

Disclaimer: This is an English AI translation of the original Japanese-language Summary of Financial Statements of DESCENTE LTD. (the Company) and is provided for reference purposes only. Readers are advised that the Company does not guarantee the accuracy of the content contained in this report. In the event of any discrepancy between this translation and the Japanese original, the Japanese original shall prevail.



Summary of Financial Statements for the Second Quarter Ended September 30, 2021
[Japan GAAP] (Consolidated)

November 5, 2021

Listed company name DESCENTE LTD. Listed Exchange TSE
Code No. 8114 URL <http://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: November 10, 2021 Date of Dividend Payments: -
Preparation of Supplementary Financial Statements: Yes
Holding of Financial Results Briefing: Yes (For institutional investors and securities analysts)

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

Consolidated Results for the Second Quarter Ended September 30, 2021 (April 1, 2021-September 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	%
Second Quarter of Fiscal Year Ending March 2022	49,926	16.4	2,714	-	4,005	-	2,487	-
Second Quarter of Fiscal Year Ended March 2021	42,897	△34.9	△2,449	-	△2,077	-	△1,265	-

(NOTE) Comprehensive income: 2Q of FY2021 - 4,720 million yen (-%), 2Q of FY2020 - △3,306 million yen (-%)

	Net income per share	Diluted net income per share
	Yen	Yen
Second Quarter of Fiscal Year Ending March 2022	32.97	-
Second Quarter of Fiscal Year Ended March 2021	△16.78	-

(2) Consolidated financial position

	Total assets	Net assets	Equity Ratio
	Yen in millions	Yen in millions	%
Second Quarter of Fiscal Year Ending March 2022	109,285	81,886	74.9
FY ended March, 2021	107,987	77,963	72.2

(Reference) Equity: 2Q of FY2021 - 81,886 million yen, FY2020 - 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
FY ended March 31, 2021	Yen -	Yen 0.00	Yen -	Yen 0.00	Yen 0.00
FY ending March 31, 2022	-	0.00			
FY ending March 31, 2022 (Forecast)			-	20.00	20.00

(NOTE)Revisions to the most recently announced dividend forecasts: None

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
Full year	103,000	6.3	4,250	-	6,800	-	6,200	23.0	82.16

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

※ Notes

(1) Changes in Significant Subsidiaries during the Cumulative Quarterly Consolidated: None

(Changes in specified subsidiaries accompanied by changes in the scope of Consolidated)

New — Exclude —

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

(NOTE)For details, please refer to “(4) Note on Quarterly Consolidated Financial Statements” on page 11 of the attached material.

(3) Changes in accounting policies, accounting estimates, and restatement

- ① Changes in accounting policies associated with revision of accounting standards : Yes
- ② Changes in accounting policy other than ① : None
- ③ Changing in accounting estimates : None
- ④ Restatement : None

(4) Number of shares issued and outstanding common stock

① Number of shares issued and outstanding at the end of fiscal year (including treasury stock)	2Q of FY2021	76,924,176	FY2020	76,924,176
② Number of treasury stock at fiscal end	2Q of FY2021	1,444,433	FY2020	1,467,517
③ Average number of shares during the period (quarterly consolidated cumulative period)	2Q of FY2021	75,466,371	2Q of FY2020	75,443,813

※ 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 5 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 Results for the First Half Ended September 30, 2021

(1) Explanation of Operating Results

During the cumulative second quarter consolidated, the limitation of sporting opportunity associated with the Company of the COVID-19 infections and the adverse impact on our business continue. In Japan, the fifth wave of COVID-19 arrived and human flows declined in line with the largest-ever spread of infections, resulting in a challenging business climate from late August to September. However, outside the fifth wave period, the business environment was favorable compared to the same quarter of the previous year. South Korea posted higher sales and profits in the first half of the fiscal year under review, despite the impact of climate-related factors such as low temperature and long rain and the intermittent COVID-19 in the second quarter (April - June) of the fiscal year under review. In China, in addition to the recovery from the impact of the COVID-19, net sales for the cumulative second quarter consolidated increased by 16.4% from the same quarter of the previous year to 49,926 million yen. With the growth of net sales, gross profit increased 24.2% year-on-year to 28,696 million yen.

As for SG&A expenses, personnel expenses decreased due to the voluntary retirement program implemented in the previous fiscal year in Japan. On the other hand, there were factors of increase such as increase in the number of stores in Japan as a result of the strategy to expand the DTC business, the implementation of investments in line with the strengthening of e-commerce, and an increase in variable costs such as sales commissions and land rent associated with the recovery in sales in South Korea. As a result, SG&A expenses were almost flat, up 1.7% from the same quarter of the previous fiscal year, to 25,981 million yen. However, due to the growth in gross profit, operating income was 2,714 million yen, an increase of 5,163 million yen from operating loss of 2,449 million yen in the same quarter last year.

In addition to the increase in operating income, regarding "LE COQ SPORTIF(NINGBO) CO., LTD., (hereinafter "LCN") and "ARENA(SHANGHAI)INDUSTRIAL CO., LTD. (hereinafter "ASH"), our equity-method affiliates in China, performance of LCN had recovered from previous year, and ASH had recovered to the level of year before, which was prior to the spread of the COVID-19. In addition, DESCENTE CHINA HOLDING LTD., (hereinafter "DCH") also continued to grow, resulting in higher non-operating income. As a result, ordinary income was 4,005 million yen (ordinary loss of 2,077 million yen for previous year), an increase of 6,083 million yen from the same quarter last year.

As a result of these factors, net sales for the cumulative second quarter consolidated was 49,926 million yen (16.4% increase over previous year), operating income was 2,714 million yen (previous year: operating loss of 2,449 million yen), ordinary income was 4,005 million yen (previous year: ordinary loss of 2,077 million yen). With income taxes of 1,504 million yen, profit attributable to owners of parent was 2,487 million yen (previous year: net loss of 1,265 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) (Year-on-year quarter)	Segment Income or Loss (Yen in millions) (Year-on-year quarter)
Japan	23,135 (117.7%)	2,000 (previous year: △1,699 million yen)
South Korea	24,731 (117.7%)	468 (previous year: △695 million yen)
China	2,060 (102.7%)	235 (previous year: △5 million yen)
Others	- -	△0 (previous year: △70 million yen)
Adjustments	- -	10 (previous year: 22 million yen)
Total	49,926 (116.4%)	2,714 (previous year: △2,449 million yen)

(Japan)

In the cumulative second quarter of the fiscal year under review, following the arrival of the fifth wave of the COVID-19 infections from August onward, 17 prefectures, mainly in the Tokyo metropolitan area, declared state of emergency and the number of visitors to directly managed stores and department stores declined. However, gross net of product sales increased compared with the previous year due to a large increase in the number of stores in operation compared with the previous year and a particularly large increase in net sales of "DESCENTE" and "Munsingwear" in line with the growing popularity of golf.

In addition, we continued to work to reduce returns and discounts, which had been a factor behind the decline in net sales in Japan business, and significantly decreased sales losses during the fiscal year under review from the previous year. As a consequence, segment net sales increased 17.7% from the same quarter of the previous year to 23,135 million yen.

In addition, SG&A expenses of DESCENTE JAPAN LTD. decreased 4.9% from the previous year, due to factors such as a reduction in advertising and sales promotion expenses and a reduction in personnel expenses resulting from voluntary retirements implemented in the previous fiscal year, excluding the impact of the adoption of revenue recognition accounting standards (mainly commissions related to digestion transactions targeting department stores, etc.).

As a consequence of the above, segment income was 2,000 million yen (increase of 3,699 million yen from the same quarter of the previous year), exceeding the forecast for the first half of the fiscal year. In addition, segment income increased significantly, exceeding South Korea segment income for the first time in 9 years, driving the growth in operating income for the group as a whole.

(South Korea)

In the second quarter of the fiscal year under review (April - June), the impact of the COVID-19 remained, and despite climatic factors such as low temperature and long rain, both sales and profits increased particularly in “DESCENTE” and “umbro” in the second quarter. SG&A expenses rose 6.5% from the previous fiscal year due to an increase in sales commissions following the recovery in sales and an increase in advertising and sales promotion expenses following the resumption of sporting events. However, the increase in net sales significantly outpaced the increase in SG&A expenses, resulting in an increase in both sales and profits in this segment.

Amidst the arrival of a running boom in South Korea, sales of running shoes increased as a result of efforts to promote brand image enhancement of “DESCENTE”, including the implementation of running classes using influencers and offering of running shoes “ENERZITE Z+” to the participating runners. In addition, due to the growing popularity of golf, sales of golf-related products such as “R-90”, the golf shoes, increased. In addition, sales of “umbro” were driven by the popularity of set-up items and strong sales of “TOBY-C”, the updated model for “TOBY” sneaker, which was well received last year.

(China)

SHANGHAI DESCENTE COMMERCIAL CO., LTD, a consolidated subsidiary in China which is included in segment income, recorded increases in both sales and income. The company saw a significant increase in net sales of “Munsingwear” from the same quarter of the previous fiscal year, reflecting strong customer traffic at directly managed stores due to events at department stores and other factors. In “arena” also, net sales of wholesale to ASH increased as ASH's performance recovered. As for HONG KONG DESCENTE TRADING LTD., net sales decreased from the same quarter of the previous fiscal year due to the transfer of the wholesale business of Southeast Asia to Japan from the fiscal year under review. However, in Hong Kong, the number of COVID-19 infections has been in the single-digit range since May, and consumers' appetite for purchasing has recovered. As a result, the directly managed business in particular performed well. In addition, operating income increased from the same quarter of the previous year due to effective reductions in SG&A expenses. As a consequence of the above, both sales and profits in the China segment increased.

Although not included in segment income, LCN, ASH and DCH, which are equity-method affiliates, reported increases in both sales and profits.

Net sales by Items are as follows.

(Net sales by Item)

Item	Amount (Yen in millions)	Composition Ratio (%)	Comparison with the same quarter of the previous year (%)
Athletic wear and related products	31,356	62.8	109.7
Golf wear and related products	15,799	31.6	129.4
Outdoor wear and related products	2,770	5.6	132.0
Total	49,926	100.0	116.4

(Athletic wear and related products)

Net Sales in the athletic wear category rose 9.7% year-on-year to 31,356 million yen as the impact of the COVID-19 subsided across the region and sporting events resumed. In particular, Japan's “DESCENTE” and South Korea's “umbro” saw significantly higher sales compared to the same quarter of the previous year.

(Golf wear and related products)

Net Sales in the golf wear category increased 29.4% year-on-year to 15,799 million yen due to the shrinking impact of the COVID-19 in all areas and the growing popularity of golf in Japan, South Korea, and China. In particular, sales of “DESCENTE” and “Munsingwear” increased significantly compared with the same quarter of the previous fiscal year, and the composition ratio of golf-related products increased by 3.1%.

(Other Topics)

In the midterm management plan "D-Summit 2023," we have set the following key strategies: I. Implement strategies by regions for Japan, South Korea, and China, II. Improve profitability in Japan business, and III. Enhance our manufacturing capabilities, with the aim to generate stable earnings in the 3 markets.

In Japan business, 4 directory managed stores of “DESCENTE” opened in September. Of these, “DESCENTE BLANC Umeda” mainly sells “DESCENTE ALLTERRAIN” products, with the core product “Mizusawa Down”, a high-performance down jacket that is one of the symbolic items of “DESCENTE”, and the store's net sales for September has been strong, greatly exceeding forecasts. The 3 stores of “DESCENTE Sapporo Factory”, “DESCENTE LaLaport TOKYO-BAY”, and “DESCENTE LaLaport SHONAN HIRATSUKA”, which also opened in September, carry out products centered on “ZERO STYLE” products, the “MoveWear” line of “DESCENTE” brand. In addition, we are implementing initiatives such as holding events in accordance with the performance of Shohei Ohtani, our advisory contract player. Net sales in e-commerce business grew 20% from the same quarter of the previous year due to various campaigns and CRM measures. Going forward, we will continue to strengthen the DTC business and aim to improve profitability in Japan business. In South Korea business, we are promoting the brand image enhancement by implementing initiatives that meet the needs of users, such as the development of “ENERZITE Z+” running shoes developed in “DISC BUSAN”, one of our R&D centers, and marketing in line with the domestic running boom. In addition, we are strengthening

our e-commerce by increasing the number of products only available on-line.

We fulfill the responsibilities expected by society and work to resolve material issues for the sustainable growth of our business. In September, we signed a loan contract for the "ESG / SDGs Syndication Complied with Positive Impact Finance Principles" to promote initiatives. In concluding this financing contract, factors as follows are determined as high-standards: our commitment to corporate philosophy and sustainability, consideration for suppliers, and reduction of environmental impact through the provision of products. We will continue and promote efforts to realize a sustainable society.

(2) Explanation of Financial Position

(Analysis of the status of assets, liabilities, and net assets)

Total assets were 109,285 million yen at the end of the second quarter of the fiscal year under review, up 1,297 million yen from the end of previous fiscal year.

Current assets declined 549 million yen from the end of previous fiscal year to 64,819 million yen. This was mainly due to an increase in cash and deposits of 2,318 million yen, a decrease in notes and accounts receivable - trade of 1,523 million yen, and a decrease in merchandise and finished goods of 1,702 million yen.

Non-current assets increased 1,846 million yen from the end of previous fiscal year to 44,465 million yen. This was mainly due to an increase in investment securities included in investments and other assets of 2,219 million.

Total liabilities declined 2,625 million yen from the end of previous fiscal year to 27,398 million yen. This was mainly due to a decrease of 1,222 million yen in notes and accounts payable - trade and a decrease of 1,000 million yen in short-term loans payable.

Net assets increased 3,923 million yen from the end of previous fiscal year to 81,886 million yen. This was mainly due to an increase in retained earnings of 1,623 million yen and an increase in foreign currency translation adjustment of 2,235 million yen.

As a consequence, the equity ratio increased 2.7% from the end of previous fiscal year, to 74.9%.

(Analysis of Cash Flow Status)

Cash and cash equivalents at the end of the period increased by 2,636 million yen to 21,880 million yen in the second quarter of the current fiscal year compared with the end of previous fiscal year.

Cash flows from operating activities was 4,924 million yen in excess of revenues (3,658 million yen in excess of expenditures in the second quarter of previous fiscal year). This was mainly due to the decrease in notes and accounts payable-trade of 1,327 million yen, payment of income taxes of 1,591 million yen, and special retirement benefit payments of 1,290 million yen, which offset the increase factors of income before income taxes of 3,992 million yen, decrease in notes and accounts receivable-trade of 1,650 million yen, and decrease in inventories of 1,868 million yen.

Cash flows from investing activities was 579 million yen in excess of expenditures (484 million yen in excess of expenditures in the second quarter of previous fiscal year). This was mainly due to purchase of property, plant and equipment of 635 million yen and payments on guarantee deposits of 705 million yen.

Cash flows from financing activities amounted to 2,058 million yen in excess of expenditures (316 million yen in excess of revenue in the second quarter of previous fiscal year). This was mainly due to payments of short-term loans payable of 1,000 Yen in millions and repayment of lease obligation payable of 1,057 million yen.

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

After taking into account the conditions up to the cumulative second-quarter of fiscal year under review and forecast, we have revised the forecasts announced on August 6, 2021. For details, please refer to the "Notice of the Gap between Forecast and Actual Results for the Second Quarter of the Fiscal Year ending March 2022 and the Revision to Earnings Forecast" released today.

2. Quarter Consolidated Financial Statements and Major Notes
(1) Quarterly Consolidated Balance Sheets

(Yen in millions)

	FY2020 (March 31, 2021)	2Q FY2021 (September 30, 2021)
Assets		
Current assets		
Cash and deposits	21,913	24,231
Notes and accounts receivable - trade	15,585	14,062
Merchandise and finished goods	24,372	22,670
Work in process	174	207
Raw materials and supplies	588	594
Others	2,791	3,102
Allowance for doubtful accounts	△58	△49
Total current assets	65,368	64,819
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	10,906	10,915
Others	14,382	13,608
Total property, plant and equipment	25,289	24,523
Intangible assets	2,206	1,979
Investments and other assets		
Investments in securities	9,946	12,165
Others	5,226	5,847
Allowance for doubtful accounts	△50	△49
Total investments and other assets	15,122	17,962
Total non-current assets	42,619	44,465
Total assets	107,987	109,285
Liabilities		
Current liabilities		
Notes and accounts payable - trade	11,773	10,550
Short-term loans payable	1,000	-
Current portion of long-term loans payable	93	99
Income taxes payable	1,427	408
Provision for bonuses	841	870
Provision for sales returns	868	-
Others	9,168	10,464
Total current liabilities	25,172	22,394
Non-current liabilities		
Long-term loans payable	373	399
Net defined benefit liability	237	352
Others	4,239	4,252
Total non-current liabilities	4,851	5,004
Total liabilities	30,024	27,398

(Yen in millions)

	FY2020 (March 31, 2021)	2Q FY2021 (September 30, 2021)
Net assets		
Shareholders' equity		
Capital stock	3,846	3,846
Capital surplus	25,344	25,403
Retained earnings	48,230	49,853
Treasury stock	△624	△615
Total shareholders' equity	76,796	78,487
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	199	223
Deferred gains or losses on hedges	△21	△6
Foreign currency translation adjustment	561	2,796
Remeasurements of defined benefit plans	427	386
Total accumulated other comprehensive income	1,167	3,399
Total net assets	77,963	81,886
Total liabilities and net assets	107,987	109,285

(2) Quarter Consolidated Statements of Income and Quarterly Consolidated Statement of Comprehensive Income
 Quarter Consolidated Statements of Income
 Second Quarter Cumulated

(Yen in millions)

	2Q of FY2020 (April 1, 2020 - September 30, 2020)	2Q of FY2021 (April 1, 2021 - September 30, 2021)
Net sales	42,897	49,926
Cost of sales	19,931	21,230
Gross profit	22,965	28,696
Reversal of provision for sales returns	144	-
Gross profit - net	23,109	28,696
Selling, general and administrative expenses	25,558	25,981
Operating income or loss (Δ)	Δ 2,449	2,714
Non-operating income		
Interest income	70	86
Dividends income	55	52
Equity in earnings of affiliates	-	1,289
Others	446	45
Total non-operating income	572	1,475
Non-operating expenses		
Interest expenses	39	33
Loss on retirement of noncurrent assets	95	36
Equity in losses of affiliates	12	-
Foreign exchange losses	-	47
Others	53	66
Total non-operating expenses	200	183
Ordinary income (loss) (Δ)	Δ 2,077	4,005
Extraordinary gains		
Profit on disposal of business	-	50
Gain on sales of investment securities	403	-
Total extraordinary income	403	50
Extraordinary losses		
Impairment loss	-	62
Loss on valuation of investment securities	65	-
Total extraordinary loss	65	62
Income before income taxes or Loss before income taxes (Δ)	Δ 1,739	3,992
Income taxes - current	92	532
Income taxes - deferred	Δ 565	972
Total income taxes	Δ 473	1,504
Quarterly net income or Quarterly net loss (Δ)	Δ 1,265	2,487
Quarterly profit attributable to owners of parent or Loss attributable to owners of parent (Δ)	Δ 1,265	2,487

Quarter Consolidated Statement of Comprehensive Income
Second Quarter Cumulated

(Yen in millions)

	2Q of FY2020 (April 1, 2020 - September 30, 2020)	2Q of FY2021 (April 1, 2021 - September 30, 2021)
Quarterly net income or loss (Δ)	Δ 1,265	2,487
Other comprehensive income		
Valuation difference on available-for-sale securities	Δ 105	23
Deferred gains or losses on hedges	Δ 17	15
Foreign currency translation adjustment	Δ 1,788	1,146
Remeasurements of defined benefit plans	Δ 19	Δ 41
Share of other comprehensive income (loss) of entities accounted for using equity method	Δ 110	1,088
Total other comprehensive income	Δ 2,040	2,232
Comprehensive income	Δ 3,306	4,720
(breakdown)		
Comprehensive income attributable to owners of parent	Δ 3,306	4,720

(3) Quarter Consolidated Statements of Cash Flows

(Yen in millions)

	2Q of FY2020 (April 1, 2020 - September 30, 2020)	2Q of FY2021 (April 1, 2021 - September 30, 2021)
Cash flows from operating activities		
Income before income taxes or Loss before income taxes (Δ)	Δ 1,739	3,992
Depreciation	2,631	2,249
Impairment loss	-	62
Increase (decrease) in allowance for doubtful accounts (Δ)	Δ 19	Δ 11
Increase (decrease) in provision for bonuses	Δ 205	28
Increase (decrease) in provision for sales returns	Δ 144	-
Increase (decrease) in net defined benefit liability	279	110
Interest and dividends income	Δ 125	Δ 139
Interest expenses	39	33
Decrease (Δ) in notes and accounts receivable-trade	2,271	1,650
(Increase) decrease in inventory taking	Δ 2,187	1,868
Increase (Δ) in notes and accounts payable-trade	Δ 4,143	Δ 1,327
Share of profit (loss) of entities accounted for using equity method (Δ : profit)	12	Δ 1,289
Loss (gain) on sales of investment securities	Δ 403	-
Gain (loss) on transfer of business (Δ : gain)	-	Δ 50
Others	Δ 302	522
Subtotal	Δ 4,037	7,701
Interest and dividends income received	125	139
Interest expenses paid	Δ 39	Δ 33
Income taxes paid or refunded (Δ paid)	383	Δ 1,591
Special retirement benefit payments	-	Δ 1,290
Profit before income taxes	Δ 3,568	4,924
Cash flow from investing activities		
Proceeds from withdrawal of time deposits	151	2,422
Payments into time deposits	Δ 88	Δ 2,022
Purchase of property, plant and equipment	Δ 957	Δ 635
Purchase of intangible assets	Δ 228	Δ 139
Proceeds from sales of investment securities	414	-
Purchase of investment securities	Δ 5	Δ 3
Business transfer gains	-	297
Collection of fixed leasehold deposits	174	95
Payment on guaranty deposit	Δ 7	Δ 705
Others	63	112
Cash flow from investing activities	Δ 484	Δ 579
Cash flow from financing activities		
Net increase (Δ) in short-term borrowings	1,570	Δ 1,000
Proceeds from long-term debt	97	-
Repayment of long-term loans payable	Δ 127	-
Purchase of treasury stock	Δ 0	Δ 1
Repayments of lease obligations	Δ 1,223	Δ 1,057
Cash flow from financing activities	316	Δ 2,058
Effect of exchange rate change on cash and cash equivalents	Δ 378	349
Net increase (decrease) in cash and cash equivalents	Δ 4,114	2,636
Cash and cash equivalents at beginning of period	19,559	19,244
Quarterly balance of Cash and cash equivalents	15,444	21,880

(4) Notes on Quarterly Consolidated Financial Statements

(Going Concern Assumption)

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:

① Revenue 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.

② Revenue 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.

③ Revenue 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.

④ Revenue 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 669 million yen and operating income, ordinary income and income before income taxes decreased by 3 million yen each for the second quarter. In addition, the balance of retained earnings at the beginning of the fiscal year has decreased by 864 million yen.

In accordance with the transitional treatment set forth in article 89-2 of the Accounting Standard for Revenue Recognition, the Company has not reclassified previous 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 2Q Cumulative Consolidated (From April 1, 2020 to September 30, 2020)

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	19,652	21,009	2,006	228	42,897	-	42,897
Intersegment Sales or Transfers	1,667	223	8	2	1,901	△1,901	-
Total	21,320	21,233	2,014	231	44,798	△1,901	42,897
Segment Income (loss)	△1,699	△695	△5	△70	△2,471	22	△2,449
Other Items							
Equity in earnings or losses of affiliates	-	△84	116	-	31	△43	△12
Investments on equity-method affiliates	-	218	2,147	-	2,366	-	2,366

(NOTE 1): Adjustments of 22 million yen in segment income (loss) include inter-segment transaction elimination of △ 0 million yen and unrealized gains on inventories of 22 million yen.

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

II 2Q Under Review Cumulative Consolidated (From April 1, 2021 to September 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	23,135	24,731	2,060	-	49,926	-	49,926
Intersegment Sales or Transfers	1,973	218	24	-	2,215	△2,215	-
Total	25,108	24,949	2,084	-	52,142	△2,215	49,926
Segment Income (loss)	2,000	468	235	△0	2,703	10	2,714
Other Items							
Equity in earnings or losses of affiliates	-	△55	1,368	-	1,312	△22	1,289
Investments on equity-method affiliates	-	150	11,835	-	11,986	-	11,986

(NOTE 1): Adjustment of 10 million yen in segment income (loss), includes inter-segment transaction elimination of △ 0 million yen and unrealized gains on inventories of 10 million yen.

(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 of the Japan segment for the cumulative second quarter of the current fiscal year increased by 669 million yen and income decreased by 3million yen.

3. Supplemental Information

Overseas sales

Previous 2nd Quarter Cumulative Consolidated (From April 1, 2020 to September 30, 2020)

(Yen in millions, %)

	South Korea	China	Others	Total
I Overseas sales	20,343	3,344	924	24,612
II Consolidated net sales				42,897
III Percentages of overseas net sales in consolidated net sales	47.4	7.8	2.2	57.4

2nd Quarter Cumulative Consolidated (From April 1, 2021 to September 30, 2021)

(Yen in millions, %)

	South Korea	China	Others	Total
I Overseas sales	23,835	3,983	528	28,347
II Consolidated net sales				49,926
III Percentages of overseas net sales in consolidated net sales	47.7	8.0	1.1	56.8

(NOTE) Net Sales is categorized by country or region based on the location of customers.