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Summary of Non-Consolidated Financial Results for the Fiscal Year Ended August 31, 2022 (Based on Japanese GAAP)

October 14, 2022

Company name:	and factory, inc	
Stock exchange listing:	Tokyo	
Stock code:	7035	URL https://andfactory.co.jp/
Representative:	Rinji Aoki, President and Representative Director	
Contact:	Tomoki Hasumi, Director	Phone: +81-3-6712-7646
Scheduled date of General Meeting of Shareholders:		November 25, 2022
Scheduled date to file annual securities report:		November 28, 2022
Scheduled date to commence dividend payments:		—
Preparation of supplementary material on annual financial results:		Yes
Holding of annual financial results meeting:		No

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

1. Non-Consolidated financial results for the Fiscal Year ended August 31, 2022 (From September 1, 2021 to August 31, 2022)

(1) Non-consolidated operating results (cumulative)

Percentages indicate year-on-year changes.

	Net sales		Operating income		Ordinary profit		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal Year ended August 31, 2022	2,833	(6.9)	66	—	(144)	—	(350)	—
Fiscal Year ended August 31, 2021	3,044	3.3	(83)	—	(239)	—	(561)	—

	Earnings per share	Diluted earnings per share	Rate of return on equity	Ordinary profit to total assets	Operating profit to net sales
	Yen	Yen	%	%	%
Fiscal Year ended August 31, 2022	(35.57)	—	(49.1)	(2.8)	2.3
Fiscal Year ended August 31, 2021	(57.13)	—	(48.1)	(4.1)	(2.7)

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

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of August 31, 2022	4,855	540	11.1	54.91
As of August 31, 2021	5,376	888	16.5	90.28

(Reference) Equity capital: August 31, 2022: ¥540 million August 31, 2021: ¥887 million

(3) Non-consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of the period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Fiscal Year ended August 31, 2022	(32)	69	(332)	479
Fiscal Year ended August 31, 2021	(118)	(79)	(55)	774

2. Cash dividends

	Annual dividends per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Total
Year ended August 31, 2021	—	0.00	—	0.00	0.00
Year ending August 31, 2022	—	0.00	—	0.00	0.00
Year ending August 31, 2023 (Forecast)	—	0.00	—	0.00	0.00

3. Forecast of non-consolidated financial results for the year ending August 31, 2023 (From September 1, 2022 to August 31, 2023) Percentages indicate year-on-year changes.

	Net sales		Operating income		Ordinary profit		Profit		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	3,140	10.8	100	51.3	68	—	64	—	6.50

Notes

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

Changes in accounting policies due to revisions to accounting standards and other regulations: Yes

Changes in accounting policies due to other reasons: No

Changes in accounting estimates: No

Restatement of prior period financial statements: No

(2) Number of issued shares (common stock)

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

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

As of August 31, 2022	9,853,520 shares	As of August 31, 2021	9,827,120 shares
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Number of treasury shares at the end of the period

As of August 31, 2022	257 shares	As of August 31, 2021	257 shares
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Average number of shares during the period (cumulative from the beginning of the fiscal year)

Fiscal year ended August 31, 2022	9,850,876 shares	Fiscal year ended August 31, 2021	9,826,863 shares
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Notes: This financial report is exempt from the review.

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

The forecasts above are based on the judgments made on the basis of currently available information. Forecasts therefore include risks and uncertainties.

Actual results may differ significantly from projections due to a variety of factors. For information regarding the assumptions underlying the Company's earnings forecast and cautionary notes concerning the use of the forecast, please refer to "1. Overview of Operating Performance (4) Outlook " on page 5 of the attachments to this summary.

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1. Overview of Operating Performance

(1) Overview of Business Results.

The e-book market (the Company's main business category) continued to grow, according to the eBook Marketing Report 2022 by Impress Research Institute. According to this report, the e-book market had a value of ¥551 billion in fiscal 2021, up 14.3% from the previous year's figure of ¥482.1 billion. Comics accounted for 84.6% of the total, or ¥466 billion. The same institute's report for the previous year, the eBook Marketing Report 2021, comics accounted for 83.0% of the total e-book market size, indicating that the comics market is growing. The actual figure exceeded this forecast. By fiscal 2026, the institute forecasts that the e-publishing market (including e-books) will grow by approximately 1.5 times larger of fiscal 2021, to ¥804.8 billion.

In this business environment, the Company pursues a mission to make people's lives more fulfilling by bringing a little "something extra" to their daily lives. In the Apps business, the Company has focused mainly on expanding earnings from smartphone manga apps developed in collaboration with large publishers.

Although extraordinary demand arising from people spending more time at home began to dwindle during the fiscal year ended August 31, 2022, with the easing of restrictions placed on activity in light of the COVID-19 pandemic, the Company has not changed its view that the comics section of the e-book market is a promising area that is likely to grow in the medium to long term as well. In the fiscal year ended August 31, 2022, in the Apps business segment, advertising revenue in the Company's mainstay manga apps business was down, reflecting lower advertising ARPU (*1) stemming from deterioration in the advertising market. However, sales from in-app purchases increased, driven by robust performance of apps with high in-app purchase rates and of popular titles. Although in the entertainment business fortune-telling performed well, overall sales in the Apps business segment were down slightly from the previous fiscal year. In the fiscal year ended August 31, 2022, the Company also developed apps in collaboration with famous fortune tellers, and this effort provided a significant earnings contribution.

In the RET business segment, profitability related to the operation of &AND HOSTEL facilities improved significantly as a result of business structure reforms. At the same time, occupancy rates at these facilities were on the rise due to changes in targets and concepts associated with the &AND HOSTEL brand. In light of the profitability outlook, the Company also proceeded to switch directly operated facilities to third-party operation and worked to reform the cost structure of the business as a whole.

In the Other businesses segment, sales decreased year on year because the Company transferred lodging and rental property services during the fiscal year ended August 31, 2021, as part of its efforts to adjust its business portfolio. However, operating income improved due to the Company's withdrawal from unprofitable businesses.

As a result of these activities, in the fiscal year ended August 31, 2022, the Company generated net sales of ¥2,833,435 thousand (down 6.9% year on year), an operating loss of ¥66,079 thousand (operating income of ¥83,567 thousand in the corresponding period of the previous fiscal year), an ordinary loss of ¥144,147 thousand (ordinary profit of ¥239,793 thousand in the previous fiscal year), and a net loss of ¥350,379 thousand (net income of ¥561,392 thousand in the previous fiscal year).

It should be noted that we recategorized our reportable segments effective from fiscal year ended August 31, 2022. Accordingly, comparisons and analysis for fiscal year ended August 31, 2022 are based on the revised segmentation.

(Apps business)

In the fiscal year ended August 31, 2022, with proactive advertising efforts and new series launches, existing manga apps such as Manga UP!, Manga Park, and Manga Mee saw growth in the number of MAUs (*2). Extending the availability of popular content and new manga additions resulted in the favorable post-launch performance of services. Additionally, MAUs have been increasing steadily, contributing to earnings, since the release in May 2020 of Young Jump, a manga app jointly developed with SHUEISHA Inc., and the release in May 2020 of Mecha Comic's Mainichi Rensai, a manga app jointly developed with Amutus Corporation.

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

As a result, in the fiscal year ended August 31, 2022, sales in the Apps business were ¥2,690,555 thousand (down 2.8% year on year). Segment profit came to ¥532,824 thousand (down 9.3% year on year).

*1 The average amount of revenue generated per person

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

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

(Thousands of people)

Year	Average MAUs	Year	Average MAUs
May 31, 2017	310	February 29, 2020	7,200
August 31, 2017	650	May 31, 2020	9,060
November 30, 2017	1,080	August 31, 2020	9,940
February 28, 2018	1,500	November 30, 2020	10,260
May 31, 2018	2,040	February 28, 2021	10,540
August 31, 2018	2,380	May 31, 2021	10,560
November 30, 2018	2,790	August 31, 2021	11,010
February 28, 2019	3,620	November 30, 2021	10,460
May 31, 2019	4,300	February 28, 2022	10,440
August 31, 2019	5,320	May 31, 2022	11,210
November 30, 2019	6,410	August 31, 2022	11,520

Note: the average MAUs shown above are quarterly averages.

(RET business)

In the fiscal year ended August 31, 2022, occupancy rates for the &AND HOSTEL smart hostels the Company operates showed some recovery after having been hit hard by the COVID-19 pandemic in the previous fiscal year. This reflects efforts by some locations to change targets and concepts to attract new customer bases. Nevertheless, the average spends per customer remained at a low level, although also on a recovery trend, and operating revenue of each location was flat year on year. The Company also adjusted agreements associated with some &AND HOSTEL locations during the fiscal year ended August 31, 2021, resulting in lower rents and other fixed costs at loss-generating locations. Accordingly, losses in the &AND HOSTEL business declined year on year.

Meanwhile, the Company posted real estate-related sales as it continued to generate rental revenue from properties, while deriving one-off earnings from property sales brokerage fees and consulting fees in the &RESIDENCE rental property consulting business.

Consequently, in the fiscal year ended August 31, 2022, sales in the RET business came to ¥137,243 thousand (down 7.6% year on year), with a segment loss of ¥54,109 thousand (loss of ¥165,882 thousand in the previous fiscal year).

(Other business)

Sales in the Other businesses segment declined year on year because the Company transferred service operations in the lodging and rental property fields, which were included under the IoT business segment until the fiscal year ended August 31, 2021, to other organizations.

However, operating income increased as the Company withdrew from unprofitable businesses.

In the fiscal year ended August 31, 2022, Other businesses reported sales of ¥5,635 thousand (down 95.6% year on year) and segment losses of ¥38,454 thousand (loss of ¥101,292 thousand in the previous year).

(2) Overview of Financial Condition

(Assets)

As of August 31, 2022, total assets amounted to ¥4,855,398 thousand, down ¥521,152 thousand from the end of August 31, 2021.

This was primarily due to decreases of ¥295,595 thousand in cash and deposits, ¥91,688 thousand in investment securities, ¥43,884 thousand in lease and guarantee deposits, and ¥31,281 thousand in advances paid.

(Liabilities)

Total liabilities amounted to ¥4,314,402 thousand as of August 31, 2022, down ¥173,855 thousand from August 31, 2021.

This mainly reflected increases of ¥179,534 thousand in allowance for cancellation loss, on the other hand, long-term loans payable (including current portion of long-term loans payable) decreased by ¥277,136 thousand and short-term loans payable decreased by ¥60,000 thousand.

(Net assets)

As of August 31, 2022, net assets totaled ¥540,995 thousand, down ¥347,296 thousand from August 31, 2021. Notably, the Company posted a net loss, causing retained earnings to fall ¥350,379 thousand.

The equity ratio came to 11.1% (compared with 16.5% as of August 31, 2021).

(3) Overview of Cash Flows

As of August 31, 2022, cash and cash equivalents amounted to ¥479,131 thousand, down ¥295,595 thousand from August 31, 2021.

(Cash flows from operating activities)

Net cash used in operating activities in the fiscal year ended August 31, 2022, amounted to ¥32,058 thousand, compared with ¥118,116 thousand used in these activities in the fiscal year ended August 31, 2021. This was mainly due to a ¥179,534 thousand increase in allowance for cancellation loss and a ¥66,997 thousand increase in accounts payable-other, while a ¥346,599 thousand loss before income taxes was recorded.

(Cash flows from investing activities)

Net cash provided by investing activities in the fiscal year ended August 31, 2022, amounted to ¥69,401 thousand, compared with ¥79,713 thousand used in these activities in the fiscal year ended August 31, 2021. This was mainly due to proceeds of ¥70,020 thousand from sale of investment securities.

(Cash flows from financing activities)

Net cash used in financing activities in the fiscal year ended August 31, 2022, amounted to ¥332,938 thousand, compared with ¥55,764 thousand used in these activities in the fiscal year ended August 31, 2021. This was mainly due to a net decrease in short-term borrowings of ¥60,000 thousand and repayments of ¥277,136 thousand in long-term borrowings.

(4) Outlook

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

During the fiscal year ending August 31, 2023, in the Apps business, the Company will continue to acquire new manga app development projects and, in line with expansion of the e-book market, will continue to aggressively invest in advertising while considering profitability. Furthermore, it will focus on both the operation of existing manga apps and efforts to create new businesses to build a new revenue base.

In addition to the development and operation of a platform for distributing webtoons in collaboration with large publishers and conventional advertising revenue and in-app purchase revenue, the Company will work to secure new revenue streams by establishing a business model that lets users read works using a point system. Steady growth measures have been proving successful in the fortune-telling business, which is gradually increasing its contribution to earnings, and the Company plans to spend a certain amount on advertising for the business during the fiscal year ending August 31, 2023, aiming to further accelerate growth. Furthermore, it is developing new services to broaden its customer base beyond the existing fortune-telling services and aims to expand operations through the launch of those new services.

In the RET business, the Company will work to secure new revenue streams in areas other than the lodging domain, where it operates &AND HOSTEL facilities.

In light of these plans, the Company's forecast for the fiscal year ending August 31, 2023 calls for net sales of ¥3,140 million (up 10.8% year on year), operating income of ¥100 million (up 51.3% year on year), ordinary profit of ¥68 million (ordinary loss of ¥144 million in the fiscal year ended August 31, 2022), and net income of ¥64 million (net loss of ¥350 million).

This forecast is based on information available as of the date this document is released, and actual results may differ from projections due to various factors in the future.

2. Fundamental Perspective on the Selection of Financial Standards

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

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

3. Non-Consolidated Financial Statements

(1) Non-Consolidated Balance Sheets

(Thousands of yen)

	For the fiscal year ended August 31, 2021	For the fiscal year ended August 31, 2022
Assets		
Current assets		
Cash and deposits	774,726	479,131
Accounts receivable–trade	542,419	524,777
Work in process	19	-
Real estate for sale	3,148,397	3,118,940
Advances paid	228,061	196,779
Other	49,547	37,932
Allowance for doubtful accounts	(9,830)	(12,347)
Total current assets	4,733,342	4,345,213
Non-current assets		
Property, plant and equipment		
Buildings	11,599	11,640
Machinery and equipment	1,088	-
Tools, furniture and fixtures	58,788	64,646
Accumulated depreciation	(37,356)	(46,546)
Total property, plant and equipment	34,118	29,740
Intangible assets		
Software	68,836	55,317
Software in progress	-	18,375
Total intangible assets	68,836	73,692
Investments and other assets		
Investment securities	257,295	165,607
Leasehold and guarantee deposits	281,658	237,773
Other	1,298	3,369
Total investments and other assets	540,252	406,750
Total non-current assets	643,207	510,184
Total assets	5,376,550	4,855,398

(Thousands of yen)

	For the fiscal year ended August 31, 2021	For the fiscal year ended August 31, 2022
Liabilities		
Current liabilities		
Accounts payable–trade	121,095	100,073
Short-term borrowings	325,000	265,000
Current portion of long-term borrowings	277,136	277,136
Accounts payable–other	468,268	514,051
Income taxes payable	8,354	13,051
Reserve for bonuses ^r	-	304
Provision for shareholder benefit program	35,783	36,464
Allowance for cancellation loss	-	179,534
Other	89,289	45,036
Total current liabilities	1,324,928	1,430,651
Non-current liabilities		
Long-term borrowings	3,154,342	2,877,206
Long-term guarantee deposits	8,987	6,545
Total non-current liabilities	3,163,329	2,883,751
Total liabilities	4,488,258	4,314,402
Net assets		
Shareholders' equity		
Share capital	549,720	551,819
Capital surplus		
Capital reserve	548,361	550,460
Total capital surplus	548,361	550,460
Retained earnings		
Other retained earnings		
Retained earnings brought forward	(210,331)	(560,710)
Total retained earnings	(210,331)	(560,710)
Treasury shares	(572)	(572)
Total shareholders' equity	887,177	540,995
Share acquisition rights	1,114	-
Total net assets	888,292	540,995
Total liabilities and net assets	5,376,550	4,855,398

Non-Consolidated Statements of Income

(2) Non-Consolidated Statements of Income

(Thousands of yen)

	For the fiscal year ended August 31, 2021	For the fiscal year ended August 31, 2022
Net sales	3,044,429	2,833,435
Cost of sales	1,373,496	1,207,903
Gross profit	1,670,933	1,625,531
Selling, general and administrative expenses	1,754,500	1,559,451
Operating profit (loss)	(83,567)	66,079
Non-operating income		
Interest income	9	7
Subsidy income	32,180	893
Surrender value of insurance policies	2,411	-
Other	1,956	1,339
Total non-operating income	36,557	2,241
Non-operating expenses		
Interest expenses	29,572	29,987
Rent	158,719	173,165
Other	4,491	9,314
Total non-operating expenses	192,783	212,468
Ordinary loss	(239,793)	(144,147)
Extraordinary income		
Gain on sale of businesses	26,999	0
Gain on reversal of subscription rights to shares	-	1,114
Gain on sale of investment securities	-	10,020
Total extraordinary income	26,999	11,134
Extraordinary losses		
Loss on business transfer	39,786	-
Restructuring charges	252,371	-
Provision for loss on cancellation	-	179,534
Impairment losses	52,465	964
Loss on disposal of fixed assets	196	1,399
Loss on valuation of investment securities	-	31,688
Total extraordinary losses	344,819	213,586
Loss before income taxes	(557,613)	(346,599)
Income taxes - current	3,779	3,779
Total income taxes	3,779	3,779
Loss	(561,392)	(350,379)

(3) Non-Consolidated Statements of Changes in Equity

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

(Thousands of yen)

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

Fiscal year ended August 31, 2022 (September 1, 2021 to August 31, 2022)

	Shareholders' equity							Share acquisition rights	Total net assets
	Share capital	Capital surplus		Retained earnings		Treasury shares	Total shareholders' equity		
		Legal capital surplus	Total capital surplus	Other retained earnings	Total retained earnings				
Balance at beginning of period	549,720	548,361	548,361	(210,331)	(210,331)	(572)	887,177	1,114	888,292
Changes during period									
Issuance of new shares	2,098	2,098	2,098				4,197		4,197
Acquisition of treasury shares				(350,379)	(350,379)		(350,379)		(350,379)
Profit (loss)							-	(1,114)	(1,114)
Total changes during period	2,098	2,098	2,098	(350,379)	(350,379)	-	(346,181)	(1,114)	(347,296)
Balance at end of period	551,819	550,460	550,460	(560,710)	(560,710)	(572)	540,995	-	540,995

(4) Non-Consolidated Statements of Cash Flows

(Thousands of yen)

	For the fiscal year Ended August 31, 2021	For the fiscal year ended August 31, 2022
Cash flows from operating activities		
Loss before income taxes	(557,613)	(346,599)
Depreciation	83,084	67,965
Impairment losses	52,465	964
Loss on retirement of non-current assets	196	1,399
Loss (gain) on sale of businesses	12,786	(0)
Loss (gain) on sale of investment securities	-	(10,020)
Loss (gain) on valuation of investment securities	-	31,688
Business restructuring cost	252,371	-
Increase (decrease) in allowance for doubtful accounts	9,814	2,517
Increase (decrease) in provision for bonuses	(3,375)	304
Increase (decrease) in provision for shareholder benefit program	(2,743)	680
Increase (decrease) in provision for provision for loss on cancellation	-	179,534
Interest income	(9)	(7)
Subsidy income	(32,180)	(893)
Interest expenses	29,572	29,987
Rent	158,719	173,165
Decrease (increase) in trade receivables	80,468	17,642
Decrease (increase) in inventories	(5,336)	2,410
Decrease (increase) in prepaid expenses	3,452	(2,250)
Decrease (increase) in advances paid	189,327	31,281
Decrease (increase) in consumption taxes refund receivable	213,333	-
Increase (decrease) in trade payables	(237,879)	(21,022)
Increase (decrease) in accounts payable - other	(213,143)	66,997
Other, net	107,802	(31,432)
Subtotal	141,114	194,312
Interest and dividends received	9	7
Interest paid	(27,766)	(29,833)
Subsidies received	32,180	893
Rent paid	(146,349)	(185,579)
Business restructuring cost paid	(244,291)	(8,079)
Income taxes paid	(994)	(3,779)
Income taxes refund	127,980	-
Net cash provided by (used in) operating activities	(118,116)	(32,058)

(Thousands of yen)

	For the fiscal year Ended August 31, 2021	For the fiscal year ended August 31, 2022
Cash flows from investing activities		
Purchase of property, plant and equipment	(27,070)	(11,975)
Purchase of intangible assets	(30,996)	(28,605)
Payments of leasehold and guarantee deposits	-	(165)
Proceeds from refund of leasehold and guarantee deposits	31,239	42,570
Purchase of investment securities	(28,514)	-
Proceeds from sale of investment securities	-	70,020
Payments for asset retirement obligations	(23,730)	-
Proceeds from sale of businesses	27,000	(0)
Payments for sale of businesses	(39,786)	-
Other, net	12,144	(2,441)
Net cash provided by (used in) investing activities	(79,713)	69,401
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(190,000)	(60,000)
Proceeds from long-term borrowings	400,000	-
Repayments of long-term borrowings	(265,764)	(277,136)
Proceeds from exercise of employee share options	-	4,197
Net cash provided by (used in) financing activities	(55,764)	(332,938)
Net increase (decrease) in cash and cash equivalents	(253,594)	(295,595)
Cash and cash equivalents at beginning of period	1,028,320	774,726
Cash and cash equivalents at end of period	774,726	479,131

(5) Notes to the Non-Consolidated Financial Statements

(Notes Related to the Going Concern Assumption)

Not applicable

(Changes in Accounting Policies)

(Application of the Accounting Standard for Revenue Recognition, etc.)

Effective from the beginning of the quarter under review, the Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020; hereinafter referred to as the “Revenue Recognition Standard”) and related implementation guidance. In accordance with this change, the Company recognizes revenue at the time control over promised goods or services is transferred to the customer, in the amount expected to be received in exchange for the goods or services. The Company's application of the Revenue Recognition Standard is compliant with transitional treatment prescribed in the proviso to Paragraph 84 of the Revenue Recognition Standard. The change had no impact on the balance of retained earnings at the beginning of the quarter under review. In addition, the adoption of the Revenue Recognition Standard had no effect on the net sales, gross profit, operating income, ordinary loss, or loss before income taxes recorded during the fiscal year ended August 31, 2022.

In accordance with the transitional treatment prescribed in Paragraph 89-3 of the “Accounting Standard for Quarterly Financial Reporting” (ASBJ Statement No. 12; March 31, 2020), the Company has not presented information on the breakdown of revenue from contracts with customers for the fiscal year ended August 2021.

(Application of Accounting Standard for Fair Value Measurement, etc.)

Effective from the beginning of the quarter under review, the Company has applied the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019; hereinafter referred to as the “Fair Value Measurement Standard”) and related implementation guidance. In accordance with transitional treatment prescribed in Paragraph 19 of the Fair Value Measurement Standard and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the Company will progressively apply policies set forth by the Fair Value Measurement Standard. The application has no impact on its quarterly financial statements.

(Additional Information)

(Accounting Estimates)

The spread of COVID-19 continues to impact the economy, and the Company's business activities are being affected, as well. Advertising revenue from manga apps is shrinking as the advertising market deteriorates. Lower occupancy rates and sales per customer at the &AND HOSTEL locations the Company operates are affecting operating performance.

The Japanese government declared a state of emergency on July 8, 2021 and lifted it on September 30, 2021, and it is difficult to predict with any accuracy when these conditions could improve. However, based on the information available at the time these financial statements were prepared, for the purposes of making accounting estimates (such as the valuation of real estate for sale, decisions on whether to post impairment losses on fixed assets, and decisions on the recoverability of deferred tax assets), we have assumed that the effect will gradually diminish from the fiscal year ending August 31, 2023.

(Segment Information, etc.)

[Segment Information]

1. Overview of reportable segments

(1) Method of determining reportable segments

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

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

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

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

In the RET business, we engage mainly in the planning and development of the &AND HOSTEL brand of smart hostels, the development and operation of the SUMUTORE photography studio platform site, and consulting services for rental properties.

(3) Information related to changes in reportable segments

The Company has adjusted its classification of reportable segments in line with structural reforms to its former IoT business. Accordingly, effective from the beginning of the fiscal year ended August 31, 2022, the Company changed its reportable segments from "Apps business" and "IoT business" to "Apps business" and "RET business."

Segment information for the fiscal year ended August 31, 2021 has been prepared in accordance with the new segment classification and is shown in "3. Information related to sales, profits or losses, assets, and other items for each reportable segment."

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

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

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

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

(Thousands of yen)

	Reportable segments			Other	Total
	APPs	IoT	Total		
Net Sales					
Sales to external customers	2,767,885	148,531	2,916,417	128,012	3,044,429
Intersegment sales or transfer	—	—	—	—	—
Total	2,767,885	148,531	2,916,417	128,012	3,044,429
Segment profit (loss)	587,361	(165,882)	421,479	(101,292)	320,186
Segment assets	834,918	3,223,160	4,058,079	17,365	4,075,445
Other items					
Depreciation	37,412	30,248	67,660	9,837	77,498
Increase in property, plant and equipment and intangible assets	35,377	1,153	36,531	290	36,821

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

2. Significant impairment losses related to fixed assets

In the Apps business segment, the Company recorded an impairment loss of ¥33,85 thousand on fixed assets for business use.

In “Other,” of the total software held by the Company, for software from which profit originally estimated could no longer be expected, the Company reduced the book value of the software to the recoverable amount and recognized the amount of the reduction as an impairment loss.

The amount of the impairment loss recorded was ¥18,611 thousand

Fiscal year ended August 31, 2022 (from September 1, 2021 to August 31, 2022)

(Thousands of yen)

	Reportable segments			Other (Note)	Total
	APPs	RET	Total		
Net Sales					
Manga apps	2,240,181	—	2,240,181	—	2,240,181
Fortune	400,709	—	400,709	—	400,709
&AND HOSTEL	—	33,434	33,434	—	33,434
RET	—	26,741	26,741	—	26,741
Other	49,664	1,923	51,587	5,635	57,223
Revenue from contracts with customers	2,690,555	62,099	2,752,655	5,635	2,758,290
Other revenue	—	75,144	75,144	—	75,144
Sales to external customers	2,690,555	137,243	2,827,799	5,635	2,833,435
Intersegment sales or transfer	—	—	—	—	—
Total	2,690,555	137,243	2,827,799	5,635	2,833,435
Segment profit (loss)	532,824	(54,109)	478,714	(38,454)	440,259
Segment 資産	797,496	3,144,097	3,941,593	1,385	3,942,979
Other items					
Depreciation	30,054	30,121	60,175	140	60,316
Increase in property, plant and equipment and intangible assets	27,519	—	27,519	—	27,519

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

2: Information related to losses on the impairment of fixed assets or goodwill for each reportable segment
(Significant impairment losses related to fixed assets)

Not applicable

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

(Thousands of yen)

Net sales	Fiscal year ended August 31, 2021	Fiscal year ended August 31, 2022
Subtotal for reportable segments	2,916,417	2,827,799
Sales from “Other” businesses (loss)	128,012	5,635
Net sales in the financial statements	3,044,429	2,833,435

(Thousands of yen)

Income	Fiscal year ended August 31, 2021	Fiscal year ended August 31, 2022
Subtotal for reportable segments	421,479	478,714
Income (losses) from “Other” businesses	(101,292)	(38,454)
Company-wide expenses (Note)	(403,753)	(374,180)
Operating income (losses) in the financial statements	(83,567)	66,079

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

(Thousands of yen)

Assets	Fiscal year ended August 31, 2021	Fiscal year ended August 31, 2022
Subtotal for reportable segments	4,058,079	3,941,593
Assets categorized as “Other”	17,365	1,385
Company-wide assets (Note)	1,301,104	912,418
Total assets in the financial statements	5,376,550	4,855,398

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

(Thousands of yen)

Other items	Subtotal for reportable segments		Other		Adjustment		Amount presented in the financial statements	
	Fiscal year ended August 31, 2021	Fiscal year ended August 31, 2022	Fiscal year ended August 31, 2021	Fiscal year ended August 31, 2022	Fiscal year ended August 31, 2021	Fiscal year ended August 31, 2022	Fiscal year ended August 31, 2021	Fiscal year ended August 31, 2022
Depreciation	67,660	60,175	9,837	140	5,586	7,649	83,084	67,965
Increase in property, plant and equipment and intangible assets	36,531	27,519	290	—	19,167	12,351	55,989	39,870

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

(Equity-Method Gains and Losses.)

Not applicable

(Per-Share Information)

	Fiscal year ended August 31, 2021	Fiscal year ended August 31, 2022
Net assets per share	¥90,28	¥54.91
Basic earnings (losses) per share	¥(57.13)	¥(35.57)

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

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

	Fiscal year ended August 31, 2021	Fiscal year ended August 31, 2022
Basic earnings (losses) per share		
Profit (loss) (thousands of yen)	(561,392)	(350,379)
Amount not attributable to common shareholders (thousands of yen)	—	—
Profit (loss) attributable to common shareholders (thousands of yen)	(561,392)	(350,379)
Average number of shares of common stock during the period (shares)	9,826,863	9,850,876
Overview of potential shares not included in the calculation of diluted earnings per share as they have no dilutive effect	—	—

(Significant Subsequent Events)

(Significant borrowing of funds)

The Company resolved at a meeting of its Board of Directors held on September 15, 2022, to take out additional borrowings in light of future capital needs and the risk of rising interest rates. It executed the borrowings as follows.

1. Lender: The Shoko Chukin Bank, Ltd.
2. Amount of loan: ¥225,000 thousand
3. Loan execution: September 29, 2022
4. Loan term: 15 years
5. Interest rate: Fixed
6. Collateral: Unsecured