

**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 Third Quarter Ended December 31, 2021 [Japan GAAP]



February 7, 2022

Listed company name DESCENTE LTD. Listed Exchange TSE  
 Code number 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) 03-5979-6111  
 Date of Submission of Quarterly Report: February 9, 2022 Date of Dividend Payments : —  
 Quarterly Preparation of Supplementary Financial Statements: Yes  
 Quarterly 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 Third Quarter Ended December 31, 2021 (April 1, 2021-December 31, 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	%
Third Quarter of Fiscal Year Ending March 2022	76,681	15.1	4,380	-	5,832	-	4,952	2.6
Third Quarter of Fiscal Year Ended March 31, 2021	66,638	△28.2	△2,454	-	△1,775	-	4,828	172.8

(NOTE) Comprehensive income: 3Q of FY2021 - 6,032 million yen (84.8%) / 3Q of FY2020 - 3,264 million yen (-%)

	Net income per share	Diluted net income per share
	Yen	Yen
Third Quarter of Fiscal Year Ending March 2022	65.62	-
Third Quarter of Fiscal Year Ended March, 2021	64.00	-

### (2) Consolidated financial position

	Total assets	Net assets	Equity Ratio
	Yen in millions	Yen in millions	%
Third Quarter of Fiscal Year Ending March 2022	113,315	83,199	73.4
FY ended March 31, 2021	107,987	77,963	72.2

(Reference) Equity: 3Q of FY2021- 83,199 million yen / FY2020 - 77,963 million yen

### 2.Dividends

	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 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		Net income per share
	Yen in millions	%	Yen in millions	%	Yen in millions	%	Yen in millions	%	Yen
Full year	105,000	8.4	4,600	-	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 more information, please refer to "(3) Notes on Quarterly Consolidated Financial Statements" on page 10 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 Changes 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)  
 ② Number of treasury stock at fiscal end  
 ③ Average number of shares during the period (quarterly consolidated cumulative period)

3Q of FY2021	76,924,176	FY2020	76,924,176
3Q of FY2021	1,444,533	FY2020	1,467,517
3Q of FY2021	75,470,364	3Q of FY2020	75,447,672

※ Quarterly financial statements are not subject to quarterly reviews by certified public accountants or auditing 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 Summary of Financial Statements [attached materials] for the assumptions on which forecasts are based and notes on the use of forecasts.

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# 1. Qualitative Information on Results for the Third Quarter Ended December 31, 2021

## (1) Explanation of Operating Results

In the third quarter of the fiscal year under review, net sales increased significantly compared with the same quarter of the previous fiscal year, resulting in an increase in both sales and profits. The impact of COVID-19 continues, but varies by country/region. In Japan in particular, net sales recovered steadily from the previous year as the business condition was relatively favorable. The impact of COVID-19 becoming smaller from October and increase in customer traffic. In South Korea, revenues increased compared with the same quarter of the previous fiscal year despite the continued spread of COVID-19 in the third quarter of the fiscal year under review (July - September). In China, revenues increased compared with the same quarter of the previous fiscal year in the third quarter of the fiscal year under review (July - September), despite restrictions in some regions following the expansion of COVID-19 infections. As a consequence, net sales for the third quarter of the fiscal year under review increased 15.1% from the same quarter of the previous fiscal year to 76,681 million yen. Gross profit increased 23.1% year-on-year to 43,424 million yen as a result of increased net sales and continued control of sales losses in Japan.

SG&A expenses increased by 3.5% from the same quarter of the previous year to 39,044 million yen. In Japan, we reduced personnel expenses in connection with the voluntary retirement program implemented in the previous fiscal year and the transfer of the business of BEN-GENERAL CORPORATION, and reduced advertising and sales promotion expenses by reviewing contracts and sales promotion activities considering the impact of COVID-19, while land rent and commission fees increased due to the opening of new stores and expansion of e-commerce in conjunction with the DTC business expansion strategy. In South Korea, sales commissions linked to sales, land rent, and advertising and sales promotion expenses increased due to more marketing activities than in the previous year as sales recovered. In consolidated, however, higher gross profit outweighed higher SG&A expenses, with operating income increased by 6,835 million yen to 4,380 million yen (previous year: operating loss of 2,454 million yen).

As for China's equity-method affiliate, LE COQ SPORTIF(NINGBO) CO., LTD. (hereinafter referred to as "LCN"), and ARENA (SHANGHAI) INDUSTRIAL CO, LTD. (hereinafter referred to as "ASH"), LCN recovered performance in this third quarter from the previous fiscal year, while net sales of ASH recovered to the level prior to the spread of COVID-19. In addition, including the contribution of Descente China Holding Limited (hereinafter referred to as "DCH"), non-operating income increased and ordinary income increased by 7,607 million yen to 5,832 million yen (previous year: ordinary loss of 1,775 million yen).

In the same quarter of the previous fiscal year, the Company recorded gain on change in equity, etc. of 7,535 million yen in extraordinary income due to the reorganization of DCH, whereas extraordinary income for this third quarter was 1,819 million yen due to the sale of the head office in Osaka. Despite the decline in extraordinary income, driven by growth in net sales and operating income and ordinary income, profit attributable to owners of parent was 4,952 million yen after deducting income taxes of 2,687 million yen, increased by 123 million yen (+2.6% year-on-year).

As a result, for the third quarter of the fiscal year under review, we recorded consolidated net sales of 76,681 million yen (+15.1% QoQ), operating income of 4,380 million yen (previous quarter: operating loss of 2,454 million yen), ordinary income of 5,832 million yen (previous year: ordinary loss of 1,775 million yen) and profit attributable to owners of parent of 4,952 million yen (+2.6% QoQ).

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	37,345 (112.7%)	2,699 (previous year: △1807 million yen)
South Korea	36,213 (119.1%)	1,292 (previous year: △643 million yen)
China	3,122 (109.0%)	386 (previous year: 32 million yen)
Others	- (-%)	△0 (previous year: △74 million yen)
Adjustments	-	2 (previous year: 38 million yen)
Total	76,681 (115.1%)	4,380 (previous year: △2,454 million yen)

### (Japan)

In Japan, net sales of “Mizusawa Down”, a symbolic brand item for “DESCENTE”, increased significantly from the previous year, partly due to the persistent low-temperature days from December. In “Munsingwear”, sales of “ARTECH SHELL”, the down jacket, were strong at department stores, the main distribution channel. In terms of the impact of COVID-19, production plants ceased operations following the issuance of a lock-down in Vietnam, resulting in lost sales opportunities due to product shortages from September to October. However, the impact was minimal. In addition, the deregulation associated with the substantial decline in COVID-19 infections since late October resulted in active consumer buying behavior, resulted segment net sales rising 12.7% year-on-year to 37,345 million yen, and inventories declining by approximately 3,716 million yen year-on-year.

In addition, gross profit on product sales increased significantly from the previous fiscal year due to the Company's ongoing efforts to control sales losses by reducing product returns and discounts. SG&A expenses declined as a result of reduced advertising and sales promotion expenses and reduced personnel expenses due to voluntary retirements implemented in the previous fiscal year. As a result, segment income grew significantly year on year to 2,699 million yen, exceeding South Korea segment income.

(South Korea)

During the third quarter of the fiscal year under review (July - September), COVID-19 still affected consumer purchasing behavior, as the number of people infected by COVID-19 continued to grow in South Korea.

Nevertheless, "DESCENTE" had strong sales of inspired model products from the Swiss Alpine Ski National Team, the team which we offer our products. The number of new customers increased as the product was versatile, which can be worn from autumn to spring, and also the popularity of our diverse color lineup by women's customers. Sales of "ENERZITE" running shoes and "R-90" golf shoes also remained strong, contributing to increased net sales. Sales of "umbro", targeting younger customers in their teens and 20s, continued to grow in both apparel and shoes, reflecting robust sales of apparel products that utilize woven materials which are in strong demand in South Korea, and also "TOBY" sneakers and "BUMPY THONG" sandals. Net sales increased in the cumulative third quarter consolidated and segment income also recovered to 1,292 million yen (previous year: segment loss of 643 million yen), mainly driven by "DESCENTE" and "umbro", and income also recovered.

(China)

In the third quarter of the fiscal year under review (July - September), consolidated subsidiary SHANGHAI DESCENTE COMMERCIAL CO., LTD, which is included in segment income, saw an increase in both sales and profits due to the recovery of "arena" in particular, despite a decline in sales and events due to the impact of restrictions by re-expansion of COVID-19 infections. 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 to Southeast Asia to Japan from the fiscal year under review. However, sales exceeded the plan due to sales and campaign measures to attract customers in Hong Kong and increased consumer appetite through the supply of coupons by government measures. As a consequence of the above, both sales and profits in the China segment increased.

Also, LCN, ASH and DCH, which are equity-method affiliates and not included in segment income, recorded higher sales and profits in the cumulative third quarter of the fiscal year under review.

Net sales by Item 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	47,227	61.6	110.2
Golf wear and related products	24,307	31.7	125.4
Outdoor wear and related products	5,146	6.7	116.5
Total	76,681	100.0	115.1

(Athletic wear and related products)

In Japan, the impact of COVID-19 eased in the third quarter of the current fiscal year (October - December) and sales recovered, mainly in "DESCENTE". In South Korea, despite the ongoing impact of COVID-19, sales of "DESCENTE" and "umbro" increased year-on-year. As a consequence, net sales in the athletic wear category increased 10.2% year-on-year to 47,227 million yen.

(Golf wear and related products)

As the impact of COVID-19 eased in Japan and the growing popularity of golf, net sales in the golf wear category rose 25.4% year on year to 24,307 million yen. In particular, sales of Japan's "DESCENTE (golf)" and "Munsingwear" increased year on year, net sales of golf wear category in Japan increased 35.7% year on year, contributing to the growth in the percentage of golf-related products compared to total net sales.

(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, we are continuing to strengthen our DTC business, and in October we opened 3 new outlet stores. In addition, we are working to reduce sales losses at stores by sharing inventories between stores and in-house e-commerce, and are implementing various initiatives to expand e-commerce sales, such as developing stores on external e-commerce platforms and implementing campaigns that utilize our contracted players. Going forward, we will continue to strengthen both our directly managed stores and e-commerce, aiming to achieve 50% share of domestic sales by DTC business as outlined in D-Summit 2023.

In terms of manufacturing, as a new model of "Mizusawa Down" of "DESCENTE", we developed "DESCENTE MIZUSAWA

DOWN JACKET ALPINE” in DISC OSAKA, our R&D base, and manufactured it at DESCENTE APPAREL LTD. Mizusawa Factory, one of our own factories, and launched it in limited quantities. This product is focused on high performance & premium quality, which is the brand identity of “DESCENTE”, and is also used as the official wear for the national teams of Alpine Ski and Bobsleigh competitions abroad. In addition, in commemoration of Shohei Ohtani’s performance in 2021, for whom we have concluded an advisory contract with, we produced “MIZUSAWA DOWN FOR SHOHEI OHTANI” for only a limited number (46 jackets) and sold them as preorder lottery, and had big response as we received over fifty-thousand applications. South Korea is focusing on holding events to approach customers continually even amid COVID-19. We held tennis-based on-line events for “le coq sportif” and SNS-based live distribution aimed at publicizing golf autumn/winter products. For “arena”, we held on-line events to give away products to users according to the distance they swim. These initiatives contributed to increased e-commerce membership and sales.

We are also working to resolve material issues as part of our SDGs (sustainable development goals) efforts. In November, we developed products that can be used in everyday situations, such as “CORE COOLER”, an extreme heat countermeasure item of “DESCENTE” which received award for excellence in the sports section of "Hitosuzumi Awards 2021" sponsored by the Heat Illness Prevention Communication Project, as part of our effort to solve social issues. In addition, we have concluded a comprehensive collaboration agreement with Oshu City, Iwate Prefecture, where DESCENTE APPAREL LTD. Mizusawa Factory is located and a hometown of Shohei Otani, to promote regional revitalization. We plan to provide educational opportunities for children in the region and sporting opportunities for citizens in the future. In addition, in the current fiscal year, in addition to holding sports classes of “Sukoyaka Kids Sports School Program”, the program which aims to encourage children to understand the enjoyment of moving their bodies through sports events with top athletes, we donate our athletic masks to public elementary schools in Toshima Ward, where our Tokyo Office is located. We take actions to contribute to the creation of a healthy lifestyle for children and local residents. We will continue to promote efforts to realize a sustainable society.

## (2) Explanation on Financial Position

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

Total assets at the end of the third quarter of the fiscal year under review was 113,315 million yen, up 5,327 million yen from the end of previous fiscal year.

Current assets increased 5,641 million yen from the end of previous fiscal year to 71,010 million yen. This was mainly due to an increase of 5,642 million yen in cash and deposits, an increase of 838 million yen in notes and accounts receivable - trade, and a decrease of merchandise and finished goods of 2,196 million yen.

Non-current assets declined 313 million yen from the end of previous fiscal year to 42,305 million yen. This was mainly due to an increase of 2,391 million yen in investment securities included in investments and other assets, a decrease of 2,339 million yen in property, plant and equipment, and a decrease of 310 million yen in Intangible assets.

Total liabilities increased by 92 million yen from the end of previous fiscal year to 30,116 million yen. This was mainly due to an increase in notes and accounts payable - trade of 1,062 million yen and a decrease in short-term loans payable of 1,000 million yen.

Net assets increased 5,235 million yen from the end of previous fiscal year to 83,199 million yen. This was mainly due to an increase in retained earnings of 4,087 million yen and an increase in foreign currency translation adjustment of 1,173 million yen.

As a result, the equity ratio increased 1.2% from the end of the previous fiscal year to 73.4%.

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

Taking into account the conditions up to the third quarter of the fiscal year under review and forecast, we have revised the forecast announced on November 5, 2021. For details, please refer to the "Notice of the Revision to Earnings Forecast" released today.

## 2. Quarterly Consolidated Financial Statements and Major Notes

### (1) Quarterly Consolidated Balance Sheets

(Yen in millions)

	FY2020 (March 31, 2021)	3Q FY2021 (December 31, 2021)
<b>Assets</b>		
Current assets		
Cash and deposits	21,913	27,556
Notes and accounts receivable - trade	15,585	16,424
Merchandise and finished goods	24,372	22,176
Work in process	174	235
Raw materials and supplies	588	633
Others	2,791	4,038
Allowance for doubtful accounts	△58	△54
Total current assets	65,368	71,010
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	10,906	9,884
Others	14,382	13,065
Total property, plant and equipment	25,289	22,949
Intangible assets	2,206	1,896
Investments and other assets		
Investments in securities	9,946	12,338
Others	5,226	5,169
Allowance for doubtful accounts	△50	△48
Total investments and other assets	15,122	17,459
Total non-current assets	42,619	42,305
<b>Total assets</b>	<b>107,987</b>	<b>113,315</b>
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable - trade	11,773	12,835
Short-term loans payable	1,000	-
Current portion of long-term loans payable	93	100
Income taxes payable	1,427	419
Provision for bonuses	841	944
Provision for sales returns	868	-
Others	9,168	10,462
Total current liabilities	25,172	24,762
Non-current liabilities		
Long-term loans payable	373	402
Net defined benefit liability	237	436
Others	4,239	4,514
Total non-current liabilities	4,851	5,353
<b>Total liabilities</b>	<b>30,024</b>	<b>30,116</b>



(Yen in millions)

	FY2020 (March 31, 2021)	3Q FY2021 (December 31, 2021)
Net assets		
Shareholders' equity		
Capital stock	3,846	3,846
Capital surplus	25,344	25,403
Retained earnings	48,230	52,317
Treasury stock	△624	△615
Total shareholders' equity	76,796	80,950
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	199	201
Deferred gains or losses on hedges	△21	△43
Foreign currency translation adjustment	561	1,734
Remeasurements of defined benefit plans	427	356
Total accumulated other comprehensive income	1,167	2,248
Total net assets	77,963	83,199
Total liabilities and net assets	107,987	113,315

## (2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statement of Comprehensive Income

### Quarterly Consolidated Statements of Income Third Quarter Cumulated

(Yen in millions)

	3Q of FY2020 (April 1, 2020 - December 31, 2020)	3Q of FY2021 (April 1, 2021 - December 31, 2021)
Net sales	66,638	76,681
Cost of sales	31,331	33,257
Gross profit	35,306	43,424
Provision for sales returns	39	-
Gross profit - net	35,266	43,424
Selling, general and administrative expenses	37,721	39,044
Operating income or loss ( $\Delta$ )	$\Delta 2,454$	4,380
Non-operating income		
Interest income	128	126
Dividends income	70	55
Equity in earnings of affiliates	233	1,363
Others	542	153
Total non-operating income	975	1,699
Non-operating expenses		
Interest expenses	72	47
Loss on retirement of noncurrent assets	165	62
Others	59	136
Total non-operating expenses	296	247
Ordinary income (loss) ( $\Delta$ )	$\Delta 1,775$	5,832
Extraordinary income		
Profit on disposal of business	-	50
Gain on change in equity	6,419	-
Gain on sales of stock of affiliates	460	-
Gain on sales of investment securities	403	-
Gain on sales of noncurrent assets	251	1,819
Total extraordinary income	7,535	1,869
Extraordinary losses		
Impairment loss	-	62
Loss on valuation of investment securities	62	-
Total extraordinary loss	62	62
Income before income taxes	5,698	7,639
Income taxes - current	1,499	1,066
Income taxes - deferred	$\Delta 630$	1,621
Total income taxes	869	2,687
Quarterly net income	4,828	4,952
Quarterly profit attributable to owners of parent	4,828	4,952

Quarterly Consolidated Statement of Comprehensive Income  
Third Quarter Cumulated

(Yen in millions)

	Previous Third Quarter Cumulative Consolidated (April 1, 2020 To December 31, 2020)	Cumulative Third Quarter Consolidated under Review (April 1, 2021 From December 31, 2021)
Quarterly net income	4,828	4,952
Other comprehensive income		
Valuation difference on available-for-sale securities	26	1
Deferred gains or losses on hedges	△48	△22
Foreign currency translation adjustment	△1,486	321
Remeasurements of defined benefit plans	△4	△71
Share of other comprehensive income (loss) of entities accounted for using equity method	△52	851
Total other comprehensive income	△1,564	1,080
Comprehensive income	3,264	6,032
(breakdown)		
Comprehensive income attributable to owners of parent	3,264	6,032

### (3) Notes 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 certain 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 Consolidated fiscal year, including the third quarter under review, and multiplying Profit 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 Consolidated 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 finished goods for which future sales discounts are expected, the amount of discounts is deducted from net sales and the contract liability is recorded. The contract liability is included in "others" in 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 940 million yen and cost of sales decreased by 488 million yen. Gross profit increased by 1,429 million yen, SG&A expenses increased by 1,517 million yen, and operating income, ordinary income and income before taxes decreased by 88 million yen. 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 paragraph 89-2 of the Revenue Recognition Accounting Standards, the Company has not reclassified previous fiscal year under the new presentation method.

(Application of Accounting Standard for Calculation of Fair Market value)

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 3Q Cumulative Consolidated (From April 1, 2020 to December 31, 2020)

1.Information on net sales and income/loss on reportable segments

(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	33,138	30,407	2,865	227	66,638	-	66,638
Intersegment Sales or Transfers	1,815	305	15	2	2,139	△2,139	-
Total	34,954	30,712	2,880	229	68,777	△2,139	66,638
Segment Income (loss)	△1,807	△643	32	△74	△2,493	38	△2,454
Other Items							
Equity in earnings or losses of affiliates	-	△108	378	-	269	△35	233
Investments on equity method affiliates	-	201	8,687	-	8,889	-	8,889

(NOTE)1 Adjustments of 38 million yen in segment income (loss) includes elimination of intersegment transactions of 3 million yen and unrealized gains on inventories of 34 million yen.

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

II 3Q Cumulative Consolidated (From April 1, 2021 to December 31, 2021)

1.Information on net sales and income/loss on reportable segments

(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	37,345	36,213	3,122	-	76,681	-	76,681
Intersegment Sales or Transfers	2,226	344	26	-	2,597	△2,597	-
Total	39,571	36,558	3,149	-	79,279	△2,597	76,681
Segment Income (loss)	2,699	1,292	386	△0	4,378	2	4,380
Other Items							
Equity in earnings or losses of affiliates	-	△43	1,497	-	1,454	△90	1,363
Investments on equity method affiliates	-	148	12,074	-	12,222	-	12,222

(NOTE)1 Adjustment 2 million yen of segment income (loss) includes △ 0 million yen of elimination of intersegment transactions and 2 million yen of unrealized gains on inventories.

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

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 third quarter of the current fiscal year increased by 940 million yen and income decreased by 88 million yen.

### 3. Supplemental Information

#### Overseas sales

Previous 3Q Cumulative Consolidated (From April 1, 2020 to December 31, 2020)

(Yen in millions, %)

	South Korea	China	Others	Total
I Overseas sales	29,255	4,629	1,674	35,559
II Consolidated net sales				66,638
III Percentages of overseas net sales in consolidated net sales	43.9	6.9	2.5	53.4

3Q Cumulative Consolidated (From April 1, 2021 to December 31, 2021)

(Yen in millions, %)

	South Korea	China	Others	Total
I Overseas sales	34,408	6,291	966	41,666
II Consolidated net sales				76,681
III Percentages of overseas net sales in consolidated net sales	44.9	8.2	1.3	54.3

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