 1,133 | - |
| First Quarter of Fiscal Year Ending March 2021 | 15,553 | △47.2 | △3,159 | - | △3,149 | - | △2,018 | - |

(NOTE) Comprehensive income : 1Q of FY 2021 - 2,976 million yen (-%), 1Q of FY2020 - △4,354 million yen

| | Quarter net income per share | Quarter diluted net income per share |
|---|---|---|
| | Yen | Yen |
| First Quarter of Fiscal Year Ending March 2022 | 15.03 | - |
| First Quarter of Fiscal Year Ending March 2021 | △26.76 | - |

### (2) Consolidated financial position

| | Total assets | Net assets | Equity Ratio |
|---|---|---|---|
| | Yen in millions | Yen in millions | % |
| First Quarter of Fiscal Year Ending March 2022 | 106,588 | 80,072 | 75.1 |
| FY ended March 31, 2021 | 107,987 | 77,963 | 72.2 |

(Reference) Equity: 1Q of FY 2021 - 80,072 million yen, FY 2020 - 77,963 million yen

## 2.Dividend Status

| | Annual cash dividend per share | | | | |
|---|---|---|---|---|---|
| | End of the 1st quarter | End of the 2nd quarter | End of the 3rd quarter | End of the 4th Quarter | Total |
| | Yen | Yen | Yen | Yen | Yen |
| FY ended March 31, 2021 | - | 0.00 | - | 0.00 | 0.00 |
| FY ended March 31, 2022 | - | | | | |
| FY ended March 31, 2022 (Forecast) | | 0.00 | - | 20.00 | 20.00 |

(NOTE)Revisions to the most recently announced dividend forecasts: Yes

## 3. Consolidated earnings forecast for the fiscal year ending March 31, 2022 (April 1, 2021 - March 31, 2022)

(%, YoY)

| | Net sales | | Operating income | | Ordinary income | | Profit attributable to owners of parent | | Per share Net income |
|---|---|---|---|---|---|---|---|---|---|
| | Yen in millions | % | Yen in millions | % | Yen in millions | % | Yen in millions | % | Yen |
| First half of fiscal year | 50,000 | 16.6 | 1,600 | - | 3,100 | - | 2,000 | - | 26.51 |
| Full year | 103,000 | 6.3 | 4,250 | - | 6,800 | - | 5,000 | △0.8 | 66.26 |

(NOTE) Revisions to the consolidated forecasts most recently announced: Yes

※ Notes

(1) Changes of important subsidiaries during the period : None

(changes in specified subsidiaries resulting in change in scope of consolidation)

New — Exclude —

(2) Application of particular accounts procedures to the preparation of quarterly consolidated financial statements: Yes

(NOTE)For details, please refer to "(3) Note on quarterly Consolidated Financial Statements" on page 9 of the attached material.

(3) Changes in accounting policies and changes or restatement of accounting estimates

①Changes in accounting policies associated with revision of accounting standards : Yes

②Changes in accounting policies other than (i) : None

③Changing in accounting estimates : None

④Restatement of revisions : None

(4) Number of shares issued and outstanding common stock

| | | | | |
|---|---|---|---|---|
| ①Number of shares issued and outstanding at the end of fiscal year (including treasury stock) | 1Q of FY2021 | 76,924,176 | FY2020 | 76,924,176 |
| ②Number of treasury stock at fiscal end | 1Q of FY2021 | 1,468,931 | FY2020 | 1,467,517 |
| ③Average number of shares during the period (quarterly consolidated cumulative period) | 1Q of FY2021 | 75,456,270 | FY2020 | 75,434,073 |

※ Summary of financial statement is not subject to procedures by independent auditors or firms

※ Explanation of appropriate use of business performance forecasts and other special items

(Notes on future descriptions)

The earnings forecasts and other forward-looking statements herein are based on information currently available to us and certain assumptions that we believe to be reasonable, and are not intended to guarantee the result of the forecasts. Actual results may differ materially from the forecast depending on a range of factors. Please refer to "(3) Explanation of Future Forecast Information such as Consolidated Performance Forecasts" on page 4 of the quarterly financial results for the assumptions on which the earnings forecasts are based and notes on the use of the earnings forecasts.

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1. Qualitative Information on the Quarterly Consolidated Performance

(1) Explanation of Operating Results

As a result of the reoccurrence of the due to the state of emergency mainly in the Tokyo metropolitan area on April 25, the impact of the COVID-19 infection (hereafter, “COVID-19”) remained, as some stores were closed and operations were shortened. However, the sales recovered significantly from the previous year, when the impact of the COVID-19 was greatest in all areas. As a result, net sales in the first quarter of the fiscal year under review was 22,481 million yen, 44.5% increase from the previous year. Gross profit was 13,259 million yen, 53.2% increase from previous year as net sales increased.

Selling, general and administrative (hereinafter, “SG&A”) expenses increased 3.5% compared with the previous fiscal year to 12,227 million yen, due to higher rents in Japan due to an increase in the number of operating stores and higher sales commissions and rents linked to the recovery in sales in South Korea, despite a reduction in personnel expenses resulting from voluntary retirements implemented in Japan. However, operating income was 1,032 million yen (previous year: operating loss of 3,159 million yen), an increase of 4,191 million yen from previous year due to higher gross profit.

In addition to an increase of operating income, due to a recovery in the performance of our equity method affiliates; LE COQ SPORTIF (NINGBO) CO, LTD. (hereinafter “LCN”), and ARENA (SHANGHAI) INDUSTRIAL CO, LTD. (hereinafter, ASH), which operates “le coq sportif” and “arena” brands, and also continuing performance of Descente China Holding Limited (hereinafter “DCH”), operating “DESCENTE” brand, ordinary income was 1,561 million yen (previous year: ordinary loss of 3,149 million yen) an increase of 4,711 million yen from previous year.

As a result, net sales for the first quarter were 22,481 million yen (44.5% increase over previous year), operating income was 1,032 million yen (previous year: operating loss of 3,159 million yen), ordinary income was 1,561 million yen (previous year: ordinary loss of 3,149 million yen). With income tax of 477 million yen, quarterly profit attributable to owners of parent was 1,133 million yen (previous year: quarterly net loss of 2,018 million yen).

The business results of the reportable segment are as follows. The fiscal year end of major overseas subsidiaries is December, and the business results for each segment do not include figures for equity method affiliates.

(Net Sales by Segments)

| Segment | Net sales (Yen in millions)<br>(Year-on-year quarter) | Segment Income or Loss (Yen in millions)<br>(Year-on-year quarter) |
|---|---|---|
| Japan | 9,767<br>(192.1%) | 174<br>(previous year: △2,595 million yen) |
| South Korea | 11,737<br>(125.2%) | 762<br>(previous year: △494 million yen) |
| China | 975<br>(111.4%) | 107<br>(previous year: △34 million yen) |
| Others | -<br>- | △0<br>(previous year: △40 million yen) |
| Adjustments | - | △13<br>(previous year:5 million yen) |
| Total | 22,481<br>(144.5%) | 1,032<br>(previous year: 3,159 million yen) |

(Japan)

In the first quarter, Japan segment's net sales increased significantly by 4,684 million yen compared with previous year due to an increase in net sales and a decrease in product returns and discounts.

The business of directly managed stores and department stores continued to be affected by the reoccurrence of the due to the state of emergency mainly in the Tokyo metropolitan area. However, the number of stores able to operate through thorough measures to prevent infectious diseases increased compared with the previous fiscal year, which led to an increase in sales. Among brands, “DESCENTE” and” le coq sportif” are the main drivers of sales. In addition, golf categories performed well, particularly in Japan, as the popularity of golf increased, resulting in a 176% increase in sales compared to previous year. As a consequence, segment net sales increased significantly in the first quarter.

One of the key strategies of our new mid-term management plan “D-Summit 2023” announced in May 2021, is to improve profitability in Japan business. As part of our effort to achieve this, we are implementing manufacturing and controlling production volume to meet customer needs. By reducing product returns and discounts, which had been a factor behind the decline in net sales, we greatly reduced losses. As a consequence, segment net sales rose 92% compared with the previous year to 9,767 million yen.

With the growth in net sales, gross profit margin in this segment also increased compared to the first quarter of previous year and also FY2019, a year before the spread of COVID-19. Furthermore, the SG&A expense ratio has been continuously decreasing in the last 2 years due to the reduction in advertising and sales promotion expenses and other expenses, which we have been continuously working on since the previous year, and the reduction in personnel expenses due to the voluntary retirements which were implemented to improve profitability in Japan. Consequently, the segment recorded a profit of 174 million yen (an increase of 2,769 million yen from previous year, 1,660 million yen increase compared with FY 2019). As digestion of inventory is also in steady progress, we made a smooth start toward improving the profitability of our Japan business.

Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) and Accounting Policy on Accounting Standard for Revenue Recognition (ASBJ No. 30, March 31, 2020) has been applied since the beginning of the first quarter of this fiscal year. For details, please refer to; 2. Quarterly Consolidated Financial Statements and Major Notes (3) Note on quarterly Consolidated Financial Statements, (Changes in Accounting Policies). As a result of adopting revenue recognition accounting standards, net sales had increased by 395 million yen, and operating profit, ordinary profit, profit before income taxes had decreased by 154 million yen.

(South Korea)

As net sales in South Korea in the first quarter of the previous year had the biggest impact by COVID-19, net sales in this quarter increased significantly due to a sales recovery from less impact by COVID-19. The sales were mainly driven by “DESCENTE”, and also outerwear sales were strong. In addition, “DESCENTE” brand running shoes “ENERZITE Z+” and the golf shoes “R90” developed by our shoe R&D base DISC BUSAN were well received as the shoes suited well for South Korea consumers’ feet and provide comfortable cushioning. Furthermore, marketing activities on social media and TV advertising contributed significantly to enhance brand awareness. Sales of other brands such as “le coq sportif" and “Munsingwear” also recovered steadily from previous year, and sales of “umbro” expanded further from the previous year.

In addition, the SG&A expense ratio declined from the previous fiscal year in line with the increase in sales, resulting in a significant increase in segment income.

(China)

A consolidated subsidiary, SHANGHAI DESCENTE COMMERCIAL CO., LTD., recorded higher sales and income, which included in segment income. They recovered from the impact of COVID-19 and performed well for both “Munsingwear” and “arena”, resulting in a significant increase in net sales from previous year. As for HONG KONG DESCENTE TRADING, LTD.,' wholesale business to Southeast Asia was transferred to Japan from the current fiscal year, resulting in a decrease in net sales from previous year. In Hong Kong, however, restrictions due to the COVID-19 have been relaxed, and consumers' appetite for purchasing has been recovering. Directly managed and wholesale operations in the Hong Kong area are performing well. Due to a continuous action on reduction of SG&A expenses, operating profit had increased from previous year.

Although not included in segment income, LCN, ASH and DCH, our equity method affiliates, continued to perform well with increases in both sales and profits.

Net sales by Street are as follows.

(Net sales by Item)

| Classification | Amount | Percentage of total | Comparison with the same quarter of the previous year |
|---|---|---|---|
| | Yen in millions | % | % |
| Athletic wear and related products | 14,289 | 63.6 | 131.1 |
| Golf wear and related products | 6,638 | 29.5 | 174.5 |
| Outdoor wear and related products | 1,552 | 6.9 | 183.1 |
| Total | 22,481 | 100.0 | 144.5 |

(Athletic Wear and Related Products)

In Japan, South Korea and China, the impact of COVID-19 became smaller, and as events and competitions restarted, sporting opportunities increased. As a result, sales increased for all brands. In particular, the “arena” brand which struggled in the previous fiscal year due to the closure of pools and other factors, with the high-recognition by swimmers, sales recovered in all areas this fiscal year. Consequently, net sales in the athletic wear category increased 31% over previous year to 14,289 million yen.

(Golf Wear and Related Products)

In addition to the decline in the impact of COVID-19 in all areas, due to the growing popularity of golf in Japan and South Korea since the spread of COVID-19, the golf wear category's net sales increased 75% from previous year to 6,638 million yen.

(Other Topics)

In our new midterm management plan “D-Summit 2023”, we have set the following key strategies with the aim to generate stable earnings in the 3 markets: I. Implement strategies by regions for Japan, South Korea, and China, II. Improve profitability of Japan business, and III. Enhance our manufacturing capabilities. During this first quarter, we had bright topics despite the difficulties facing society as a whole due to COVID-19. For example, Shohei Ohtani (baseball), a contract player of the “DESCENTE” brand, played an active role in the major leagues. Hideki Matsuyama (golf), a contract player of the “Srixon by DESCENTE” brand, won The Masters Tournament in the U.S. In addition, net sales of our branded products, including apparel worn by these players, increased significantly. This was one of the factors behind our favorable performance.

In Japan business, one of the key efforts to improve revenue is to increase the ratio of Direct To Consumer business (hereinafter “DTCs”) to 50% in the year ending March 2024, but for the first quarter of the current fiscal year, the ratio of DTCs were 23%. In April 2021, we opened 3 directly managed stores of “DESCENTE” brand in the Kanto region. We also utilize our R&D base DISC to enhance our manufacturing capabilities as a DESCENTE group. In Japan we develop and supply racing suits in DISC OSAKA, for Japanese national team of BMX-racing. DISC OSAKA also develops and supplies sportswear for top athletes in golf, swimming, and other competitions. In South Korea, we launched “ENERZITE Z+” running shoes, a product that leverages the expertise we have cultivated in DISC BUSAN, and these products have been well received.

We have identified material issues that are important for the sustainable growth of our business by fulfilling the responsibilities expected from the society. In particular, we are working to reduce inventories as much as possible from the previous year in order to achieve “reduce”, one of the 3Rs. Also, as one of our proactive efforts for environmental initiatives, “Munsingwear” has been working on the “SAVE THE PENGUIN” campaign in Japan since 2019, to protect penguins, a symbol of the brand, by curbing environmental deterioration such as global warming. This year, we have developed polo shirts and other products that use staining methods of reusing wasted food and plants. A portion of sales of the targeted products is being donated to the World Wildlife Fund to preserve the global environment. We also cosponsored an event held by the Sunshine Aquarium (Ikebukuro, Tokyo) in conjunction with World Penguin Day on April 25 to think about the ecology of penguins and the surrounding environment. In South Korea, we conducted “LE:CYCLE” campaigns under the “le coq sportif” brand. It develops recycling wear using recycled materials and conducts environmentally conscious businesses. Furthermore, we have completed switching our electricity in all Japan business sites to use renewable energy-derived electricity, which had been in place since the previous fiscal year. This led to a 30% reduction in carbon dioxide emissions from electricity consumption. In addition, due to the impact of the COVID-19, working styles have been reformed. Most of our office workers in Japan are now able to conduct work from home, and some business sites have adopted a variety of work styles, including free address style. As for our effort of diversity, the average ratio of women in managerial positions at DESCENTE, LTD, DESCENTE JAPAN LTD. and DESCENTE KOREA LTD., the 3 core companies of the Group, is 27%. In particular, we will continue to train women in managerial positions, especially in Japan.

Through the initiatives described above, we will create a system that can respond flexibly to changes in society and increase our resilience as a company, thereby generating stable earnings.

## (2) Explanation of Consolidated Financial Position

Total assets at the end of the first quarter of the current fiscal year were 106,588 million yen, a decrease of 1,399 million yen from the end of the previous fiscal year.

Current assets decreased by 2,685 million yen from the end of the previous fiscal year to 62,682 million yen. This was mainly due to a decrease of 3,427 million yen in cash and deposits, and a change in others, which includes decrease of 863 million yen of accounts receivable-other and increase of 1,364 million yen of returned assets due to the adoption of revenue recognition accounting standards.

Non-current assets increased by 1,286 million yen from the end of the previous fiscal year to 43,905 million yen. This was mainly due to an increase of 135 million yen in buildings and structures (net), and an increase of 1,070 million yen in investment securities included in investments and other assets.

Total liabilities decreased by 3,508 million yen from the end of the previous fiscal year to 26,515 million yen. This was mainly due to a decrease of 1,647 million yen in notes and accounts payable-trade, a decrease of 1,340 million yen in income taxes payable, a decrease of 868 million yen in provision for sales returns.

Net assets increased by 2,109 million yen from the end of the previous fiscal year to 80,072 million yen. This was mainly due to an increase of 269 million yen in retained earnings, which is a result of 864 million yen decrease of beginning balance of retained earnings due to the adoption of revenue recognition accounting standards from 1,133 million yen of quarterly net income attributable to owners of the parent, and an increase of 1,884 million yen in foreign currency translation adjustments.

As a result, the equity ratio increased 2.9% from the end of the previous fiscal year to 75.1%.

(3) Explanation of Future Forecast Information such as Consolidated Performance Forecasts

For the fiscal year ending March 2022, we have upwardly revised the first-half and full-year forecasts based on the situation in which our performance for the first quarter has already exceeded the forecasts for the first-half of the fiscal year ending March 2022, which we announced in May. For details, please refer to “Notice of Revision of Earnings Forecast and Dividend Forecast” disclosed today.

2.Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheet

(Yen in millions)

| | Previous fiscal year (March 31, 2021) | 1Q FY2021 (As of June 30, 2021) |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and deposits | 21,913 | 18,485 |
| Notes and accounts receivable - trade | 15,585 | 15,413 |
| Merchandise and finished goods | 24,372 | 24,615 |
| Work in process | 174 | 185 |
| Raw materials and supplies | 588 | 553 |
| Others | 2,791 | 3,495 |
| Allowance for doubtful accounts | △58 | △66 |
| Total current assets | 65,368 | 62,682 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures, net | 10,906 | 11,042 |
| Others | 14,382 | 13,906 |
| Total property, plant and equipment | 25,289 | 24,948 |
| Intangible assets | 2,206 | 2,155 |
| Investments and other assets | | |
| Investments securities | 9,946 | 11,017 |
| Others | 5,226 | 5,834 |
| Allowance for doubtful accounts | △50 | △50 |
| Total investments and other assets | 15,122 | 16,802 |
| Total non-current assets | 42,619 | 43,905 |
| Total assets | 107,987 | 106,588 |
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable – trade | 11,773 | 10,126 |
| Short-term loans payable | 1,000 | 2,000 |
| Current portion of long-term loans payable | 93 | 99 |
| Income taxes payable | 1,427 | 86 |
| Provision for bonuses | 841 | 351 |
| Provision for sales returns | 868 | - |
| Others | 9,168 | 9,027 |
| Total current liabilities | 25,172 | 21,690 |
| Non-current liabilities | | |
| Long-term loans payable | 373 | 398 |
| Retirement benefit liability | 237 | 309 |
| Others | 4,239 | 4,116 |
| Total non-current liabilities | 4,851 | 4,824 |
| Total liabilities | 30,024 | 26,515 |

(Yen in millions)

| | Previous fiscal year (March 31, 2021) | 1Q FY2021 (As of June 30, 2021) |
|---|---|---|
| Net assets | | |
| Shareholders' equity | | |
| Share Capital | 3,846 | 3,846 |
| Capital surplus | 25,344 | 25,342 |
| Retained earnings | 48,230 | 48,499 |
| Treasury stock | △624 | △624 |
| Total shareholders' equity | 76,796 | 77,062 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 199 | 187 |
| Deferred gains or losses on hedges | △21 | △33 |
| Foreign currency translation adjustment | 561 | 2,445 |
| Remeasurements of defined benefit plans | 427 | 409 |
| Total accumulated other comprehensive income | 1,167 | 3,009 |
| Total net assets | 77,963 | 80,072 |
| Total liabilities and net assets | 107,987 | 106,588 |

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

First Quarter

(Yen in millions)

| | 1Q FY2020 (April 1, 2020 To June 30, 2020) | 1Q FY2021 (April 1, 2021 To June 30, 2021) |
|---|---|---|
| Net sales | 15,553 | 22,481 |
| Cost of sales | 7,151 | 9,221 |
| Gross profit | 8,401 | 13,259 |
| Reversal of provision for sales returns | 253 | - |
| Gross profit – net | 8,655 | 13,259 |
| Selling, general and administrative expenses | 11,815 | 12,227 |
| Operating income or loss (△) | △3,159 | 1,032 |
| Non-operating income | | |
| Interest income | 50 | 44 |
| Dividends income | 25 | 10 |
| Share of profit of entities accounted for using equity method | - | 449 |
| Others | 121 | 64 |
| Total non-operating income | 197 | 569 |
| Non-operating expenses | | |
| Interest expenses | 28 | 17 |
| Loss on retirement of noncurrent assets | 20 | 16 |
| Equity in loss of affiliates | 129 | - |
| Others | 9 | 5 |
| Total non-operating expenses | 187 | 39 |
| Ordinary income or loss (△) | △3,149 | 1,561 |
| Extraordinary gains | | |
| Profit on disposal of business | - | 50 |
| Gain on sales of investment securities | 403 | - |
| Total extraordinary income | 403 | 50 |
| Quarter net income or loss (△) before income taxes and minority interests | △2,745 | 1,611 |
| Income taxes – current | △217 | 50 |
| Income taxes – deferred | △509 | 427 |
| Total income taxes | △727 | 477 |
| Quarterly net income or loss (△) | △2,018 | 1,133 |
| Quarterly net income or loss (△) attributable to owners of the parent | △2,018 | 1,133 |

Quarterly Consolidated Comprehensive Income
First Quarter

(Yen in millions)

| | 1Q FY2020 (April 1, 2020 To June 30, 2020) | 1Q FY2021 (April 1, 2021 To June 30, 2021) |
|---|---|---|
| Quarter net income or loss (△) | △2,018 | 1,133 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | △138 | △11 |
| Deferred gains or losses on hedges | △1 | △12 |
| Foreign currency translation adjustment | △2,058 | 1,321 |
| Remeasurements of defined benefit plans | △33 | △17 |
| Share of other comprehensive income (loss) of entities accounted for using equity method | △103 | 562 |
| Total other comprehensive income | △2,336 | 1,842 |
| Quarterly comprehensive income | △4,354 | 2,976 |
| (Comprehensive income attributable to) | | |
| Comprehensive profit attributable to owners of the parent | △4,354 | 2,976 |

### (3) Note on quarterly Consolidated Financial Statements

(Going Concern Assumptions)

None

(Significant Changes in Shareholders' Equity)

None

(Application of Accounting Treatment Specific to the Preparation of Quarterly Consolidated Statements)

Calculation of tax expenses

For some consolidated subsidiaries, tax expenses are calculated by reasonably estimating the effective tax rate after the application of tax effect accounting to income before income taxes for the consolidated fiscal year including the first quarter under review, and multiplying income before income taxes by such estimated effective tax rate.

Income taxes of these consolidated subsidiaries are included in income taxes, inhabitant taxes and enterprise taxes.

(Changes in Accounting Policies)

(Application of Accounting Standard for Revenue Recognition)

The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020, hereinafter referred to as the "Accounting Standard for Revenue Recognition") and other standards are applied from the beginning of the first quarter of the current fiscal year to recognize revenue when control of promised goods or services is transferred to customers in an amount that is expected to be received in exchange for those goods or services.

In addition, the alternative treatment stipulated in article 98 of the Accounting Standard for Revenue Recognition is applied. When the period from the time of shipment to the time when control of the product is transferred to the customer is normal in the domestic sales of the product, the revenue is recognized at the time of shipment.

Major changes due to the adoption of the Accounting Standard for Revenue Recognition are as follows:

①Revenue recognition on discounts

For merchandise and products for which future sales discounts are expected, the amount of discounts is deducted from sales and a contract liability is recorded. The contract liabilities are included in "Others" of current liabilities.

②Revenue Recognition for Returns

"Provision for sales returns," which was previously recorded as a current liability based on the amount of gross profit, has been changed to a method of not recognizing the amount of net sales and cost of sales for goods and products expected to be returned, and refund liabilities are included in "Others" under current liabilities and returned assets are included in "Others" under current assets.

③Revenue Recognition for Principal Transactions

Revenues related to digestion transactions, mainly for department stores, were previously recognized as revenues based on the amount of consideration received from wholesalers. However, after judging the role in providing goods or services to customers (principal or agent), the Company has changed to a method of recognizing sales prices at stores as revenues.

④Revenue recognition related to the in-house point system

With regard to points granted according to the amount of members' purchases, etc. under the in-house point system, in the past, the amount expected to be used in the future was recorded in "Others" under current liabilities as a provision for points and the amount of provision for reserves was recorded in selling, general and administrative expenses. However, the Company has changed to a method of identifying points granted as performance obligations and deducting them from net sales in consideration of expected future forfeitures, etc.

With regard to the Accounting Standard for Revenue Recognition, in accordance with the transitional treatment stipulated in the provisions of article 84 of the Accounting Standard for Revenue Recognition, the cumulative effect of retrospectively applying the new accounting policy prior to the beginning of the first quarter of the current fiscal year was added to or deducted from retained earnings at the beginning of the first quarter of the current fiscal year, and a new accounting policy was applied from the beginning balance of the current fiscal year. However, the new accounting policy has not been applied retrospectively to contracts for which the method set forth in article 86 of the Accounting Standard for Revenue Recognition has been applied and substantially all revenue amounts have been recognized in accordance with previous treatment prior to the beginning of the first quarter of the current fiscal year.

As a result, net sales increased by 395 million yen, and operating income, ordinary income, and income before income taxes decreased by 154 million yen each. In addition, the balance of retained earnings at the beginning of the fiscal year decreased by 864 million yen.

"Notes and accounts receivable-trade," which had been presented in "Current assets" in the consolidated balance sheet of the previous fiscal year, is included in "Notes, accounts receivable and contract assets" in the consolidated balance sheet of the current fiscal year, since the first quarter of the fiscal year under review, due to the adoption of the Accounting Standard for Revenue Recognition, etc. In accordance with the transitional treatment set forth in article 89-2 of the Revenue Recognition Accounting Standard, no new reclassifications have been made to the prior fiscal year under the new presentation method.

(Application of Accounting Standard for Fair Value Measurement)

The Accounting Standard for Fair Value Measurement, etc. (ASBJ Statement No. 30, July 4, 2019, hereinafter referred to as the "Accounting Standard for Fair Value Measurement") have been applied from the beginning of the first quarter of the current fiscal year, and in accordance with the transitional treatment stipulated in article 19 of the Accounting Standard for Fair Value Measurement and article 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the new accounting policy stipulated by the Accounting Standard for Fair Value Measurements will be applied in the future. This change had no impact on the quarterly consolidated financial statements for the first quarter of the fiscal year under review.

(Segment information, etc.)

I Previous 1Q (From April 1, 2020 to June 30, 2020)

Information on net sales and profits or losses by reported segment

(Yen in millions)

| | Reportable segments | | | | | Adjustment (NOTE 1) | Amount shown on consolidated income statements (NOTE 2) |
|---|---|---|---|---|---|---|---|
| | Japan | South Korea | China | Others | Total | | |
| Net sales | | | | | | | |
| Sales to External Customers | 5,083 | 9,375 | 875 | 218 | 15,553 | - | 15,553 |
| Intersegment Sales of Transfers | 227 | 89 | - | 2 | 319 | △319 | - |
| Total | 5,311 | 9,465 | 875 | 220 | 15,873 | △319 | 15,553 |
| Segment Income (loss) | △2,595 | △494 | △34 | △40 | △3,164 | 5 | △3,159 |
| Other Items | | | | | | | |
| Equity in earnings of affiliates | - | △28 | △84 | - | △112 | △17 | △129 |
| Investments in equity-method affiliates | - | 273 | 1,982 | - | 2,255 | - | 2,255 |

(NOTE 1) Adjustments of 5 million yen in segment income (loss) include inter-segment transaction elimination of 0 yen and adjustments of unrealized gains on inventories of 5 million yen are included.

(NOTE 2) Segment income (loss) is adjusted with operating income in the quarterly consolidated statements of income.

II 1Q Under Review (From April 1, 2021 to June 30, 2021)

1.Information on net sales and profits or losses by reported segment

(Yen in millions)

| | Reportable segments | | | | | Adjustment (NOTE 1) | Amount shown on consolidated income statements (NOTE 2) |
|---|---|---|---|---|---|---|---|
| | Japan | South Korea | China | Others | Total | | |
| Net sales | | | | | | | |
| Sales to External Customers | 9,767 | 11,737 | 975 | - | 22,481 | - | 22,481 |
| Intersegment Sales of Transfers | 165 | 138 | 15 | - | 320 | △320 | - |
| Total | 9,933 | 11,876 | 991 | - | 22,801 | △320 | 22,481 |
| Segment Income (loss) | 174 | 762 | 107 | △0 | 1,045 | △13 | 1,032 |
| Other Items | | | | | | | |
| Equity in earnings of affiliates | - | △43 | 567 | - | 524 | △74 | 449 |
| Investments in equity-method affiliates | - | 160 | 10,671 | - | 10,831 | - | 10,831 |

(NOTE 1) Adjustments of △13 million yen in segment income (loss) includes inter-segment transaction elimination of △0 yen and adjustments of unrealized gains on inventories of △13 million yen are included.

(NOTE 2) Segment income (loss) is adjusted with operating income in the quarterly consolidated statements of income.

2.. Changes in Reportable Segments

As stated in "Changes in Accounting Policies," the Company has applied the Revenue Recognition Accounting Standards, etc. from the beginning of the first quarter of the current fiscal year, and changed the accounting method for revenue recognition. As a result, the method of calculating income or loss for business segments has been changed in the same manner.

As a result of this change, compared with the previous method, net sales in the "Japan" segment for the first quarter of the current fiscal year increased by 395 million yen and segment income decreased by 154 million yen.

## 3.Supplemental Information

Overseas sales

Previous 1st Quarter (From April 1, 2020 to June 30, 2020)

(Yen in millions, %)

| | South Korea | China | Others | Total |
|---|---|---|---|---|
| I Overseas sales | 8,964 | 1,369 | 348 | 10,682 |
| II Consolidated net sales | | | | 15,553 |
| III Percentages of overseas net sales in consolidated net sales | 57.6 | 8.8 | 2.2 | 68.7 |

First Quarter Under Review (From April 1, 2021 to June 30, 2021)

(Yen in millions, %)

| | South Korea | China | Others | Total |
|---|---|---|---|---|
| I Overseas sales | 11,301 | 1,814 | 56 | 13,171 |
| II Consolidated net sales | | | | 22,481 |
| III Percentages of overseas net sales in consolidated net sales | 50.3 | 8.1 | 0.2 | 58.6 |

(NOTE)Net sales are based on the customer's location and classified into countries or regions