

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 44th fiscal year (from April 1, 2022 to March 31, 2023)

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, 2022		As of March 31, 2023	
Assets				
Current assets				
Cash and deposits		37,942		56,027
Notes and accounts receivable - trade, and contract assets	*1	11,856	*1	15,211
Real estate held for sale		7,681	*4	11,750
Real estate under construction held for sale	*6	7,719		6,873
Costs on uncompleted construction contracts		61		95
Other	*4	7,769		8,918
Allowance for doubtful accounts		(76)		(74)
Total current assets		72,953		98,802
Non-current assets				
Property and equipment				
Buildings and structures	*4,*6	85,313	*4	88,893
Accumulated depreciation		(38,276)		(41,250)
Buildings and structures, net		47,037		47,643
Land	*4,*6	39,359	*4	39,862
Construction in progress		13,173		14,811
Other		16,984		19,486
Accumulated depreciation		(13,335)		(14,849)
Other, net		3,648		4,637
Total property and equipment		103,218		106,954
Intangible assets		3,384		4,154
Investments and other assets				
Investment securities	*3	3,151	*3,*4	3,525
Long-term loans receivable		1,709		1,612
Guarantee deposits		18,826		18,581
Leasehold deposits		19,033		19,915
Deferred tax assets		6,928		5,864
Other	*4	12,133	*4	12,606
Allowance for doubtful accounts		(122)		(113)
Total investments and other assets		61,660		61,991
Total non-current assets		168,264		173,100
Deferred assets				
Bond issuance costs		502		405
Other		2		—
Total deferred assets		505		405
Total assets		241,723		272,308

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	6,202	7,249
Short-term borrowings	14,820	23,947
Current portion of bonds payable	5,080	4,880
Income taxes payable	1,035	865
Provision for bonuses	979	1,935
Provision for bonuses for directors	76	289
Provision for warranties for completed construction	5	0
Other	*2 21,234	*2 28,214
Total current liabilities	49,433	67,383
Non-current liabilities		
Bonds payable	23,460	18,580
Convertible bonds with share acquisition rights	30,112	30,082
Long-term borrowings	*4 61,961	*4 75,743
Long-term guarantee deposits received	2,992	3,066
Deferred tax liabilities	7	23
Retirement benefit liability	1,013	1,029
Provision for retirement benefits for directors	254	255
Asset retirement obligations	610	492
Other	1,291	1,072
Total non-current liabilities	121,703	130,345
Total liabilities	171,137	197,728
Net assets		
Shareholders' equity		
Share capital	7,964	7,964
Capital surplus	12,821	12,862
Retained earnings	50,383	53,845
Treasury shares	(361)	(349)
Total shareholders' equity	70,807	74,322
Accumulated other comprehensive income		
Unrealized holding gain (loss) on securities	82	160
Deferred gain (loss) on hedges	225	648
Foreign currency translation adjustments	(583)	(589)
Remeasurements of defined benefit plans	53	36
Total accumulated other comprehensive income	(221)	256
Total net assets	70,586	74,579
Total liabilities and net assets	241,723	272,308

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

Consolidated statement of income

(Millions of yen)

	For the year ended March 31, 2022	For the year ended March 31, 2023
Net sales	*1 173,701	*1 175,630
Cost of sales	151,659	142,871
Gross profit	22,042	32,758
Selling, general and administrative expenses		
Salaries, allowances and bonuses	5,309	5,434
Welfare expenses	991	1,147
Provision for bonuses	293	606
Provision for bonuses for directors	77	289
Retirement benefit expenses	136	131
Provision for retirement benefits for directors	1	1
Promotion expenses	1,916	2,280
Commission expenses	6,839	10,254
Provision of allowance for doubtful accounts	32	-
Outsourcing expenses	1,813	2,085
Rent expenses	751	1,361
Depreciation	413	459
Other	*2 2,035	*2 1,378
Total selling, general and administrative expenses	20,610	25,431
Operating profit	1,431	7,326
Non-operating income		
Interest income	108	109
Dividend income	86	129
Subsidy income	600	208
Income from guarantee deposits upon cancellation	105	111
Other	807	256
Total non-operating income	1,708	815
Non-operating expenses		
Interest expenses	603	575
Expenses for measures against novel infectious disease	195	100
Other	526	350
Total non-operating expenses	1,326	1,026
Ordinary profit	1,814	7,115

(Millions of yen)

	For the year ended March 31, 2022		For the year ended March 31, 2023	
Extraordinary income				
Gain on sale of shares of subsidiaries and associates		196		–
Gain on sale of investment securities		–		18
Total extraordinary income		196		18
Extraordinary losses				
Loss on impairment of non-current assets	*3	51	*3	345
Loss from natural disasters		65		119
Loss on facility closure		453		111
Dismantling expenses		–		119
Other		40		21
Total extraordinary losses		611		716
Profit before income taxes		1,399		6,417
Income taxes				
Current		1,233		1,309
Deferred		(372)		866
Total income taxes		860		2,175
Profit		539		4,241
Profit attributable to owners of parent		539		4,241

Consolidated statement of comprehensive income

(Millions of yen)

	For the year ended March 31, 2022	For the year ended March 31, 2023
Profit	539	4,241
Other comprehensive income		
Unrealized holding gain (loss) on securities	26	77
Deferred gain (loss) on hedges	225	423
Foreign currency translation adjustments	(28)	(5)
Remeasurements of defined benefit plans	29	(17)
Total other comprehensive income	* 252	* 477
Comprehensive income	791	4,719
Total comprehensive income attributable to:		
Owners of parent	791	4,719

3) Consolidated statement of changes in net assets

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					
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	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance at beginning of period	55	-	(555)	24	(474)	70,784
Changes during period						
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

For the year ended March 31, 2023 (from April 1, 2022 to March 31, 2023)

(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	50,383	(361)	70,807
Changes during period					
Cash dividends			(779)		(779)
Profit attributable to owners of parent			4,241		4,241
Change in scope of consolidation					-
Purchase of treasury shares				(6)	(6)
Disposal of treasury shares		0		0	0
Restricted share-based remuneration		41		18	60
Other changes in the year - net					
Total changes during the year	-	41	3,461	12	3,515
Balance at end of period	7,964	12,862	53,845	(349)	74,322

	Accumulated other comprehensive income					Total net assets
	Unrealized holding gain (loss) on securities	Deferred gain (loss) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance at beginning of period	82	225	(583)	53	(221)	70,586
Changes during period						
Cash dividends						(779)
Profit attributable to owners of parent						4,241
Change in scope of consolidation						-
Purchase of treasury shares						(6)
Disposal of treasury shares						0
Restricted share-based remuneration						60
Other changes in the year - net	77	423	(5)	(17)	477	477
Total changes during the year	77	423	(5)	(17)	477	3,992
Balance at end of period	160	648	(589)	36	256	74,579

4) Consolidated statement of cash flows

(Millions of yen)

	For the year ended March 31, 2022	For the year ended March 31, 2023
Cash flows from operating activities		
Profit before income taxes	1,399	6,417
Depreciation and amortization	6,070	6,117
Amortization of long-term prepaid expenses	470	484
Amortization of guarantee deposits	322	393
Increase (decrease) in provision for bonuses	264	956
Interest and dividend income	(195)	(238)
Interest expenses	603	575
Subsidy income	(600)	(208)
Income from guarantee deposits upon cancellation	(105)	(111)
Expenses for measures against novel infectious disease	195	100
Loss on impairment of non-current assets	51	345
Loss from natural disasters	65	119
Loss on facility closure	453	111
Dismantling expenses	–	119
(Increase) decrease in trade receivables	(2,140)	(3,354)
(Increase) decrease in accounts receivable - other	2,048	(2,170)
(Increase) decrease in inventories	17,100	(3,619)
Increase (decrease) in trade payables	1,526	1,047
Increase (decrease) in accrued expenses	(191)	837
Increase (decrease) in advances received	(69)	1,486
Increase (decrease) in accounts payable - other	(2,273)	1,106
Increase (decrease) in accrued consumption taxes	4,633	(1,707)
Increase (decrease) in deposits received	(629)	(171)
Increase (decrease) in guarantee deposits received	(299)	269
Other	(603)	2,087
Subtotal	28,097	10,992
Interest and dividends received	90	163
Interest paid	(592)	(586)
Income taxes refunded	2	0
Income taxes paid	(1,956)	(2,759)
Proceeds from subsidy income	600	208
Payments of expenses for measures against novel infectious disease	(195)	(100)
Payments for loss on facility closure	(325)	(162)
Net cash provided by (used in) operating activities	25,721	7,753

(Millions of yen)

	For the year ended March 31, 2022	For the year ended March 31, 2023
Cash flows from investing activities		
Purchase of securities	–	(286)
Proceeds from sales of securities	1,056	20
Purchase of property and equipment	(10,594)	(4,644)
Proceeds from sale of property and equipment	6	2
Purchase of intangible assets	(352)	(381)
Purchase of long-term prepaid expenses	(133)	(267)
Loan advances	(530)	(102)
Collection of loans receivable	167	183
Payments of leasehold and guarantee deposits	(5,869)	(1,713)
Proceeds from refund of leasehold and guarantee deposits	480	415
Investments in insurance funds	(991)	(677)
Proceeds withdrawn from insurance funds	30	960
Other	0	(158)
Net cash provided by (used in) investing activities	(16,731)	(6,651)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings - net	2,400	300
Proceeds from long-term borrowings	12,480	26,130
Repayments of long-term borrowings	(4,643)	(3,520)
Redemption of bonds	(5,280)	(5,112)
Purchase of treasury shares	(4)	(6)
Dividends paid	(781)	(778)
Other	(40)	(29)
Net cash provided by financing activities	4,130	16,982
Effect of exchange rate change on cash and cash equivalents	(1)	0
Net increase (decrease) in cash and cash equivalents	13,118	18,085
Cash and cash equivalents at the beginning of the year	24,212	37,565
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	* 37,565	* 55,651

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: 11

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.
Kyoritsu Solutions Co., Ltd.
Kyoritsu Financial Service Co., Ltd.
Builnet Co., Ltd.
Central Builwork Co., Ltd.
Kyoritsu Maintenance Korea Co., Ltd.

On April 1, 2022, an absorption-type merger was executed with the Company as the surviving company and Gennanso Co., Ltd., which was a consolidated subsidiary of the Company, as the merged company, and therefore, the subsidiary was excluded from the scope of consolidation.

In addition, the trade name Japan Placement Center Co., Ltd. was changed to Kyoritsu Solutions Co., Ltd. on December 1, 2022.

(2) Number of non-consolidated subsidiaries: 5

Names of non-consolidated subsidiaries

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

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

(Application of the group tax sharing system)

The Group has applied the group tax sharing system from the year ended March 31, 2023.

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, 2023

(Millions of yen)

	For the year ended March 31, 2022	For the year ended March 31, 2023
Loss on impairment relating to the Hotel Business	–	232
Property and equipment relating to the Hotel Business	61,932	67,072
Intangible assets relating to the Hotel Business	1,409	1,347

(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, 2023, 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 discount rates. The average daily rates, occupancy rates and discount rate are reasonably set based on the information and materials available as of March 31, 2023.

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. If it becomes necessary to revise these assumptions due to future trends in the Russia-Ukraine issue 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, 2023

(Millions of yen)

	For the year ended March 31, 2022	For the year ended March 31, 2023
Deferred tax assets, net	6,921	5,841
(The amount before offset with deferred tax liabilities)	6,928	5,864

(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 profit plan, which serve as the basis for estimated taxable income, are the average daily rates and occupancy rates of each business location in the Hotel Business. These assumptions are reasonably established based on the information and materials available as of March 31, 2023.

3) Impact on next year's consolidated financial statements

There is a high degree of uncertainty surrounding the key assumptions, namely, 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 the Russia-Ukraine issue 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 Fair Value Measurement and relevant ASBJ regulations

The Group has decided to apply the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021) from the beginning of the year ended March 31, 2023, and apply the new accounting policy provided for by the Implementation Guidance on Accounting Standard for Fair Value Measurement prospectively in accordance with the transitional treatment provided for in Paragraph 27-2 of the Implementation Guidance on Accounting Standard for Fair Value Measurement. This does not impact the consolidated financial statements.

Notes - Accounting standards issued but not yet effective

- "Practical Solution on the Accounting for and Disclosure of the issuance and holding of Electronically Recorded Transferable Rights That Must Be Indicated on Securities, etc." (ASBJ PITF No. 43, August 26, 2022)

(1) Overview

The Financial Instruments and Exchange Act was revised due to the "Payment Services Act to Address the Diversification of Financial Transactions based on Advances in Information Technology" (Act No. 28 of 2019) established in May 2019. In light of the fact that so-called investment ICOs (Initial Coin Offering; term for the act of raising funds from investors by issuing tokens (electronic records and symbols) by companies, etc.) are regulated by the Financial Instruments and Exchange Act and various provisions have been established, it was issued from ASBJ to clarify the handling of accounting of issuance and holding of electronically recorded transferable rights to be indicated on securities, etc. in the "Cabinet Office Order on Financial Instruments Business, etc."

(2) Scheduled date of application

The Company and its domestic consolidated subsidiaries will apply the accounting standard from the beginning of the year ending March 31, 2024.

(3) Impact of application of accounting standard

The Company and its domestic consolidated subsidiaries are currently in the process of determining the impact of the "Practical Solution on the Accounting for and Disclosure of the issuance and holding of Electronically Recorded Transferable Rights That Must Be Indicated on Securities, etc."

- "Accounting Standard for Current Income Taxes" (ASBJ Statement No. 27, October 28, 2022)
- "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No. 25, October 28, 2022)
- "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, October 28, 2022)

(1) Overview

In February 2018, "Partial Amendments to Accounting Standard for Tax Effect Accounting," etc. of ASBJ Statement No. 28 were announced and the transfer of the Japanese Institute of Certified Public Accountants' practical guidelines on tax effect accounting to the ASBJ were completed, but in the course of the deliberations, the following two issues, which were to be examined again after the release of ASBJ Statement No. 28, etc., were deliberated and announced.

- Classification of tax expense (taxation on other comprehensive income)
- Tax effect on sale of shares of subsidiaries and other securities (shares of subsidiaries or affiliates) when the corporate group tax system is applied

(2) Scheduled date of application

The Company and its domestic consolidated subsidiaries will apply the accounting standards and implementation guidance from the beginning of the year ending March 31, 2025.

(3) Impact of application of accounting standards and implementation guidance

The Company and its domestic consolidated subsidiaries are currently in the process of determining the impact of the “Accounting Standard for Current Income Taxes” and other standards.

Notes - Changes in presentation

Consolidated statement of income

“Compensation income,” which was presented separately under non-operating income for the year ended March 31, 2022, is included and presented in “Other” under non-operating income for the year ended March 31, 2023, as the amount became immaterial. In addition, “Settlement package,” which was presented separately under non-operating expenses for the year ended March 31, 2022, is included and presented in “Other” under non-operating expenses for the year ended March 31, 2023, as the amount became immaterial.

The relevant items in the consolidated financial statements for the year ended March 31, 2022 have been reclassified in order to reflect these changes.

As a result, 465 million yen that was shown as “Compensation income” and 342 million yen that was shown as “Other” under non-operating income in the original consolidated statement of income for the year ended March 31, 2022 are reclassified into 807 million yen shown as “Other” under non-operating income. In addition, 147 million yen that was shown as “Settlement package” and 378 million yen that was shown as “Other” under non-operating expenses are reclassified into 526 million yen shown as “Other” under non-operating expenses.

Consolidated statement of cash flows

“Compensation income,” “Settlement package,” “Loss (gain) on sale of shares of subsidiaries and associates,” “Proceeds from compensation” and “Settlement package paid” which were presented separately under “Cash flows from operating activities” for the year ended March 31, 2022, are included in “Other” under “Cash flows from operating activities” for the year ended March 31, 2023, as the amount became immaterial.

“Loss on impairment of non-current assets,” “Dismantling expenses” and “Increase (decrease) in advances received,” which were included in “Other” under “Cash flows from operating activities” for the year ended March 31, 2022, are presented separately for the year ended March 31, 2023, as the amounts became material.

The relevant items in the consolidated financial statements for the year ended March 31, 2022 have been reclassified in order to reflect these changes.

As a result, under “Cash flows from operating activities” for the year ended March 31, 2022, negative 465 million yen that was shown as “Compensation income,” 147 million yen that was shown as “Settlement package,” negative 196 million yen that was shown as “Loss (gain) on sale of shares of subsidiaries and associates,” 465 million yen that was shown as “Proceeds from compensation,” negative 147 million yen that was shown as “Settlement package paid” and negative 425 million yen that was shown as “Other” are reclassified into 51 million yen shown as “Loss on impairment of non-current assets,” negative 69 million yen shown as “Increase (decrease) in advances received” and negative 603 million yen shown as “Other.”

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	As of March 31, 2023
Notes receivable - trade	–	–
Accounts receivable - trade	8,109	10,968
Contract assets	400	457

*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	As of March 31, 2023
Contract liabilities	11	418

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

	(Millions of yen)	
	As of March 31, 2022	As of March 31, 2023
Investment securities (equity securities)	524	737

*4 Assets pledged as collateral and obligations secured by collateral

Assets pledged as collateral were as follows:

	(Millions of yen)			
	As of March 31, 2022		As of March 31, 2023	
Buildings and structures	2,657	[1,983]	2,531	[1,909]
Real estate held for sale	–	[–]	1,891	[–]
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	7,196	[4,308]	8,961	[4,233]

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, 2022	As of March 31, 2023
Long-term borrowings	7,130	8,460
[Of which, current-portion]	[–]	[–]
Total	7,130	8,460

5 Guarantee obligations

The Company provides guarantee obligations as follows:

	(Millions of yen)	
	As of March 31, 2022	As of March 31, 2023
Guarantee of dormitory/hotel lessor's obligations to financial institutions based on the deposit agreement for guarantee deposits	3,297	2,862
Other	202	215
Total	3,499	3,077

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

	(Millions of yen)	
	As of March 31, 2022	As of March 31, 2023
From property and equipment to real estate under construction held for sale	6,579	-
Total	6,579	-

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, 2022 (April 1, 2021 to March 31, 2022)	For the year ended March 31, 2023 (April 1, 2022 to March 31, 2023)
	339	364

*3 Loss on impairment

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

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%.

For the year ended March 31, 2023 (April 1, 2022 to March 31, 2023)

(Millions of yen)

Location	Usage	Asset category	Loss on impairment
KYORITSU MAINTENANCE CO., LTD. Hotel (Higashikawa Town, Kamikawa County, Hokkaido, Japan)	Hotels	Buildings, etc. and leasehold interests in land	232
KYORITSU MAINTENANCE CO., LTD. Dormitories (Setagaya-ku, Tokyo, Japan and 12 other offices)	Dormitories	Buildings, etc.	50
Kyoritsu Foods Service Co., Ltd. Restaurants (Minato-ku, Tokyo, Japan and 1 other office)	Restaurants	Buildings, etc.	61

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 345 million yen.

The breakdown of loss on impairment of non-current assets was buildings of 303 million yen, structures of 2 million yen, fixtures of 6 million yen, leasehold interests in land of 30 million yen, software of 0 million yen, and long-term prepaid expenses 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 4.3%.

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, 2022 (April 1, 2021 to March 31, 2022)	For the year ended March 31, 2023 (April 1, 2022 to March 31, 2023)
Unrealized holding gain (loss) on securities:		
Gains (losses) arising during the year	26	111
Reclassification adjustments to profit or loss	12	-
Amount before tax effect	38	111
Tax effect	(12)	(34)
Unrealized holding gain (loss) on securities	26	77
Deferred gain (loss) on hedges:		
Gains (losses) arising during the year	324	610
Reclassification adjustments to profit or loss	-	-
Amount before tax effect	324	610
Tax effect	(99)	(186)
Adjustments to deferred gain (loss) on hedges	225	423
Foreign currency translation adjustments:		
Gains (losses) arising during the year	(28)	(5)
Remeasurements of defined benefit plans:		
Gains (losses) arising during the year	48	(9)
Reclassification adjustments to profit or loss	(6)	(14)
Amount before tax effect	41	(24)
Tax effect	(12)	7
Remeasurements of defined benefit plans	29	(17)
Total other comprehensive income	252	477

Notes - Consolidated statement of changes in net assets

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

For the year ended March 31, 2023 (April 1, 2022 to March 31, 2023)

1. Class and number of shares issued and treasury shares

(Thousands of shares)

	April 1, 2022	Increase	Decrease	March 31, 2023
Shares issued				
Common shares	39,219	–	–	39,219
Total	39,219	–	–	39,219
Treasury shares				
Common shares (Notes 1, 2)	230	1	12	219
Total	230	1	12	219

- Notes: 1. The increase in treasury shares of 1 thousand shares was due to the purchase of shares of less than one unit.
 2. The decrease in treasury shares of 12 thousand shares was 0 thousand shares due to requests for the purchase of additional shares of less than one unit and disposal of treasury shares of 12 thousand shares under the restricted share-based remuneration plan.

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, 2022	Increase	Decrease	March 31, 2023	
	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 28, 2022	Common shares	389	10	March 31, 2022	June 29, 2022
Board of Directors' meeting held on November 9, 2022	Common shares	390	10	September 30, 2022	December 5, 2022

(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, 2023	Common shares	468	Retained earnings	12	March 31, 2023	June 29, 2023

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, 2022 (April 1, 2021 to March 31, 2022)	For the year ended March 31, 2023 (April 1, 2022 to March 31, 2023)
Cash and deposits	37,942	56,027
Time deposits with maturity over three months	(376)	(376)
Cash and cash equivalents	37,565	55,651

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

	(Millions of yen)		
	As of March 31, 2023		
	Acquisition cost	Accumulated depreciation	Net book value
Buildings and structures	8,010	5,777	2,233
Total	8,010	5,777	2,233

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, 2022 and 2023 were as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Future minimum lease payments		
Due within one year	312	312
Due after one year	2,233	1,920
Total	2,546	2,233

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, 2022 (April 1, 2021 to March 31, 2022)	For the year ended March 31, 2023 (April 1, 2022 to March 31, 2023)
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, 2022	As of March 31, 2023
Due within one year	12,244	11,659
Due in more than one year	128,720	117,863
Total	140,965	129,522

(As Lessor)

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Due within one year	981	1,061
Due in more than one year	685	1,418
Total	1,666	2,480

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, 2022 and 2023 were as follows.

As of March 31, 2022

	Book value	Fair value	Difference
			(Millions of yen)
(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	–

As of March 31, 2023

(Millions of yen)

	Book value	Fair value	Difference
(1) Investment securities	2,322	2,322	(0)
(2) Guarantee deposits	13,292	12,567	(725)
(3) Leasehold deposits	19,915	13,684	(6,230)
Total assets	35,530	28,574	(6,956)
(1) Short-term borrowings	11,600	11,600	0
(2) Short-term guarantee deposits received	554	554	–
(3) Current portion of bonds payable and bonds payable	23,460	23,686	226
(4) Convertible bonds with share acquisition rights	30,082	37,062	6,979
(5) Current portion of long-term borrowings and long-term borrowings	88,091	88,549	458
(6) Long-term guarantee deposits received	2,599	2,582	(17)
Total liabilities	156,388	164,036	7,648
Derivatives	935	935	–

(*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 “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	As of March 31, 2023
Investments in non-consolidated subsidiaries and affiliates	524	737
Unlisted equity securities	160	135
Investments in silent partnerships	269	322
Other	6	6

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

As of March 31, 2023

(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	55,890	—	—	—
Notes and accounts receivable - trade	14,753	—	—	—
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	2,113	1,654	1,219	8,305
Leasehold deposits	799	2,647	2,940	13,528
Total	73,557	4,301	4,179	23,039

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

As of March 31, 2023

(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	11,600	–	–	–	–	–
Bonds payable	4,880	4,880	4,680	4,680	3,080	1,260
Convertible bonds with share acquisition rights	–	–	30,000	–	–	–
Long-term borrowings	12,347	13,289	11,403	11,069	10,630	29,350
Total	28,827	18,169	46,083	15,749	13,710	30,610

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

As of March 31, 2023

(Millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Other securities				
Equity securities	1,163	–	–	1,163
Debt securities	–	1,079	–	1,079
Other	59	–	–	59
Derivative transactions				
Interest rate-related derivatives	–	935	–	935
Total assets	1,222	2,014	–	3,237

(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

As of March 31, 2023

(Millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Held-to-maturity debt securities				
Government bonds	19	–	–	19
Guarantee deposits	–	12,567	–	12,567
Leasehold deposits	–	13,684	–	13,684
Total assets	19	26,251	–	26,271
Short-term borrowings	–	11,600	–	11,600
Short-term guarantee deposits received	–	554	–	554
Current portion of bonds payable and bonds payable	–	23,686	–	23,686
Convertible bonds with share acquisition rights	37,062	–	–	37,062
Current portion of long-term borrowings and long-term borrowings	–	88,549	–	88,549
Long-term guarantee deposits received	–	2,582	–	2,582
Total liabilities	37,062	126,974	–	164,036

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, 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

As of March 31, 2023

(Millions of yen)

	Type	Book value	Fair value	Difference
Debt securities with fair value exceeding book value	(1) Government and municipal bonds	–	–	–
	(2) Corporate bonds	–	–	–
	(3) Other	–	–	–
	Subtotal	–	–	–
Debt securities with fair value not exceeding book value	(1) Government and municipal bonds	20	19	(0)
	(2) Corporate bonds	–	–	–
	(3) Other	–	–	–
	Subtotal	20	19	(0)
Total		20	19	(0)

2. Other securities

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

As of March 31, 2023

(Millions of yen)

	Type	Book value	Acquisition cost	Difference
Securities with book value exceeding acquisition cost	(1) Equity securities	983	594	389
	(2) Debt securities			
	1) Government and municipal bonds	–	–	–
	2) Corporate bonds	–	–	–
	3) Other	–	–	–
	(3) Other	–	–	–
	Subtotal	983	594	389
Securities with book value not exceeding acquisition cost	(1) Equity securities	180	217	(37)
	(2) Debt securities			
	1) Government and municipal bonds	–	–	–
	2) Corporate bonds	–	–	–
	3) Other	1,079	1,200	(120)
	(3) Other	59	59	(0)
	Subtotal	1,318	1,476	(158)
Total		2,302	2,070	231

3. Sales of other securities

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	–	–	–

For the year ended March 31, 2023 (April 1, 2022 to March 31, 2023)

(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

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.

The Group recorded an impairment loss of investment securities of 19 million yen (unlisted equity securities of 19 million yen) for the year ended March 31, 2023.

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 without market prices, 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, 2022 (April 1, 2021 to March 31, 2022)
There were no items to be reported.

For the year ended March 31, 2023 (April 1, 2022 to March 31, 2023)
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, 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.

For the year ended March 31, 2023 (April 1, 2022 to March 31, 2023)

(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	54,250	(Note 1) 935
Exceptional method for interest rate swaps	Interest rate swaps Receive variable / pay fixed	Long-term borrowings	200	100	(Note 2)
Total			62,200	54,350	935

- 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 2023 were as follows:

	(Millions of yen)	
	For the year ended March 31, 2022 <small>(April 1, 2021 to March 31, 2022)</small>	For the year ended March 31, 2023 <small>(April 1, 2022 to March 31, 2023)</small>
Retirement benefit obligations at the beginning of the year	1,873	1,932
Service cost	182	187
Interest cost	13	13
Actuarial gains and losses	(14)	(15)
Retirement benefits paid	(122)	(213)
Retirement benefit obligations at the end of the year	1,932	1,905

(2) Changes in plan assets, excluding plans applying the simplified method, for the years ended March 31, 2022 and 2023 were as follows:

	(Millions of yen)	
	For the year ended March 31, 2022 <small>(April 1, 2021 to March 31, 2022)</small>	For the year ended March 31, 2023 <small>(April 1, 2022 to March 31, 2023)</small>
Plan assets at the beginning of the year	1,015	1,125
Expected return on plan assets	20	22
Actuarial gains and losses	33	(25)
Contributions by the employer	113	115
Retirement benefits paid	(57)	(123)
Plan assets at the end of the year	1,125	1,113

(3) Changes in retirement benefit liability and asset of defined benefit plans applying the simplified method for the years ended March 31, 2022 and 2023 were as follows:

	(Millions of yen)	
	For the year ended March 31, 2022 <small>(April 1, 2021 to March 31, 2022)</small>	For the year ended March 31, 2023 <small>(April 1, 2022 to March 31, 2023)</small>
Retirement benefit liability at the beginning of the year	186	205
Retirement benefit expenses	41	60
Retirement benefits paid	(10)	(15)
Contribution to the plans	(12)	(12)
Net retirement benefit liability and asset at the end of the year	205	238

- (4) Reconciliation between the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2022 and 2023 was as follows:

	(Millions of yen)	
	As of March 31, 2022	As of March 31, 2023
Funded retirement benefit obligations	1,111	1,128
Plan assets	(1,304)	(1,302)
	(192)	(173)
Unfunded retirement benefit obligations	1,206	1,203
Net defined benefit liability and asset in the consolidated balance sheet	1,013	1,029
Retirement benefit asset	-	-
Retirement benefit liability	1,013	1,029
Net defined benefit liability and asset in the consolidated balance sheet	1,013	1,029

- (5) The components of retirement benefit expenses for the years ended March 31, 2022 and 2023 were as follows:

	(Millions of yen)	
	For the year ended March 31, 2022	For the year ended March 31, 2023
	(April 1, 2021 to March 31, 2022)	(April 1, 2022 to March 31, 2023)
Service cost	224	248
Interest cost	13	13
Expected return on plan assets	(20)	(22)
Amortization of actuarial gains and losses	(6)	(14)
Retirement benefit expenses	211	225

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 2023 were as follows:

	(Millions of yen)	
	For the year ended March 31, 2022	For the year ended March 31, 2023
	(April 1, 2021 to March 31, 2022)	(April 1, 2022 to March 31, 2023)
Actuarial gain and loss	(41)	24
Total	(41)	24

- (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 2023 were as follows:

	(Millions of yen)	
	As of March 31, 2022	As of March 31, 2023
Unrecognized actuarial gain and loss	(77)	(52)
Total	(77)	(52)

(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 2023 were as follows:

	As of March 31, 2022	As of March 31, 2023
Debt securities	26.4%	27.1%
Equity securities	28.5	27.5
General accounts of life insurance companies	43.9	44.2
Other	1.2	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 have 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 2023 were as follows:

	As of March 31, 2022	As of March 31, 2023
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 96 million yen for the year ended March 31, 2022 and 101 million yen for the year ended March 31, 2023.

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, 2022	As of March 31, 2023
Deferred tax assets		
Investment securities	64	70
Allowance for doubtful accounts	63	59
Accrued taxes	189	95
Provision for bonuses	304	599
Retirement benefit liability	321	327
Provision for retirement benefits for directors	79	80
Dividend income as repayment of investments	904	904
Loss on impairment of non-current assets	470	509
Asset retirement obligations	486	438
Accrued expenses	44	98
Unrealized gains	1,132	1,119
Non-deductible consumption taxes	30	26
Tax loss carryforwards (Note)	6,624	5,422
Other	221	177
Deferred tax assets subtotal	10,938	9,929
Valuation allowance relating to tax loss carryforwards (Note)	(1,523)	(1,401)
Valuation allowance relating to total amount of future deductible temporary differences	(1,926)	(1,930)
Valuation allowance subtotal	(3,449)	(3,332)
Total deferred tax assets	7,488	6,596
Deferred tax liabilities		
Land	(33)	-
Reserve for advanced depreciation of non-current assets	(308)	(305)
Asset retirement obligations	(80)	(78)
Unrealized holding gain (loss) on securities	(37)	(71)
Deferred gain (loss) on interest rate swap hedges	(99)	(286)
Other	(8)	(13)
Total deferred tax liabilities	(567)	(755)
Net deferred tax assets	6,921	5,841

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

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.

As of March 31, 2023

(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)	38	123	142	172	133	4,812	5,422
Valuation allowance	(38)	(123)	(142)	(172)	(133)	(792)	(1,401)
Deferred tax assets(*2)	–	–	–	–	–	4,020	4,020

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

(*2) The Group recorded deferred tax assets of 4,020 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 group tax sharing system. Accordingly, when determining the recoverability of deferred tax assets, the future taxable income of the entire total group 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 2023 was as follows:

	As of March 31, 2022	As of March 31, 2023
Statutory tax rate	30.63%	30.63%
(Reconciliation)		
Permanent difference due to non-deductible expenses such as entertainment expenses	9.37	2.80
Permanent difference due to non-taxable income such as dividend income	(0.75)	(0.24)
Inhabitant tax on per capita basis	21.55	4.67
Tax credits	–	(2.04)
Valuation allowance	21.41	(1.81)
Unrealized gains	(0.68)	(0.05)
Differences in tax rates applicable to subsidiaries	4.65	0.32
Other - net	(24.70)	(0.38)
Actual effective tax rate after application of tax effect accounting	61.48	33.90

3. Accounting for corporate income tax and local corporate income tax or tax effect accounting related to these taxes
The Company and all domestic consolidated subsidiaries have applied the group tax sharing system from the year ended March 31, 2023. In addition, accounting treatment and disclosure for corporate income tax and local corporate

income tax as well as tax effect accounting are executed in accordance with “Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System” (ASBJ PITF No. 42, August 12, 2021).

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, 2022 (April 1, 2021 to March 31, 2022)	For the year ended March 31, 2023 (April 1, 2022 to March 31, 2023)
Asset retirement obligations at the beginning of the year	699	610
Increase due to acquisition of property and equipment	60	-
Unwinding of discount	3	3
Decrease due to settlement of asset retirement obligations	(153)	(122)
Foreign currency translation differences	1	0
Asset retirement obligations at the end of the year	610	492

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 2023 were as follows:

(Millions of yen)

	For the year ended March 31, 2022 (April 1, 2021 to March 31, 2022)	For the year ended March 31, 2023 (April 1, 2022 to March 31, 2023)
Book value		
Balance at the beginning of the year	39,245	40,018
Net increase (decrease) during the year	772	(2,825)
Balance at the end of the year	40,018	37,192
Fair value at the end of the year	52,991	54,603

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 2023 were as follows:

(Millions of yen)

	For the year ended March 31, 2022 (April 1, 2021 to March 31, 2022)	For the year ended March 31, 2023 (April 1, 2022 to March 31, 2023)
Rental income	6,238	6,337
Rental expenses	3,485	3,667
Net	2,752	2,670
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.”

For the year ended March 31, 2023 (April 1, 2022 to March 31, 2023)

(Millions of yen)

	Reportable Segments						Other (Note 1)	Total
	Dormitory	Hotel	Compre- hensive Building Management	Food Service	Development	Subtotal		
Student dormitories	4,623	–	–	–	–	4,623	–	4,623
Employee dormitories	2,638	–	–	–	–	2,638	–	2,638
Domeal	84	–	–	–	–	84	–	84
Contracted dormitories	4,041	–	–	–	–	4,041	–	4,041
Dormy Inn	–	57,603	–	–	–	57,603	–	57,603
Resorts	–	43,298	–	–	–	43,298	–	43,298
Office-building management	–	–	4,208	–	–	4,208	–	4,208
Residential building management	–	–	3,384	–	–	3,384	–	3,384
Food Service	–	–	–	1,262	–	1,262	–	1,262
Development	–	–	–	–	410	410	–	410
Other	–	–	–	–	–	–	14,140	14,140
Revenue from contracts with customers	11,388	100,902	7,592	1,262	410	121,555	14,140	135,696
Other revenue (Note 2)	38,642	–	198	–	161	39,002	930	39,933
Sales to external customers	50,030	100,902	7,791	1,262	571	160,558	15,071	175,630

- 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” and rental income, etc. under the ASBJ Statement No. 13 “Accounting Standard for Lease Transactions.”

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, 2024 from contracts with customers that existed at the end of the year ended March 31, 2023

(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.

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

(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.

For the year ended March 31, 2023 (April 1, 2022 to March 31, 2023)

(Millions of yen)

	Opening balance (April 1, 2022)	Closing balance (March 31, 2023)
Receivables arising from contracts with customers	8,109	10,968
Contract assets	400	457
Contract liabilities	11	418

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, 2023, revenue included in the opening balance of contract liabilities is 11 million yen. There is no revenue that was recognized in the year ended March 31, 2023 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, 2022 (April 1, 2021 to March 31, 2022)

(Millions of yen)

	Reportable Segments						Other (Note 1)	Total	Adjustment (Note 2)	Consolidated (Note 3)
	Dormitory	Hotel	Compre- hensive Building Managem ent	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.

For the year ended March 31, 2023 (April 1, 2022 to March 31, 2023)

(Millions of yen)

	Reportable Segments						Other (Note 1)	Total	Adjustment (Note 2)	Consolidated (Note 3)
	Dormitory	Hotel	Compre- hensive Building Managem ent	Food Service	Develop- ment	Subtotal				
Net sales										
Sales to external customers	50,030	100,902	7,791	1,262	571	160,558	15,071	175,630	–	175,630
Intersegment sales or transfers	327	151	10,802	8,265	1,235	20,781	613	21,394	(21,394)	–
Total	50,358	101,053	18,593	9,528	1,807	181,340	15,684	197,025	(21,394)	175,630
Segment profit (loss)	4,558	5,513	671	183	133	11,059	(55)	11,004	(3,677)	7,326
Segment assets	56,022	108,896	15,738	2,549	24,243	207,450	16,489	223,940	48,367	272,308
Other										
Depreciation	1,522	4,385	45	32	42	6,028	135	6,163	(46)	6,117
Loss on impairment of non-current assets	50	232	–	61	–	345	–	345	–	345
Increase in property and equipment, and intangible assets	1,878	11,745	44	132	8	13,809	152	13,961	(623)	13,338

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	(11)
Corporate expenses (Note)	(3,666)
Total	(3,677)

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	(15,781)
Corporate assets (Note)	64,149
Total	48,367

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.

[Information associated with reportable segments]

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.

For the year ended March 31, 2023 (April 1, 2022 to March 31, 2023)

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	27,983	13,091	4,914	4,041	57,603	43,298	4,371	3,419	1,262	571	15,071	175,630

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, 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.

For the year ended March 31, 2023 (April 1, 2022 to March 31, 2023)

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, 2022 (April 1, 2021 to March 31, 2022)

There were no items to be reported.

For the year ended March 31, 2023 (April 1, 2022 to March 31, 2023)

There were no items to be reported.

[Information about gain on negative goodwill by reportable segment]

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

There were no items to be reported.

For the year ended March 31, 2023 (April 1, 2022 to March 31, 2023)

There were no items to be reported.

[Information on related parties]

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)

Type	Name	Location	Capital	Business/ occupation	Percentage of voting rights (held)	Relationship	Transaction	Transaction 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	160	Other in current assets	16
							Payment of leasehold deposits	17	Leasehold deposits	199
Director	Koji Nakamura	-	-	President of the Company	Directly held 0.02%	Lending of funds (Note 4)	Lending of funds	16	Other in current assets	0
							Receipt of interest	0	Long-term loans receivable	16
Director	Yasuo Ohara	-	-	Executive Director of the Company	Directly held 0.01%	Lending of funds (Note 4)	Lending of funds	14	Other in current assets	0
							Receipt of interest	0	Long-term loans receivable	14
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	75	Other in current assets	2
							Repayment of leasehold deposits	16	Leasehold deposits	-

- Notes:
- 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.
 - The Company's chairman, Haruhisa Ishizuka and his relative hold 100% of Milestone Co., Ltd.'s voting rights.
 - 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.
 - 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.

For the year ended March 31, 2023 (April 1, 2022 to March 31, 2023)

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	186	Other in current assets	16
							Payment of leasehold deposits	-	Leasehold deposits	199
Director	Koji Nakamura	-	-	President of the Company	Directly held 0.02%	Lending of funds (Note 4)	Lending of funds	-	Other in current assets	0
							Receipt of interest	0	Long-term loans receivable	16
Director	Yasuo Ohara	-	-	Executive Director of the Company	Directly held 0.01%	Lending of funds (Note 4)	Lending of funds	-	Other in current assets	0
							Receipt of interest	0	Long-term loans receivable	14
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	27	Other in current assets	2
									Guarantee deposits	15

- Notes:
- 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.
 - The Company's chairman, Haruhisa Ishizuka and his relative hold 100% of Milestone Co., Ltd.'s voting rights.
 - The Company's chairman, Haruhisa Ishizuka, serves as Milestone Co., Ltd.'s director, and his relative serves as Milestone Co., Ltd.'s representative director.
 - 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, 2022 (April 1, 2021 to March 31, 2022)	For the year ended March 31, 2023 (April 1, 2022 to March 31, 2023)
Net assets per share	1,810.40	1,912.28
Basic earnings per share	13.83	108.76
Diluted earnings per share	—	93.04

Notes: 1. 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 per share is as follows:

		For the year ended March 31, 2022 (April 1, 2021 to March 31, 2022)	For the year ended March 31, 2023 (April 1, 2022 to March 31, 2023)
(1) Basic earnings per share			
Profit attributable to owners of parent	(Millions of yen)	539	4,241
Profit (loss) not attributable to common shareholders	(Millions of yen)	—	—
Profit attributable to owners of parent attributable to shareholders of common stock	(Millions of yen)	539	4,241
Weighted-average number of common stock outstanding during the year	(Thousands of shares)	38,989	38,997
(2) Diluted earnings per share			
Adjustments to profit attributable to owners of parent	(Millions of yen)	—	(20)
(Of the above, interest income (after tax equivalent deducted))	(Millions of yen)	—	(20)
Increase in common shares	(Thousands of shares)	—	6,365
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)	—

Notes - Subsequent events

There were no items to be reported.

5) Annexed consolidated detailed schedules

[Annexed consolidated detailed schedule of corporate bonds]

Company name	Bond name	Date of issuance	Balance as of April 1, 2022 (Millions of yen)	Balance as of March 31, 2023 (Millions of yen)	Interest rate (per annum)	Collateral	Date of maturity
KYORITSU MAINTENANCE CO., LTD.	18th Series Unsecured Corporation Bond	March 29, 2013	100 [100]	– [–]	0.98%	None	March 29, 2023
	19th Series Unsecured Corporation Bond	March 29, 2013	100 [100]	– [–]	0.94%	None	March 29, 2023
	20th Series Unsecured Corporation Bond	March 31, 2015	600 [200]	400 [200]	0.88%	None	March 31, 2025
	21st Series Unsecured Corporation Bond	December 30, 2016	4,000 [800]	3,200 [800]	0.52%	None	December 30, 2026
	22nd Series Unsecured Corporation Bond	March 31, 2017	2,000 [400]	1,600 [400]	0.39%	None	March 31, 2027
	23rd Series Unsecured Corporation Bond	March 31, 2017	2,000 [400]	1,600 [400]	0.50%	None	March 31, 2027
	24th Series Unsecured Corporation Bond	March 30, 2018	5,400 [900]	4,500 [900]	0.52%	None	March 30, 2028
	25th Series Unsecured Corporation Bond	March 30, 2018	2,820 [470]	2,350 [470]	0.35%	None	March 30, 2028
	26th Series Unsecured Corporation Bond	March 30, 2018	2,700 [450]	2,250 [450]	0.14%	None	March 30, 2028
	27th Series Unsecured Corporation Bond	March 29, 2019	4,900 [700]	4,200 [700]	0.44%	None	March 30, 2029
	28th Series Unsecured Corporation Bond	March 29, 2019	2,100 [300]	1,800 [300]	0.16%	None	March 30, 2029
	29th Series Unsecured Corporation Bond	March 29, 2019	1,820 [260]	1,560 [260]	0.27%	None	March 30, 2029
		Euro yen-denominated Convertible-Bond-Type Bonds With Share Acquisition Rights due 2026 (Note)	January 29, 2021	30,112 [–]	30,082 [–]	None	None
Total	–	–	58,652 [5,080]	53,542 [4,880]	–	–	–

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
4,880	4,880	34,680	4,680	3,080

[Annexed consolidated detailed schedule of borrowings]

Classification	Balance as of April 1, 2022 (Millions of yen)	Balance as of March 31, 2023 (Millions of yen)	Average interest rate (%)	Repayment term
Short-term borrowings	11,300	11,600	0.41%	–
Current portion of long-term borrowings	3,520	12,347	0.56%	–
Current portion of lease obligations	39	41	3.37%	–
Long-term borrowings (excluding current portion)	61,961	75,743	0.57%	2023 - 2031
Lease obligations (excluding current portion)	698	657	3.37%	2041
Other interest-bearing liabilities	–	–	–	–
Total	77,520	100,390	–	–

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, 2023 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	13,289	11,403	11,069	10,630
Lease obligations	42	44	46	47

[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, 2022 and March 31, 2023 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, 2023

(Cumulative period)	First three months	First six months	First nine months	For the year
Net sales (Millions of yen)	39,252	83,093	129,131	175,630
Profit before income taxes (Millions of yen)	1,046	3,594	6,345	6,417
Profit attributable to owners of parent (Millions of yen)	691	2,292	4,143	4,241
Basic earnings per share (Yen)	17.74	58.79	106.27	108.76

(Three-month period)	First quarter	Second quarter	Third quarter	Fourth quarter
Basic earnings per share (Yen)	17.74	41.05	47.47	2.50

2) Litigation

There were no items to be reported.

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, 2023, 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, 2023, 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
Property and equipment owned by the Group is exposed to risks such as rapid changes in economic conditions and changes in the financial situation, and the Hotel Business in particular is significantly affected by the status of tourism and business demand. As described in (Significant Accounting Estimates) under Notes to Consolidated	<p>We mainly performed the following audit procedures in considering the impairment of property and equipment in the Hotel Business of the Group.</p> <ul style="list-style-type: none"> We inspected minutes of various meetings such as meetings of the board of directors

Financial Statements, the Group recorded property and equipment of 67,072 million yen for the Hotel Business on the consolidated balance sheet, accounting for 25% of total assets. Further, the Group recorded impairment loss of 232 million yen for the Hotel Business on the consolidated statement of income.

The Group classifies assets into asset groups mainly by business location in the Hotel Business, 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 fall below the carrying amount, then it reduces the carrying amount of the asset group to the recoverable amount and recognizes the amount of the reduction as an impairment loss.

The recoverable amount is measured as the higher of net realizable value and value in use of the asset group, net realizable value is determined based on information such as real estate appraisal value, and value in use is calculated by discounting undiscounted future cash flows based on profit plans at discount rates. As described in (Significant Accounting Estimates) under Notes to Consolidated Financial Statements, the significant assumptions used in estimating value in use are the average daily rates, occupancy rates, and discount rates, which serve as the basis for profit plans.

Given that estimates of recoverable amounts 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, 2023.

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, and discount rates, 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
<p>As described in (Significant Accounting Estimates) under Notes to Consolidated Financial Statements, of the deferred tax assets of 5,864 million yen recorded on the consolidated balance sheet by the Group, KYORITSU MAINTENANCE CO., LTD. (the Company) recorded deferred tax assets of 4,419 million yen.</p> <p>The Company determines the recoverability of deferred tax assets on deductible temporary differences and tax loss carryforwards in consideration of estimated future taxable income based on profit plans.</p> <p>The significant assumptions underlying profit plans, which serve as the basis for estimated taxable income, are the average daily rates and occupancy rates of each business location in the Hotel Business.</p> <p>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.</p>	<p>We mainly performed the following audit procedures in considering the recoverability of the Company's deferred tax assets.</p> <ul style="list-style-type: none"> • We considered the balances of deductible temporary differences and tax loss carryforwards by involving tax professionals from our EY network firms, 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. • We considered daily rates and occupancy rates of each business location in the Hotel Business, which are the significant assumptions for profit plans, 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 for 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

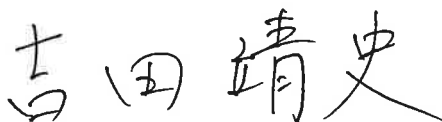
Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Ernst & Young ShinNihon LLC
Tokyo, Japan

June 30, 2023



Yuji Mukaide
Designated Engagement Partner
Certified Public Accountant



Seishi Yoshida
Designated Engagement Partner
Certified Public Accountant