Annual Securities Report

(Report in accordance with Article 24, paragraph (1) of
the Financial Instruments and Exchange Act)

English excerpt translation of the “Yukashoken-Houkokusho”
for the 43rd fiscal year (from April 1, 2021 to March 31, 2022)

KYORITSU MAINTENANCE CO., LTD.
E04908

1. Consolidated Financial Statements, Etc.

(1) Consolidated Financial Statements

1) Consolidated balance sheet

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Assets		
Current assets		
Cash and deposits	24,588	37,942
Notes and accounts receivable - trade	9,702	–
Notes and accounts receivable - trade, and contract assets	–	*1 11,856
Real estate held for sale	*6 15,959	7,681
Real estate under construction held for sale	1,670	*6 7,719
Costs on uncompleted construction contracts	513	61
Other	9,562	*4 7,769
Allowance for doubtful accounts	(52)	(76)
Total current assets	61,944	72,953
Non-current assets		
Property and equipment		
Buildings and structures	*4 89,488	*4,*6 85,313
Accumulated depreciation	(36,079)	(38,276)
Buildings and structures, net	53,408	47,037
Land	*4,*6 45,827	*4,*6 39,359
Construction in progress	11,278	13,173
Other	16,463	16,984
Accumulated depreciation	(12,070)	(13,335)
Other, net	4,393	3,648
Total property and equipment	114,907	103,218
Intangible assets	4,235	3,384
Investments and other assets		
Investment securities	*3,*4 4,499	*3 3,151
Long-term loans receivable	1,388	1,709
Guarantee deposits	16,489	18,826
Leasehold deposits	16,912	19,033
Deferred tax assets	7,029	6,928
Other	*4 11,144	*4 12,133
Allowance for doubtful accounts	(119)	(122)
Total investments and other assets	57,344	61,660
Total non-current assets	176,487	168,264
Deferred assets		
Bond issuance costs	600	502
Other	–	2
Total deferred assets	600	505
Total assets	239,032	241,723

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	4,667	6,202
Short-term borrowings	12,702	14,820
Current portion of bonds payable	5,280	5,080
Income taxes payable	1,764	1,035
Provision for bonuses	714	979
Provision for bonuses for directors	37	76
Provision for warranties for completed construction	3	5
Other	24,677	*2 21,234
Total current liabilities	49,848	49,433
Non-current liabilities		
Bonds payable	28,540	23,460
Convertible bonds with share acquisition rights	30,142	30,112
Long-term borrowings	*4 53,003	*4 61,961
Long-term guarantee deposits received	3,367	2,992
Deferred tax liabilities	350	7
Retirement benefit liability	1,045	1,013
Provision for retirement benefits for directors	252	254
Asset retirement obligations	699	610
Other	997	1,291
Total non-current liabilities	118,398	121,703
Total liabilities	168,247	171,137
Net assets		
Shareholders' equity		
Share capital	7,964	7,964
Capital surplus	12,821	12,821
Retained earnings	50,831	50,383
Treasury shares	(357)	(361)
Total shareholders' equity	71,259	70,807
Accumulated other comprehensive income		
Unrealized holding gain (loss) on securities	55	82
Deferred gain (loss) on hedges	–	225
Foreign currency translation adjustments	(555)	(583)
Remeasurements of defined benefit plans	24	53
Total accumulated other comprehensive income	(474)	(221)
Total net assets	70,784	70,586
Total liabilities and net assets	239,032	241,723

2) Consolidated statement of income and consolidated statement of comprehensive income

Consolidated statement of income

(Millions of yen)

	For the year ended March 31, 2021	For the year ended March 31, 2022
Net sales	121,281	*1 173,701
Cost of sales	111,293	151,659
Gross profit	9,987	22,042
Selling, general and administrative expenses		
Salaries, allowances and bonuses	5,162	5,309
Welfare expenses	1,029	991
Provision for bonuses	140	293
Provision for bonuses for directors	35	77
Retirement benefit expenses	149	136
Provision for retirement benefits for directors	1	1
Promotion expenses	1,822	1,916
Commission expenses	4,917	6,839
Provision of allowance for doubtful accounts	7	32
Outsourcing expenses	1,829	1,813
Rent expenses	1,338	751
Depreciation	345	413
Other	*2 2,264	*2 2,035
Total selling, general and administrative expenses	19,044	20,610
Operating profit (loss)	(9,057)	1,431
Non-operating income		
Interest income	83	108
Dividend income	99	86
Subsidy income	777	600
Income from guarantee deposits upon cancellation	129	105
Compensation income	937	465
Other	262	342
Total non-operating income	2,290	1,708
Non-operating expenses		
Interest expenses	455	603
Expenses for measures against novel infectious disease	502	195
Settlement package	29	147
Other	1,362	378
Total non-operating expenses	2,349	1,326
Ordinary profit (loss)	(9,116)	1,814

(Millions of yen)

	For the year ended March 31, 2021	For the year ended March 31, 2022
Extraordinary income		
Gain on sale of shares of subsidiaries and associates	–	196
Subsidy income	153	–
Total extraordinary income	153	196
Extraordinary losses		
Loss on impairment of non-current assets	*3 442	*3 51
Loss from natural disasters	–	65
Loss on facility closure	2,531	453
Loss on temporary closure	2,886	–
Other	45	40
Total extraordinary losses	5,907	611
Profit (loss) before income taxes	(14,870)	1,399
Income taxes		
Current	1,012	1,233
Deferred	(3,718)	(372)
Total income taxes	(2,705)	860
Profit (loss)	(12,164)	539
Profit (loss) attributable to owners of parent	(12,164)	539

Consolidated statement of comprehensive income

(Millions of yen)

	For the year ended March 31, 2021	For the year ended March 31, 2022
Profit (loss)	(12,164)	539
Other comprehensive income		
Unrealized holding gain (loss) on securities	173	26
Deferred gain (loss) on hedges	–	225
Foreign currency translation adjustments	42	(28)
Remeasurements of defined benefit plans	61	29
Total other comprehensive income	* 277	* 252
Comprehensive income	(11,887)	791
Total comprehensive income attributable to:		
Owners of parent	(11,887)	791

3) Consolidated statement of changes in net assets

For the year ended March 31, 2021 (from April 1, 2020 to March 31, 2021)

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	7,961	12,817	64,281	(355)	84,706
Changes during period					
Issuance of new shares - exercise of share acquisition rights	3	3			6
Cash dividends			(1,286)		(1,286)
Loss attributable to owners of parent			(12,164)		(12,164)
Change in scope of consolidation					–
Purchase of treasury shares				(2)	(2)
Disposal of treasury shares		0		0	0
Other changes in the year - net					
Total changes during the year	3	3	(13,450)	(2)	(13,447)
Balance at end of period	7,964	12,821	50,831	(357)	71,259

	Accumulated other comprehensive income					Total net assets
	Unrealized holding gain (loss) on securities	Deferred gain (loss) on hedges	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income	
Balance at beginning of period	(117)	–	(597)	(36)	(751)	83,954
Changes during period						
Issuance of new shares - exercise of share acquisition rights						6
Cash dividends						(1,286)
Loss attributable to owners of parent						(12,164)
Change in scope of consolidation						–
Purchase of treasury shares						(2)
Disposal of treasury shares						0
Other changes in the year - net	173	–	42	61	277	277
Total changes during the year	173	–	42	61	277	(13,169)
Balance at end of period	55	–	(555)	24	(474)	70,784

For the year ended March 31, 2022 (from April 1, 2021 to March 31, 2022)

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	7,964	12,821	50,831	(357)	71,259
Changes during period					
Issuance of new shares - exercise of share acquisition rights					–
Cash dividends			(779)		(779)
Profit attributable to owners of parent			539		539
Change in scope of consolidation			(206)		(206)
Purchase of treasury shares				(4)	(4)
Disposal of treasury shares					–
Other changes in the year - net					
Total changes during the year	–	–	(447)	(4)	(451)
Balance at end of period	7,964	12,821	50,383	(361)	70,807

	Accumulated other comprehensive income					Total net assets
	Unrealized holding gain (loss) on securities	Deferred gain (loss) on hedges	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income	
Balance at beginning of period	55	–	(555)	24	(474)	70,784
Changes during period						
Issuance of new shares - exercise of share acquisition rights						–
Cash dividends						(779)
Profit attributable to owners of parent						539
Change in scope of consolidation						(206)
Purchase of treasury shares						(4)
Disposal of treasury shares						–
Other changes in the year - net	26	225	(28)	29	252	252
Total changes during the year	26	225	(28)	29	252	(198)
Balance at end of period	82	225	(583)	53	(221)	70,586

4) Consolidated statement of cash flows

(Millions of yen)

	For the year ended March 31, 2021	For the year ended March 31, 2022
Cash flows from operating activities		
Profit (loss) before income taxes	(14,870)	1,399
Depreciation and amortization	4,962	6,070
Amortization of long-term prepaid expenses	445	470
Amortization of guarantee deposits	304	322
Increase (decrease) in provision for bonuses	(1,389)	264
Interest and dividend income	(182)	(195)
Interest expenses	455	603
Subsidy income	(931)	(600)
Income from guarantee deposits upon cancellation	(129)	(105)
Compensation income	(937)	(465)
Expenses for measures against novel infectious disease	502	195
Loss on temporary closure	2,886	–
Loss on facility closure	2,531	453
Settlement package	29	147
Loss from natural disasters	–	65
Loss (gain) on sale of shares of subsidiaries and associates	–	(196)
(Increase) decrease in trade receivables	1,356	(2,140)
(Increase) decrease in accounts receivable - other	(28)	2,048
(Increase) decrease in inventories	(6,059)	17,100
Increase (decrease) in trade payables	(5,457)	1,526
Increase (decrease) in accrued expenses	240	(191)
Increase (decrease) in accounts payable - other	1,516	(2,273)
Increase (decrease) in accrued consumption taxes	7	4,633
Increase (decrease) in deposits received	608	(629)
Increase (decrease) in guarantee deposits received	(114)	(299)
Other	490	(425)
Subtotal	(13,763)	27,780
Interest and dividends received	103	90
Interest paid	(455)	(592)
Income taxes refunded	0	2
Income taxes paid	(1,223)	(1,956)
Proceeds from subsidy income	931	600
Proceeds from compensation	937	465
Payments of expenses for measures against novel infectious disease	(502)	(195)
Payments for loss on temporary closure	(2,521)	–
Payments for loss on facility closure	(1,312)	(325)
Settlement package paid	(29)	(147)
Net cash provided by (used in) operating activities	(17,835)	25,721

(Millions of yen)

	For the year ended March 31, 2021	For the year ended March 31, 2022
Cash flows from investing activities		
Purchase of securities	(776)	–
Proceeds from sales of securities	1,243	1,056
Purchase of property and equipment	(7,099)	(10,594)
Proceeds from sale of property and equipment	12	6
Purchase of intangible assets	(533)	(352)
Purchase of long-term prepaid expenses	(607)	(133)
Loan advances	(763)	(530)
Collection of loans receivable	912	167
Payments of leasehold and guarantee deposits	(1,503)	(5,869)
Proceeds from refund of leasehold and guarantee deposits	116	480
Investments in insurance funds	(1,018)	(991)
Proceeds withdrawn from insurance funds	24	30
Other	(14)	0
Net cash provided by (used in) investing activities	(10,006)	(16,731)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings - net	950	2,400
Proceeds from long-term borrowings	34,900	12,480
Repayments of long-term borrowings	(4,101)	(4,643)
Proceeds from issuance of bonds	30,043	–
Redemption of bonds	(25,268)	(5,280)
Purchase of treasury shares	(2)	(4)
Dividends paid	(1,285)	(781)
Other	(996)	(40)
Net cash provided by financing activities	34,239	4,130
Effect of exchange rate change on cash and cash equivalents	22	(1)
Net increase (decrease) in cash and cash equivalents	6,419	13,118
Cash and cash equivalents at the beginning of the year	17,792	24,212
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	–	234
Cash and cash equivalents at the end of the year	* 24,212	* 37,565

BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of KYORITSU MAINTENANCE CO., LTD. (the "Company") and its consolidated subsidiaries (collectively the "Group") have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards ("IFRS").
Current practice has been to retain the classification used in the financial statements.
Japanese yen figures less than one million yen are rounded down to the nearest million yen, except for per share data. The total Japanese yen amounts shown in the consolidated financial statements and notes thereto do not necessarily agree with the sum of the individual amounts.

Notes to Consolidated Financial Statements

Notes - Significant accounting policies for preparation of consolidated financial statements

1. Consolidation

(1) Number of consolidated subsidiaries: 12

Names of consolidated subsidiaries

Kyoritsu Estate Co., Ltd.
Kyoritsu Trust Co., Ltd.
Kyoritsu Insurance Service Co., Ltd.
Kyoritsu Foods Service Co., Ltd.
Kyoritsu Oasis Co., Ltd.
Kyoritsu Foods Management Co., Ltd.
Japan Placement Center Co., Ltd.
Kyoritsu Financial Service Co., Ltd.
Builnet Co., Ltd.
Central Builwork Co., Ltd.
Gennanso Co., Ltd.
Kyoritsu Maintenance Korea Co., Ltd.

Kyoritsu Oasis Co., Ltd. and Gennanso Co., Ltd. are included in the scope of consolidation in the year ended March 31, 2022 because their materiality has increased.
Kyoritsu Foods Management Co., Ltd. was established in the year ended March 31, 2022 and included in the scope of consolidation because of its materiality.
In addition, Kyoritsu Foods Business Co., Ltd. was excluded from the scope of consolidation because it has been merged by Kyoritsu Foods Service Co., Ltd. on October 1, 2021.

(2) Number of non-consolidated subsidiaries: 4

Names of non-consolidated subsidiaries

Kyoritsu Assist Co., Ltd.
Ryokan Okunobo Co., Ltd.
Kyoritsu Maintenance (Thailand) Co., Ltd.
Kyoritsu Maintenance Sriracha Co., Ltd.

Reason for exclusion from scope of consolidation
Non-consolidated subsidiaries are excluded from the scope of consolidation because their total assets, net sales, profit or loss, and retained earnings have minimal impact on the consolidated financial statements and are immaterial as a whole, do not have material effects on the consolidated financial statements.

2. Equity Method Accounting

(1) Non-consolidated subsidiaries and associates accounted for by the equity method

There were no items to be reported.

(2) Non-consolidated subsidiaries or associates not accounted for by the equity method

Non-consolidated subsidiaries and affiliates not accounted for by the equity method are Oh-shima Forum Co., Ltd. and six other companies. These companies are excluded from the scope of equity method because their profit or loss and retained earnings have minimal impact on the consolidated financial statements and are immaterial as a whole.

3. Disclosure about fiscal years, etc. of consolidated subsidiaries

The fiscal year-end of all consolidated subsidiaries coincides with the consolidated fiscal year-end.

4. Disclosure of accounting policies

(1) Valuation criteria and methods for significant assets

1) Securities

(i) Held-to-maturity bonds

Measured at amortized cost using the straight-line method.

(ii) Other securities

Other than equity securities without market prices

Measured at fair value (net unrealized gains or losses are reported as a separate component of net assets, and the cost of securities sold is calculated using the moving-average method).

Equity securities without market prices

Mainly measured at cost determined by the moving-average method.

Investments in investment limited partnerships and other similar partnerships (those regarded as securities pursuant to Article 2, Paragraph 2 of the Financial Instruments and Exchange Act) are recorded at the net amount of the Company’s share of equity based on the latest financial statements available according to the financial reporting dates stipulated in the partnership agreements.

2) Derivatives

Derivatives are measured at fair value.

3) Inventories

(i) Costs on uncompleted construction contracts

Stated at cost determined by the specific identification method.

(ii) Real estate held for sale and real estate under construction held for sale

Stated at the lower of cost, determined by the specific identification method, or net realizable value.

(iii) Merchandise and finished goods, and raw materials and supplies

Stated at the lower of cost, determined by the last purchase price method, or net realizable value.

(2) Method of depreciation and amortization of major depreciable and amortizable assets

1) Property and Equipment (except for Leased Assets)

Property and equipment are stated at cost.

Depreciation of property and equipment of the Company and its domestic consolidated subsidiaries is calculated using the declining-balance method based on the estimated useful lives of the assets, while the straight-line method is applied to buildings (except for facilities attached to buildings that belong to businesses other than the resort business) and facilities attached to buildings and structures acquired on or after April 1, 2016.

Depreciation of property and equipment of foreign consolidated subsidiaries is calculated using the straight-line method.

The useful lives of major items are as follows:

Buildings and structures 3 to 47 years

2) Intangible Assets (except for Leased Assets)
Intangible assets are amortized using the straight-line method.
Software for internal use is amortized using the straight-line method over the expected useful life (five years).

3) Leased Assets
Leased assets are depreciated by the straight-line method based on the assumption that the useful lives are equal to the lease terms and the residual value is equal to zero.
Finance lease transactions that did not transfer the ownership of the leased assets to the lessee and commenced on or before March 31, 2008 are accounted for as operating lease transactions.

(3) Method of accounting for deferred assets
Bond issuance costs
Amortized using the straight-line method over the period up to the redemption of the bonds.

(4) Accounting for significant allowances and provisions

1) Allowance for Doubtful Accounts
Allowance for doubtful accounts is provided for possible losses arising from trade receivables, loans receivable, and other receivables at an amount determined based on the historical experience of bad debts with respect to normal receivables, and an estimate of uncollectible amounts determined by reference to specific doubtful receivables from customers who are facing financial difficulties.

2) Provision for Bonuses
Employees' bonuses are accrued at the end of the year to which such bonuses are attributable.

3) Provision for Bonuses for Directors
Directors' bonuses are accrued at the end of the year based on the estimated amounts payable.

4) Provision for Warranties for Completed Construction
To provide for payments of warranties for completed construction, the Company records a discrete estimate of the warranties in addition to an amount required based on past experience.

5) Provision for Loss on Construction Contracts
To provide for future loss on construction contracts, the Company records a discrete estimate of loss on construction contracts at the end of the year for which eventual losses are reasonably expected and estimated.

6) Provision for Retirement Benefits for Directors
Retirement benefits for directors are recorded at an amount required to be paid at the end of the year based on internal rules. The Company and its six domestic consolidated subsidiaries revised the rules on retirement benefits for directors in March 2002 and June 2008, respectively, and have not provided the corresponding amount for directors since April 2001 and July 2008, respectively.

(5) Method of recognizing retirement benefits

1) Method of attributing estimated retirement benefits to periods
Retirement benefit obligations are attributed to periods on a benefit formula basis.

2) Method of amortizing actuarial gains or losses and past service cost
Prior service cost is amortized as incurred by the straight-line method over a fixed period (three or five years), which is shorter than the average remaining years of service of the employees.
Actuarial differences are amortized from the year following the year in which the differences are recognized by the straight-line method over a fixed period (three or five years), which is shorter than the average remaining years of service of the employees.

(6) Recognition of significant revenues and expenses

The Group's principal businesses are the Dormitory Business, the Hotel Business, the Comprehensive Building Management Business, the Food Service Business, and the Development Business.

Dormitory Business

The Dormitory Business includes the operation and management of student dormitories, employee dormitories, Domeal, and contracted dormitories, and provision of rooms and dormitory services based on occupancy contracts with customers. The Group recognizes rent, management fees, occupation fees, renewal fees, etc. under such occupancy contracts as revenue in accordance with accounting standards for leases. For dormitory services, the Group's performance obligation is satisfied when the rendering of the services is completed and therefore revenue is recognized at that point in time. The Group also sells everyday goods to residents. Because the performance obligation is satisfied when the ownership of the goods is transferred to the customer, revenue is recognized at that point in time. The transaction price and payment terms for the sale of everyday goods to residents are determined by the sales contracts with the residents.

Hotel Business

In the Hotel Business, the Company operates The Dormy Inn (limited-service hotel) and resorts (resort hotel) businesses, providing customers with lodging, meals, and other services. Since customers receive the benefit of the entire service related to the lodging, the entire service including meals is a single performance obligation, which is satisfied at the point in time when the rendering of the entire service is completed. For customers who stay consecutive nights, the Group recognizes revenue as if the performance obligation is satisfied on a nightly basis since the customers receive the benefit of each night. The Group determines the transaction price and agrees with the customer upon the accommodation reservation. Payment is usually accepted upon check-in or check-out.

Comprehensive Building Management Business

In the Comprehensive Building Management Business, the Group is engaged mainly in building management services including facility management, cleaning, security, and repair of dormitories, hotel facilities, and office buildings. These operations are considered to have a single performance obligation to provide services to organize the occupancy environment of buildings at the appropriate time based on a plan and to maintain the property in a consistent condition. As these performance obligations are satisfied over the contract period, the Company recognizes revenue by prorating the transaction price on a monthly basis based on the contract with the customer. The transaction price and its payment terms are determined by the outsourcing contract.

Food Service Business

In the Food Service Business, the Group is mainly engaged in contracted operation such as of hotel restaurants, contracted food service, and restaurant business. In the businesses of contracted operation such as of hotel restaurants and contracted food service, the Group mainly contracts to provide services incidental to the Company's Hotel and Dormitory Businesses. Because the performance obligation is satisfied when the rendering of the services is completed, revenue is recognized at that point in time. Transaction price and payment terms are determined by contract. In the restaurant business, the Group provides meal services to customers, and the performance obligation is satisfied when the rendering of the services is completed so the Group recognizes revenue at that point in time. The transaction price is determined by the Group and agreed with the customer upon a meal order. Payment is usually received at the time the customer leaves the venue.

Development Business

In the Development Business, the Company is engaged in real estate planning, design, construction, brokerage business, the condominium business, the real estate sale and leaseback business, etc. In the construction business, the Group performs construction work based on construction contracts with customers. Under such construction contracts, the value of the property increases and the customer takes control of the asset as the Group proceeds with the construction of the main body of the property. The performance obligation is an obligation that is satisfied over a specified period of time, and is satisfied as the construction progresses over the contract period. Therefore, in construction projects, etc., revenue is recognized in accordance with the progress of construction. Progress is measured by the input method based on cost incurred, as the cost incurred is considered to contribute to, and be generally proportional to, the entity's progress in meeting its performance obligations. However, for projects for which the degree of progress cannot be reasonably measured, the cost recovery basis is applied until such time as this becomes possible. For other businesses, the performance obligation is satisfied when the rendering or delivery of the services is completed, and revenue is recognized at that point in time. The transaction price and its payment terms are determined by contract.

With regard to the above performance obligations, no material financial element is included in the amount of consideration. There are no material variable considerations that could change the amount of consideration. In recognizing revenue, the Company uses alternative treatments of materiality, etc.

(7) Foreign currency transactions

Assets and liabilities of foreign subsidiaries are translated into Japanese yen at the spot exchange rate as of the balance sheet date, and revenue and expense accounts are translated into Japanese yen at the average exchange rate. Differences arising from such translation are shown as foreign currency translation adjustments under accumulated other comprehensive income as a separate component of net assets.

(8) Significant hedge accounting methods

1) Hedge accounting

The deferral hedge accounting is applied. However, exceptional method is applied to interest rate swaps that satisfy the requirements for hedge accounting.

2) Hedging instruments and hedged items

Interest rate swaps are used as hedging instruments for interest on borrowings.

3) Hedging policies

The Company has a policy of hedging against the risk of future market fluctuations in interest rates and does not engage in speculative transactions or derivative transactions for the purpose of earning short-term trading profits or losses.

4) Assessing hedge effectiveness

The Company verifies that the variability rate of the hedged item and the hedging instrument is basically in the range of 80% to 125%. However, if the hedge meets the requirements of exceptional method of interest rate swaps, assessment of hedge effectiveness has been omitted and replaced with the judgment thereof.

5) Other matters

The Group uses interest rate swaps to hedge against interest rate fluctuation risk on borrowings in accordance with the financing plan approved by the Board of Directors.

(9) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, readily available deposits, and short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value, all of which mature or become due within three months of the date of acquisition.

(10) Other key matters for the preparation of consolidated financial statements

1) Application of the consolidated taxation system

The Group has applied the consolidated taxation system from the year ended March 31, 2022.

2) Application of tax effect accounting for the transition from the consolidated taxation system to the group tax sharing system

The Company and some consolidated subsidiaries in Japan will make a transition from the consolidated taxation system to the group tax sharing system from the year ending March 31, 2023. However, as for items regarding the transition to the group tax sharing system introduced in the "Act Partially Amending the Income Tax Act" (Act No. 8 of 2020) and items revised on non-consolidated taxation system in connection with the transition to the group tax sharing system, the Company and some consolidated subsidiaries in Japan have not applied the provisions of Paragraph 44 of the "Guidance on Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan (ASBJ) Guidance No. 28, February 16, 2018) as allowed by the provisions of Paragraph 3 of the "Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (ASBJ Practical Issues Tax Force (PITF) No. 39, March 31, 2020). Accordingly, amounts of deferred tax assets and deferred tax liabilities are determined in accordance with the provisions of the tax law before revision.

From the beginning of the year ending March 31, 2023, the "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (ASBJ PITF No. 42, August 12, 2021), which stipulates accounting treatment and disclosure for corporate income tax and local corporate income tax as well as tax effect accounting when the group tax sharing system is applied, will be applied.

Notes - Significant accounting estimates

1. Impairment of non-current assets (Hotel Business)

(1) Amount recorded in the consolidated financial statements for the year ended March 31, 2022

(Millions of yen)

	For the year ended March 31, 2021	For the year ended March 31, 2022
Loss on impairment relating to the Hotel Business	364	–
Property and equipment relating to the Hotel Business	54,312	61,932
Intangible assets relating to the Hotel Business	1,951	1,409

(2) Other information for understanding of users of consolidated financial statements

1) Calculation method

The Group classifies assets into asset groups mainly by business location, and of the asset groups for which it determines that there are indications of impairment, if the total amount of the undiscounted future cash flows is less than the carrying amount, then the carrying amount of the asset group is written down to the recoverable amount and the difference is recognized as an extraordinary loss on the consolidated statement of income for the year ended March 31, 2022, in accordance with the accounting standards for the impairment of non-current assets.

The recoverable amount is measured at higher of net realizable value of the asset groups or their value in use. Net realizable value is determined based on information such as real estate appraisal value, and value in use is determined by discounting future cash flows at rates based on profit plans.

2) Key assumptions

The key assumptions used in the calculation of the recoverable amount of each asset group are average daily rates, occupancy rates, and the extent to which the COVID-19 pandemic will impact the business in the future, and the timing when the pandemic will be contained. The impact of COVID-19 is assumed to continue for a certain period of time, and the average daily rates, occupancy rates and discount rate are reasonably set based on the information and materials available as of March 31, 2022.

3) Impact on next year's consolidated financial statements

There is a high degree of uncertainty in estimating the key assumptions, namely, average daily rates, occupancy rates, and discount rate for each asset group and the extent to which the COVID-19 pandemic will impact the business in the future, and the timing when the pandemic will be contained. If it becomes necessary to revise these assumptions due to future trends in COVID-19 or changes in economic or financial conditions, it may affect the loss on impairment of non-current assets for the next year.

2. Recoverability of deferred tax assets

(1) Amount recorded in the consolidated financial statements for the year ended March 31, 2022

(Millions of yen)

	For the year ended March 31, 2021	For the year ended March 31, 2022
Deferred tax assets, net	6,678	6,921
(The amount before offset with deferred tax liabilities)	7,029	6,928

(2) Other information for understanding of users of consolidated financial statements

1) Calculation method

The Group determines the recoverability of deferred tax assets on deductible temporary differences and tax loss carryforwards in consideration of estimated future taxable income based on future business plans and other factors.

2) Key assumptions

The key assumptions underlying the business plan, which serve as the basis for estimated taxable income, are the impact of the COVID-19 pandemic on the business in the future and the timing with which the pandemic will be contained and Ukraine situation, etc., as well as the resulting average daily rates and occupancy rates of each business location in the Hotel Business. These assumptions are based on the assumption that the impact of COVID-19 will continue for a certain period of time and are reasonably established based on the information and materials available as of March 31, 2022.

3) Impact on next year’s consolidated financial statements

There is a high degree of uncertainty surrounding the key assumptions, namely, the impact of the COVID-19 pandemic on the business in the future and the timing with which the pandemic will be contained and Ukraine situation, etc., as well as the resulting average daily rates and occupancy rates of each business location in the Hotel Business. If it becomes necessary to revise these assumptions due to future trends in COVID-19 or changes in economic or financial conditions, the estimated amount of taxable income may change, which may have a significant impact on the judgment of the recoverability of deferred tax assets.

Notes - Changes in accounting policies

Application of the Accounting Standard for Revenue Recognition and relevant ASBJ regulations

The Group has decided to apply the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations from the beginning of the year ended March 31, 2022, and recognize revenue when control of promised goods or services is transferred to customers at an amount expected to be received in exchange for the goods or services.

Accordingly, the Group records sales from home-delivery services for hotels, which were previously recorded on a gross basis, at a net amount calculated by deducting consideration paid to transportation companies from consideration received from customers. Furthermore, sales on consignment for passenger tickets, and goods for stores etc., are also recorded at a net amount calculated by deducting consideration paid to contractors from consideration received from customers.

The application of the Accounting Standard for Revenue Recognition and relevant ASBJ regulations is subject to the transitional treatment provided for in the proviso to Paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect of the retrospective application, assuming the new accounting policy had been applied to periods prior to the beginning of the year ended March 31, 2022, was added to or deducted from the opening balance of retained earnings for the year ended March 31, 2022, and thus the new accounting policy was applied from such opening balance.

As a result, net sales and cost of sales decreased by 611 million yen and 611 million yen, respectively, compared to the application of the previous accounting standard, but the impact on operating profit is insignificant. In addition, there is no impact on the opening balance of retained earnings for the year ended March 31, 2022.

Due to the application of the Accounting Standard for Revenue Recognition and relevant ASBJ regulations, "Notes and accounts receivable - trade," which was presented in "Current assets" in the consolidated balance sheet as of March 31, 2021, has been included in "Notes and accounts receivable - trade, and contract assets" from the year ended March 31, 2022. Pursuant to the transitional treatment provided for in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, figures for the year ended March 31, 2021 have not been restated in accordance with the new approach to presentation.

Application of the Accounting Standard for Fair Value Measurement and relevant ASBJ regulations

The Group has decided to apply the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019) and relevant ASBJ regulations from the beginning of the year ended March 31, 2022, and apply the new accounting policy provided for by the Accounting Standard for Fair Value Measurement and relevant ASBJ regulations prospectively in accordance with the transitional treatment provided for in Paragraph 19 of the Accounting Standard for Fair Value Measurement, and Paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019). There is no impact on the consolidated financial statements.

In addition, the Group has decided to provide notes on matters regarding the breakdown by level of fair values of financial instruments, etc. in "Notes - Financial instruments." However, of these notes, those related to the year ended March 31, 2021 are not provided, pursuant to the transitional treatment provided for in Paragraph 7-4 of the "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, July 4, 2019).

Notes - Accounting standards issued but not yet effective

- "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021)

(1) Overview
The "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31) was revised on June 17, 2021. When the implementation guidance was first announced on July 4, 2019, as the review of "fair value measurement of investment trusts" was considered to take a certain period of time for the deliberation with related parties and as the notes on fair values of "investments in partnerships for which an amount equivalent to the interest is recorded on the balance sheet at net amount" required a certain review, the implementation guidance mentioned that those reviews would be implemented for approximately one year after the announcement of the "Accounting Standard for Fair Value Measurement." Now those points for review were amended and the revised implementation guidance was announced.

(2) Scheduled date of application
The Company and its domestic consolidated subsidiaries will apply the implementation guidance from the beginning of the year ending March 31, 2023.

(3) Impact of application of accounting standard and implementation guidance
The Company and its domestic consolidated subsidiaries are currently in the process of determining the impact of the "Implementation Guidance on Accounting Standard for Fair Value Measurement."

Notes - Changes in presentation

Consolidated statement of income

"Commission expenses," which was presented separately under non-operating expenses for the year ended March 31, 2021, is included and presented in "Other" under non-operating expenses for the year ended March 31, 2022, as the amount became immaterial. "Settlement package" which was included in "Other" under non-operating expenses for the year ended March 31, 2021, is presented separately for the year ended March 31, 2022, as the amount became material.

The relevant items in the consolidated financial statements for the year ended March 31, 2021 have been reclassified in order to reflect these changes.

As a result, 978 million yen that was shown as “Commission expenses” and 413 million yen shown as “Other” under non-operating expenses in the original consolidated statement of income for the year ended March 31, 2021, are reclassified into 29 million yen shown as “Settlement package” and 1,362 million yen shown as “Other” in the reclassified consolidated statement of income.

Consolidated statement of cash flows

“Commission expenses - non-operating,” “Loss on impairment of non-current assets” and “Increase (decrease) in advances received” which were presented separately under “Cash flows from operating activities” for the year ended March 31, 2021, are included in “Other” under “Cash flows from operating activities” for the year ended March 31, 2022, as the amount became immaterial.

“Settlement package,” “(Increase) decrease in accounts receivable - other” and “Settlement package paid” which were included in “Other” under “Cash flows from operating activities” for the year ended March 31, 2021, are presented separately for the year ended March 31, 2022, as the amounts became material.

“Income from guarantee deposits upon cancellation” which was included in “Increase (decrease) in guarantee deposits received” under “Cash flows from operating activities” for the year ended March 31, 2021, is presented separately for the year ended March 31, 2022, as the amounts became material.

“Payments of commission for syndicated loans” which was presented separately under “Cash flows from financing activities” for the year ended March 31, 2021, is included in “Other” under “Cash flows from financing activities” for the year ended March 31, 2022, as the amount became immaterial.

The relevant items in the consolidated financial statements for the year ended March 31, 2021 have been reclassified in order to reflect these changes.

As a result, under “Cash flows from operating activities” for the year ended March 31, 2021, 978 million yen that was shown as “Commission expenses – non-operating,” 442 million yen that was shown as “Loss on impairment of non-current assets,” negative 579 million yen that was shown as “Increase (decrease) in advances received” and negative 380 million yen that was shown as “Other” are reclassified into 29 million yen shown as “Settlement package,” negative 28 million yen shown as “(Increase) decrease in accounts receivable - other,” negative 29 million yen shown as “Settlement package paid” and 490 million yen shown as “Other.”

Negative 243 million yen that was shown as “Increase (decrease) in guarantee deposits received” under “Cash flows from operating activities” in the original consolidated statement of cash flows for the year ended March 31, 2021, is reclassified into negative 129 million yen shown as “Income from guarantee deposits upon cancellation,” and negative 114 million yen shown as “Increase (decrease) in guarantee deposits received” in the reclassified consolidated statement of cash flows.

Negative 922 million yen that was shown as “Payments of commission for syndicated loans” and negative 74 million yen that was shown as “Other” under “Cash flows from financing activities” in the original consolidated statement of cash flows for the year ended March 31, 2021, are reclassified into negative 996 million yen shown as “Other” in the reclassified consolidated statement of cash flows.

Notes - Consolidated balance sheet

*1 Of the amount of "Notes and accounts receivable - trade, and contract assets," the amounts of receivables arising from contracts with customers and contract assets are as follows:

(Millions of yen)

	As of March 31, 2022
Notes receivable - trade	–
Accounts receivable - trade	8,109
Contract assets	400

*2 Of the amount of "Other" under current liabilities, the amount of contract liabilities is as follows:

(Millions of yen)

	As of March 31, 2022
Contract liabilities	11

*3 Investment securities in non-consolidated subsidiaries and associates were as follows:

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Investment securities (equity securities)	1,853	524

*4 Assets pledged as collateral and obligations secured by collateral

Assets pledged as collateral were as follows:

(Millions of yen)

	As of March 31, 2021		As of March 31, 2022	
Buildings and structures	2,754	[2,054]	2,657	[1,983]
Land	4,499	[2,324]	4,499	[2,324]
Investment securities (Note 2)	20	[–]	–	[–]
Other under current assets (Note 2)	–	[–]	20	[–]
Other under investments and other assets (Note 2)	20	[–]	20	[–]
Total	7,293	[4,378]	7,196	[4,308]

Notes: 1. Figures in parentheses represent the book value of assets pledged as collateral.
2. These assets were pledged as collateral for guarantee deposits of the building lots and buildings transaction business.

The above assets were pledged as collateral for the following liabilities:

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Long-term borrowings	7,130	7,130
[Of which, current-portion]	[–]	[–]
Total	7,130	7,130

5 Guarantee obligations

The Company provides guarantee obligations as follows:

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Guarantee of dormitory/hotel lessor's obligations to financial institutions based on the deposit agreement for guarantee deposits	3,548	3,297
Other	194	202
Total	3,742	3,499

*6 The amount transferred due to a change in the purpose of holding was as follows:

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
From property and equipment to real estate under construction held for sale	–	6,579
From property and equipment to real estate for sale	120	–

Notes - Consolidated statement of income

*1 Revenue from contracts with customers

Net sales are not presented with revenue from contracts with customers separated from other revenues. The amount of revenue from contracts with customers has been provided in "Notes to Consolidated Financial Statements, Notes - Revenue recognition, 1. Information on disaggregation of revenue from contracts with customers."

*2 Research and development costs included in general and administrative expenses were as follows:

(Millions of yen)

For the year ended March 31, 2021 (April 1, 2020 to March 31, 2021)	For the year ended March 31, 2022 (April 1, 2021 to March 31, 2022)
300	339

*3 Loss on impairment

The Group recognized loss on impairment on the following asset groups:

For the year ended March 31, 2021 (April 1, 2020 to March 31, 2021)

(Millions of yen)

Location	Usage	Asset category	Loss on impairment
KYORITSU MAINTENANCE CO., LTD. Hotels (Karuizawa Town, Kitasaku County, Nagano, Japan and 3 other offices)	Hotels	Land and buildings, etc.	364
KYORITSU MAINTENANCE CO., LTD. Dormitories (Chiyoda-ku, Tokyo, Japan and 6 other offices)	Dormitories	Buildings	41
Kyoritsu Foods Service Co., Ltd. Restaurants (Chuo-ku, Tokyo, Japan)	Restaurants	Buildings	37

The Group mainly considers each of its offices as a separate asset group. In addition, idle assets with no prospect for future use are treated as a separate group of assets. With respect to the above hotels, dormitories, restaurants, since there is little prospect for recovery of the invested capital due to a significant decline in profitability and fair value, the Group wrote down the book values of these assets to their recoverable amounts and recorded a loss on impairment of non-current assets in extraordinary losses in the amount of 442 million yen.

The breakdown of loss on impairment of non-current assets was buildings of 389 million yen, structures of 33 million yen, fixtures of 3 million yen, land of 16 million yen, and other of 0 million yen.

The recoverable amounts of land and buildings, etc. are measured at their net realizable value based on their appraisal value made by real estate appraisers, or their value in use, which is calculated by discounting future cash flows at 4.7%.

For the year ended March 31, 2022 (April 1, 2021 to March 31, 2022)

(Millions of yen)

Location	Usage	Asset category	Loss on impairment
KYORITSU MAINTENANCE CO., LTD. Dormitories (Saga City, Saga, Japan and 3 other offices)	Dormitories	Buildings	49
Kyoritsu Foods Service Co., Ltd. Restaurants (Chuo-ku, Tokyo, Japan and 1 other office)	Restaurants	Buildings	2

The Group mainly considers each of its offices as a separate asset group. In addition, idle assets with no prospect for future use are treated as a separate group of assets. With respect to the above dormitories and restaurants, since there is little prospect for recovery of the invested capital due to a significant decline in profitability and fair value, the Group wrote down the book values of these assets to their recoverable amounts and recorded a loss on impairment of non-current assets in extraordinary losses in the amount of 51 million yen.

The breakdown of loss on impairment of non-current assets was buildings of 51 million yen and structures of 0 million yen.

The recoverable amounts of buildings are measured at their net realizable value based on their appraisal value made by real estate appraisers, or their value in use, which is calculated by discounting future cash flows at 4.5%.

Notes - Consolidated statement of comprehensive income

* Reclassification adjustments to profit or loss and tax effects related to other comprehensive income

(Millions of yen)

	For the year ended March 31, 2021 (April 1, 2020 to March 31, 2021)	For the year ended March 31, 2022 (April 1, 2021 to March 31, 2022)
Unrealized holding gain (loss) on securities:		
Gains (losses) arising during the year	248	26
Reclassification adjustments to profit or loss	0	12
Amount before tax effect	249	38
Tax effect	(76)	(12)
Unrealized holding gain (loss) on securities	173	26
Deferred gain (loss) on hedges:		
Gains (losses) arising during the year	–	324
Reclassification adjustments to profit or loss	–	–
Amount before tax effect	–	324
Tax effect	–	(99)
Adjustments to deferred gain (loss) on hedges	–	225
Foreign currency translation adjustments:		
Gains (losses) arising during the year	42	(28)
Remeasurements of defined benefit plans:		
Gains (losses) arising during the year	75	48
Reclassification adjustments to profit or loss	13	(6)
Amount before tax effect	88	41
Tax effect	(27)	(12)
Remeasurements of defined benefit plans	61	29
Total other comprehensive income	277	252

Notes - Consolidated statement of changes in net assets

For the year ended March 31, 2021 (April 1, 2020 to March 31, 2021)

1. Class and number of shares issued and treasury shares

(Thousands of shares)

	April 1, 2020	Increase	Decrease	March 31, 2021
Shares issued				
Common shares (Note 1)	39,218	0	–	39,219
Total	39,218	0	–	39,219
Treasury shares				
Common shares (Notes 2, 3)	228	0	0	229
Total	228	0	0	229

Notes: 1. The increase in shares issued of 0 thousand shares was due to the exercise of share acquisition rights attached to convertible bonds with share acquisition rights.

2. The increase in treasury shares of 0 thousand shares was due to the purchase of shares of less than one unit.

3. The decrease in treasury shares of 0 thousand shares was due to requests for purchase of shares of less than one unit.

2. Information on share acquisition rights

Company name	Description	Class of shares	Number of shares (Thousands of shares)				Year-end balance (Millions of yen)
			April 1, 2020	Increase	Decrease	March 31, 2021	
KYORITSU MAINTENANCE CO., LTD.	2016 Share Acquisition Rights (Notes 1, 2)	Common shares	3,309	–	3,309	–	–
	2021 Share Acquisition Rights (Notes 1, 3)	Common shares	–	6,365	–	6,365	–
Total		–	3,309	6,365	3,309	6,365	–

Notes: 1. The share acquisition rights in the above table are share acquisition rights attached to convertible bonds with share acquisition rights recorded in liabilities using the lump-sum method.

2. The decrease in 2016 share acquisition rights was due to the exercise and redemption of share acquisition rights.

3. The increase in 2021 share acquisition rights was due to the issuance of convertible bonds with share acquisition rights.

3. Information on dividends

(1) Dividends paid

Resolution	Class of shares	Total amount (Millions of yen)	Per share amount (Yen)	Record date	Effective date
Ordinary general meeting of shareholders held on June 26, 2020	Common shares	896	23	March 31, 2020	June 29, 2020
Board of Directors' meeting held on November 9, 2020	Common shares	389	10	September 30, 2020	December 7, 2020

(2) Dividends whose effective date falls after the end of the year

Resolution	Class of shares	Total amount (Millions of yen)	Source of dividends	Per share amount (Yen)	Record date	Effective date
Ordinary general meeting of shareholders held on June 25, 2021	Common shares	389	Retained earnings	10	March 31, 2021	June 28, 2021

For the year ended March 31, 2022 (April 1, 2021 to March 31, 2022)

1. Class and number of shares issued and treasury shares

(Thousands of shares)

	April 1, 2021	Increase	Decrease	March 31, 2022
Shares issued				
Common shares	39,219	–	–	39,219
Total	39,219	–	–	39,219
Treasury shares				
Common shares (Note)	229	1	–	230
Total	229	1	–	230

Note: The increase in treasury shares of 1 thousand shares was due to the purchase of shares of less than one unit.

2. Information on share acquisition rights

Classification	Description	Class of shares	Number of shares (Thousands of shares)				Year-end balance (Millions of yen)
			April 1, 2021	Increase	Decrease	March 31, 2022	
	2021 Share Acquisition Rights (Note)	Common shares	6,365	–	–	6,365	–
Total		–	6,365	–	–	6,365	–

Note: The share acquisition rights in the above table are share acquisition rights attached to convertible bonds with share acquisition rights recorded in liabilities using the lump-sum method.

3. Information on dividends

(1) Dividends paid

Resolution	Class of shares	Total amount (Millions of yen)	Per share amount (Yen)	Record date	Effective date
Ordinary general meeting of shareholders held on June 25, 2021	Common shares	389	10	March 31, 2021	June 28, 2021
Board of Directors' meeting held on November 9, 2021	Common shares	389	10	September 30, 2021	December 6, 2021

(2) Dividends whose effective date falls after the end of the year

Resolution	Class of shares	Total amount (Millions of yen)	Source of dividends	Per share amount (Yen)	Record date	Effective date
Ordinary general meeting of shareholders held on June 28, 2022	Common shares	389	Retained earnings	10	March 31, 2022	June 29, 2022

The Companies Act of Japan provides that an amount equal to at least 10 percent of distributions paid in cash be appropriated as a legal reserve until the aggregated amount of the legal capital surplus and the legal retained earnings equals 25 percent of share capital.
The portion of such aggregated amount in excess of 25 percent of share capital may become available for distributions subsequent to release of such excess to capital surplus and retained earnings.

Notes - Consolidated statement of cash flows

* Reconciliation of cash and cash equivalents at the end of the year and the amount recorded in the consolidated balance sheet

(Millions of yen)

	For the year ended March 31, 2021 (April 1, 2020 to March 31, 2021)	For the year ended March 31, 2022 (April 1, 2021 to March 31, 2022)
Cash and deposits	24,588	37,942
Time deposits with maturity over three months	(376)	(376)
Cash and cash equivalents	24,212	37,565

Notes - Leases

1. Finance lease transactions
   (As Lessee)
   Finance lease transactions that do not transfer ownership
   1) Details of leased assets
      Property and equipment
      Buildings and structures in the Dormitory Business.

   2) Method of depreciation of leased assets
      As described in "Significant accounting policies for preparation of consolidated financial statements, 4. Disclosure of accounting policies, (2) Method of depreciation and amortization of major depreciable and amortizable assets."

      Of finance lease transactions that do not transfer the ownership, lease transactions that commenced on or before March 31, 2008 are accounted for as operating lease transactions. The details are as follows.

(1) Acquisition cost, accumulated depreciation and net book value of leased property

(Millions of yen)

	As of March 31, 2021		
	Acquisition cost	Accumulated depreciation	Net book value
Buildings and structures	8,010	5,151	2,859
Total	8,010	5,151	2,859

(Millions of yen)

	As of March 31, 2022		
	Acquisition cost	Accumulated depreciation	Net book value
Buildings and structures	8,010	5,464	2,546
Total	8,010	5,464	2,546

Note: Acquisition cost is calculated inclusive of interest expenses because the ratio of the year-end balance of future minimum lease payments to the year-end balance of property and equipment was low.

(2) Future minimum lease payments as of March 31, 2021 and 2022 were as follows:

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Future minimum lease payments		
Due within one year	312	312
Due after one year	2,546	2,233
Total	2,859	2,546

Note: Future minimum lease payments are calculated inclusive of interest expenses because the ratio of the year-end balance of future minimum lease payments to the year-end balance of property and equipment was low.

(3) Lease payments and depreciation

(Millions of yen)

	For the year ended March 31, 2021 (April 1, 2020 to March 31, 2021)	For the year ended March 31, 2022 (April 1, 2021 to March 31, 2022)
Lease payments	312	312
Depreciation	312	312

(4) Method of calculating depreciation equivalent

Depreciation is calculated using the straight-line method based on the assumption that the useful lives of the leased assets are equal to the lease term and the residual value is equal to zero.

(Loss on impairment)

There was no loss on impairment allocated to leased assets.

2. Operating leases

Future minimum lease payments/receipts under non-cancelable operating leases

(As Lessee)

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Due within one year	9,508	12,244
Due in more than one year	99,975	128,720
Total	109,484	140,965

(As Lessor)

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Due within one year	1,004	981
Due in more than one year	886	685
Total	1,890	1,666

Note: The future minimum lease receipts in the above table were related to lease agreements of the Dormitory Business, etc.

Notes - Financial instruments

1. Matters concerning the status of financial instruments

(1) Group policy for financial instruments

The Group raises required funds mainly through the issuance of corporate bonds and bank borrowings based on its capital investment plan, and short-term working capital through bank borrowings. Temporary surplus funds, if any, are invested in highly secure financial assets. In addition to using derivatives to avoid risks as described below, the Group enters into hybrid financial instrument transactions with embedded derivatives for the purpose of managing surplus funds. As for such hybrid financial instrument transactions, the Group uses only those that are judged to be highly secure based on the assessment of their characteristics.

Regarding interest rate-related derivatives, interest rate swap transactions are currently used to convert variable interest rates of borrowings into fixed interest rates. In the case where interest rate conditions change, while interest rate swap transactions to convert fixed interest rates into variable interest rates may be used, the Group intends to use them only for long-term monetary receivables and payables with fixed interest rates to the extent of achieving the purpose of adjusting to prevailing market interest rates.

(2) Nature and extent of risks arising from financial instruments

Trade receivables, such as notes and accounts receivable - trade, are exposed to customer credit risk. In addition, securities and investment securities, which consist of held-to-maturity debt securities, equity securities of other companies held for the purpose of strengthening business relationships with the Group, and securities for pure investment purposes, are exposed to the risk of market price fluctuations. While some of them take the form of hybrid financial instruments, which are exposed to the risks of fluctuation in stock prices and foreign currency exchange rates, etc. as well as the credit risk of issuers, the Group does not conduct high-risk transactions based primarily on its policy to guarantee the principal amount. Guarantee and leasehold deposits are pledged in relation to lease agreements. Although they are exposed to debtor credit risk, they shall, in principle, be returned in a lump sum at the termination of the agreements.

Payment terms of most trade payables, such as notes and accounts payable - trade, are within one month. As for liabilities such as borrowings and bonds payable, short-term borrowings are primarily for raising funds for operating transactions, while long-term borrowings, bonds payable, and convertible bonds with share acquisition rights are primarily for raising funds for capital investments. Some of them are exposed to the risk of interest rate fluctuations. Guarantee deposits received, which are taken as deposits concerning lease agreements, shall be returned in a lump sum at the termination of the agreements. These obligations are exposed to liquidity risk.

Derivative transactions are primarily interest rate swaps to hedge fluctuations in the interest rates of borrowings and bonds payable, and are exposed to the risk of fluctuation in interest rates and counterparty risk. Information on hedging instruments and hedged items, hedging policy, and assessment of hedge effectiveness is included in “Significant hedge accounting methods” in the “Disclosure of accounting policies.”

(3) Risk management for financial instruments

1) Credit risk management

As for trade receivables and long-term loans receivable, each responsible department of the Company monitors the financial positions of major counterparties as necessary, and controls the balances and maturity dates of receivables of each client so as to detect and mitigate any concerns about collectability as early as possible, based on its internal rules. The Company’s consolidated subsidiaries manage their receivables in the same manner as the Company in accordance with the Company’s internal rules.

Held-to-maturity debt securities consist solely of highly rated debt securities such as government bonds, and therefore their credit risk is minimal.

The Group enters into derivative transactions to mitigate counterparty risk only with domestic financial institutions with a sound credit profile.

2) Market risk management

The Company uses interest rate swaps as hedging instruments on each loan contract to hedge the fluctuation in interest rates of borrowings. As for the risk of fluctuation in interest rates, the Company monitors the market interest rates on a regular basis.

As for securities and investment securities, the Company monitors fair values, stock prices, foreign currency exchange rates, and financial positions of issuers on a regular basis. In addition, as for securities other than held-to maturity debt securities, the Company continuously reviews its portfolio taking into account its relationship with counterparties.

As for derivative transactions, the Company requires authorization procedures based on its administrative authority rules such as the board of directors’ meetings, and the Corporate Planning Department manages the balances and maturity dates of derivative transactions. The Company’s consolidated subsidiaries manage their derivative transactions in the same manner as the Company in accordance with the Company’s rules.

3) Management of liquidity risk related to fund-raising

The Company manages liquidity risk by maintaining one month’s worth of net sales as liquidity on hand, as well as having the Corporate Planning Department prepare and update funding plans on a timely basis based on reports from each department.

(4) Supplementary explanation on fair value of financial instruments

The fair values of financial instruments are based on market prices in active markets. If a market price is not available, another rational valuation technique is used instead. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in a different fair value.

2. Fair value of financial instruments
   Book values and fair values of financial instruments, and the difference between the two as of March 31, 2021 and 2022 were as follows.

   As of March 31, 2021

(Millions of yen)

	Book value	Fair value	Difference
(1) Investment securities	2,172	2,172	0
(2) Guarantee deposits	12,403	11,984	(418)
(3) Leasehold deposits	16,912	13,267	(3,645)
Total assets	31,488	27,423	(4,064)
(1) Short-term borrowings	8,900	8,901	1
(2) Short-term guarantee deposits received	471	471	(0)
(3) Current portion of bonds payable and bonds payable	33,820	33,840	20
(4) Convertible bonds with share acquisition rights	30,142	31,015	873
(5) Current portion of long-term borrowings and long-term borrowings	56,806	57,160	353
(6) Long-term guarantee deposits received	2,929	2,911	(18)
Total liabilities	133,069	134,300	1,230

(*1) The note on cash is omitted. Information on deposits, notes and accounts receivable - trade, and notes and accounts payable - trade is omitted, because these items are settled in a short period and therefore their fair values approximate the book values.

(*2) The following financial instruments are not included in "(1) Investment securities" because their fair values are deemed extremely difficult to determine since their market prices are not available. The amounts of these financial instruments recorded in the consolidated balance sheet are as follows:

(Millions of yen)

Classification	As of March 31, 2021
Investments in non-consolidated subsidiaries and affiliates	1,853
Unlisted equity securities	177
Investments in silent partnerships	269
Investments in investment partnerships	19
Other	6

As of March 31, 2022

(Millions of yen)

	Book value	Fair value	Difference
(1) Securities	20	20	0
(2) Investment securities	2,191	2,191	–
(3) Guarantee deposits	13,526	12,919	(607)
(4) Leasehold deposits	19,033	14,768	(4,265)
Total assets	34,771	29,898	(4,872)
(1) Short-term borrowings	11,300	11,300	0
(2) Short-term guarantee deposits received	475	475	–
(3) Current portion of bonds payable and bonds payable	28,540	28,874	334
(4) Convertible bonds with share acquisition rights	30,112	32,904	2,791
(5) Current portion of long-term borrowings and long-term borrowings	65,481	66,277	796
(6) Long-term guarantee deposits received	2,630	2,607	(22)
Total liabilities	138,539	142,440	3,900
Derivatives	324	324	–

(*1) The note on cash is omitted. Information on deposits, notes and accounts receivable - trade, and notes and accounts payable - trade is omitted, because these items are settled in a short period and therefore their fair values approximate the book values.

(*2) Equity securities without market prices are not included in "(2) Investment securities." The amounts of these financial instruments recorded in the consolidated balance sheet are as follows:

(Millions of yen)

Classification	As of March 31, 2022
Investments in non-consolidated subsidiaries and affiliates	524
Unlisted equity securities	160
Investments in silent partnerships	269
Other	6

Notes: 1. Maturity analysis for monetary receivables and securities with contractual maturities

As of March 31, 2021

(Millions of yen)

	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits				
Deposits	24,496	–	–	–
Notes and accounts receivable - trade	9,702	–	–	–
Investment securities				
Held-to-maturity debt securities				
Government and municipal bonds	–	20	–	–
Other securities with contractual maturities				
(1) Debt securities (Other)	–	–	–	1,200
(2) Other	–	1	–	6
Guarantee deposits	1,306	2,686	1,129	7,280
Leasehold deposits	903	2,017	2,480	11,511
Total	36,408	4,724	3,610	19,999

As of March 31, 2022

(Millions of yen)

	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits				
Deposits	37,837	–	–	–
Notes and accounts receivable - trade	11,455	–	–	–
Investment securities				
Held-to-maturity debt securities				
Government and municipal bonds	20	–	–	–
Other securities with contractual maturities				
(1) Debt securities (Other)	–	–	–	1,200
(2) Other	–	–	–	6
Guarantee deposits	1,643	2,186	1,120	8,576
Leasehold deposits	882	2,422	2,802	12,925
Total	51,838	4,608	3,923	22,708

Notes: 2. Maturity analysis for bonds payable, long-term borrowings, and other interest-bearing liabilities

As of March 31, 2021

(Millions of yen)

	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term borrowings	8,900	–	–	–	–	–
Bonds payable	5,280	5,080	4,880	4,880	4,680	9,020
Convertible bonds with share acquisition rights	–	–	–	–	30,000	–
Long-term borrowings	3,802	3,504	7,681	7,293	6,737	27,786
Total	17,982	8,584	12,561	12,173	41,417	36,806

As of March 31, 2022

(Millions of yen)

	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term borrowings	11,300	–	–	–	–	–
Bonds payable	5,080	4,880	4,880	4,680	4,680	4,340
Convertible bonds with share acquisition rights	–	–	–	30,000	–	–
Long-term borrowings	3,520	9,247	8,860	8,303	7,969	27,580
Total	19,900	14,127	13,740	42,983	12,649	31,920

3. Breakdown by level of fair values of financial instruments, etc.

Fair values of financial instruments are classified into the following three levels in accordance with the observability and materiality of inputs for fair value measurement.

Level 1 fair value: Fair value measured by using quoted prices for assets or liabilities that are subject to the fair value measurement concerned which are formed in active markets, of observable inputs for fair value measurement

Level 2 fair value: Fair value measured by using inputs for fair value measurement other than Level 1 inputs, of observable inputs for fair value measurement

Level 3 fair value: Fair value measured by using unobservable inputs for fair value measurement

If multiple inputs that have a material impact on fair value measurement are used, the fair value is classified into the lowest priority level in fair value measurement, of the levels to which each input belongs.

(1) Financial instruments recorded at fair value in the consolidated balance sheet
As of March 31, 2022

(Millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Securities and investment securities				
Other securities				
Equity securities	989	–	–	989
Debt securities	–	1,140	–	1,140
Other	60	–	–	60
Derivative transactions				
Interest rate-related derivatives	–	324	–	324
Total assets	1,050	1,465	–	2,516

(2) Financial instruments other than financial instruments recorded at fair value in the consolidated balance sheet
As of March 31, 2022

(Millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Securities and investment securities				
Held-to-maturity debt securities				
Government bonds	20	–	–	20
Guarantee deposits	–	12,919	–	12,919
Leasehold deposits	–	14,768	–	14,768
Total assets	20	27,687	–	27,707
Short-term borrowings	–	11,300	–	11,300
Short-term guarantee deposits received	–	475	–	475
Current portion of bonds payable and bonds payable	–	28,874	–	28,874
Convertible bonds with share acquisition rights	32,904	–	–	32,904
Current portion of long-term borrowings and long-term borrowings	–	66,277	–	66,277
Long-term guarantee deposits received	–	2,607	–	2,607
Total liabilities	32,904	109,536	–	142,440

Note: Explanation of valuation techniques used to measure fair value and inputs for fair value measurement
Securities and investment securities

Listed equity securities, investment trusts, government bonds and other debt securities are valued using quoted prices. Since listed equity securities, investment trusts and government bonds are traded in active markets, their fair values are classified as Level 1 fair value. On the other hand, because other debt securities held by the Company are infrequently traded in markets and quoted prices of other debt securities are not regarded as the quoted prices in active markets, their fair values are classified as Level 2 fair value.

Derivative transactions

The fair values of interest rate swaps are measured at the quoted price obtained from financial institutions, and classified as Level 2 fair value. However, interest rate swaps accounted for using the exceptional method are accounted for together with the hedged long-term borrowings. Therefore, their fair values are included in the fair values of the relevant long-term borrowings (refer to “Long-term borrowings” below).

Guarantee deposits and leasehold deposits

The fair values of guarantee deposits and leasehold deposits are stated at present value calculated based on the amount of receivables discounted by interest rates that take into account the contractual periods and credit risk for each receivable categorized according to certain periods, and classified as Level 2 fair value.

Convertible bonds with share acquisition rights

The fair values of convertible bonds with share acquisition rights are measured using quoted prices. Because convertible bonds with share acquisition rights are traded in active markets, their fair values are classified as Level 1 fair value.

Short-term borrowings, and current portion of long-term borrowings and long-term borrowings

The book values of short-term borrowings, and current portion of long-term borrowings and long-term borrowings with variable interest rates approximate the fair values because the interest rates reflect market interest rates in the short term, and the Company’s credit status has not changed significantly since initiating the borrowings. Therefore, the book values are used for their fair values. Those with fixed interest rates are stated at present value calculated based on the total amount of principal and interest (*) categorized according to certain periods discounted by interest rates that take into account the periods up to maturity and credit risk. All the fair values are classified as Level 2 fair value.

(*) For borrowings hedged by interest rate swaps subject to the exceptional method, the total amount of principal and interest is calculated using the rates of the said interest rate swaps

Short-term guarantee deposits received and long-term guarantee deposits received

The fair values of short-term guarantee deposits received and long-term guarantee deposits received are stated at present value calculated based on the amount of liabilities categorized according to certain periods discounted by interest rates that take into account the periods up to maturity and credit risk, and classified as Level 2 fair value.

Current portion of bonds payable and bonds payable

The fair values of current portion of bonds payable and bonds payable are stated at present value calculated based on the total amount of principal and interest discounted by interest rates that take into account their remaining periods and credit risk, and classified as Level 2 fair value.

Notes - Securities

1. Held-to-maturity debt securities

As of March 31, 2021

(Millions of yen)

	Type	Book value	Fair value	Difference
Debt securities with fair value exceeding book value	(1) Government and municipal bonds	20	20	0
	(2) Corporate bonds	–	–	–
	(3) Other	–	–	–
	Subtotal	20	20	0
Debt securities with fair value not exceeding book value	(1) Government and municipal bonds	–	–	–
	(2) Corporate bonds	–	–	–
	(3) Other	–	–	–
	Subtotal	–	–	–
Total		20	20	0

As of March 31, 2022

(Millions of yen)

	Type	Book value	Fair value	Difference
Debt securities with fair value exceeding book value	(1) Government and municipal bonds	20	20	0
	(2) Corporate bonds	–	–	–
	(3) Other	–	–	–
	Subtotal	20	20	0
Debt securities with fair value not exceeding book value	(1) Government and municipal bonds	–	–	–
	(2) Corporate bonds	–	–	–
	(3) Other	–	–	–
	Subtotal	–	–	–
Total		20	20	0

2. Other securities

As of March 31, 2021

(Millions of yen)

	Type	Book value	Acquisition cost	Difference
Securities with book value exceeding acquisition cost	(1) Equity securities	523	256	267
	(2) Debt securities			
	1) Government and municipal bonds	–	–	–
	2) Corporate bonds	–	–	–
	3) Other	–	–	–
	(3) Other	60	59	1
	Subtotal	584	316	268
Securities with book value not exceeding acquisition cost	(1) Equity securities	460	555	(95)
	(2) Debt securities			
	1) Government and municipal bonds	–	–	–
	2) Corporate bonds	–	–	–
	3) Other	1,107	1,200	(92)
	(3) Other	–	–	–
	Subtotal	1,567	1,755	(187)
Total		2,152	2,071	80

As of March 31, 2022

(Millions of yen)

	Type	Book value	Acquisition cost	Difference
Securities with book value exceeding acquisition cost	(1) Equity securities	542	256	285
	(2) Debt securities			
	1) Government and municipal bonds	–	–	–
	2) Corporate bonds	–	–	–
	3) Other	–	–	–
	(3) Other	60	59	1
	Subtotal	602	315	286
Securities with book value not exceeding acquisition cost	(1) Equity securities	447	555	(107)
	(2) Debt securities			
	1) Government and municipal bonds	–	–	–
	2) Corporate bonds	–	–	–
	3) Other	1,140	1,200	(59)
	(3) Other	–	–	–
	Subtotal	1,588	1,755	(166)
Total		2,191	2,071	120

3. Sales of other securities

For the year ended March 31, 2021 (April 1, 2020 to March 31, 2021)

(Millions of yen)

Type	Proceeds from sales	Realized gain	Realized loss
(1) Equity securities	–	–	–
(2) Debt securities			
1) Government and municipal bonds	–	–	–
2) Corporate bonds	–	–	–
3) Other	–	–	–
(3) Other	–	–	–
Total	–	–	–

For the year ended March 31, 2022 (April 1, 2021 to March 31, 2022)

(Millions of yen)

Type	Proceeds from sales	Realized gain	Realized loss
(1) Equity securities	–	–	–
(2) Debt securities			
1) Government and municipal bonds	–	–	–
2) Corporate bonds	–	–	–
3) Other	–	–	–
(3) Other	–	–	–
Total	–	–	–

4. Impairment of securities

No impairment loss of securities was recorded for the year ended March 31, 2021.

The Group recorded an impairment loss of investment securities of 17 million yen (unlisted equity securities of 17 million yen) for the year ended March 31, 2022.

For securities with quoted market prices, if the fair value of the securities declines by 50% or more of the acquisition cost, the acquisition cost will be written down to the fair value. If the fair value of the securities declines between 30% and 50% of the acquisition cost, the acquisition cost will be written down to the amount deemed appropriate taking into consideration their recoverability. With respect to the impairment of equity securities whose fair value cannot be reliably determined, if the net asset value declines significantly due, for example, to deterioration of the financial position of the issuers, the acquisition cost will be written down to the amount deemed appropriate, taking into consideration their recoverability on a case-to-case basis.

Notes - Derivatives

1. Derivative transactions to which hedge accounting is not applied
   For the year ended March 31, 2021 (April 1, 2020 to March 31, 2021)
   There were no items to be reported.

   For the year ended March 31, 2022 (April 1, 2021 to March 31, 2022)
   There were no items to be reported.

2. Derivative transactions to which hedge accounting is applied
   Interest rate-related derivatives

For the year ended March 31, 2021 (April 1, 2020 to March 31, 2021)

(Millions of yen)

Hedge accounting method	Type of derivative transactions	Major hedged item	Contract amount	Contract amount due after one year	Fair value
Exceptional method for interest rate swaps	Interest rate swaps Receive variable / pay fixed	Long-term borrowings	629	343	(Note)

Note: Interest rate swaps accounted for using the exceptional method are accounted for together with the hedged long-term borrowings. Therefore, their fair values are included in the fair values of the relevant long-term borrowings.

For the year ended March 31, 2022 (April 1, 2021 to March 31, 2022)

(Millions of yen)

Hedge accounting method	Type of derivative transactions	Major hedged item	Contract amount	Contract amount due after one year	Fair value
Deferred hedge accounting	Interest rate swaps Receive variable / pay fixed	Long-term borrowings	62,000	62,000	(Note 1) 324
Exceptional method for interest rate swaps	Interest rate swaps Receive variable / pay fixed	Long-term borrowings	343	200	(Note 2)
Total			62,343	62,200	324

Notes:
1. Method for measuring fair value: The fair value is measured at the quoted price obtained from financial institutions.
2. Interest rate swaps accounted for using the exceptional method are accounted for together with the hedged long-term borrowings. Therefore, their fair values are included in the fair values of the relevant long-term borrowings.

Notes - Retirement benefits

1. Outline of retirement benefits plans
   The Company and some of its consolidated subsidiaries have defined benefit corporate pension plans and lump-sum retirement payment plans as defined benefit plans, as well as defined contribution pension plans as defined contribution plans, while other consolidated subsidiaries have lump-sum retirement payment plans. Also, in some cases, the Group may pay additional retirement benefits upon the retirement of employees, etc.
   A part of tax-qualified retirement pension plans of the Company and some of its consolidated subsidiaries was transferred to defined benefit corporate pension plans on March 29, 2011, and the remaining part excluded from the transfer due to system revision was liquidated. In addition, certain lump-sum retirement payment plans were suspended, and defined contribution pension plans were introduced.
   Certain consolidated subsidiaries apply the simplified method in the calculation of retirement benefit liability and asset and retirement benefit expenses under defined benefit corporate pension plans and lump-sum retirement payment plans.

2. Defined benefit plans
   (1) Changes in retirement benefit obligations, excluding plans applying the simplified method, for the years ended March 31, 2022 and 2021 were as follows:

(Millions of yen)

	For the year ended March 31, 2021 (April 1, 2020 to March 31, 2021)	For the year ended March 31, 2022 (April 1, 2021 to March 31, 2022)
Retirement benefit obligations at the beginning of the year	1,840	1,873
Service cost	181	182
Interest cost	12	13
Actuarial gains and losses	12	(14)
Retirement benefits paid	(172)	(122)
Retirement benefit obligations at the end of the year	1,873	1,932

   (2) Changes in plan assets, excluding plans applying the simplified method, for the years ended March 31, 2022 and 2021 were as follows:

(Millions of yen)

	For the year ended March 31, 2021 (April 1, 2020 to March 31, 2021)	For the year ended March 31, 2022 (April 1, 2021 to March 31, 2022)
Plan assets at the beginning of the year	879	1,015
Expected return on plan assets	17	20
Actuarial gains and losses	87	33
Contributions by the employer	101	113
Retirement benefits paid	(70)	(57)
Plan assets at the end of the year	1,015	1,125

   (3) Changes in retirement benefit liability and asset of defined benefit plans applying the simplified method for the years ended March 31, 2022 and 2021 were as follows:

(Millions of yen)

	For the year ended March 31, 2021 (April 1, 2020 to March 31, 2021)	For the year ended March 31, 2022 (April 1, 2021 to March 31, 2022)
Retirement benefit liability at the beginning of the year	179	186
Retirement benefit expenses	36	41
Retirement benefits paid	(17)	(10)
Contribution to the plans	(12)	(12)
Net retirement benefit liability and asset at the end of the year	186	205

(4) Reconciliation between the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2022 and 2021 was as follows:

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Funded retirement benefit obligations	1,053	1,111
Plan assets	(1,187)	(1,304)
	(134)	(192)
Unfunded retirement benefit obligations	1,195	1,206
Net defined benefit liability and asset in the consolidated balance sheet	1,061	1,013
Retirement benefit asset	–	–
Retirement benefit liability	1,045	1,013
Net defined benefit liability and asset in the consolidated balance sheet	1,045	1,013

(5) The components of retirement benefit expenses for the years ended March 31, 2022 and 2021 were as follows:

(Millions of yen)

	For the year ended March 31, 2021 (April 1, 2020 to March 31, 2021)	For the year ended March 31, 2022 (April 1, 2021 to March 31, 2022)
Service cost	218	224
Interest cost	12	13
Expected return on plan assets	(17)	(20)
Amortization of actuarial gains and losses	13	(6)
Retirement benefit expenses	226	211

Note: Retirement benefit expenses of the consolidated subsidiaries applying the simplified method were included in service cost.

(6) Remeasurements of defined benefit plans, net of tax

The components of remeasurements of defined benefit plans (before tax effects) under other comprehensive income for the years ended March 31, 2022 and 2021 were as follows:

(Millions of yen)

	For the year ended March 31, 2021 (April 1, 2020 to March 31, 2021)	For the year ended March 31, 2022 (April 1, 2021 to March 31, 2022)
Actuarial gain and loss	(88)	(41)
Total	(88)	(41)

(7) Remeasurements of defined benefit plans

The components of remeasurements of defined benefit plans (before tax effects) under accumulated other comprehensive income as of March 31, 2022 and 2021 were as follows:

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Unrecognized actuarial gain and loss	(35)	(77)
Total	(35)	(77)

(8) Plan assets

1) Main components of plan assets

Fair values of plan assets, by major category, as a percentage of total plan assets as of March 31, 2022 and 2021 were as follows:

	As of March 31, 2021	As of March 31, 2022
Debt securities	26.6%	26.4%
Equity securities	28.2	28.5
General accounts of life insurance companies	44.1	43.9
Other	1.1	1.2
Total	100.0	100.0

2) Method for establishing long-term expected rate of return on plan assets

The long-term expected rates of return on plan assets has been estimated based on the current and anticipated allocation of plan assets to each asset class and the current and long-term expected rate of return on the various asset classes.

(9) Calculation basis for actuarial assumption

The main actuarial assumptions used for the years ended March 31, 2022 and 2021 were as follows:

	As of March 31, 2021	As of March 31, 2022
Discount rates	0.1 - 0.9%	0.1 - 0.9%
Long-term expected rates of return on plan assets	2.0%	2.0%
Expected rates of salary increase	2.94 - 6.92%	2.94 - 6.92%

3. Defined contribution plans

The amounts paid to defined contribution plans by the Company and its consolidated subsidiaries is 111 million yen for the year ended March 31, 2021 and 96 million yen for the year ended March 31, 2022.

Notes - Stock options

There were no items to be reported.

Notes - Tax effect accounting

1. Significant components of deferred tax assets and deferred tax liabilities

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Deferred tax assets		
Investment securities	54	64
Allowance for doubtful accounts	54	63
Accrued taxes	69	189
Provision for bonuses	221	304
Retirement benefit liability	328	321
Provision for retirement benefits for directors	79	79
Dividend income as repayment of investments	904	904
Loss on impairment of non-current assets	538	470
Asset retirement obligations	462	486
Accrued expenses	72	44
Unrealized gains	1,242	1,132
Non-deductible consumption taxes	41	30
Tax loss carryforwards (Note 2)	6,567	6,624
Other	124	221
Deferred tax assets subtotal	10,762	10,938
Valuation allowance relating to tax loss carryforwards (Note 2)	(1,442)	(1,523)
Valuation allowance relating to total amount of future deductible temporary differences	(1,872)	(1,926)
Valuation allowance subtotal (Note 1)	(3,314)	(3,449)
Total deferred tax assets	7,448	7,488
Deferred tax liabilities		
Real estate held for sale	(338)	–
Land	–	(33)
Reserve for advanced depreciation of non-current assets	(312)	(308)
Asset retirement obligations	(83)	(80)
Unrealized holding gain (loss) on securities	(25)	(37)
Deferred gain (loss) on interest rate swap hedges	–	(99)
Other	(10)	(8)
Total deferred tax liabilities	(769)	(567)
Net deferred tax assets	6,678	6,921

Note: Expected maturity of the deferred tax assets after the balance sheet date for tax loss carryforwards

As of March 31, 2021

(Millions of yen)

	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years	Total
Tax loss carryforwards(*)	1	12	38	123	141	6,250	6,567
Valuation allowance	(1)	(12)	(38)	(123)	(141)	(1,125)	(1,442)
Deferred tax assets	–	–	–	–	–	5,125	5,125

(*) The amount of tax loss carryforwards was calculated by multiplying the statutory tax rate.

As of March 31, 2022

(Millions of yen)

	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years	Total
Tax loss carryforwards(*1)	12	39	127	146	177	6,119	6,624
Valuation allowance	(12)	(39)	(127)	(146)	(177)	(1,018)	(1,523)
Deferred tax assets(*2)	–	–	–	–	–	5,101	5,101

(*1) The amount of tax loss carryforwards was calculated by multiplying the statutory tax rate.

(*2) The Group recorded deferred tax assets of 5,101 million yen as a result of tax loss carryforwards arising from the impact of an expansion in COVID-19 infections. The Company and all domestic consolidated subsidiaries have introduced the consolidated taxation system. Accordingly, when determining the recoverability of deferred tax assets, the future taxable income of the consolidated taxable entity is used for income taxes (national-level taxes) and the future taxable income of each consolidated taxable company is used for local taxes. For tax loss carryforwards, the Group conducts scheduling of the future expected fiscal years and expected amount of deduction of the tax loss carryforwards based on estimates of the forecasted future taxable income, and records the amount that is expected to be recovered as deferred tax assets.

2. Reconciliation between the statutory tax rates and the effective tax rates reflected in the consolidated statement of income for the years ended March 31, 2022 and 2021 was as follows:

	As of March 31, 2021	As of March 31, 2022
Statutory tax rate	30.62%	30.63%
(Reconciliation)		
Permanent difference due to non-deductible expenses such as entertainment expenses	(0.68)	9.37
Permanent difference due to non-taxable income such as dividend income	0.09	(0.75)
Inhabitant tax on per capita basis	(1.88)	21.55
Valuation allowance	(14.10)	21.41
Unrealized gains	0.02	(0.68)
Differences in tax rates applicable to subsidiaries	(1.43)	4.65
Other - net	5.56	(24.70)
Actual effective tax rate after application of tax effect accounting	18.20	61.48

Notes - Business combinations

There were no items to be reported.

Notes - Asset retirement obligations

Assets retirement obligations recorded in the consolidated balance sheet

a. Outline of asset retirement obligations

Obligation to restore the site to its original condition, etc. based on the fixed-term land lease agreements of a part of the hotel business, etc.

Obligation to restore the site to its original condition, etc. based on the real estate lease agreements of a part of the hotel business, etc.

Obligation costs for the removal of hazardous substances generated from the dismantlement of Group-owned properties.

With respect to certain costs above, the Group reasonably estimates the unrecoverable amounts of the leasehold and guarantee deposits related to the real estate lease agreements, and charges such amount to income in the year to which such costs are attributable, instead of recording the liabilities as asset retirement obligations.

b. Calculation method of asset retirement obligations

As for the obligation to restore the site to its original condition, etc. based on the fixed-term land lease agreements of a part of the hotel business, etc., the Group calculates the amounts of the asset retirement obligations based on an estimated period of use of such real estate of between 20 years and 51 years considering the applicable period under such agreements and using discount rates ranging from 0.363% to 2.293%.

As for the obligation to restore the site to its original condition, etc. based on the real estate lease agreements of a part of the hotel business, etc., the Group calculates the amounts of the asset retirement obligations based on an estimated period of use of such real estate of between 3 years and 20 years considering the applicable period of depreciation and using discount rates ranging from 0.000% to 3.000%.

As for obligation costs for the removal of hazardous substances generated from the dismantlement of Group-owned properties, the Group calculates the amounts of the asset retirement obligations based on an estimated period of use of such buildings of between 22 years and 25 years considering the applicable period of depreciation and using discount rates ranging from 1.178% to 2.273%.

c. Changes in asset retirement obligations

(Millions of yen)

	For the year ended March 31, 2021 (April 1, 2020 to March 31, 2021)	For the year ended March 31, 2022 (April 1, 2021 to March 31, 2022)
Asset retirement obligations at the beginning of the year	597	699
Increase due to acquisition of property and equipment	252	60
Unwinding of discount	4	3
Decrease due to settlement of asset retirement obligations	(158)	(153)
Foreign currency translation differences	3	1
Asset retirement obligations at the end of the year	699	610

Notes - Real estate held for rental

The Group owns dormitories and office buildings (including land) which are held for rental in Tokyo and other areas.

Book value, net increase or decrease during the year, and fair value of real estate held for rental for the years ended March 31, 2022 and 2021 were as follows:

(Millions of yen)

		For the year ended March 31, 2021 (April 1, 2020 to March 31, 2021)	For the year ended March 31, 2022 (April 1, 2021 to March 31, 2022)
Book value			
	Balance at the beginning of the year	39,929	39,245
	Net increase (decrease) during the year	(683)	772
	Balance at the end of the year	39,245	40,018
Fair value at the end of the year		54,119	52,991

Notes: 1. Book value represents acquisition cost less accumulated depreciation and accumulated impairment losses.

2. Fair value at the end of the year is primarily calculated by real estate appraisers based on the real estate appraisal standard (including amounts for which adjustments were made using indicators, etc.).

Income and expenses in relation to real estate held for rental for the years ended March 31, 2022 and 2021 were as follows:

(Millions of yen)

	For the year ended March 31, 2021 (April 1, 2020 to March 31, 2021)	For the year ended March 31, 2022 (April 1, 2021 to March 31, 2022)
Rental income	5,765	6,238
Rental expenses	3,210	3,485
Net	2,555	2,752
Other	0	0

Note: Rental income and rental expenses were included in net sales and cost of sales, respectively.

Notes - Revenue recognition

1. Information on disaggregation of revenue from contracts with customers.
   For the year ended March 31, 2022 (April 1, 2021 to March 31, 2022)

(Millions of yen)

	Reportable Segments						Other (Note 1)	Total
	Dormitory	Hotel	Compre-hensive Building Management	Food Service	Development	Subtotal		
Student dormitories	4,000	–	–	–	–	4,000	–	4,000
Employee dormitories	2,533	–	–	–	–	2,533	–	2,533
Domeal	94	–	–	–	–	94	–	94
Contracted dormitories	4,059	–	–	–	–	4,059	–	4,059
Dormy Inn	–	35,249	–	–	–	35,249	–	35,249
Resorts	–	27,411	–	–	–	27,411	–	27,411
Office-building management	–	–	3,681	–	–	3,681	–	3,681
Residential building management	–	–	3,454	–	–	3,454	–	3,454
Food service	–	–	–	789	–	789	–	789
Development	–	–	–	–	38,975	38,975	–	38,975
Other	–	–	–	–	–	–	13,910	13,910
Revenue from contracts with customers	10,688	62,660	7,136	789	38,975	120,251	13,910	134,161
Other revenue (Note 2)	36,235	–	350	–	2,151	38,736	802	39,539
Sales to external customers	46,924	62,660	7,487	789	41,126	158,988	14,713	173,701

Notes: 1. The “Other” segment consists of the following businesses not included in the reportable segments: the Senior Life Business (management and operation of senior residences), the Public Kyoritsu Partnership (PKP) Business (services provided under contract to local governments), support for people who live alone, the insurance agency business, comprehensive human-resource services, the financial business, the administrative outsourcing business, and other businesses incidental thereto.

2. Other revenues include interest income, etc. under the ASBJ Statement No. 10 “Accounting Standard for Financial Instruments,” rental income, etc. under the ASBJ Statement No. 13 “Accounting Standard for Lease Transactions,” proceeds from sales of real estate properties, etc. under Accounting Practice Committee Statement No. 15 “Practical Guidelines on Accounting by Transferors for Securitization of Real Property by Using Special Purpose Companies.”

2. Information that forms the basis for understanding revenue from contracts with customers
   Information that forms the basis for understanding revenue from contracts with customers is as described in “Notes - Significant accounting policies for preparation of consolidated financial statements, 4. Disclosure of accounting policies, (6) Recognition of significant revenues and expenses.”

3. Information on relation between satisfaction of performance obligations under contracts with customers and cash flows arising from these contracts, and amount and timing of revenue expected to be recognized in and after the year ending March 31, 2023 from contracts with customers that existed at the end of the year ended March 31, 2022

(1) Balances of contract assets and contract liabilities, etc.

Opening balance and closing balance of receivables arising from contracts with customers, contract assets and contract liabilities are as follows.

(Millions of yen)

	Opening balance (April 1, 2021)	Closing balance (March 31, 2022)
Receivables arising from contracts with customers	6,610	8,109
Contract assets	1,421	400
Contract liabilities	434	11

Receivables arising from contracts with customers represent accounts receivable - trade and notes receivable - trade for which the rights to payment had become unconditional as at the end of the fiscal year, and others.

Contract assets relate to the Group’s rights to consideration for works that have created assets controlled by customers but not been billed as at the end of the fiscal year. Contract assets are reclassified to receivables when the rights to payment become unconditional.

Contract liabilities represent the Group’s obligations to transfer goods or services to customers for which the Group received consideration from customers or which have become due for receiving consideration.

Of revenue recognized during the year ended March 31, 2022, revenue included in the opening balance of contract liabilities is 434 million yen. There is no revenue that was recognized in the year ended March 31, 2022 from performance obligations that were satisfied in past periods.

(2) Transaction price allocated to remaining performance obligations

Information on the total amount of transaction price allocated to remaining performance obligations and period during which revenue is expected to be recognized is omitted, because there is no such period exceeding one year.

Notes - Segment information, etc.

[Segment information]

1. General information of reportable segments
   The Group's reportable segments are components for which separate financial information is available and whose operating results are regularly reviewed by the board of directors' to decide on the allocation of operating resources and assess their performance.
   The Group establishes business sections for individual services (or subsidiaries for some services) within the Group. Each business section or subsidiary drafts strategies and engages in business activities for its services.
   Accordingly, the Group consists of service-specific segments based on these business sections and subsidiaries. Its five reporting segments are the Dormitory Business, the Hotel Business, the Comprehensive Building Management Business, the Food Service Business, and the Development Business.
   The outline of the respective reportable segments are as follows:
   Dormitory Business: Operation and management of student dormitories, employee dormitories, Domeal, and contracted dormitories
   Hotel Business: The Dormy Inn (limited-service hotel) and resorts (resort hotel) businesses
   Comprehensive Building Management Business: Office-building management and residential building management
   Food Service Business: Businesses related to restaurants, contracted food service, hotel restaurants, and other facilities operated under contract
   Development Business: Construction, planning, design, and brokerage businesses, the condominium business, the real-estate sale and leaseback business, and other development-related businesses

2. Methods to determine amounts of net sales, profit or loss, assets and other items of each segment
   The accounting policies of each reportable segment are consistent with those disclosed in "Notes - Significant accounting policies for preparation of consolidated financial statements."
   Segment profit is based on operating profit.
   Intersegment sales and transfers are determined based on prevailing market prices.

3. Information about net sales, profit or loss, assets and other items by reportable segment
For the year ended March 31, 2021 (April 1, 2020 to March 31, 2021)

(Millions of yen)

	Reportable segment						Other (Note 1)	Total	Adjustment (Note 2)	Consolidated (Note 3)
	Dormitory	Hotel	Compre-hensive Building Manage-ment	Food Service	Develop-ment	Subtotal				
Net sales										
Sales to external customers	46,190	46,159	7,166	657	6,082	106,256	15,024	121,281	–	121,281
Intersegment sales or transfers	298	86	8,846	4,634	6,527	20,393	486	20,879	(20,879)	–
Total	46,489	46,246	16,012	5,291	12,610	126,650	15,510	142,160	(20,879)	121,281
Segment profit (loss)	4,903	(13,130)	624	(10)	650	(6,961)	606	(6,355)	(2,701)	(9,057)
Segment assets	54,074	105,849	11,349	1,893	28,530	201,698	12,344	214,042	24,989	239,032
Other										
Depreciation	1,355	3,353	78	58	42	4,888	131	5,020	(58)	4,962
Loss on impairment of non-current assets	41	364	–	37	–	442	–	442	–	442
Increase in property and equipment, and intangible assets	1,967	10,431	26	3	3	12,432	75	12,507	(66)	12,440

Notes: 1. The “Other” segment consists of the following businesses not included in the reportable segments: the Senior Life Business (management and operation of senior residences), the Public Kyoritsu Partnership (PKP) Business (services provided under contract to local governments), support for people who live alone, the insurance agency business, comprehensive human-resource services, the financial business, the administrative outsourcing business, and other businesses incidental thereto.

2. The details of the adjustments were as follows:

(Millions of yen)

Segment profit (loss)	
Elimination of intersegment transactions	(213)
Corporate expenses (Note)	(2,488)
Total	(2,701)

Note: Corporate expenses primarily consist of expenses related to the administrative departments such as the accounting department at the head office.

(Millions of yen)

Segment assets	
Elimination of intersegment transactions	(13,857)
Corporate assets (Note)	38,846
Total	24,989

Note: Corporate assets consist of cash and deposits at the head office, investment securities, assets of the administrative departments, and deferred tax assets.

3. Segment profit (loss) is adjusted with operating loss in the consolidated statement of income.

For the year ended March 31, 2022 (April 1, 2021 to March 31, 2022)

(Millions of yen)

	Reportable segment						Other (Note 1)	Total	Adjustment (Note 2)	Consolidated (Note 3)
	Dormitory	Hotel	Compre-hensive Building Manage-ment	Food Service	Develop-ment	Subtotal				
Net sales										
Sales to external customers	46,924	62,660	7,487	789	41,126	158,988	14,713	173,701	–	173,701
Intersegment sales or transfers	322	111	7,621	6,038	(464)	13,628	481	14,109	(14,109)	–
Total	47,246	62,772	15,108	6,827	40,661	172,616	15,195	187,811	(14,109)	173,701
Segment profit (loss)	4,554	(9,451)	258	(74)	8,608	3,894	459	4,354	(2,922)	1,431
Segment assets	55,778	100,361	18,811	2,283	22,024	199,260	15,991	215,251	26,471	241,723
Other										
Depreciation	1,410	4,387	70	71	42	5,981	130	6,112	(41)	6,070
Loss on impairment of non-current assets	49	–	–	2	–	51	–	51	–	51
Increase in property and equipment, and intangible assets	2,373	6,985	39	130	–	9,528	55	9,584	(64)	9,519

Notes: 1. The "Other" segment consists of the following businesses not included in the reportable segments: the Senior Life Business (management and operation of senior residences), the Public Kyoritsu Partnership (PKP) Business (services provided under contract to local governments), support for people who live alone, the insurance agency business, comprehensive human-resource services, the financial business, the administrative outsourcing business, and other businesses incidental thereto.

2. The details of the adjustments were as follows:

(Millions of yen)

Segment profit (loss)	
Elimination of intersegment transactions	18
Corporate expenses (Note)	(2,941)
Total	(2,922)

Note: Corporate expenses primarily consist of expenses related to the administrative departments such as the accounting department at the head office.

(Millions of yen)

Segment assets	
Elimination of intersegment transactions	(18,535)
Corporate assets (Note)	45,006
Total	26,471

Note: Corporate assets consist of cash and deposits at the head office, investment securities, assets of the administrative departments, and deferred tax assets.

3. Segment profit (loss) is adjusted with operating profit in the consolidated statement of income.

4. Changes in reportable segments, etc.

Application of the Accounting Standard for Revenue Recognition and relevant ASBJ regulations

As stated in "Notes - Changes in accounting policies," the Group has applied the Accounting Standard for Revenue Recognition and relevant ASBJ regulations from the beginning of the year ended March 31, 2022,

and changed accounting treatment for revenue recognition. Accordingly, the method for profit or loss of operating segments has been changed in the same manner.
Due to this change, net sales and cost of sales in “Hotel” decreased by 305 million yen and 305 million yen, respectively, and net sales and cost of sales in “Other” decreased by 305 million yen and 305 million yen, respectively, compared to the previous method. However, the impact on segment profit and loss is insignificant.

[Information associated with reportable segments]

For the year ended March 31, 2021 (April 1, 2020 to March 31, 2021)

1. Information by product and service

(Millions of yen)

	Student dormitories	Employee dormitories	Domeal	Contracted dormitories	Dormy Inn	Resort	Office-building management	Residential-building management	Food Service	Development	Other	Consolidated
Sales to external customers	23,558	13,765	4,809	4,058	25,233	20,926	3,885	3,281	657	6,082	15,024	121,281

2. Information by geographical area
   (1) Net sales
   This information is omitted because sales to external customers in Japan exceeded 90% of net sales in the consolidated statement of income.

   (2) Property and equipment
   This information is omitted because the balance of property and equipment in Japan exceeded 90% of the total balance of property and equipment in the consolidated balance sheet.

3. Information by major customer
   This information is omitted because the Group does not have any major customers that account for 10% or more of net sales in the consolidated statement of income.

For the year ended March 31, 2022 (April 1, 2021 to March 31, 2022)

1. Information by product and service

(Millions of yen)

	Student dormitories	Employee dormitories	Domeal	Contracted dormitories	Dormy Inn	Resort	Office-building management	Residential-building management	Food Service	Development	Other	Consolidated
Sales to external customers	25,193	12,938	4,732	4,059	35,249	27,411	4,017	3,469	789	41,126	14,713	173,701

2. Information by geographical area
   (1) Net sales
   This information is omitted because sales to external customers in Japan exceeded 90% of net sales in the consolidated statement of income.

   (2) Property and equipment
   This information is omitted because the balance of property and equipment in Japan exceeded 90% of the total balance of property and equipment in the consolidated balance sheet.

3. Information by major customer
   This information is omitted because the Group does not have any major customers that account for 10% or more of net sales in the consolidated statement of income.

[Information about loss on impairment of non-current assets by reportable segment]

For the year ended March 31, 2021 (April 1, 2020 to March 31, 2021)

This information is omitted because the same information has been presented in 3. Information about net sales, profit or loss, assets, and other items by reportable segment.

For the year ended March 31, 2022 (April 1, 2021 to March 31, 2022)

This information is omitted because the same information has been presented in 3. Information about net sales, profit or loss, assets, and other items by reportable segment.

[Information about amortization of goodwill and year-end balance of goodwill by reportable segment]

For the year ended March 31, 2021 (April 1, 2020 to March 31, 2021)

There were no items to be reported.

For the year ended March 31, 2022 (April 1, 2021 to March 31, 2022)

There were no items to be reported.

[Information about gain on negative goodwill by reportable segment]

For the year ended March 31, 2021 (April 1, 2020 to March 31, 2021)

There were no items to be reported.

For the year ended March 31, 2022 (April 1, 2021 to March 31, 2022)

There were no items to be reported.

[Information on related parties]

For the year ended March 31, 2021 (April 1, 2020 to March 31, 2021)

1. Related party transactions

   Transactions of the Company with related parties

   Directors and major shareholders, etc. (limited to individuals) of the Company

(Millions of yen)

Type	Name	Location	Capital	Business/ occupation	Percentage of voting rights (held)	Relationship	Transaction	Transac-tion amount	Accounts	Year-end balance
Director	Haruhisa Ishizuka	–	–	Chairman of the Company	Directly held 2.71%	Leasing of real estate	Rent expenses of dormitories and hotels	177	Other in current assets	10
									Leasehold deposits	182
Company, etc. whose majority of voting rights is held by a director and/or his/her relative (including the said company's subsidiaries)	Milestone Co., Ltd. (Notes 2, 3)	Katsushika -ku, Tokyo	100	Real estate rental business, etc.	Directly held 10.94%	Leasing of real estate	Rent expenses of dormitories	69	Other in current assets	6
									Leasehold deposits	16
									Guarantee deposits	15

Notes:
1. The rent expenses in the above tables are determined through price negotiations with reference to the prevailing transactions in the neighborhood.
2. The Company's chairman, Haruhisa Ishizuka and his relative hold 100% of Milestone Co., Ltd.'s voting rights.
3. The Company's chairman, Haruhisa Ishizuka, serves as Milestone Co., Ltd.'s representative director, and his spouse, Motoe Ishizuka, who holds 0.03% of the Company's voting rights, serves as Milestone Co., Ltd.'s president.

2. Notes on the parent company or significant associates

   There were no items to be reported.

For the year ended March 31, 2022 (April 1, 2021 to March 31, 2022)

1. Related party transactions

   Transactions of the Company with related parties

   Directors and major shareholders, etc. (limited to individuals) of the Company

(Millions of yen)

<table>
<tr><th>Type</th><th>Name</th><th>Location</th><th>Capital</th><th>Business/ occupation</th><th>Percentage of voting rights (held)</th><th>Relationship</th><th>Transaction</th><th>Transac-tion amount</th><th>Accounts</th><th>Year-end balance</th></tr>
<tr><td rowspan="2">Director</td><td rowspan="2">Haruhisa Ishizuka</td><td rowspan="2">–</td><td rowspan="2">–</td><td rowspan="2">Chairman of the Company</td><td rowspan="2">Directly held 2.71%</td><td rowspan="2">Leasing of real estate</td><td>Rent expenses of dormitories and hotels</td><td>160</td><td>Other in current assets</td><td>16</td></tr>
<tr><td>Payment of leasehold deposits</td><td>17</td><td>Leasehold deposits</td><td>199</td></tr>
<tr><td rowspan="2">Director</td><td rowspan="2">Koji Nakamura</td><td rowspan="2">–</td><td rowspan="2">–</td><td rowspan="2">President of the Company</td><td rowspan="2">Directly held 0.02%</td><td rowspan="2">Lending of funds (Note 4)</td><td>Lending of funds</td><td>16</td><td>Other in current assets</td><td>0</td></tr>
<tr><td>Receipt of interest</td><td>0</td><td>Long-term loans receivable</td><td>16</td></tr>
<tr><td rowspan="2">Director</td><td rowspan="2">Yasuo Ohara</td><td rowspan="2">–</td><td rowspan="2">–</td><td rowspan="2">Executive Director of the Company</td><td rowspan="2">Directly held 0.01%</td><td rowspan="2">Lending of funds (Note 4)</td><td>Lending of funds</td><td>14</td><td>Other in current assets</td><td>0</td></tr>
<tr><td>Receipt of interest</td><td>0</td><td>Long-term loans receivable</td><td>14</td></tr>
<tr><td rowspan="3">Company, etc. whose majority of voting rights is held by a director and/or his/her relative (including the said company's subsidiaries)</td><td rowspan="3">Milestone Co., Ltd. (Notes 2, 3)</td><td rowspan="3">Katsushika -ku, Tokyo</td><td rowspan="3">100</td><td rowspan="3">Real estate rental business, etc.</td><td rowspan="3">Directly held 10.94%</td><td rowspan="3">Leasing of real estate</td><td rowspan="2">Rent expenses of dormitories</td><td rowspan="2">75</td><td>Other in current assets</td><td>2</td></tr>
<tr><td>Guarantee deposits</td><td>15</td></tr>
<tr><td>Repayment of leasehold deposits</td><td>16</td><td>Leasehold deposits</td><td>–</td></tr>
</table>

Notes:
1. The terms and conditions of the transactions in the above tables are determined in the same way as the terms and conditions of general transactions with parties unrelated to the Company, and interest rates on funds lent are determined reasonably in consideration of market interest rates.
2. The Company's chairman, Haruhisa Ishizuka and his relative hold 100% of Milestone Co., Ltd.'s voting rights.
3. The Company's chairman, Haruhisa Ishizuka, serves as Milestone Co., Ltd.'s representative director, and his spouse, Motoe Ishizuka, who holds 0.03% of the Company's voting rights, serves as Milestone Co., Ltd.'s president.
4. The above lending of funds was carried out in relation to the purchase of the Company's shares through on-market trade, which is in line with the Guidelines on Possession of the Company's Shares by Officers established by the Company.

2. Notes on the parent company or significant associates

   There were no items to be reported.

Notes - Per share data

(Yen)

	For the year ended March 31, 2021 (April 1, 2020 to March 31, 2021)	For the year ended March 31, 2022 (April 1, 2021 to March 31, 2022)
Net assets per share	1,815.45	1,810.40
Basic earnings (loss) per share	(311.98)	13.83
Diluted earnings per share	–	–

Notes: 1. Diluted earnings per share for the year ended March 31, 2021 is not presented because a loss per share was recorded, and also because there were no potential shares with dilutive effects. Diluted earnings per share for the year ended March 31, 2022 is not presented because there were no potential shares with dilutive effects.

2. The basis of calculation for basic earnings (loss) per share is as follows:

		For the year ended March 31, 2021 (April 1, 2020 to March 31, 2021)	For the year ended March 31, 2022 (April 1, 2021 to March 31, 2022)
Basic earnings (loss) per share			
Profit (loss) attributable to owners of parent	(Millions of yen)	(12,164)	539
Profit (loss) not attributable to common shareholders	(Millions of yen)	–	–
Profit (loss) attributable to owners of parent attributable to shareholders of common stock	(Millions of yen)	(12,164)	539
Weighted-average number of common stock outstanding during the year	(Shares)	38,990,301	38,989,870
Outline of potential common stock excluded from the calculation of diluted EPS due to its non-dilutive effect		Euro yen-denominated Convertible-Bond-Type Bonds With Share Acquisition Rights due 2026 by resolution of the Board of Directors' meeting held on January 13, 2021 (Number of share acquisition rights: 3,000 units)	Euro yen-denominated Convertible-Bond-Type Bonds With Share Acquisition Rights due 2026 by resolution of the Board of Directors' meeting held on January 13, 2021 (Number of share acquisition rights: 3,000 units)

Notes - Subsequent events

Introduction of restricted share-based remuneration plan

At the Board of Directors meeting held on May 13, 2022, the Company reviewed the executive remuneration plan and resolved to introduce a restricted share-based remuneration plan (hereinafter referred to as the "Plan"). The Plan was approved and adopted at the 43rd Ordinary General Meeting of Shareholders held on June 28, 2022.

1. Purpose of introduction of the Plan, and other matters

(1) Purpose of introduction of the Plan

The Plan has been introduced as a remuneration plan to allocate restricted shares to the Company's Directors (excluding Directors who are Audit and Supervisory Committee Members and Outside Directors; hereinafter referred to as "Eligible Directors") in order to have Eligible Directors share the merits and risks of fluctuating share prices with shareholders and further increase their incentive to contribute to the enhancement of increasing share price and corporate value.

(2) Conditions for introduction of the Plan

Because, under the Plan, monetary compensation receivable is to be paid as remuneration to allocate restricted shares to Eligible Directors, the introduction of the Plan is subject to approval of shareholders for the payment of such remuneration at this General Meeting of Shareholders. At the 40th Ordinary General Meeting of Shareholders held on June 26, 2019, the remuneration amount for the Company's Directors (excluding Directors who are Audit and Supervisory Committee Members) was approved as a maximum amount of 1,000 million yen per year (not including the employee's salaries portion for Directors who also serve as employees). At this General Meeting of Shareholders, however, in comprehensive consideration of various matters such as the level of contribution of Eligible Directors in the Company, as a separate portion to the aforementioned remuneration amount for Directors, it was resolved that the total amount of monetary compensation receivable to be paid as remuneration, etc. regarding transfer restricted shares for Eligible Directors shall be no more than 200 million yen per year.

2. Overview of the Plan

(1) Allocation of Transfer Restricted Shares and payment

Based on resolutions of the Board of Directors, the Company shall provide Eligible Directors an amount of monetary compensation receivable within the aforementioned annual limit as remuneration etc., regarding Transfer Restricted Shares, and each Eligible Director shall receive their allocation of Transfer Restricted Shares by paying all of the monetary compensation receivable by the method of in-kind contribution.

The amount to be paid for Transfer Restricted Shares shall be determined by the Board of Directors within the scope of an amount that is not particularly advantageous to Eligible Directors who will receive the Transfer Restricted Shares, based on the closing price of the Company's common stock on the Tokyo Stock Exchange on the business day immediately preceding the date of each resolution of the Board of Directors meeting on the date of issuance or disposition (if there was no trading on that date, the closing price of the most recent preceding trading date).

In addition, the aforementioned monetary compensation receivable shall be paid on condition that Eligible Directors enter into an agreement for the allocation of Transfer Restricted Shares that includes their consent to the aforementioned in-kind contribution and the provisions stipulated in (3) below.

(2) Aggregate number of Transfer Restricted Shares

The aggregate number of Transfer Restricted Shares to be allocated to Eligible Directors shall not exceed 260,000 Transfer Restricted Shares per fiscal year.

However, in the case where the Company conducts stock splits (including gratis allocations of its common shares) or reverse stock splits of its common shares on or after the date of the approval of this Proposal, or in any other case where an adjustment of the aggregate number of Transfer Restricted Shares to be allocated is required to be made, the aggregate number of the Transfer Restricted Shares shall be adjusted to within a reasonable extent.

(3) Contents of agreement for the allocation of Transfer Restricted Shares

When allocating Transfer Restricted Shares, the agreement for the allocation of Transfer Restricted Shares to be executed between the Company and Eligible Directors who will receive an allocation of Transfer Restricted Shares based on resolutions of the Board of Directors shall contain the following content.

(i) Details of Transfer Restrictions

Eligible Directors who receive an allocation of Transfer Restricted Shares may not transfer, set a pledge, set a transfer security right, gift inter vivos, bequest, or make any other disposal (hereinafter referred to as "Transfer Restrictions") of the Transfer Restricted Shares they received (hereinafter referred to as the "Allocated Shares") to a third party during the period from the date they receive the allocation of Transfer Restricted Shares to the date of their retirement from their position as either

Director or Executive Officer of the Company or its subsidiaries (hereinafter referred to as the "Transfer Restriction Period").

(ii) Free-of-charge acquisition of Transfer Restricted Shares

In the case where Eligible Directors who received an allocation of Transfer Restricted Shares retire from or leave their positions as Directors or Executive Officers of the Company and its subsidiaries from the start date of the Transfer Restriction Period until the day before the date of the subsequent General Meeting of Shareholders, the Company shall duly acquire the Allocated Shares free-of-charge except in the case of a legitimate reason accepted by the Board of Directors.

In addition, of the Allocated Shares, at the time the aforementioned Transfer Restriction Period in (i) expires, the Company shall duly acquire free-of-charge any shares for which the transfer restrictions have not been lifted based on the provision of a reason for lifting the transfer restrictions as in (iii) below.

(iii) Lifting of Transfer Restrictions

The Company shall lift the Transfer Restrictions for all of the Allocated Shares as of the time when the Transfer Restriction Period expires, on the condition that the Eligible Directors who received an allocation of Transfer Restricted Shares have been in positions as either Director or Executive Officer of the Company or its subsidiaries continuously from the start date of the Transfer Restriction Period until the date of the subsequent General Meeting of Shareholders.

However, in the case where the Eligible Directors retire from or leave their positions as Directors or Executive Officers of the Company and its subsidiaries from the start date of the Transfer Restriction Period until the day before the date of the subsequent General Meeting of Shareholders for a legitimate reason accepted by the Board of Directors, the number of Allocated Shares for which the Transfer Restrictions will be lifted and the timing for lifting the Transfer Restriction shall be reasonably adjusted as necessary.

(iv) Treatment in the event of organization restructuring, etc.

In the case where proposals regarding merger contracts under which the Company becomes the absorbed company, share exchange agreements or share transfer plans under which the Company becomes a wholly owned subsidiary, or any other organization restructuring, etc. are approved at the General Meeting of Shareholders of the Company (or at a meeting of the Board of Directors of the Company in case where approval by the General Meeting of Shareholders of the Company is not required for the said organization restructuring, etc.) during the Transfer Restriction Period, the Company shall lift, based on the resolution of the Board of Directors, the Transfer Restrictions before the effective date of the said organization restructuring, etc., with regard to the Allocated Shares in the number reasonably determined by taking into account the period from the start date of the Transfer Restriction Period to the approval date of the said organization restructuring, etc.

Furthermore, in the case provided for above, the Company shall duly acquire free-of-charge the Allocated Shares for which the Transfer Restrictions have not been lifted, at the time immediately after the lifting of Transfer Restrictions.

5) Annexed consolidated detailed schedules

[Annexed consolidated detailed schedule of corporate bonds]

Company name	Bond name	Date of issuance	Balance as of April 1, 2021 (Millions of yen)	Balance as of March 31, 2022 (Millions of yen)	Interest rate (per annum)	Collateral	Date of maturity
KYORITSU MAINTENANCE CO., LTD.	17th Series Unsecured Corporation Bond	November 30, 2011	200 [200]	– [–]	1.47%	None	November 30, 2021
	18th Series Unsecured Corporation Bond	March 29, 2013	200 [100]	100 [100]	0.98%	None	March 29, 2023
	19th Series Unsecured Corporation Bond	March 29, 2013	200 [100]	100 [100]	0.94%	None	March 29, 2023
	20th Series Unsecured Corporation Bond	March 31, 2015	800 [200]	600 [200]	0.88%	None	March 31, 2025
	21st Series Unsecured Corporation Bond	December 30, 2016	4,800 [800]	4,000 [800]	0.52%	None	December 30, 2026
	22nd Series Unsecured Corporation Bond	March 31, 2017	2,400 [400]	2,000 [400]	0.39%	None	March 31, 2027
	23rd Series Unsecured Corporation Bond	March 31, 2017	2,400 [400]	2,000 [400]	0.50%	None	March 31, 2027
	24th Series Unsecured Corporation Bond	March 30, 2018	6,300 [900]	5,400 [900]	0.52%	None	March 30, 2028
	25th Series Unsecured Corporation Bond	March 30, 2018	3,290 [470]	2,820 [470]	0.35%	None	March 30, 2028
	26th Series Unsecured Corporation Bond	March 30, 2018	3,150 [450]	2,700 [450]	0.14%	None	March 30, 2028
	27th Series Unsecured Corporation Bond	March 29, 2019	5,600 [700]	4,900 [700]	0.44%	None	March 30, 2029
	28th Series Unsecured Corporation Bond	March 29, 2019	2,400 [300]	2,100 [300]	0.16%	None	March 30, 2029
	29th Series Unsecured Corporation Bond	March 29, 2019	2,080 [260]	1,820 [260]	0.27%	None	March 30, 2029
	Euro yen-denominated Convertible-Bond-Type Bonds With Share Acquisition Rights due 2026 (Note 2)	January 29, 2021	30,142 [–]	30,112 [–]	None	None	January 29, 2026
Total	–	–	63,962 [5,280]	58,652 [5,080]	–	–	–

Notes: 1. Figures in brackets represent current portion of bonds payable.

2. The details of convertible bonds with share acquisition rights were as follows:

Bond	Euro yen-denominated maturity due 2026
Type of shares to be issued	Common stock
Issue price of share acquisition rights (Yen)	Gratis
Issue price of shares (Yen)	4,713
Total issue price (Millions of yen)	30,150
Total issue price of shares issued upon exercise of share acquisition rights (Millions of yen)	–
Percentage of share acquisition rights granted (%)	100
Exercise period for share acquisition rights	From February 12, 2021 to January 15, 2026

Note: When a holder makes a request to exercise their share acquisition rights, it shall be deemed that the full amount to be paid at the exercise of the share acquisition rights has been paid in, and that the related bonds with share acquisition rights have been redeemed in full. The said request shall be deemed to have been made when the share acquisition rights are exercised.

3. Amounts to be redeemed within five years after the consolidated balance sheet date are as follows:

(Millions of yen)

Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years
5,080	4,880	4,880	34,680	4,680

[Annexed consolidated detailed schedule of borrowings]

Classification	Balance as of April 1, 2021 (Millions of yen)	Balance as of March 31, 2022 (Millions of yen)	Average interest rate (%)	Repayment term
Short-term borrowings	8,900	11,300	0.42	–
Current portion of long-term borrowings	3,802	3,520	0.63	–
Current portion of lease obligations	21	39	3.37	–
Long-term borrowings (excluding current portion)	53,003	61,961	0.57	2022 - 2031
Lease obligations (excluding current portion)	354	698	3.37	2041
Other interest-bearing liabilities	–	–	–	–
Total	66,081	77,520	–	–

Notes: 1. The average interest rates shown above are the weighted average interest rates applicable to the year-end balance of the borrowings, etc.

2. The scheduled redemption amounts of long-term borrowings and lease obligations (excluding current portion) for the five years subsequent to March 31, 2022 were as follows:

(Millions of yen)

Classification	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years
Long-term borrowings	9,247	8,860	8,303	7,969
Lease obligations	41	42	44	46

[Annexed consolidated detailed schedule of asset retirement obligations]

This information is omitted pursuant to the provisions of Article 92-2 of the Ordinance on Consolidated Financial Statements, since the respective amounts of asset retirement obligations as of April 1, 2021 and March 31, 2022 were 1% or less of the total of liabilities and net assets as of the same dates.

(2) Others

1) Quarterly information for the year ended March 31, 2022

(Cumulative period)	First three months	First six months	First nine months	For the year
Net sales (Millions of yen)	29,643	67,713	105,066	173,701
Profit (loss) before income taxes (Millions of yen)	(3,705)	(5,384)	(5,092)	1,399
Profit (loss) attributable to owners of parent (Millions of yen)	(2,799)	(4,076)	(3,930)	539
Basic earnings (loss) per share (Yen)	(71.80)	(104.55)	(100.82)	13.83

(Three-month period)	First quarter	Second quarter	Third quarter	Fourth quarter
Basic earnings (loss) per share (Yen)	(71.80)	(32.75)	3.73	114.65

2) Litigation

There were no items to be reported.

Building a better working world

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Independent Auditor's Report

The Board of Directors
KYORITSU MAINTENANCE CO., LTD.

Opinion

We have audited the accompanying consolidated financial statements of KYORITSU MAINTENANCE CO., LTD. and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2022, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of property and equipment in the Hotel Business	
Description of Key Audit Matter	**Auditor's Response**
The Hotel Business in particular was significantly impacted by the COVID-19 pandemic due to property and equipment owned by The Group being exposed to risks such as rapid changes in economic conditions and changes in the financial situation. As described in (Significant Accounting Estimates) under Notes to Consolidated Financial Statements, The Group	We mainly performed the following audit procedures in considering the impairment of property and equipment in the Hotel Business of The Group. • We inspected minutes of various meetings such as meetings of the board of directors

recorded 61,932 million yen on the consolidated balance sheet for property and equipment in the Hotel Business, accounting for 25% of total assets. The Group classify assets into asset groups mainly by business location in the Hotel Business and determined that there was an indication that certain asset groups may be impaired due to a decrease in profitability resulting from the impact of the COVID-19 pandemic and other factors. However, in determining the recognition of impairment losses, The Group did not recognize impairment losses since the total amount of the undiscounted future cash flows derived from these asset groups exceeded the carrying amounts of each asset group. Future cash flows derived from continuing use of the asset groups are estimated based on profit plans. As described in (Significant Accounting Estimates) under Notes to Consolidated Financial Statements, the significant assumptions used in estimating future cash flows are the average daily rates, occupancy rates, the extent to which the COVID-19 pandemic will impact in the future, and the timing when the pandemic will be contained for each asset group, which serve as the basis for profit plans. Given that estimates of future cash flows are subject to uncertainty and require management judgment, we have determined that this is a key audit matter for the fiscal year ended March 31, 2022.	and made inquiries of management to identify events impacting assessments, and considered whether the identified events have been reflected in determinations of impairment. ・ We compared the estimation period for future cash flows to the remaining useful lives of major assets. ・ We compared prior year profit plans with actual results to evaluate the effectiveness of the estimation process that management uses in formulating profit plans. ・ We made inquiries of management on matters including average daily rates, occupancy rates, the extent to which the COVID-19 pandemic will spread in the future, and the timing with which the pandemic will be contained, which are the significant assumptions used in estimating future cash flows, compared such assumptions to external data, and performed sensitivity analysis taking into account both trend analysis based on historical data and the risk of future fluctuations.

Recoverability of deferred tax assets of KYORITSU MAINTENANCE CO., LTD.	
Description of Key Audit Matter	**Auditor's Response**
As described in (Significant Accounting Estimates) under Notes to Consolidated Financial Statements, of the deferred tax assets of 6,928 million yen recorded on the consolidated balance sheet by The Group, the Company recorded deferred tax assets of 5,397 million yen. The Company determines the recoverability of deferred tax assets on deductible temporary differences and tax loss carryforwards in	We mainly performed the following audit procedures in considering the recoverability of the Company's deferred tax assets. ・ We considered the balances of deductible temporary differences and tax loss carryforwards by involving tax professionals from our EY network firms,

consideration of estimated future taxable income based on profit plans. The significant assumptions underlying profit plans, which serve as the basis for estimated taxable income, are the impact of the COVID-19 pandemic on the business in the future and the timing with which the pandemic will be contained, as well as the resulting average daily rates and occupancy rates of each business location in the Hotel Business. Given that, in determining the recoverability of deferred tax assets, the significant assumptions underlying profit plans, which serve as the basis for estimated taxable income, are subject to uncertainty and require management judgment, we have determined that this is a key audit matter.	and considered the schedule of years in which they are expected to be reversed. ・ To evaluate estimated future taxable income, we considered future profit plans approved by the board of directors, which serve as the basis for estimated future taxable income. ・ We compared prior year profit plans with actual results to evaluate the effectiveness of the estimation process that management uses in formulating profit plans. ・ Regarding the extent to which the COVID-19 pandemic will spread in the future and the timing with which the pandemic will be contained, as well as the resulting average daily rates and occupancy rates of each business location in the Hotel Business, which are the significant assumptions for profit plans, we considered such assumptions based on inquiries of management and comparisons with historical data and external data. ・ We performed sensitivity analysis for the significant assumptions and considered management's assessment of uncertainty of estimates included in profit plans.

Other Information

The other information comprises the information included in a disclosure document that contains audited financial statements but does not include the financial statements and our auditor's report thereon.

We have concluded that the other information did not exist. Accordingly, we have not performed any work related to the other information.

Responsibilities of Management, the Audit and Supervisory Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Audit and Supervisory Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Supervisory Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Supervisory Committee with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the consolidated financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit and Supervisory Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Ernst & Young ShinNihon LLC
Tokyo, Japan

June 30, 2022

Yuji Mukaide
Designated Engagement Partner
Certified Public Accountant

Seishi Yoshida
Designated Engagement Partner
Certified Public Accountant