Translation

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Summary of Non-Consolidated Financial Results for the Six Months Ended February 29, 2020 (Based on Japanese GAAP)

April 14, 2020

Company name:	and factory, inc	
Stock exchange listing:	Tokyo	
Stock code:	7035	URL https://andfactory.co.jp/
Representative:	Rinji Aoki, President and Representative Director	
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Scheduled date to file quarterly securities report:		April 14, 2020
Scheduled date to commence dividend payments:		―
Preparation of supplementary material on quarterly financial results:		Yes
Holding of quarterly financial results meeting:		Yes

(Amounts less than one million yen are rounded down.)

1. Non-Consolidated financial results for the six months ended February 29, 2020 (From September 1, 2019 to February 29, 2020)

(1) Non-consolidated operating results (cumulative) Percentages indicate year-on-year changes.

	Net sales		Operating income		Ordinary profit		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended February 29, 2020	1,484	49.2	(50)	―	(86)	―	(64)	―
Six months ended February 28, 2019	995	―	102	―	81	―	55	―

	Earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended February 29, 2020	(6.62)	―
Six months ended February 28, 2019	5.89	5.63

Notes:
1. The Company did not prepare quarterly financial statements for the six months ended February 28, 2018. Accordingly, no year-on-year percentage changes are indicated for the six months ended February 28, 2019.
2. The Company's shares were listed on the Mothers market of the Tokyo Stock Exchange on September 6, 2018. For that reason, the average share price between the listing date and February 28, 2019 is used to calculate average diluted earnings per share for the six months ended February 28, 2019.
3. The Company conducted a two-for-one split of common stock on August 1, 2019. However, earnings per share and diluted earnings per share are calculated as if the stock split had occurred on September 1, 2018.
4. Although dilutive shares exist, diluted earnings per share are not stated for the six months ended February 29, 2020, as earnings per share were negative.

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of February 29, 2020	5,167	1,746	33.8
As of August 31, 2019	3,040	1,798	59.1

2. Cash dividends

	Annual dividends per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Total
Year ended August 31, 2019	―	0.00	―	0.00	0.00
Year ending August 31, 2020	―				
Year ending August 31, 2020 (Forecast)		0.00	―	0.00	0.00

3. Forecast of non-consolidated financial results for the year ending August 31, 2020 (From September 1, 2019 to August 31, 2020)

Percentages indicate year-on-year changes.

	Net sales		Operating income		Ordinary profit		Profit		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	5,999	53.2	580	13.2	560	15.7	390	18.9	41.08

4. Notes

(1) Application of special accounting methods for preparing quarterly non-consolidated financial statements: Yes

Note: For tax expenses, the Company has rationally estimated its effective tax rate after the application of tax-effect accounting to profit before income taxes for the fiscal year that includes the six months ended February 29, 2020. The Company then calculated tax expenses by multiplying its profit (loss) before income taxes by that rate.

(2) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements

Changes in accounting policies due to revisions to accounting standards and other regulations: No

Changes in accounting policies due to other reasons: No

Changes in accounting estimates: No

Restatement of prior period financial statements: No

(3) Number of issued shares (common stock)

Total number of issued shares at the end of the period (including treasury shares)

Total number of issued shares at the end of the period (including treasury shares)

As of February 29, 2020	9,824,080 shares	As of August 31, 2019	9,494,640 shares

Number of treasury shares at the end of the period

As of February 29, 2020	214 shares	As of August 31, 2019	189 shares

Average number of shares during the period (cumulative from the beginning of the fiscal year)

Six months ended February 29, 2020	9,739,947 shares	Six months ended February 28, 2019	9,383,154 shares

Note: The Company conducted a two-for-one split of common stock on August 1, 2019. The average number of shares during the six months ended February 28, 2019 is calculated as if the stock split had occurred on September 1, 2018.

Notes: This quarterly financial report is exempt from the quarterly review.

Explanation about appropriate usage of business forecasts and other special notes:

The forecasts above are based on the judgments made on the basis of currently available information. Forecasts therefore include risks and uncertainties. Actual figures may differ from these forecasts due to subsequent changes in circumstances.

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1. Qualitative Information on Quarterly Financial Results

(1) Analysis of Operating Performance

In the six months ended February 29, 2020, the Japanese economy continued to experience gradual recovery, buoyed by improvements in the employment and income environments. However, the outlook grew increasingly uncertain due to the impact on the domestic and overseas economies of such factors as trade friction between the United States and China and the novel coronavirus outbreak.

Against this backdrop, the e-book market (the Company's main business category) continued to grow, according to the *eBook Marketing Report 2019* by Impress Research Institute. According to this report, the e-book market had a value of ¥282.6 billion in fiscal 2018, up 26.1% from the previous year's figure of ¥224.1 billion. Comics accounted for 84.5% of the total, or ¥238.7 billion. The same institute's report for the previous year, the *eBook Marketing Report 2018*, had forecast that the e-book market would reach a value of ¥255.0 billion in fiscal 2018. The actual figure exceeded this forecast. By fiscal 2023, the institute forecasts that the market will grow by approximately 50% from fiscal 2018, to ¥433.0 billion.

The IoT business, another area of focus for the Company, is also attracting attention. This field involves adding communication functionality to physical items around the world (not just to computers and other information and telecommunication equipment), enabling them to connect and communicate over the internet. Given the advances that are occurring in internet technologies, as well as various types of sensor technologies, the number of items connected over the internet (IoT devices) is projected to grow by around 60% from approximately 27.4 billion items in 2017 to some 44.7 billion items in 2021 (source: *2019 White Paper on Information and Communications in Japan*, Ministry of Internal Affairs and Communications).

In this business environment, the Company pursues a mission to make people's lives more fulfilling by bringing a little "something extra" to their daily lives. In the Smartphone Apps business, the Company is focusing on expanding earnings from smartphone manga apps, mostly developed in collaboration with large publishers. In the IoT business segment, the Company is promoting the adoption of technology in the lodging business. In line with this business policy, we are concentrating on the launch of &AND HOSTEL smart hostels, a lodging management system (innto), a guest room tablet service (tabii), and the provision of other IoT solution services for lodging facilities. As new initiatives in the rental property market, we are developing a communication app (totono) to connect management companies and tenants.

As a result of these activities, in the six months ended February 29, 2020, the Company generated net sales of ¥1,484,672 thousand (up 49.2% year on year), an operating loss of ¥50,671 thousand (operating income of ¥102,965 thousand in the corresponding period of the previous fiscal year), an ordinary loss of ¥86,240 thousand (ordinary profit of ¥81,647 thousand in the corresponding period of the previous fiscal year), and a net loss of ¥64,480 thousand (net income of ¥55,288 thousand in the corresponding period of the previous fiscal year).

(1) Smartphone Apps business

In the six months ended February 29, 2020, the Company conducted proactive advertising for existing manga apps, such as Manga UP! Manga Park, and Manga Mee, and conducted new series launches. As a result, the number of monthly active users (MAUs[*1]) increased. Extending the availability of popular content and new manga additions, resulted in the favorable post-launch performance of services. Additionally, MAUs have been increasing steadily, contributing to earnings, since the release in August 2019 of Sunday Webry, a manga app jointly developed with Shogakukan Inc., and the release in November 2019 of Manga TOP, a manga app jointly developed with Nihonbungeisha Co., Ltd.

However, average revenue per user (ARPU[*2]) was weaker than planned, and project orders fell short of forecasts in the manga-specific ad network business, COMIAD.

As a result, in the six months ended February 29, 2020, sales in the Smartphone Apps business were ¥1,218,060 thousand (up 49.6% year on year). Segment profit came to ¥179,733 thousand (down 31.8% year on year).

*1 The number of people who use an app at least once in a month

*2 The average amount of revenue generated per person

Of the smartphone apps the Company operates in the Smartphone Apps business, the following table outlines average MAUs by quarter for the Saikyo series and manga apps.

(Thousands of people)

	Average MAUs	
	Saikyo series	Manga apps
November 30, 2015	260	—
February 29, 2016	250	—
May 31, 2016	250	—
August 31, 2016	260	—
November 30, 2016	590	—
February 28, 2017	700	180
May 31, 2017	710	310
August 31, 2017	670	650
November 30, 2017	920	1,080
February 28, 2018	700	1,500
May 31, 2018	530	2,040
August 31, 2018	470	2,380
November 30, 2018	510	2,790
February 28, 2019	390	3,620
May 31, 2019	300	4,300
August 31, 2019	290	5,320
November 30, 2019	270	6,410
February 29, 2020	160	7,200

Note: the average MAUs shown above are quarterly averages.

(2) IoT business

In the six months ended February 29, 2020, the Company made progress on ongoing planning and development work for its mainstay &AND HOSTEL brand of smart hostels (lodging facilities offering experiences made possible through IoT). The Company opened &AND HOSTEL NAMBA, bringing the number of facilities in operation to 12.

Meanwhile, consulting and real estate brokerage fees related to the planning and development of &AND HOSTEL facilities that had been expected in the six-month period were delayed to the third quarter or beyond, having a negative impact on profit year on year.

For our guest room tablet service (tabii), we strengthened relations with partner companies such as H.I.S. Hotel Holdings Co., Ltd. and TEPCO Energy Partners Inc., expanded sales teams, and engaged in active development efforts to create new functions aimed at boosting operating efficiency and increasing added value, although sales activities were down from usual levels due to the New Year holiday season. As a result, the total number of tabii tablets in operation increased to 3,837 (up 984 from August 31, 2019).

The Company brought the number of facilities using its lodging management system (innto) up to 331 as of February 29, 2020 (up by 99 facilities from August 31, 2019). At the same time, the Company made active investments, including spending to support the openings of new &AND HOSTEL facilities, expand its innto and tabii services, and develop an application as part of efforts to develop new services in the rental property market.

Consequently, in the six months ended February 29, 2020 sales in the IoT business came to ¥207,287 thousand (up 36.7% year on year), with segment losses of ¥65,124 thousand (loss of ¥35,029 thousand in the same period of the previous year).

(3) Other businesses

The majority of earnings in this segment comes from the Company's internet advertising agency services. In the six months ended February 29, 2020, Other businesses reported sales of ¥59,324 thousand (up 102.4% year on year) and segment profit of ¥14,543 thousand (up 67.5% year on year).

(2) Analysis of Financial Conditions

(1) Assets, liabilities, and net assets

(Assets)

As of February 29, 2020, total assets amounted to ¥5,167,628 thousand, up ¥2,127,392 thousand from August 31, 2019. Key increases included trade accounts receivable, up ¥101,540 thousand; real estate for sale, up ¥1,174,623 thousand; real estate for sale in process, up ¥1,117,002 thousand; advances paid, up ¥163,032 thousand; and intangible assets, up ¥36,292 thousand. In addition, investment securities corresponding to the acquisition of shares in unlisted companies rose ¥130,144 thousand, while cash and deposits decreased ¥798,636 thousand.

(Liabilities)

Total liabilities amounted to ¥3,420,770 thousand as of February 29, 2020, up ¥2,178,657 thousand from August 31, 2019. Major increases included other accounts payable, up ¥16,548 thousand; long-term borrowings (including the current portion of long-term borrowings), which rose ¥2,260,386 thousand due to borrowings to fund the acquisition of real estate for sale. Meanwhile, income taxes payable decreased ¥102,859 thousand due to the payment of taxes.

(Net assets)

As of February 29, 2020, net assets totaled ¥1,746,858 thousand, down ¥51,264 thousand from August 31, 2019. Notably, share capital rose ¥6,214 thousand, and the legal capital surplus expanded ¥5,945 thousand due to the exercise of share acquisition rights. At the same time, the Company posted a net loss, causing retained earnings to fall ¥64,480 thousand.

The equity ratio came to 33.8% (compared with 59.1% as of August 31, 2019).

(2) Cash flows

As of February 29, 2020, cash and cash equivalents amounted to ¥554,297 thousand, down ¥798,636 thousand from August 31, 2019.

(Cash flows from operating activities)

Net cash used in operating activities came to ¥2,812,557 thousand. Specifically, a pretax loss used ¥92,649 thousand, an increase in accounts receivable used ¥101,540 thousand, an increase in inventories used ¥2,282,924 thousand, an increase in advances paid used ¥163,032 thousand, and corporate tax payments used ¥90,570 thousand.

(Cash flows from investing activities)

Investing activities used net cash of ¥243,681 thousand. Major uses of cash included ¥56,456 thousand for the acquisition of intangible assets and ¥130,144 thousand for the acquisition of investment securities.

(Cash flows from financing activities)

Net cash provided by financing activities was ¥2,257,601 thousand. This figure was chiefly due to ¥2,288,000 thousand in proceeds from long-term loans payable.

(3) Operating Performance Forecast

The Company expects the novel coronavirus outbreak to affect its performance to some extent. However, at this point we expect the impact to be slight and to therefore not warrant revision of the forecast announced on October 11, 2019 for the fiscal year ending August 31, 2020. We anticipate the following impacts on our mainstay businesses and services.

In the Smartphone Apps business, following school closures in response to the novel coronavirus outbreak, the Company began offering some of the manga works available through its manga apps for free. The development of a new manga app scheduled for release during the year ending August 31, 2020 is proceeding smoothly, so the Company does not see the outbreak impacting its earnings on this front at this time.

In the IoT business, due to the declaration of a state of emergency by the Japanese government, the Company decided to suspend operation of all &AND HOSTEL locations from April 8, 2020. The Company will decide when to resume operations on a property-by-property basis, taking future government policy and the spread of the disease into account. Earnings for the fiscal year ending August 31, 2020 could be affected, depending on when business recommences at these facilities and the nature of operations after reopening. At present, however, the Company's view is that the impact on overall results will be limited.

Additionally, as the sale of its in-house developed properties is currently progressing as planned with no changes to the schedules, the Company judges that no impact will occur on scale that would require revisions to its full-year forecasts.

As the business environment with regard to the novel coronavirus is changing on a daily basis, the outlook remains unclear. Accordingly, the Company will promptly disclose any changes that significantly affect the &AND HOSTEL business as a whole or the Company's overall performance.

The Company plans to continue expanding its tabii and innto services, but as the target market is lodging facilities, such as hotels, hostels, and Japanese-style inns that are being directly affected by the novel coronavirus pandemic, introduction may not proceed as originally planned depending on the business and financial conditions of these facilities, and this could have an impact on the Company's overall performance.

Taking these factors into overall consideration, at this stage the Company maintains its forecast for the fiscal year ending August 31, 2020 as disclosed on October 11, 2019. We will promptly make disclosures should matters that necessitate revisions to full-year earnings forecasts arise.

Quarterly Non-Consolidated Financial Statements
Quarterly Non-Consolidated Balance Sheets

(Thousands of yen)

	As of August 31, 2019	As of February 29, 2020
Assets		
Current assets		
Cash and deposits	1,352,934	554,297
Accounts receivable–trade	484,044	585,584
Real estate for sale	―	1,174,623
Work in process	7,880	3,193
Real estate for sale in process	276,102	1,393,105
Prepaid expenses	20,902	35,503
Advances paid	278,451	441,483
Other	32,521	178,191
Total current assets	2,452,838	4,365,983
Non-current assets		
Property, plant and equipment		
Buildings	64,992	57,171
Machinery and equipment	―	1,088
Tools, furniture and fixtures	44,838	56,923
Construction in progress	1,922	―
Accumulated depreciation	(35,249)	(54,890)
Total property, plant and equipment	76,503	60,292
Intangible assets		
Software	129,520	110,996
Software in progress	807	55,623
Total intangible assets	130,327	166,620
Investments and other assets		
Investment securities	78,597	208,741
Deferred tax assets	28,194	57,689
Other	273,775	308,301
Total investments and other assets	380,566	574,732
Total non-current assets	587,398	801,645
Total assets	3,040,236	5,167,628

(Thousands of yen)

	As of August 31, 2019	As of February 29, 2020
Liabilities		
Current liabilities		
Accounts payable–trade	98,301	132,153
Short-term borrowings	65,000	65,000
Current portion of long-term borrowings	339,093	506,732
Accounts payable–other	400,872	417,421
Income taxes payable	108,757	5,898
Provision for bonuses	—	23,996
Provision for shareholder benefit program	10,296	—
Other	72,396	22,431
Total current liabilities	1,094,717	1,173,632
Non-current liabilities		
Long-term borrowings	147,395	2,240,142
Other	—	6,995
Total non-current liabilities	147,395	2,247,137
Total liabilities	1,242,112	3,420,770
Net assets		
Shareholders' equity		
Share capital	543,263	549,478
Capital surplus	542,174	548,119
Retained earnings	713,138	648,657
Treasury shares	(452)	(512)
Total shareholders' equity	1,798,123	1,745,743
Share acquisition rights	—	1,114
Total net assets	1,798,123	1,746,858
Total liabilities and net assets	3,040,236	5,167,628

Quarterly Non-Consolidated Statements of Income
Quarterly Non-Consolidated Statements of Income (First Six Months)

(Thousands of yen)

	Six months ended February 28, 2019	Six months ended February 29, 2020
Net sales	995,061	1,484,672
Cost of sales	409,528	643,751
Gross profit	585,532	840,920
Selling, general and administrative expenses	482,567	891,592
Operating profit (loss)	102,965	(50,671)
Non-operating income		
Interest income	12	22
Gain on transfer of business	2,000	―
Surrender value of insurance policies	―	743
Other	50	207
Total non-operating income	2,062	973
Non-operating expenses		
Interest expenses	2,648	6,387
Share issuance cost	5,238	―
Loss on valuation of investment securities	1,009	―
Commission expenses	14,000	30,111
Other	484	43
Total non-operating expenses	23,380	36,542
Ordinary profit (loss)	81,647	(86,240)
Extraordinary losses		
Impairment loss	―	6,409
Total extraordinary losses	―	6,409
Profit (loss) before income taxes	81,647	(92,649)
Income taxes	26,358	(28,168)
Profit (loss)	55,288	(64,480)

Quarterly Non-Consolidated Statements of Cash Flows

(Thousands of yen)

	Six months ended February 28, 2019	Six months ended February 29, 2020
Cash flows from operating activities		
Profit (loss) before income taxes	81,647	(92,649)
Depreciation	13,267	50,729
Share issuance costs	5,238	—
Loss (gain) on sale of businesses	(2,000)	—
Loss (gain) on valuation of investment securities	1,009	—
Increase (decrease) in allowance for doubtful accounts	41	—
Increase (decrease) in provision for bonuses	(21,390)	23,996
Increase (decrease) in provision for bonuses for directors (and other officers)	(15,621)	—
Increase (decrease) in provision for shareholder benefit program	—	(10,296)
Interest income	(12)	(22)
Interest expenses	2,648	6,387
Impairment loss	—	6,409
Decrease (increase) in trade receivables	(91,576)	(101,540)
Decrease (increase) in inventories	(1,235,867)	(2,282,924)
Decrease (increase) in prepaid expenses	(6,862)	(13,997)
Decrease (increase) in advances paid	(104,350)	(163,032)
Increase (decrease) in trade payables	22,604	33,851
Increase (decrease) in accounts payable - other	55,929	19,493
Other, net	(82,462)	(191,424)
Subtotal	(1,377,758)	(2,715,018)
Interest and dividends received	12	22
Interest paid	(3,271)	(6,990)
Income taxes paid	(91,467)	(90,570)
Net cash provided by (used in) operating activities	(1,472,484)	(2,812,557)
Cash flows from investing activities		
Purchase of property, plant and equipment	(10,060)	(15,540)
Purchase of intangible assets	(57,855)	(56,456)
Payments of leasehold and guarantee deposits	(21,285)	(45,881)
Proceeds from refund of leasehold and guarantee deposits	—	380
Purchase of investment securities	(68,637)	(130,144)
Proceeds from sale of businesses	2,000	—
Other, net	(5)	3,961
Net cash provided by (used in) investing activities	(155,842)	(243,681)
Cash flows from financing activities		
Proceeds from long-term borrowings	1,400,000	2,288,000
Repayments of long-term borrowings	(35,448)	(39,614)
Proceeds from issuance of shares	1,011,453	—
Proceeds from exercise of employee share options	802	12,160
Other, net	(367)	(2,944)
Net cash provided by (used in) financing activities	2,376,439	2,257,601
Net increase (decrease) in cash and cash equivalents	748,112	(798,636)
Cash and cash equivalents at beginning of period	672,495	1,352,934
Cash and cash equivalents at end of period	1,420,607	554,297

(4) Notes to the Quarterly Consolidated Financial Statements

(Notes Related to the Going Concern Assumption)

Not applicable

(Notes in the Event of Significant Changes in Shareholders' Equity)

Not applicable

(Application of Special Accounting Treatment for Quarterly Financial Reporting)

For tax expenses, the Company has rationally estimated its effective tax rate after the application of tax-effect accounting to profit before income taxes for the fiscal year that includes the six months ended February 29, 2020. The Company then calculated tax expenses by multiplying its profit (loss) before income taxes by that rate.

(Segment Information, etc.)

[Segment Information]

Six months ended February 28, 2019 (September 1, 2018 to February 28, 2019)

1. Information related to sales and profits or losses for each reportable segment

(Thousands of yen)

	Reportable segments			Other	Total
	Smartphone APPs	IoT	Total		
Net Sales					
Sales to external customers	814,146	151,604	965,751	29,309	995,061
Intersegment sales or transfer	—	—	—	—	—
Total	814,146	151,604	965,751	29,309	995,061
Segment profit (loss)	263,501	(35,029)	228,471	8,680	237,152

Note: "Other" refers to businesses not included in the reportable segment, mainly comprising internet advertising agency services and production of articles.

2. Total profits or losses for reportable segments and the main reasons for discrepancies between this value and the figure stated in the quarterly non-consolidated statements of income (matters related to the adjustment of discrepancies)

(Thousands of yen)

Income	Amount
Subtotal for reportable segments	228,471
Income from "Other" businesses	8,680
Company-wide expenses (Note)	(134,186)
Operating profit (loss) in the quarterly non-consolidated statements of income	102,965

Note: Company-wide expenses are mainly general and administrative expenses not attributable to reportable segments.

3. Information related to assets for each reportable segment

During the six months ended February 28, 2019, assets in the IoT business segment increased by ¥1,242,880 thousand due to the acquisition of real estate for sale related to property developed by the Company in the &AND HOSTEL business.

4. Information related to losses on the impairment of fixed assets or goodwill for each reportable segment

(Significant impairment losses related to fixed assets)

Not applicable

Six months ended February 29, 2020 (September 1, 2019 to February 29, 2020)

1. Information related to sales and profits or losses for each reportable segment

(Thousands of yen)

	Reportable segments			Other	Total
	Smartphone APPs	IoT	Total		
Net Sales					
Sales to external customers	1,218,060	207,287	1,425,347	59,324	1,484,672
Intersegment sales or transfer	—	—	—	—	—
Total	1,218,060	207,287	1,425,347	59,324	1,484,672
Segment profit (loss)	179,733	(65,124)	114,608	14,543	129,152

Note: “Other” refers to businesses not included in the reportable segment, mainly comprising internet advertising agency services.

2. Total profits or losses for reportable segments and the main reasons for discrepancies between this value and the figure stated in the quarterly non-consolidated statements of income (matters related to the adjustment of discrepancies)

(Thousands of yen)

Income	Amount
Subtotal for reportable segments	114,608
Income from “Other” businesses	14,543
Company-wide expenses (Note)	(179,824)
Operating profit (loss) in the quarterly non-consolidated statements of income	(50,671)

Note: Company-wide expenses are mainly general and administrative expenses not attributable to reportable segments.

3. Information related to assets for each reportable segment

During the six months ended February 29, 2020, assets in the IoT business segment increased by ¥2,291,625 thousand due to the acquisition of real estate for sale related to property developed by the Company in the &AND HOSTEL business.

4. Information related to losses on the impairment of fixed assets or goodwill for each reportable segment

(Significant impairment losses related to fixed assets)

In the IoT business, the Company decided to close &AND HOSTEL UENO when its fixed-term lease expired. Accordingly, the Company reduced the book value of that asset group to its recoverable value and recognized that reduction as an impairment loss.

This impairment loss totaled ¥6,409 thousand.

(Significant Subsequent Events)

Not applicable