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Summary of Non-Consolidated Financial Results for the Fiscal Year Ended August 31, 2021 (Based on Japanese GAAP)

October 15, 2021

Company name:	and factory, inc	
Stock exchange listing:	Tokyo	
Stock code:	7035	URL https://andfactory.co.jp/
Representative:	Rinji Aoki, President and Representative Director	
Contact:	Tomoki Hasumi, Director	Phone: +81-3-6712-7646
Scheduled date of General Meeting of Shareholders:		November 25, 2021
Scheduled date to file annual securities report:		November 26, 2021
Scheduled date to commence dividend payments:		—
Preparation of supplementary material on annual financial results:		Yes
Holding of annual financial results meeting:		Yes

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

1. Non-Consolidated financial results for the Fiscal Year ended August 31, 2021 (From September 1, 2020 to August 31, 2021)

(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	%
Fiscal Year ended August 31, 2021	3,044	3.3	(83)	—	(239)	—	(561)	—
Fiscal Year ended August 31, 2020	2,946	(24.8)	(202)	40.3	(259)	—	(362)	—

	Earnings per share	Diluted earnings per share	Rate of return on equity	Ordinary profit to total assets	Operating profit to net sales
	Yen	Yen	%	%	%
Fiscal Year ended August 31, 2021	(57.13)	—	(48.1)	(4.1)	(2.7)
Fiscal Year ended August 31, 2020	(37.01)	—	(22.3)	(5.5)	(6.9)

Notes: Although dilutive shares exist, diluted earnings per share are not stated as earnings per share were negative.

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of August 31, 2021	5,376	888	16.5	90.28
As of August 31, 2020	6,343	1,449	22.8	147.41

(3) Non-consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of the period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Fiscal Year ended August 31, 2021	(118)	(79)	(55)	774
Fiscal Year ended August 31, 2020	(3,282)	(316)	3,274	1,028

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, 2020	—	0.00	—	0.00	0.00
Year ending August 31, 2021	—	0.00	—	0.00	0.00
Year ending August 31, 2022 (Forecast)	—	0.00	—	0.00	0.00

3. Forecast of non-consolidated financial results for the year ending August 31, 2021 (From September 1, 2020 to August 31, 2021) 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	3,050	0.2	170	—	(47)	—	(40)	—	(4.07)

Notes

(1) 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

(2) 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 August 31, 2021	9,827,120 shares	As of August 31, 2020	9,827,120 shares
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Number of treasury shares at the end of the period

As of August 31, 2021	257 shares	As of August 31, 2020	257 shares
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Average number of shares during the period (cumulative from the beginning of the fiscal year)

Fiscal year ended August 31, 2021	9,826,863 shares	Fiscal year ended August 31, 2020	9,782,799 shares
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Notes: This financial report is exempt from the 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. Overview of Operating Performance

(1) Overview of Business Results.

The e-book market (the Company's main business category) continued to grow, according to the eBook Marketing Report 2021 by Impress Research Institute. According to this report, the e-book market had a value of ¥482.1 billion in fiscal 2020, up 28.6% from the previous year's figure of ¥375.0 billion. Comics accounted for 83.0% of the total, or ¥400.2 billion. The same institute's report for the previous year, the eBook Marketing Report 2020, had forecast that the e-book market would reach a value of ¥444.2 billion in fiscal 2020. The actual figure exceeded this forecast. By fiscal 2025, the institute forecasts that the e-publishing market (including e-books) will grow by approximately 1.4 times larger of fiscal 2020, to ¥674.7 billion.

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 Apps business, the Company has focused mainly on expanding earnings from smartphone manga apps developed in collaboration with large publishers.

In the fiscal year ended August 31, 2021, both sales and operating profit rose year on year as a result of an upturn in ARPU (*1), driven by the implementation of user acquisition measures in some manga apps to raise profitability and a resumption of the serialization of popular titles that had been temporarily suspended, and thanks to efficient spending on advertising. On the other hand, we believe that the increased use of websites offering pirated manga content has negatively impacted business expansion in the fiscal year ended August 31, 2021. Although user numbers have remained solid, this may be hampering user acquisition and lowering in-app purchases.

In the IoT business, in line with the business policy of promoting technology in the lodging market, the Company has worked on the development and operation of &AND HOSTEL smart hostels, and the provision of other IoT solution services for lodging facilities such as a lodging management system (innto) and a guest room tablet service (tabii). Additionally, in the rental property market, the Company is developing and operating a communication app (toto) to connect management companies and residents.

At the same time, the business environment surrounding the primary target markets of the IoT business—namely, the lodging and rental property markets—underwent major changes due to the COVID-19 pandemic, and maintaining financial health and securing profit in the foreseeable future have become pressing issues. Having determined that it needed to focus its management resources on its strongest businesses and on the creation of new businesses to drive medium- to long-term business growth, in the fiscal year ended August 31, 2021, the Company announced and started implementing structural reforms in the IoT business. The Company has nearly completed the transfer and handover of the innto, tabii, and toto businesses, and achieved a certain level of visibility with regard to profitability improvement measures in the &AND HOSTEL business. In addition, in August 2021, the Company announced its first medium-term management plan with the aim of clarifying its medium-term business policies going forward and is working to achieve various management goals targeting the fiscal year ending August 31, 2024.

As a result of these activities, in the fiscal year ended August 31, 2021, the Company generated net sales of ¥3,044,429 thousand (plus 3.3% year on year), an operating loss of ¥83,567 thousand (operating income of ¥202,589 thousand in the corresponding period of the previous fiscal year), an ordinary loss of ¥239,793 thousand (ordinary profit of ¥259,767 thousand in the previous fiscal year), and a net loss of ¥561,392 thousand (net income of ¥362,077 thousand in the previous fiscal year).

(1) Apps business

In the fiscal year ended August 31, 2021, the Company implemented proactive advertising for existing manga apps, such as Manga UP!, Manga Park, and Manga Mee, conducted new series launches, and saw a rise in demand as people exercised voluntary self-isolation. As a result, the number of monthly active users (MAUs*2) 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 May 2020 of Young Jump, a manga app jointly developed with SHUEISHA Inc., and the release in May 2020 of Mecha Comic's Mainichi Rensai, a manga app jointly developed with Amutus Corporation.

However, average revenue per user (ARPU) was flat, due in part to the reduction in unit reward prices by some advertisers and partly because of the deleterious overall effect of COVID-19 on the advertising market. Overall, sales continue to grow solidly, and we are investing aggressively in advertising.

As a result, in the fiscal year ended August 31, 2021, sales in the Apps business were ¥2,767,945 thousand (up 8.3% year on year).

Segment profit came to ¥589,810 thousand (plus 55.9% year on year).

*1 The average amount of revenue generated per person

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

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

(Thousands of people)

Year	Average MAUs	Year	Average MAUs
May 31, 2017	310	August 31, 2019	532
August 31, 2017	650	November 30, 2019	641
November 30, 2017	1,080	February 29, 2020	720
February 28, 2018	1,500	May 31, 2020	906
May 31, 2018	2,040	August 31, 2020	994
August 31, 2018	2,380	November 30, 2020	1,026
November 30, 2018	2,790	February 28, 2021	1,054
February 28, 2019	3,620	May 31, 2021	1,056
May 31, 2019	4,300	August 31, 2021	1,101

Note: the average MAUs shown above are quarterly averages.

(2) IoT business

In the fiscal year ended August 31, 2021, occupancy rates trended toward recovery for &AND HOSTEL, our mainstay brand of smart hostels (lodging facilities offering experiences made possible through IoT). The uptrend compared with the fiscal year ended August 31, 2020, when performance was substantially affected by the COVID-19 pandemic, was a result of our efforts to cultivate a new customer base by shifting to new targets and concepts at some hostel branches. However, spending per customer, although improving, remained low, and operating revenue at each location was flat year on year. Sales fell short of the initial plan toward the end of the fiscal year ended August 31, 2021 in the innto, tabii, and totono businesses as we operated these businesses in anticipation of transferring them.

Consequently, in the fiscal year ended August 31, 2021, sales in the IoT business came to ¥276,483 thousand (down 17.9% year on year), with segment losses of ¥267,204 thousand (profit of ¥187,064 thousand in the previous year).

(2) Overview of Financial Condition

(Assets)

As of August 31, 2021, total assets amounted to ¥5,376,550 thousand, down ¥967,298 thousand from the end of August 31, 2020. Key increases included cash and deposits, down ¥253,594 thousand; advance payments, down ¥189,327 thousand, income taxes receivable, down ¥128,403 thousand due to an income tax refund; and consumption taxes receivable, down ¥213,333 thousand due to a consumption tax refund.

(Liabilities)

Total liabilities amounted to ¥4,488,258 thousand as of August 31, 2021, down ¥405,905 thousand from August 31, 2020. This mainly reflected decreases of ¥237,879 thousand in accounts payable–trade, ¥190,000 thousand in accounts payable–other, and ¥194,079 thousand in long-term borrowings (including the current portion of long-term borrowings).

(Net assets)

As of August 31, 2021, net assets totaled ¥888,297 thousand, down ¥561,392 thousand from August 31, 2020. Notably, the Company posted a net loss, causing retained earnings to fall ¥561,392 thousand.

The equity ratio came to 16.5% (compared with 22.8% as of August 31, 2020).

(3) Overview of Cash Flows

As of August 31, 2021, cash and cash equivalents amounted to ¥774,726 thousand, down ¥253,594 thousand from August 31, 2020.

(Cash flows from operating activities)

In the fiscal year ended August 31, 2021, net cash used in operating activities came to ¥118,116 thousand, down from ¥3,282,905 thousand used in these activities in the fiscal year ended August 31, 2020. Specifically, a decrease in advances paid of ¥189,327 thousand, a decrease in consumption taxes receivable of ¥213,333 thousand, and income tax refunds of ¥127,980 thousand were offset by loss before income taxes of ¥557,613 thousand, a decrease in trade payables of ¥237,879 thousand, and a decrease in accounts payable—other of ¥213,143 thousand.

(Cash flows from investing activities)

Investing activities used net cash of ¥79,713 thousand, down from ¥316,099 thousand used in these activities in the previous fiscal year. Major uses of cash included ¥39,786 thousand for payments for sale of businesses and ¥30,996 thousand for the purchase of intangible assets.

(Cash flows from financing activities)

Net cash used in financing activities was ¥55,764 thousand, down from ¥3,274,392 thousand in net cash provided in the fiscal year ended August 31, 2020. This was attributable to a net decrease in short-term borrowings of ¥190,000 thousand and repayments of long-term borrowings of ¥265,764 thousand offsetting proceeds from long-term borrowings of ¥400,000 thousand.

(4) Outlook

The Company engages in the Smartphone Apps and IoT businesses, which are characterized by rapid technological innovation. In addition, the market environment is changing swiftly due to a new influx of companies anticipating market growth. To further expand its field of business and achieve growth and development, the Company's management team recognizes the need to address various issues in its fast-changing business environment. We aim to maximize corporate value by continuing to develop high-value services and invest aggressively in growth initiatives and sustaining efforts to achieve growth and profitability.

In the fiscal year ending August 31, 2022, in the Apps business we will continue working to acquire new manga app development projects. We will also continue to invest proactively in promotions, taking profitability into consideration in line with growth in the e-book market. In addition to manga apps, we will focus on business development initiatives as we seek to create new sources of earnings.

In particular, we have positioned our entry into the Webtoon business domain (manga content suitable for viewing on smartphones and other devices with features such as vertical scrolling and full color) as a priority measure, and are preparing to launch the service. Although we recognize that expansion in the use of websites offering pirated edition of manga will continue to have a certain degree of negative impact on the manga apps business, we will continue working to expand the business by creating original content and differentiating existing applications through marketing and other measures. In addition, the fortune telling business is gradually contributing more to earnings as a result of steady progress in growth measures. We plan to allocate some advertising expenses to the fortune telling business in the fiscal year ending August 31, 2022, with the aim of accelerating growth.

In the IoT business, &AND HOSTEL operations are being affected by restrictions on overseas travel to Japan, as foreign visitors make up the majority of customers. As this situation persists, we doubt these operations will recover to pre-COVID-19 levels any time soon. We are actively working to minimize losses by shifting our focus to domestic demand and introducing cost reduction measures. In addition, we have nearly completed the transfer and substantial downsizing of other IoT businesses, and expect operating losses to narrow substantially. We also expect to start seeing the benefits of the structural reforms from the fiscal year

ending August 31, 2022, without any major deviation from the estimated benefits announced in June 2021.

As a result of these efforts, in the fiscal year ending August 31, 2022, we forecast net sales of ¥3,050 million (up 0.2% year on year), an operating loss of ¥170 million (compared with an operating loss of ¥83 million in the fiscal year ended August 31, 2021), an ordinary loss of ¥47 million (ordinary loss of ¥239 million), and a net loss of ¥40 million (net loss of ¥561 million).

These forecasts are based on information available to management as of the date of this announcement. Actual performance may vary substantially from these forecasts for a variety of reasons.

2. Fundamental Perspective on the Selection of Financial Standards

We plan to prepare our financial statements according to Japanese GAAP for the foreseeable future to enable comparison of the financial statements between fiscal years.

With regard to the application of IFRS, we will respond appropriately after giving due consideration to various circumstances in Japan and overseas.

3. Non-Consolidated Financial Statements

(1) Non-Consolidated Balance Sheets

(Thousands of yen)

	As of August 31, 2020	As of August 31, 2021
Assets		
Current assets		
Cash and deposits	1,028,320	774,726
Accounts receivable–trade	622,887	542,419
Work in process	7,366	19
Real estate for sale	3,163,946	3,148,397
Advances paid	417,388	228,061
Income taxes receivable	128,403	—
Consumption taxes receivable	213,333	—
Other	80,293	49,547
Allowance for doubtful accounts	(15)	(9,830)
Total current assets	5,661,925	4,733,342
Non-current assets		
Property, plant and equipment		
Buildings	47,356	11,599
Machinery and equipment	1,088	1,088
Tools, furniture and fixtures	52,618	58,788
Accumulated depreciation	(79,903)	(37,356)
Total property, plant and equipment	21,159	34,118
Intangible assets		
Software	131,778	68,836
Total intangible assets	131,778	68,836
Investments and other assets		
Investment securities	228,781	257,295
Leasehold and guarantee deposits	289,486	281,658
Other	10,717	1,298
Total investments and other assets	528,984	540,252
Total non-current assets	681,922	643,207
Total assets	6,343,848	5,376,550

(Thousands of yen)

	As of August 31, 2019	As of August 31, 2020
Liabilities		
Current liabilities		
Accounts payable–trade	98,301	358,975
Short-term borrowings	65,000	515,000
Current portion of long-term borrowings	339,093	270,608
Accounts payable–other	400,872	662,348
Income taxes payable	108,757	—
Provision for bonuses	—	3,375
Provision for shareholder benefit program	10,296	38,527
Other	72,396	9,257
Total current liabilities	1,094,717	1,858,092
Non-current liabilities		
Long-term borrowings	147,395	3,026,634
Long-term guarantee deposits	—	9,437
Total non-current liabilities	147,395	3,036,071
Total liabilities	1,242,112	4,894,163
Net assets		
Shareholders' equity		
Share capital	543,263	549,720
Capital surplus		
Legal capital surplus	542,174	548,361
Total capital surpluses	542,174	548,361
Retained earnings		
Other retained earnings		
Retained earnings brought forward	713,138	351,061
Total retained earnings	713,138	351,061
Treasury shares	(452)	(572)
Total shareholders' equity	1,798,123	1,448,569
Share acquisition rights	—	1,114
Total net assets	1,798,123	1,449,684
Total liabilities and net assets	3,040,236	6,343,848

Non-Consolidated Statements of Income

(2) Non-Consolidated Statements of Income

(Thousands of yen)

	For the fiscal year ended August 31, 2020	For the fiscal year ended August 31, 2021
Net sales	2,946,007	3,044,429
Cost of sales	1,372,426	1,373,496
Gross profit	1,573,581	1,670,933
Selling, general and administrative expenses	1,776,170	1,754,500
Operating loss	(202,589)	(83,567)
Non-operating income		
Interest income	28	9
Subsidy income	—	32,180
Surrender value of insurance policies	743	2,411
Other	132	1,956
Total non-operating income	903	36,557
Non-operating expenses		
Interest expenses	20,448	29,572
Commission expenses	37,634	—
Rent	—	158,719
Other	—	4,491
Total non-operating expenses	58,082	192,783
Ordinary profit	(259,767)	(239,793)
Extraordinary income		
Gain on sale of businesses	—	26,999
Total extraordinary income	—	26,999
Extraordinary losses		
Loss on sale of businesses	—	39,786
Business restructuring cost	—	252,371
Extraordinary loss due to closing and other	44,916	—
Impairment losses	73,839	52,465
Loss on retirement of non-current assets	—	196
Loss on valuation of investment securities	9,959	—
Total extraordinary losses	128,715	344,819
Loss before income taxes	(388,483)	(557,613)
Income taxes - current	(54,600)	3,779
Income taxes - deferred	28,194	—
Total income taxes	(26,406)	3,779
Loss	(362,077)	(561,392)

(3) Non-Consolidated Statements of Changes in Equity

Fiscal year ended August 31, 2020 (September 1, 2019 to August 31, 2020)

(Thousands of yen)

	Shareholders' equity							Share acquisition rights	Total net assets
	Share capital	Capital surplus		Retained earnings		Treasury shares	Total shareholders' equity		
		Legal capital surplus	Total capital surplus	Other retained earnings	Total retained earnings				
				Retained earnings brought forward					
Balance at beginning of period	543,263	542,174	542,174	713,138	713,138	(452)	1,798,123	—	1,798,123
Changes during period									
Issuance of new shares	6,456	6,187	6,187				12,643		12,643
Issuance of new shares (exercise of share acquisition rights)						(120)	(120)		(120)
Acquisition of treasury shares				(362,077)	(362,077)		(362,077)		(362,077)
Profit							—	1,114	1,114
Total changes during period	6,456	6,187	6,187	(362,077)	(362,077)	(120)	(349,553)	1,114	(348,438)
Balance at end of period	549,720	548,361	548,361	351,061	351,061	(572)	1,448,569	1,114	1,449,684

Fiscal year ended August 31, 2021 (September 1, 2020 to August 31, 2021)

(Thousands of yen)

	Shareholders' equity							Share acquisition rights	Total net assets
	Share capital	Capital surplus		Retained earnings		Treasury shares	Total shareholders' equity		
		Legal capital surplus	Total capital surplus	Other retained earnings	Total retained earnings				
				Retained earnings brought forward					
Balance at beginning of period	549,720	548,361	548,361	351,061	351,061	(572)	1,448,569	1,114	1,449,684
Changes during period									
Profit (loss)				(561,392)	(561,392)		(561,392)		(561,392)
Total changes during period	—	—	—	(561,392)	(561,392)	—	(561,392)	—	(561,392)
Balance at end of period	549,720	548,361	548,361	(210,331)	(210,331)	(572)	887,177	1,114	888,292

(4) Non-Consolidated Statements of Cash Flows

(Thousands of yen)

	Fiscal year ended August 31, 2020	Fiscal year ended August 31, 2021
Cash flows from operating activities		
Loss before income taxes	(388,483)	(557,613)
Depreciation	132,788	83,084
Impairment losses	73,839	52,465
Loss on retirement of non-current assets	—	196
Loss due to temporary closure and other	44,916	—
Loss (gain) on sale of businesses	—	12,786
Loss (gain) on valuation of investment securities	9,959	—
Business restructuring cost	—	252,371
Increase (decrease) in allowance for doubtful accounts	15	9,814
Increase (decrease) in provision for bonuses	3,375	(3,375)
Increase (decrease) in provision for shareholder benefit program	28,231	(2,743)
Interest income	(28)	(9)
Subsidy income	—	(32,180)
Interest expenses	20,448	29,572
Rent	—	158,719
Decrease (increase) in trade receivables	(138,843)	80,468
Decrease (increase) in inventories	(2,908,499)	(5,336)
Decrease (increase) in prepaid expenses	(5,515)	3,452
Decrease (increase) in advances paid	(138,937)	189,327
Decrease (increase) in consumption taxes refund receivable	(213,333)	213,333
Increase (decrease) in trade payables	260,673	(237,879)
Increase (decrease) in accounts payable - other	261,632	(213,143)
Other, net	(83,845)	107,802
Subtotal	(3,041,605)	141,114
Interest and dividends received	28	9
Interest paid	(22,358)	(27,766)
Subsidies received	—	32,180
Rent paid	—	(146,349)
Business restructuring cost paid	—	(244,291)
Payments for temporary closure and other	(44,916)	—
Income taxes paid	(183,167)	(994)
Income taxes refund	9,114	127,980
Net cash provided by (used in) operating activities	(3,282,905)	(118,116)
Cash flows from investing activities		
Purchase of property, plant and equipment	(23,108)	(27,070)
Purchase of intangible assets	(91,353)	(30,996)
Payments of leasehold and guarantee deposits	(45,881)	—
Proceeds from refund of leasehold and guarantee deposits	2,821	31,239
Purchase of investment securities	(160,144)	(28,514)
Payments for asset retirement obligations	—	(23,730)
Proceeds from sale of businesses	—	27,000
Payments for sale of businesses	—	(39,786)
Other, net	1,565	12,144
Net cash provided by (used in) investing activities	(316,099)	(79,713)

(Thousands of yen)

	Fiscal year ended August 31, 2020	Fiscal year ended August 31, 2021
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	450,000	(190,000)
Proceeds from long-term borrowings	2,931,702	400,000
Repayments of long-term borrowings	(120,949)	(265,764)
Other, net	13,638	—
Net cash provided by (used in) financing activities	3,274,392	(55,764)
Net increase (decrease) in cash and cash equivalents	(324,613)	(253,594)
Cash and cash equivalents at beginning of period	1,352,934	1,028,320
Cash and cash equivalents at end of period	1,028,320	774,726

(5) Notes to the Non-Consolidated Financial Statements

(Notes Related to the Going Concern Assumption)

Not applicable

(Additional Information)

(Accounting Estimates)

The spread of COVID-19 continues to impact the economy, and the Company's business activities are being affected, as well. Advertising revenue from manga apps is shrinking as the advertising market deteriorates. Due to the declaration of a state of emergency, we have temporarily suspended operations at the &AND HOSTEL locations we operate and delayed development of hostels, affecting operating performance. The Japanese government declared a fourth state of emergency on July 8, 2021, which was lifted on September 30, 2021. Nevertheless, it remains difficult to predict when the pandemic will be contained and how conditions will evolve. In compiling accounting estimates to value real estate for sale, gauge the necessity of recording impairment losses on non-current assets, determine the recoverability of deferred tax assets, and make other decisions, the Company has assumed that the impact of the pandemic will gradually ease from the fiscal year ending August 31, 2022. These assumptions are predicated on information available at the time these financial statements were prepared.

As it is difficult at present to accurately estimate when the pandemic will subside, our financial condition and operating performance could be affected due to changes in the assumptions mentioned above.

(Segment Information, etc.)

[Segment Information]

1. Overview of reportable segments

(1) Method of determining reportable segments

The Company's reportable segments are those constituent units for which separate financial information is available, and which the Board of Directors regularly examines to determine the allocation of management resources and assess performance.

We have established independent reportable segments, as the segments handle products with different characteristics and have different earnings and financial structures and sales strategies.

(2) Categories of products and services belonging to the reportable segments

The Apps business mainly involves the development and operation of smartphone apps. We also sell mobile ad space within these apps.

In the IoT business, we engage mainly in the planning and development of the &AND HOSTEL brand of smart hostels, as well as the provision of IoT solution services for lodging facilities.

(3) Information related to changes in reportable segments

From this fiscal year ended August 31, 2021, the Company reconsidered the business area in the Smartphone APP business and made organizational change to provide APP services not limited to Smartphones. Consequently, the Company changed the name for the segment from "Smartphone APP business" to "APP business". Also, the Company made organizational change for the APP business segment to take charge of internet advertising agency service related to its business area. Segment information for the previous fiscal year, is categorized using the new classification.

2. Methods for determining amounts of sales, profits or losses, assets, and other items for individual reportable segments

Methods of accounting treatment for reportable business segments are generally the same as the methods of accounting treatment used in preparing the financial statements. Profit from reportable segments is based on operating income or operating losses.

3. Information related to sales, profits or losses, assets, liabilities and other items for each reportable segment

Fiscal year ended August 31, 2020 (from September 1, 2019 to August 31, 2020)

(Thousands of yen)

	Reportable segments			Other	Total
	APPs	IoT	Total		
Net Sales					
Sales to external customers	2,557,035	336,563	2,893,598	52,409	2,946,007
Intersegment sales or transfer	—	—	—	—	—
Total	2,557,035	336,563	2,893,598	52,409	2,946,007
Segment profit (loss)	378,375	(187,064)	191,311	3,902	195,213
Segment assets	1,438,442	3,705,829	5,144,272	16,994	5,161,266
Other items					
Depreciation	75,283	47,034	122,318	—	122,318
Increase in property, plant and equipment and intangible assets	80,522	27,832	108,354	—	108,354

Note:1. The “Other” category, a business segment not included in the reportable segments, mainly involves the internet advertising agency business.

2. Significant impairment losses related to fixed assets

In the Apps business segment, the Company recorded an impairment loss of ¥44,354 thousand on fixed assets for business use.

In the IoT business segment, the Company recorded an impairment loss of ¥7,657 thousand on fixed assets for business use.

In company-wide assets and eliminations, the Company recorded an impairment loss of ¥21,826 thousand on company-wide fixed assets that belong to no individual segment.

Fiscal year ended August 31, 2021 (from September 1, 2020 to August 31, 2021)

(Thousands of yen)

	Reportable segments			Other	Total
	APPs	IoT	Total		
Net Sales					
Sales to external customers	2,767,945	276,483	3,044,429	—	3,044,429
Intersegment sales or transfer	—	—	—	—	—
Total	2,767,945	276,483	3,044,429	—	3,044,429
Segment profit (loss)	589,810	△267,204	322,605	△2,419	320,186
Segment assets	834,918	3,240,526	4,075,445	—	4,075,445
Other items					
Depreciation	37,421	40,071	77,493	5	77,498
Increase in property, plant and equipment and intangible assets	35,377	1,443	36,821	—	36,821

Note:1. The “Other” category, a business segment not included in the reportable segments, mainly involves businesses related to the entertainment field using new technologies .

2. (Significant impairment losses related to fixed assets)

In the Apps business segment, the Company recorded an impairment loss of ¥33,853 thousand on fixed assets for business use.

In the IoT business segment, the Company recorded an impairment loss of ¥18,611 thousand on fixed assets for business use.

4. Total amounts for reportable segments and the main reasons for discrepancies between these values and figures stated in the non-consolidated financial statements (matters related to the adjustment of discrepancies)

(Thousands of yen)

Net sales	Fiscal year ended August 31, 2020	Fiscal year ended August 31, 2021
Subtotal for reportable segments	2,893,598	3,044,429
Sales from “Other” businesses	52,409	—
Net sales in the financial statements	2,946,007	3,044,429

(Thousands of yen)

Income	Fiscal year ended August 31, 2020	Fiscal year ended August 31, 2021
Subtotal for reportable segments	191,311	322,605
Income (losses) from “Other” businesses	3,902	(2,419)
Company-wide expenses (Note)	(397,802)	(403,753)
Operating income (loss) in the financial statements	(202,589)	(83,567)

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

(Thousands of yen)

Assets	Fiscal year ended August 31, 2020	Fiscal year ended August 31, 2021
Subtotal for reportable segments	5,144,272	4,075,445
Assets categorized as “Other”	16,994	—
Company-wide assets (Note)	1,182,581	1,301,104
Total assets in the financial statements	6,343,848	5,376,550

Note: Company-wide assets are mainly cash and deposits not attributable to reportable segments.

(Thousands of yen)

Other items	Subtotal for reportable segments		Other		Adjustment		Amount presented in the financial statements	
	Fiscal year ended August 31, 2020	Fiscal year ended August 31, 2021	Fiscal year ended August 31, 2020	Fiscal year ended August 31, 2021	Fiscal year ended August 31, 2020	Fiscal year ended August 31, 2021	Fiscal year ended August 31, 2020	Fiscal year ended August 31, 2021
Depreciation	122,318	77,493	—	5	10,470	5,586	132,788	83,084
Increase in property, plant and equipment and intangible assets	108,354	36,821	—	—	6,900	19,167	115,254	55,989

Note: Adjustments to increases in property, plant and equipment and intangible assets are mainly the costs of acquiring headquarters buildings and software not attributable to reportable segments.

(Equity-Method Gains and Losses)

Not applicable

(Per-Share Information)

	Fiscal year ended August 31, 2020	Fiscal year ended August 31, 2021
Net assets per share	¥147,41	¥90.28
Basic earnings (losses) per share	¥(37.01)	¥ (57.13)

Notes: 1. Although dilutive shares exist, diluted earnings per share are not calculated for the fiscal year ended August 31, 2021, as the Company recorded a loss for the year.

2. The basis for calculating basic earnings (losses) per share is as follows.

	Fiscal year ended August 31, 2020	Fiscal year ended August 31, 2021
Basic earnings (losses) per share		
Profit (loss) (thousands of yen)	(362,077)	(561,392)
Amount not attributable to common shareholders (thousands of yen)	—	—
Profit (loss) attributable to common shareholders (thousands of yen)	(362,077)	(561,392)
Average number of shares of common stock during the period (shares)	9,782,799	9,826,863
Overview of potential shares not included in the calculation of diluted earnings per share as they have no dilutive effect	—	—

(Significant Subsequent Events)

Not applicable