Consolidated Financial Report
For the Nine-month Period Ended September 30, 2020 (IFRS)

November 12, 2020

Company Name	SKYLARK HOLDINGS CO., LTD.	Stock Exchange Listing: Tokyo Stock Exchange, 1st Section
Securities Code	3197	URL: https://www.skylark.co.jp
Representative	Makoto Tani, Chairman, President and Chief Executive Officer	
Contact for enquiries	Takuya Aizawa, Managing Officer Managing Director of Finance Division	(TEL) 0422-51-8111
Quarterly statement filing date (as planned)	November 12, 2020	
Dividend payable date (as planned)	―	
Supplemental material of quarterly results	Yes	
Convening briefing of quarterly results	Yes (for analysts and institutional investors)	

(Millions of yen; amounts are rounded to the nearest million yen)

1. Consolidated Financial Results for the Nine-month Period Ended September 30, 2020

(1) Consolidated Operating Results

(Percentages represent year-on-year changes)

	Revenue		Operating profit		Income before income taxes		Net income		Net income attributable to owners of the Company		Total comprehensive income	
	(Millions of yen)	(%)	(Millions of yen)	(%)	(Millions of yen)	(%)	(Millions of yen)	(%)	(Millions of yen)	(%)	(Millions of yen)	(%)
Nine-month period ended September 30, 2020	213,563	(25.1)	(21,143)	-	(23,710)	-	(14,624)	-	(14,624)	-	(14,595)	-
Nine-month period ended September 30, 2019	285,289	3.4	19,995	6.3.	16,828	8.1	10,512	9.6	10,512	9.6	10,318	10.3

	Basic earnings per share	Diluted earnings per share
	(Yen)	(Yen)
Nine-month period ended September 30, 2020	(74.05)	(74.05)
Nine-month period ended September 30, 2019	53.28	53.24

(Reference)

EBITDA	Nine-month period ended September 30 2020	17,273 million yen	(-70.6%)	Nine-month period ended September 30, 2019	58,691 million yen	(99.4%)
Adjusted EBITDA	Nine-month period ended September 30, 2020	25,552 million yen	(-57.8%)	Nine-month period ended September 30, 2019	60.587 million yen	(95.5%)
Adjusted net income	Nine-month period ended September 30, 2020	(14,624) million yen	-	Nine-month period ended September 30, 2019	11.043 million yen	(5.9%)

(Note) The Company uses EBITDA, adjusted EBITDA and adjusted net income to evaluate the results of our operations.
Refer to "* Notes for using forecasted information and other matters (3) ~ (5)" below for details.

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of the Company	Ratio of equity attributable to owners of the Company to total assets
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(%)
As of September 30, 2020	447,328	116,247	116,247	26.0
As of December 31, 2019	453,979	132,817	132,817	29.3

2. Dividends

	Dividends per share				
	First quarter	Second quarter	Third quarter	Fourth quarter	Total
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)
Fiscal year ended December 31, 2019	—	9.00	—	10.00	19.00
Fiscal year ending December 31, 2020	—	0.00	—		
Fiscal year ending December 31, 2020 (Forecasted)				0.00	0.00

(Note) Revision of dividend forecast: Yes

Concerning the revision of the dividend forecast, please refer to the “Notice Regarding the Revisions of Consolidated Financial Forecast and Dividend Forecast for the Year Ending December 31,2020” announced on November 12, 2020.

3. Forecasts on the Consolidated Financial Results for the Year Ending December 31, 2020 (January 1, 2020 - December 31, 2020)

(Percentages represent year-on-year changes)

	Revenue		Operating profit		Income before income taxes		Net income attributable to owners of the Company		Basic earnings per share
	(Millions of yen)	(%)	(Millions of yen)	(%)	(Millions of yen)	(%)	(Millions of yen)	(%)	(Yen)
Fiscal year ending December 31, 2020	293,000	(21.9)	(20,000)	-	(23,000)	-	(15,000)	-	(75.95)

(Note) Revision of forecasts on the results of operations: Yes

(Reference)

Adjusted net income Fiscal year ending December 31, 2020 (Forecasted) (15,000) million yen

The above Forecasts on the Consolidated Financial Results has been changed from the Forecasts on the Consolidated Financial Results in the "Consolidated Financial Report For the Three-month Period Ended March 31, 2020" announced on May 21, 2020.
Please refer to “Notice Regarding the Revisions of Consolidated Financial Forecast and Dividend Forecast for the Year Ending December 31,2020” announced on November 12, 2020, for further detail.

*** Notes**

(1) Changes in status of significant subsidiaries during the period (changes in specified subsidiaries accompanying changes in scope of consolidation): No
Number of subsidiaries newly consolidated: -
Number of subsidiaries excluded from consolidation: -

(2) Changes in accounting policies and accounting estimates
(i) Changes in accounting policies required by IFRSs: Yes
(ii) Changes in accounting policies other than those in (i): Yes
(iii) Changes in accounting estimates: No

(3) Number of issued shares (common stock)

(i) Number of issued shares (including treasury stock)	As of September 30, 2020	197,502,200	As of December 31, 2019	197,502,200
(ii) Number of treasury stock	As of September 30, 2020	−	As of December 31, 2019	−
(iii) Average number of issued shares during the period	Nine months ended September 30, 2020	197,502,200	Nine months ended September 30, 2019	197,288,914

* The quarterly financial report is not subject to quarterly review procedures by independent auditors.

* Notes for using forecasted information and other matters

(1) The Group has adopted International Financial Reporting Standards (IFRSs).

(2) The forecasts above are based on information available at the date of this report and certain assumptions deemed to be reasonable. The Company does not provide any assurance as to achievement of these forecasts. In addition, the actual results may vary materially from the forecasts due to various uncertainties. Refer to page 5 of Appendix "1. Qualitative Information on the Consolidated Financial Results for the Nine-month Period Ended September 30, 2020, (3) Explanation of the Forward-looking Statements including the Forecasts on the Consolidated Financial Results" for further details and disclaimer regarding the use of the forecasts and certain assumptions used in developing them.

(3) Refer to page 2 of Appendix "1. Qualitative Information on the Consolidated Financial Results for the Nine-month Period Ended September 30, 2020, (1) Explanation of the Consolidated Operating Results" for the details of EBITDA, adjusted EBITDA and adjusted net income.

(4) EBITDA, adjusted EBITDA and adjusted net income are not measures prescribed in accordance with IFRS but are financial measures that the Group believes are useful for investors to assess the operating results of our business. These measures exclude the effect of items which we consider not to be indicative of the results of our normal operations or comparable to our competitors' operating results, such as non-cash or cost items not expected to recur following the listing, IPO and public offering-related expenses, loss on redemption of borrowings before the repayment date and gain and loss from associated hedge transactions, and gain and loss from modification of financial liabilities in accordance with the adoption of International Financial Reporting Standard (IFRS) 9 "Financial Instruments" (2014) (including readjustment of the amount of impact from the retroactive application of changes in accounting policies).

(5) Our definition of EBITDA, adjusted EBITDA and adjusted net income may not be comparable to similarly titled measures of other companies in our industry, which may define these or similarly titled measures differently, thereby diminishing their usefulness.

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1. Qualitative Information on the Consolidated Financial Results for the Nine-month Period Ended September 30, 2020

(1) Explanation of the Consolidated Operating Results

During the third quarter of this fiscal year, the Japanese economy rapidly deteriorated due to the spread of COVID-19. In restaurant industry, the business environment is extremely severe due to self-quarantine and shortening of operating hours requested by the government. As a result, the sales have fallen significantly and the business environment has been severe.

In such circumstances, Skylark Holdings Co., Ltd (the "Company") practiced with the highest priority "Ensuring the safety of our customers and employees" and "Ensuring the sufficient fund in hand for stable business operation."

To realize the safety of our customers and employees, we have thoroughly practiced infection prevention measures, frequent hand wash, alcohol disinfection, frequently replacing used tongs with new tongs (or replacing after each use), nylon groves, use cash tray for the payment, and promote cashless payment as contact infection controls, and installation of table partition, installation of vinyl sheet over the buffet counter and cash register and distributing and regularizing to wear the facial mask to employees and requesting to wear the facial mask to customers as measures against splash infection.

In this uncertain situation, the Company takes all measures to minimize cash out to ensure continuous and stable business activities. For instance, cancelling new store openings and store renovations, freezing digital investments, reducing personal costs, suspending non-urgent investments, negotiating for store rent reductions, developing restaurant menu structures to minimize food loss, reducing COGS by reviewing production process at merchandising centers and changing the delivery routes, and utilizing grace-of-payment-program for tax and social insurance premium, and change of the shareholder benefit program. The Company decided to continue the shareholder benefit program with change in contents after careful consideration as part of revenue structure reform. In addition, the Company entered into a commitment line agreement in the form of syndicate loans for long-term financial hardship due to the COVID-19.

As mentioned above, the business environment is extremely severe, however, current sales show gradual recovery and recorded -26.4% in July, -26.8% in August, and -21.7% in September compared to the same period of the previous year. For instance, eat-in sales in major cities and tourist spots declined due to remote work and effects of self-restraint in going out, but sales gradually cover as the number of the COVID-19 cases decreases. Despite eat-in sales, there was significant increase in delivery and takeout sales due to change in consumers' lifestyle. In particular, year on year sales of takeout have more than doubled since April, and the number of in-house takeout service website registrants has increased greatly. We believe that we have established the foundation for further growth. In addition, we opened the first "*Shabu-Yo*" in Malaysia and the store is performing well whereas the sales of shopping mall where the store located is low due to the COVID-19.

In this quarter, the cost of sales ratio was 31.8% which is 1.7% decrease of previous year, and the selling, general administrative expenses to revenues was 74.8% which is 12.5% decrease of the previous year. Due to difficulty of reducing fixed costs against a large decrease in sales.

The Company has been suspended capital investments as possible after the COVID-19 outbreak. In the 3rd quarter, there were 45 new openings, 31 brand conversions, and 25 remodeling.

As a result, the Company has achieved revenue of 213,563 million yen (a decrease of 71,725 million yen compared to the same period of the previous year), operating loss of 21,143 million yen (operating profit of 19,995 million yen for the same period of the previous year), loss before income taxes of 23,710 million yen (income before income taxes of 16,828 million yen for the same period of the previous year), and net loss attributable to the owner of the Company of 14,624 million yen (net income attributable to the owner of the Company of 10,512 million yen for the same period of the previous year) for the Nine-month period ended September 30, 2020.
EBITDA (Note 2) was 17,273 million yen (a decrease of 41,418 million yen compared to the same period of the previous year), adjusted EBITDA (Note 3) was 25,552 million yen (a decrease of 35,035 million yen compared to the same period of the previous year) and adjusted net loss (Note 4) was 14,624 million yen (adjusted net income of 11,043 million yen for the same period of the previous year). In addition, the number of restaurants was 3,218 as of September 30 2020 (3,258 as of January 1, 2020), including 1 restaurants which are unopened for future brand conversion.

(Note 1) Remodeling represents remodeling of interior and exterior of restaurants. The Company remodels approximately 200 to 300 restaurants annually. Considering the cash flow decrease due to the spread of COVID-19 infection, we have canceled all the remodeling implementation plans after May of this fiscal year.

(Note 2) EBITDA = Income before income taxes + Interest Expense + Loss on redemption of borrowings before the repayment date and gain and loss from associated hedge transactions + Other financial expense (excluding loss on redemption of borrowings before the repayment date and gain and loss from associated hedge transactions) - Interest income - Other financial income + Depreciation and amortization + Amortization of long-term prepaid expense + Amortization of long-term prepaid expense (deposit)

・Other financial expenses are disclosed as “Other expenses” in the Condensed Interim Consolidated Statements of Income.

・Other financial income is disclosed as “Other income” in the Condensed Interim Consolidated Statements of Income.

(Note 3) Adjusted EBITDA = EBITDA + Loss on disposal of fixed assets + Impairment loss of non-financial assets – Reversal of impairment loss of non-financial assets + IPO and public offering-related expenses

(Note 4) Adjusted net income= Net income + IPO and public offering-related expenses + Loss on redemption of borrowings before the repayment date and gain and loss from associated hedge transactions + gain and loss from modification of financial liabilities in accordance with the adoption of IFRS 9 “Financial Instruments” (2014) (including readjustment of the amount of impact from the retroactive application of changes in accounting policies) + Tax effects of adjustments

(Note 5) IPO and public offering-related expenses are one-time expenses incurred at the time of IPO and public offering of the Company’s share such as advisory fee and cost associated with purchase of mementoes, etc.

(2) Explanation of the Consolidated Financial Position

(i) Assets, Liabilities and Equity

Analysis of assets, liabilities, and equity as of September 30, 2020 is summarized as follows:

Current assets amounted to 37,447 million yen, which was an increase of 789 million yen compared to the end of the previous fiscal year mainly due to a decrease in trade and other receivables, an increase in other current assets. Non-current assets amounted to 409,881 million yen, which was a decrease of 7,440 million yen compared to the end of the previous fiscal year mainly due to an increase in deferred tax assets, a decrease in property, plant and equipment.

Total assets amounted to 447,328 million yen, which was a decrease of 6,651 million yen compared to the end of the previous fiscal year.

Current liabilities amounted to 205,681 million yen, which was an increase of 108,093 million yen compared to the end of the previous fiscal year mainly due to an increase in short-term borrowings and a decrease in trade and other payables and income tax payable with payment of income tax. Non-current liabilities amounted to 125,401 million yen, which was a decrease of 98,174 million yen compared to the end of the previous fiscal year mainly due to a decrease in long-term borrowings and other financial liabilities.

Total liabilities amounted to 331,081 million yen, which was an increase of 9,919 million yen compared to the end of the previous fiscal year.

Equity amounted to 116,247 million yen, which was a decrease of 16,570 million yen compared to the end of the previous fiscal year mainly due to dividends paid of 1,975 million yen and an increase in net loss of 14,624 million yen for the current nine-month period.

(ii) Cash Flows

Cash and cash equivalents as of September 30, 2020 amounted to 18,585 million yen, which was a decrease of 363 million yen compared to the end of the previous fiscal year. The conditions and factors thereof for each category of cash flows for the nine-month period ended September 30, 2020 were as follows:

Cash flows from operating activities:

Net cash provided by operating activities was 21,074 million yen, a decrease of 30,342 million yen compared to the same period in the previous year. This was primarily due to recording in loss before income taxes 23,710 million yen. During for the nine-month period ended September 30, 2020, grace-of-payment-program for tax payment and social insurance was applied, and the change in working capital improved by 15,933 million yen.

Cash flows from investing activities:

Net cash used in investing activities was 13,831 million yen, a decrease of 2,359 million yen compared to the same period in the previous year. This was primarily due to a decrease of 1,051 million yen in payments for acquisition of property, plant and equipment including investments in new, converted and remodeled restaurants, a decrease of 633 million yen in payments for acquisition of intangible assets including the investments in IT, a decrease of 363 million yen in Payments of lease deposits and guarantee deposits, a decrease of 412 million yen in Payments into time deposits and a decrease of 141 million yen in Proceeds from withdrawals of time deposits. We normally make payments of cash and cash equivalents one or two months after an increase in assets from investing activities.

Cash flows from financing activities:

Net cash used in financing activities was 7,617 million yen, a decrease of 29,710 million yen compared to the same period in the previous year. This was primarily due to an increase of 91,500 million yen in the proceeds from short-term borrowings, an increase of 85,500 million yen in repayments of short-term borrowings, a decrease of 85,000 million yen in the proceeds from long-term borrowings, a decrease of 104,175 million yen in repayments of long-term borrowings and a decrease of 4,060 million yen in dividends paid.

(3) Explanation of the Forward-looking Statements including the Forecasts on the Consolidated Financial Results

Announcement of the forecast of consolidated financial results for the year ending December 31, 2020 had originally been undecided due to the difficulty to calculate the business performance forecast caused by the spread of COVID-19. Although the resurge of the COVID-19 is unpredictable, sales including delivery and takeout show gradual recovery as expected, developing services which responding to new consumer behaviour and cost reductions steadily showing the effects, we have decided to announce business performance forecast.

※The forecasts are based on information available at the date of this report and certain assumptions deemed to be reasonable. In addition, the actual results may vary materially from the forecasts due to various uncertainties. If major changes are expected, we will promptly announce the revision of the business performance forecast.

2. Condensed Interim Consolidated Financial Statements and Notes

(1) Condensed Interim Consolidated Statements of Financial Position

As of December 31, 2019 and September 30, 2020 (Unaudited)

(Millions of yen)

	As of December 31, 2019	**As of September 30, 2020**
Assets		
Current assets		
Cash and cash equivalents	¥ 18,949	**¥ 18,585**
Trade and other receivables	10,689	**10,028**
Other financial assets	323	**49**
Inventories	4,899	**4,424**
Other current assets	1,798	**4,361**
Total current assets	36,658	**37,447**
Non-current assets		
Property, plant and equipment	230,040	**214,237**
Goodwill	146,072	**146,066**
Other intangible assets	5,835	**4,882**
Other financial assets	25,346	**25,395**
Deferred tax assets	9,071	**18,635**
Other non-current assets	956	**666**
Total non-current assets	417,321	**409,881**
Total assets	¥ 453,979	**¥ 447,328**

(1) Condensed Interim Consolidated Statements of Financial Position－Continued
As of December 31, 2019 and September 30, 2020 (Unaudited)

(Millions of yen)

	As of December 31, 2019	**As of September 30, 2020**
Liabilities and equity		
Liabilities		
Current liabilities		
Short-term borrowings	¥ 18,459	**¥ 132,116**
Trade and other payables	26,349	**20,711**
Other financial liabilities	32,757	**31,017**
Income tax payable	4,242	**557**
Provisions	2,064	**2,627**
Other current liabilities	13,716	**18,652**
Total current liabilities	97,588	**205,681**
Non-current liabilities		
Long-term borrowings	110,859	**20,000**
Other financial liabilities	96,511	**89,891**
Provisions	15,499	**14,607**
Other non-current liabilities	705	**902**
Total non-current liabilities	223,574	**125,401**
Total liabilities	321,162	**331,081**
Equity		
Share capital	3,634	**3,634**
Capital surplus	56,595	**56,595**
Other components of equity	(640)	**(611)**
Retained earnings	73,228	**56,629**
Equity attributable to owners of the Company	132,817	**116,247**
Total equity	132,817	**116,247**
Total liabilities and equity	¥ 453,979	**¥ 447,328**

(2) Condensed Interim Consolidated Statements of Income

For the Nine-Month Periods Ended September 30, 2019 and 2020 (Unaudited)

(Millions of yen)

	For the Nine-month period ended September 30, 2019	**For the Nine-month period ended September 30, 2020**
Revenue	¥ 285,289	**¥ 213,563**
Cost of sales	(85,871)	**(67,946)**
Gross profit	199,417	**145,617**
Other operating income	710	**1,899**
Selling, general and administrative expenses	(177,843)	**(159,714)**
Other operating expenses	(2,290)	**(8,945)**
Operating profit (loss)	19,995	**(21,143)**
Interest income	9	**12**
Other income	2	**2**
Interest expense	(3,149)	**(2,068)**
Other expenses	(29)	**(512)**
Income (loss) before income taxes	16,828	**(23,710)**
Income taxes	(6,316)	**9,085**
Net income (loss)	¥ 10,512	**¥ (14,624)**
Net income (loss) attributable to:		
Owners of the Company	¥ 10,512	**¥ (14,624)**
Net income (loss)	¥ 10,512	**¥ (14,624)**
Interim earnings per share		
Basic (Yen)	¥ 53.28	**¥ (74.05)**
Diluted (Yen)	53.24	**(74.05)**

(3) Condensed Interim Consolidated Statements of Comprehensive Income
For the Nine-Month Periods Ended September 30, 2019 and 2020 (Unaudited)

(Millions of yen)

	For the Nine-month period ended September 30, 2019	**For the Nine-month period ended September 30, 2020**
Net income (loss)	¥ 10,512	**¥ (14,624)**
Other comprehensive income		
Items that are not reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	69	**155**
Total items that are not reclassified to profit or loss	69	**155**
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	(74)	**18**
Cash flow hedges	(188)	**(144)**
Total items that may be reclassified to profit or loss	(263)	**(126)**
Other comprehensive income, net of tax	(194)	**30**
Total comprehensive income	¥ 10,318	**¥ (14,595)**
Comprehensive income attributable to:		
Owners of the Company	¥ 10,318	**¥ (14,595)**
Total comprehensive income	¥ 10,318	**¥ (14,595)**

SKYLARK HOLDINGS CO., LTD. and Subsidiaries

(4) Condensed Interim Consolidated Statements of Changes in Equity

For the Nine-Month Periods Ended September 30, 2019

(Millions of yen)

	Share capital	Capital surplus	Other components of equity			
			Financial assets measured at fair value through other comprehensive income	Exchange differences on translation of foreign operations	Cash flow hedges	Total
As of January 1, 2019	**¥ 3,511**	**¥ 56,509**	**¥ 61**	**¥ 266**	**¥ (1,244)**	**¥ (917)**
Adjustments due to changes in accounting policies	—	—	—	—	—	—
As of January 1, 2019 (after adjustments)	**¥ 3,511**	**¥ 56,509**	**¥ 61**	**¥ 266**	**¥ (1,244)**	**¥ (917)**
Net income (loss)	—	—	—	—	—	—
Other comprehensive income, net of tax	—	—	**69**	**(74)**	**(188)**	**(194)**
Total comprehensive income	—	—	**69**	**(74)**	**(188)**	**(194)**
Dividends	—	—	—	—	—	—
Exercise of stock options	**123**	**85**	—	—	—	—
Total contributions by and distributions to owners of the Company	**123**	**85**	—	—	—	—
Total transactions with owners of the Company	**123**	**85**	—	—	—	—
As of September 30, 2019	**¥ 3,634**	**¥ 56,595**	**¥ 131**	**¥ 192**	**¥ (1,433)**	**¥ (1,111)**

	Retained earnings	Equity attributable to owners of the Company	Total equity
As of January 1, 2019	**¥ 71,350**	**¥ 130,453**	**¥ 130,453**
Adjustments due to changes in accounting policies	**(1,486)**	**(1,486)**	**(1,486)**
As of January 1, 2019 (after adjustments)	**¥ 69,865**	**¥ 128,968**	**¥ 128,968**
Net income (loss)	**10,512**	**10,512**	**10,512**
Other comprehensive income, net of tax	—	**(194)**	**(194)**
Total comprehensive income	**10,512**	**10,318**	**10,318**
Dividends	**(6,113)**	**(6,113)**	**(6,113)**
Exercise of stock options	—	**209**	**209**
Total contributions by and distributions to owners of the Company	**(6,113)**	**(5,905)**	**(5,905)**
Total transactions with owners of the Company	**(6,113)**	**(5,905)**	**(5,905)**
As of September 30, 2019	**¥ 74,263**	**¥ 133,382**	**¥ 133,382**

(4) Condensed Interim Consolidated Statements of Changes in Equity – Continued
For the Nine-Month Periods Ended September 30, 2020 (Unaudited)

(Millions of yen)

	Share capital	Capital surplus	Other components of equity			
			Financial assets measured at fair value through other comprehensive income	Exchange differences on translation of foreign operations	Cash flow hedges	Total
As of January 1, 2020	**¥ 3,634**	**¥ 56,595**	**¥ 149**	**¥ 285**	**¥ (1,075)**	**¥ (640)**
Net income (loss)	—	—	—	—	—	—
Other comprehensive income, net of tax	—	—	**155**	**18**	**(144)**	**30**
Total comprehensive income	—	—	**155**	**18**	**(144)**	**30**
Dividends	—	—	—	—	—	—
Total contributions by and distributions to owners of the Company	—	—	—	—	—	—
Total transactions with owners of the Company	—	—	—	—	—	—
As of September 30, 2020	**¥ 3,634**	**¥56,595**	**¥ 304**	**¥ 303**	**¥ (1,218)**	**¥ (611)**

	Retained earnings	Equity attributable to owners of the Company	Total equity
As of January 1, 2020	**¥ 73,228**	**¥ 132,817**	**¥ 132,817**
Net income (loss)	**(14,624)**	**(14,624)**	**(14,624)**
Other comprehensive income, net of tax	—	**30**	**30**
Total comprehensive income	**(14,624)**	**(14,595)**	**(14,595)**
Dividends	**(1,975)**	**(1,975)**	**(1,975)**
Total contributions by and distributions to owners of the Company	**(1,975)**	**(1,975)**	**(1,975)**
Total transactions with owners of the Company	**(1,975)**	**(1,975)**	**(1,975)**
As of September 30, 2020	**¥ 56,629**	**¥ 116,247**	**¥ 116,247**

SKYLARK HOLDINGS CO., LTD. and Subsidiaries

(5) Condensed Interim Consolidated Statements of Cash Flows

For the Nine-Month Periods Ended September 30, 2019 and 2020 (Unaudited)

(Millions of yen)

	For the Nine-month period ended September 30, 2019	**For the Nine-month period ended September 30, 2020**
Cash flows from operating activities		
Income(loss) before income taxes	¥ 16,828	**¥ (23,710)**
Adjustments for:		
Depreciation and amortization	38,477	**38,225**
Loss on impairment of non-financial assets	1,198	**8,156**
Gain or loss on sale and disposal of fixed assets	708	**123**
Interest income	(9)	**(12)**
Other income	(2)	**(2)**
Interest expense	3,149	**2,068**
Other expenses	29	**512**
	60,377	**25,361**
Changes in working capital, etc.:		
Decrease in trade and other receivables	(60)	**662**
Decrease in inventories	278	**476**
Increase (decrease) in trade and other payables	(2,823)	**(3,796)**
Other	1,048	**4,342**
Cash generated from operations	58,819	**27,045**
Interest and dividends received	4	**8**
Interest paid	(1,698)	**(1,586)**
Income taxes paid	(5,709)	**(4,392)**
Net cash from operating activities	51,417	**21,074**
Cash flows from investing activities		
Payments into time deposits	(792)	**(380)**
Proceeds from withdrawals of time deposits	792	**651**
Acquisition of property, plant and equipment	(13,520)	**(12,469)**
Proceeds from sale of property, plant and equipment	25	**1**
Acquisition of intangible assets	(2,006)	**(1,373)**
Proceeds from sale of intangible assets	6	**—**
Payment of loans	(7)	**(1)**
Proceeds from collection of loans	7	**0**
Payments of lease deposits and guarantee deposits	(903)	**(540)**
Proceeds from collection of lease deposits and guarantee deposits	413	**413**
Other	(204)	**(132)**
Net cash used in investing activities	(16,189)	**(13,831)**
Cash flows from financing activities		
Proceeds from short-term borrowings	8,500	**100,000**
Repayments of short-term borrowings	(8,500)	**(94,000)**
Proceeds from long-term borrowings	110,000	**25,000**
Repayments of long-term borrowings	(112,675)	**(8,500)**
Proceeds from exercise of stock options	209	**—**
Repayments of lease liabilities	(28,779)	**(27,681)**
Dividends paid	(6,040)	**(1,980)**
Payments of commissions related to borrowings	(43)	**(457)**
Net cash used in financing activities	(37,327)	**(7,617)**
Effect of exchange rate on the balance of cash and cash equivalents held in foreign currency	(36)	**10**
Net increase(decrease) in cash and cash equivalents	(2,135)	**(363)**
Cash and cash equivalents at the beginning of the period	18,908	**18,949**
Cash and cash equivalents at the end of the period	¥ 16,773	**¥ 18,585**

(6) Notes on the Going Concern Assumption

No items to report

(7) Notes to Condensed Interim Consolidated Financial Statements

(i) Changes in Accounting Policies

Newly-adopted accounting standards and amendments

The significant accounting policies adopted for the condensed interim consolidated financial statements are the same as those for the consolidated financial statements for the fiscal year ended December 31, 2019, except for the following standards, which have been newly adopted.

The Group calculates income taxes for the nine-month period ended September 30, 2020 based on the estimated average annual effective tax rate.

The Group has adopted the following standards from the three-month period ended March 31, 2020.

IFRSs	Title	Description of New Standards/Amendments/Transitional Provisions
IFRS 3	Business Combinations	・Amendments to the definition of a business
IAS 1	Presentation of Financial Statements	・Amendment of the definition of "material"
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	・Amendment of the definition of "material"
IFRS 7	Financial Instruments: Disclosures	・Modification of specific hedge accounting requirements in response to IBOR reform
IFRS 9	Financial Instruments	・Modification of specific hedge accounting requirements in response to IBOR reform

The adoption of the above standards had no material impact on the condensed interim consolidated financial statements

The Group has adopted the following standard from the six-month period ended June 30, 2020.

IFRSs	Title	Description of New Standards/Amendments/Transitional Provisions
IFRS 16	Leases	・Amendment concerning accounting treatment in regard to COVID-19-related rent concessions

COVID-19-Related Rent Concessions In accordance with the amendment to IFRS 16 published in May 2020, a rent concession arising as a direct result of the COVID-19 pandemic and which also meets all of the following conditions will not be considered as a change to the terms of the lease and accounted for variable lease payments.

- The revised lease consideration resulting from a change in the lease fee is approximately equal to or less than the lease consideration immediately prior to the change.
- The lease-fee reduction only affects payments that are due prior to June 30, 2021.
- There are no material changes to the other terms and conditions of the lease.

In addition, the adoption of this standard increased income before income taxes by 970 million yen for the nine-month period ended September 30, 2020

(ii) Segment Information

The reportable segments of the Group are determined based on the operating segments that are components of the Group for which discrete financial information is available and whose operating results are reviewed regularly by the Board of Directors to make decisions about resources to be allocated to the segments and assess its performance. Operating segments are components of business activities from which the Group may earn revenues and incur expenses, including revenues and expenses relating to transactions with other operating segments.

The Group identifies the Restaurant Segment as the only reportable segment to be disclosed. Accordingly, the Group has not disclosed reportable segment information.

(iii) Interim Earnings per Share

(Millions of yen, except per share amounts)

	For the Nine-month period ended September 30, 2019	**For the Nine-month period ended September 30, 2020**
Net income (loss) attributable to common shareholders of the Company	¥10,512	**¥(14,624)**
Net income (loss) not attributable to common shareholders of the Company	—	**—**
Net income (loss) attributable to common shareholders used for calculation of basic interim earnings per share	10,512	**(14,624)**
Adjustment	—	**—**
Net income (loss) attributable to common shareholders used for calculation of diluted interim earnings per share	¥10,512	**¥(14,624)**
Weighted-average number of common shares during the period (Share)	197,288,914	**197,502,200**
Increase in number of common shares used for calculation of diluted interim earnings per share (Share)		
Increased number of common shares by stock options	153,923	—
Weighted-average number of common shares used for calculation of diluted interim earnings per share (Share)	197,442,837	**197,502,200**
Basic interim earnings per share (Yen)	¥ 53.28	**¥ (74.05)**
Diluted interim earnings per share (Yen)	53.24	**(74.05)**

(Note) The diluted earnings per share for the current nine-month period are the same as the basic earnings per share for the said period due to no existence of potential shares.

(vi) Significant Subsequent Events

No items to report.

3. Others

Significant Events Relating to Going Concern Assumption

During the period of which the evaluation reference date is the last day of the nine-month period ended September 30, 2020, the Company violated the provisions relating to net leverage ratio in the financial covenants for borrowings. Due to such situation, there is an event or situation that may give rise to material doubts regarding the going concern assumption. However, the Company is implementing measures based on the following specific business plans and financial plans.

① Specific business plans

Consumer behavior has changed significantly as a result of the spread of the COVID-19 virus, and kinds of value demanded by customers when eating out are also changing. Although we expect these very challenging business conditions to continue moving forward, we will work steadily to accurately grasp consumer needs as part of the "new normal" way of life, and utilize our store network, production locations and other business resources to implement measures for improving profits.

1. Sales reinforcement measures

(i) Reconstructing a Store Portfolio with a View to Maximizing Delivery and Take-out Sales

The Company currently offers take-out services at around 2,800 stores, and delivery services at around 1,500 stores. With the corona pandemic, demand and recognition for these services have risen drastically, leading to dramatic growth in sales in comparison with the previous year. Moving forward, we believe that demand for delivery and take-out services will expand, and expectations for the quality of restaurant services will continue to increase. The Company will make maximum effective use of its stores and restaurants located nationwide as bases for providing delivery and take-out services.

- Delivery areas will be reviewed and revised on an individual store basis to eliminate the areas without coverage by shifting some stores to different business types and reorganizing delivery areas.
- We will aim to increase the number of orders received through the shortening of delivery times, by revising delivery areas for each store or restaurant and creating smaller spheres of business operation.
- *Grazie Garden*, in the Italian business category, will be rebranded as a specialty pizza restaurant, with the aim of expanding sales as a pizza delivery and take-out base offering the lowest prices in the industry.
- Delivery services will be introduced for all business types. Numbers of stores will be increased, joint delivery areas will be expanded, and business partnerships will be formed with delivery enterprises such as UberEats and Demae-Can in order to accelerate growth.

(ii) Making Maximum Effective Use of the Business Resources of Existing Stores

The Company has a diverse portfolio of more than twenty business categories, and has so far expanded its sales by switching between business types in step with changes in the geographical area in which each of its stores does business. In addition to switching business types, we are also introducing a new business method called "complex" or "mixed" category business, in which two brands are rolled out at a single store, utilizing our network of existing brand stores.

- By selling products from our karaage (fried chicken) specialty chain *Karayoshi* inside *Gusto* restaurants, we will expand sales for eat-in dining, delivery and take-out.
- We will utilize our network of *Yumean* and *Aiya* restaurants to greatly expand the number of locations selling sushi, which is still selling strongly even during the COVID-19 crisis.

(iii) Expanding into New Sales Channels

In order to respond to the "With Corona" era, we believe that it will be necessary to work to expand our sales channels, going beyond the confines of our business operations so far. Making maximum effective use of business resources including our network of around 3,200 stores (sales locations) nationwide, ingredient procurement leveraging our advantages of scale, production at our central kitchens, delivery using our own logistics systems, and our unique supply chains we are rolling out external sales and web-order business operations.

- At our *Bamiyan* restaurant chain we are selling frozen gyoza dumplings (one of the chain's flagship products) for take-out. In addition to 30 *Bamiyan* restaurants currently selling these products on a trial basis, we have also launched sales at seven *Gusto* restaurant locations.
- We opened online stores on November 2, 2020, and have a plan to open our own EC site in next year.
- We will also be utilizing our central kitchens to roll out products for other categories.

2. Offering Products and Services Demanded by Consumers in the "With Corona" Era

We believe that in this new era of living with COVID-19, consumers will begin to ask what kind of value it is that the Company can provide. Moving forward, we will gradually implement the following strategies, and accelerate our initiatives for expanding sales.

- We will invest efforts into providing products and services that will please children in particular, who are a key part of our main customer demographic of families.
- As health-consciousness increasing, we will develop balanced menus with low calories and sodium.
- We will also brush up further on the taste of the dishes that we provide, which we have developed over the course of many years in the industry, in pursuit of a professional taste that cannot be recreated at home.
- We will enhance the specialization of our various business types, and develop more appealing flagship products.
- We will shift to daytime menu items, and expand our lineup of products catering to the demand for cafe-type items, such as finger food which is suitable for customers working from home, or taking classes remotely.
- We will shift to specialized business types with a strong focus on having customers visit with a specific objective in mind, as represented by brands such as *Musashi No Mori Coffee*, *Totoyamichi*, *LaOhana* and *Steak Gusto*.

3. Fundamental Review of Costs and Investments

To overcome the difficult current situation, the Company will work to build a leaner management framework by cutting costs, reducing cost prices, and reviewing capital investments.

- We will cut costs such as by reducing personnel expenses and head office expenses and negotiating rents.
- We will also work to reduce cost prices through strategies such as reviewing factory production processes, changing delivery routes, sharing ingredients between business types and revising menus to reduce food losses.
- We will also limit capital investments by freezing plans to open new stores and restaurants and reviewing investments in IT.

② Specific financial plan and outline of fund procurement

In order to secure the working capital and stabilize the financial capacity in the situation that the COVID-19 is spreading, the Company entered into a commitment line agreement in the form of syndicate loans with Mizuho Bank, Ltd., MUFJ Bank, Ltd. and Sumitomo Mitsui Banking Corporation in an amount of 40 billion yen on March 31, 2020. Afterwards in anticipation of uncertainty increased due to the issuance of the declaration of a state of emergency, etc., we entered into an agreement of long-term loan (based on crisis response scheme) of 20 billion yen with Development Bank of Japan Inc. on May 29, 2020. On June 18, 2020, we added the Norinchukin Bank and Sumitomo Mitsui Trust Bank, Limited as the lenders and entered into the amended agreement of the said commitment line agreement for increasing the maximum amount to 100 billion yen. We believe that such measures are sufficient to respond to the impact of further spread of the COVID-19 on the business.

③ Regarding the conflict of the financial covenants

The Company has violated the provisions relating to the net leverage ratio in the financial covenants for borrowings during the period of which the evaluation reference date is the last day of the nine-month period ended September 30, 2020, however we obtained the consent from each financial institution to waive the right to request for forfeiture of benefit of time for this violation there from.

④ Regarding the amendment of the commitment line agreement

We entered into the amended commitment line agreement and increased the maximum commitment line amount in anticipation to the urgent and unexpected demand for funds due to the COVID-19 on June 18, 2020. In addition, we added some financial institutions according to such increase of the maximum commitment line amount, and separately entered into a loan agreement with Development Bank of Japan Inc. Such arrangements as well as the loan separately provided by the Development Bank of Japan Inc. were conducted to make the support from the financial institution group solid with participation of all lenders.

At the end of this quarter, the borrowed balance under the commitment line agreement was 11 billion yen. We have explained to financial institutions about the situation that our existing store sales are recovering after cancellation of the declaration of a state of emergency and that we are steadily promoting investment control and cost reduction, and we have

already started discussions regarding future refinancing policy, etc. that was a prerequisite for the conclusion of the commitment line agreement. We believe that our business model will be able to maintain sufficient competitiveness in the post COVID-19 world and that each financial institution will continue to provide financial support for stable cash flow in the future.

Consequently, the Company believes that there are no significant uncertainties regarding the going concern assumption.