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Summary of Non-Consolidated Financial Results for the Nine Months Ended May 31, 2023 (Based on Japan GAAP)

July 14, 2023

Company name: and factory, inc
 Stock exchange listing: Tokyo
 Stock code: 7035 URL <https://andfactory.co.jp/>
 Representative: Rinji Aoki, President and Representative Director
 Contact: Tomoki Hasumi, Director Phone: +81-3-6712-7646
 Scheduled date to file annual securities report: July 14, 2023
 Scheduled date to commence dividend payments: —
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of annual financial results meeting: No

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

1. Non-Consolidated financial results for the nine months ended May 31, 2023

(From September 1, 2022 to May 31, 2023)

(1) Non-consolidated operating results (cumulative)

Percentages indicate year-on-year changes.

| | Net sales | | Operating income | | Ordinary profit | | Net income | |
|--------------------------------|-----------------|-------|------------------|-------|-----------------|---|-----------------|---|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % |
| Nine months ended May 31, 2023 | 2,128 | 3.8 | 71 | 154.9 | 47 | — | 45 | — |
| Nine months ended May 31, 2022 | 2,051 | (8.7) | 28 | — | (131) | — | (131) | — |

| | Earnings per share | Diluted earnings per share |
|--------------------------------|--------------------|----------------------------|
| | Yen | Yen |
| Nine months ended May 31, 2023 | 4.16 | 4.16 |
| Nine months ended May 31, 2022 | (13.31) | — |

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

(2) Non-consolidated financial position

| | Total assets | Net assets | Equity ratio |
|-----------------------|-----------------|-----------------|--------------|
| | Millions of yen | Millions of yen | % |
| As of May 31, 2023 | 5,170 | 1,086 | 21.0 |
| As of August 31, 2022 | 4,855 | 540 | 11.1 |

(Reference) Equity capital: May 31, 2023: ¥1,086 million August 31, 2022: ¥540 million

2. Cash dividends

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

Notice concerning Revision of the Financial Forecasts : No

3. Forecast of non-consolidated financial results for the year ending August 31, 2023

(From September 1, 2022 to August 31, 2023)

Percentages indicate year-on-year changes.

| | Net sales | | Operating income | | Ordinary profit | | Profit | | Earnings per share |
|-----------|-----------------|-----|------------------|------|-----------------|---|-----------------|---|--------------------|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % | Yen |
| Full year | 2,940 | 3.8 | 130 | 96.7 | 97 | — | 73 | — | 6,71 |

Notice concerning Revision of the Financial Forecasts : Yes

Regarding the revision to the forecast, please refer to the “Notice Concerning the Revision of the Forecast of Non-Consolidated Financial Results for the Year Ending August 31, 2023” announced today (July 14, 2023).

4. Notes

(1) Application of special accounting treatment for quarterly financial reporting: Yes

Note: For details, please refer to “2. Quarterly Non-Consolidated Financial Statements and Notes (3) Notes to the Quarterly Non-Consolidated Financial Statements (Application of Special Accounting Treatment for Quarterly Financial Reporting)” on page 8 of the attachments to this summary.

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

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

Changes in accounting policies due to other reasons: No

Changes in accounting estimates: No

Restatement of prior period financial statements: No

(3) Number of issued shares (common stock)

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

| | | | |
|--------------------|-------------------|-----------------------|------------------|
| As of May 31, 2023 | 11,261,970 shares | As of August 31, 2022 | 9,853,520 shares |
|--------------------|-------------------|-----------------------|------------------|

Number of treasury shares at the end of the period

| | | | |
|--------------------|------------|-----------------------|------------|
| As of May 31, 2023 | 257 shares | As of August 31, 2022 | 257 shares |
|--------------------|------------|-----------------------|------------|

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

| | | | |
|-----------------------------------|-------------------|-----------------------------------|------------------|
| Nine months ended May 31, 2023 | 10,900,572 shares | Nine months ended May 31, 2022 | 9,850,071 shares |
|-----------------------------------|-------------------|-----------------------------------|------------------|

Notes: This financial report is exempt from the review.

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

The business forecasts and other forward-looking statements presented in this document are based on information that is currently available to the Company and on certain assumptions deemed reasonable, and the Company does not guarantee their achievement. In addition, actual results may differ significantly from projections due to a variety of factors. For assumptions underlying the Company's business forecasts and cautionary notes concerning the use of the forecasts, please refer to “(3) Operating Performance Forecast” on page 4 of the attachments to this summary.

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1. Qualitative Information on Quarterly Financial Results

(1) Analysis of Operating Performance

The size of the e-book market (the Company's main business category) was ¥482.1 billion in fiscal 2020, with comics accounting for 83.0% of this total. In fiscal 2021, the market reached a size of ¥551.0 billion, 14.3% increase year on year, and comics generated ¥466.0 billion (84.6%) of this amount. This change demonstrates recent growth in the comics market.

Projections indicate that the size of the e-book market will grow to ¥804.8 billion in fiscal 2026, approximately 50% larger than the size reported in fiscal 2021. Accordingly, the Company expects market expansion to continue moving forward.

(From Impress Research Institute's eBook Marketing Report 2022)

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

In the Apps segment, advertising revenue in the mainstay manga apps business was down, reflecting lower advertising ARPU (*1) stemming from deterioration in the advertising market. However, sales from in-app purchases increased, driven by robust performance of apps with high in-app purchase rates and of popular titles. In the entertainment business, fortune-telling services were strong, and this contributed to year-on-year growth in both overall sales and operating income in the Apps segment.

In the RET segment, occupancy rates at the &AND HOSTEL facilities are gradually recovering as foreign guests increase in number due to the easing of immigration restrictions, and average sales per customer have recovered to levels observed prior to COVID-19. However, both sales and operating income decreased year on year due to the lack of advantageous impact previously incurred when the Company booked one-off proceeds from consulting fees during the nine months ended May 31, 2022.

As a result, in the nine months ended May 31, 2023, the Company generated net sales of ¥2,128,912 thousand (up 3.8% year on year), operating income of ¥71,812 thousand (up 154.9% year on year), ordinary profit of ¥47,668 thousand (loss of ¥131,042 thousand in the corresponding period of the previous fiscal year), and net income of ¥45,308 thousand (loss of ¥131,090 thousand in the corresponding period of the previous fiscal year).

By segment, earnings performance was as follows.

(1) Apps business

In the nine months ended May 31, 2023, the seven manga apps operated in collaboration with publishers and Amutus Corporation registered strong MAU (*2) mainly as a result of the acquisition of new users supported by efficient spending on advertising, and the implementation of measures to promote continued use by existing users. Sales from in-app purchases rose thanks to factors such as the release of popular content and new manga additions.

However, advertising revenue fell on a downtrend in advertising ARPU (*1) amid widespread deterioration in the advertising market driven by the COVID-19 pandemic.

As a result, in the nine months ended May 31, 2023, sales in the Apps segment were ¥2,088,868 thousand (up 8.0% year on year). Segment profit came to ¥368,365 thousand (up 6.8% year on year).

*1 The average amount of revenue generated per person

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

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

(Thousands of people)

| Date | Average MAUs | Date | Average MAUs |
|-------------------|--------------|-------------------|--------------|
| May 31, 2017 | 310 | August 31, 2020 | 9,940 |
| August 31, 2017 | 650 | November 30, 2020 | 10,260 |
| November 30, 2017 | 1,080 | February 28, 2021 | 10,540 |
| February 28, 2018 | 1,500 | May 31, 2021 | 10,560 |
| May 31, 2018 | 2,040 | August 31, 2021 | 11,010 |
| August 31, 2018 | 2,380 | November 30, 2021 | 10,460 |
| November 30, 2018 | 2,790 | February 28, 2022 | 10,440 |
| February 28, 2019 | 3,620 | May 31, 2022 | 11,210 |
| May 31, 2019 | 4,300 | August 31, 2022 | 11,520 |
| August 31, 2019 | 5,320 | November 30, 2022 | 11,290 |
| November 30, 2019 | 6,410 | February 28, 2023 | 11,050 |
| February 29, 2020 | 7,200 | May 31, 2023 | 11,400 |
| May 31, 2020 | 9,060 | | |

Note: the average MAUs shown above are quarterly averages.

(2) RET business

In the nine months ended May 31, 2023, occupancy rates at all of the &AND HOSTEL smart hostels operated by the Company recovered on an increase in reservations from foreign guests, helped in part by the impact of easing restrictions on immigration. The Company also adjusted agreements associated with some &AND HOSTEL locations, which drove up sales generated from such locations while lowering expenses.

As a result, losses from the &AND HOSTEL business contracted year on year. Despite ongoing rental revenue from properties, real estate-related sales declined year on year because the one-off earnings from property sales brokerage fees recorded in the corresponding period of the previous year dropped out of the picture.

Consequently, in the nine months ended May 31, 2023, sales in the RET segment came to ¥40,044 thousand (down 64.2% year on year), with a segment loss of ¥50,732 thousand (loss of ¥36,477 thousand in the corresponding period of the previous fiscal year).

(3) Other businesses

Until the previous fiscal year, the Company planned, explored, and gathered information on operations in the entertainment field that involved the application of new technologies and solutions unrelated to its other segments. However, it has decided to discontinue such activities from the current fiscal year as it does not expect to generate earnings from related operations.

As a result, in the nine months ended May 31, 2023, sales in the Other segment came to ¥0 thousand (down 100.0% year on year). Segment profit came to ¥374 thousand (loss of ¥20,430 thousand in the corresponding period of the previous year).

(2) Analysis of Financial Conditions

(1) Assets, liabilities, and net assets

(Assets)

As of May 31, 2023, total assets amounted to ¥5,170,660 thousand, up ¥315,262 thousand compared to August 31, 2022. Major factors behind this change included ¥197,415 thousand decrease in leasehold and guarantee deposits, ¥21,466 thousand decline in accounts receivable–trade, and ¥443,387 thousand increase in cash and deposits.

(Liabilities)

Total liabilities amounted to ¥4,084,356 thousand as of May 31, 2023, down ¥230,046 thousand from August 31, 2022. This mainly due to ¥179,534 thousand decrease in allowance for cancellation loss, and short-term loans payable decreased by ¥45,000 thousand.

(Net assets)

As of May 31, 2023, net assets totaled ¥1,086,304 thousand, up ¥545,308 thousand from end of the August 31, 2022.

This was due to ¥45,308 thousand increase in retained earnings from the posting of net income for the quarter, ¥249,999 thousand increase in capital stock and ¥249,999 thousand increase in capital surplus from the allocation of new shares to a third party.

The equity ratio came to 21.0% (compared with 11.1% as of August 31, 2022).

(3) Operating Performance Forecast

The Company revised the full-year earnings forecast announced on October 14, 2022. For details, please refer to the “Notice Concerning the Revision of the Forecast of Non-Consolidated Financial Results for the Year Ending August 31, 2023” announced today (July 14, 2023).

2. Quarterly Non-Consolidated Financial Statements

(1) Quarterly Non-Consolidated Balance Sheets

(Thousands of yen)

| | As of August 31, 2022 | As of May 31, 2023 |
|--|-----------------------|--------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 479,131 | 922,519 |
| Accounts receivable–trade | 524,777 | 503,310 |
| Work in process | - | 19,356 |
| Real estate for sale | 3,118,940 | 3,109,620 |
| Advances paid | 196,779 | 178,563 |
| Other | 37,932 | 139,133 |
| Allowance for doubtful accounts | (12,347) | (22,753) |
| Total current assets | 4,345,213 | 4,849,750 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings | 11,640 | 11,640 |
| Tools, furniture and fixtures | 64,646 | 68,816 |
| Accumulated depreciation | (46,546) | (53,419) |
| Total property, plant and equipment | 29,740 | 27,037 |
| Intangible assets | | |
| Software | | |
| Software in progress | 18,375 | 19,330 |
| Total intangible assets | 73,692 | 83,422 |
| Investments and other assets | | |
| Investment securities | 165,607 | 165,607 |
| Leasehold and guarantee deposits | 237,773 | 40,358 |
| Other | 3,369 | 4,484 |
| Total investments and other assets | 406,750 | 210,450 |
| Total non-current assets | 510,184 | 320,909 |
| Total assets | 4,855,398 | 5,170,660 |

(Thousands of yen)

| | As of August 31, 2022 | As of May 31, 2023 |
|---|-----------------------|--------------------|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable–trade | 100,073 | 98,091 |
| Short-term borrowings | 265,000 | 220,000 |
| Current portion of long-term borrowings | 277,136 | 277,136 |
| Accounts payable–other | 514,051 | 528,791 |
| Income taxes payable | 13,051 | 5,856 |
| Provision for bonuses | 304 | - |
| Provision for shareholder benefit program | 36,464 | 8,193 |
| Provision for loss on cancellation | 179,534 | - |
| Deposits received | 8,312 | 6,794 |
| Other | 36,723 | 41,052 |
| Total current liabilities | 1,430,651 | 1,185,915 |
| Non-current liabilities | | |
| Long-term borrowings | 2,877,206 | 2,894,354 |
| Long-term guarantee deposits | 6,545 | 100 |
| Long-term accounts payable - other | - | 3,986 |
| Total non-current liabilities | 2,883,751 | 2,898,440 |
| Total liabilities | 4,314,402 | 4,084,356 |
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 551,819 | 801,818 |
| Capital surplus | 550,460 | 800,460 |
| Retained earnings | (560,710) | (515,401) |
| Treasury shares | (572) | (572) |
| Total shareholders' equity | 540,995 | 1,086,304 |
| Total net assets | 540,995 | 1,086,304 |
| Total liabilities and net assets | 4,855,398 | 5,170,660 |

(2) Quarterly Non-Consolidated Statements of Income

(Thousands of yen)

| | Nine months ended May 31, 2022 | Nine months ended May 31, 2023 |
|--|-----------------------------------|-----------------------------------|
| Net sales | 2,051,474 | 2,128,912 |
| Cost of sales | 903,057 | 889,619 |
| Gross profit | 1,148,417 | 1,239,293 |
| Selling, general and administrative expenses | 1,120,248 | 1,167,480 |
| Operating profit | 28,168 | 71,812 |
| Non-operating income | | |
| Interest income | 4 | 8 |
| Subsidy income | 893 | 3,065 |
| Other | 240 | 6 |
| Total non-operating income | 1,138 | 3,081 |
| Non-operating expenses | | |
| Interest expenses | 22,632 | 23,778 |
| Share issuance costs | - | 2,288 |
| Rent | 129,869 | - |
| Other | 7,848 | 1,158 |
| Total non-operating expenses | 160,350 | 27,224 |
| Ordinary profit (loss) | (131,042) | 47,668 |
| Extraordinary income | | |
| Gain on sale of businesses | 0 | - |
| Gain on sale of non-current assets | - | 227 |
| Gain on sale of investment securities | 10,020 | - |
| Total extraordinary income | 10,020 | 227 |
| Extraordinary losses | | |
| Impairment losses | 964 | - |
| Loss on retirement of non-current assets | 1,269 | 0 |
| Loss on valuation of investment securities | 4,999 | - |
| Total extraordinary losses | 7,233 | 0 |
| Profit (loss) before income taxes | (128,256) | 47,895 |
| Income taxes | 2,834 | 2,586 |
| Profit (loss) | (131,090) | 45,308 |

(3) Notes to the Quarterly Consolidated Financial Statements

(Notes Related to the Going Concern Assumption)

Not applicable

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

Nine months ended May 31, 2022 (September 1, 2021 to May 31, 2022)

Not applicable

Nine months ended May 31, 2023 (September 1, 2022 to May 31, 2023)

On November 10, 2022, the Company received payment for a third-party allotment of shares to Septeni Holdings Co., Ltd. As a result, share capital and legal capital surplus both increased by ¥249,999 thousand in the nine months ended May 31, 2023. As of May 31, 2023, share capital and capital surplus stood at ¥801,818 thousand and ¥800,460 thousand, respectively.

(Application of Special Accounting Treatment for Quarterly Financial Reporting)

(Calculation of Tax Expenses)

When computing tax expenses, the Company has rationally estimated the effective tax rate following the application of tax-effect accounting to profit before income taxes for the fiscal year that includes the nine months ended May 31, 2023. The Company then calculated tax expenses by multiplying the profit (loss) before income taxes by this rate. However, if the tax expenses calculated using the estimated effective tax rate yield unreasonable results, the statutory effective tax rate may be used.

(Changes in Accounting Policies)

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

Effective from the beginning of the quarter under review, the Company has applied the Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, June 17, 2021; hereinafter referred to as the "Fair Value Measurement Implementation Guidance"). In accordance with the transitional treatment prescribed in Paragraph 27-2 of the Fair Value Measurement Implementation Guidance, the Company has opted to apply the new accounting policy specified in the Fair Value Measurement Implementation Guidance prospectively.

This change has no impact on the quarterly financial statements.

(Additional Information)

(Accounting Estimates)

Despite the easing of behavioral restrictions and recovery in inbound tourism, COVID-19 has continued to impact both Japan's economy and the Company's business activities. The Company has observed shrinking advertising revenue from manga apps caused by deterioration in the advertising market while recovery in occupancy rates and sales per customer at its &AND HOSTEL facilities, which have risen to pre-COVID-19 levels. Additionally, the Company's financial results remain vulnerable to potential impact stemming from unpredictable circumstances including future lifestyle changes and the possibility of additional waves of COVID-19 infections. The spread of COVID-19 continues to impact the economy, and the Company's business activities are being affected, as well. Advertising revenue from manga apps is shrinking as the advertising market deteriorates. Lower occupancy rates and sales per customer at the &AND HOSTEL locations the Company operates are affecting operating performance.

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

(Segment Information, etc.)

[Segment Information]

Nine months ended May 31, 2022 (September 1, 2021 to May 31, 2022)

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

(Thousands of yen)

| | Reportable segments | | | Other (Note) | Total |
|---------------------------------------|---------------------|----------|-----------|-----------------|-----------|
| | APPs | RET | Total | | |
| Net Sales | | | | | |
| Manga apps | 1,618,621 | — | 1,618,621 | — | 1,618,621 |
| Fortune | 276,359 | — | 276,359 | — | 276,359 |
| &AND HOSTEL | — | 27,169 | 27,169 | — | 27,169 |
| RET | — | 26,441 | 26,441 | — | 26,441 |
| Other | 39,145 | 1,893 | 41,039 | 5,635 | 46,674 |
| Revenue from contracts with customers | 1,934,126 | 55,504 | 1,989,630 | 5,635 | 1,995,266 |
| Other revenue | — | 56,208 | 56,208 | — | 56,208 |
| Sales to external customers | 1,934,126 | 111,712 | 2,045,838 | 5,635 | 2,051,474 |
| Intersegment sales or transfer | — | — | — | — | — |
| Total | 1,934,126 | 111,712 | 2,045,838 | 5,635 | 2,051,474 |
| Segment profit (loss) | 344,972 | (36,477) | 308,494 | (20,430) | 288,063 |

Note : “Other” refers to businesses not included within the Company's reportable segments and mainly comprises lodging and rental property services, as well as internet advertising agency services.

2. Total profits or losses for reportable segments and the primary reasons for discrepancies between these values and corresponding figures stated in the quarterly non-consolidated statements of income (matters related to the adjustment of discrepancies)

(Thousands of yen)

| Income or Loss | Amount |
|--|-----------|
| Subtotal for reportable segments | 308,494 |
| Income from “Other” businesses | (20,430) |
| Company-wide expenses (Note) | (259,895) |
| Operating profit (loss) in the quarterly non-consolidated statements of income | 28,168 |

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

3. Information related to losses on the impairment of fixed assets or goodwill for each reportable segments
(Significant impairment losses related to fixed assets)

Not applicable

Nine months ended May 31, 2023 (September 1, 2022 to May 31, 2023)

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

(Thousands of yen)

| | Reportable segments | | | Other (Note) | Total |
|---------------------------------------|---------------------|----------|-----------|-----------------|-----------|
| | APPs | RET | Total | | |
| Net Sales | | | | | |
| Manga apps | 1,641,190 | — | 1,641,190 | — | 1,641,190 |
| Fortune | 421,774 | — | 421,774 | — | 421,774 |
| &AND HOSTEL | — | 4,420 | 4,420 | — | 4,420 |
| RET | — | 10,630 | 10,630 | — | 10,630 |
| Other | 25,903 | 867 | 26,770 | — | 26,770 |
| Revenue from contracts with customers | 2,088,868 | 15,917 | 2,104,785 | — | 2,104,785 |
| Other revenue | — | 24,127 | 24,127 | — | 24,127 |
| Sales to external customers | 2,088,868 | 40,044 | 2,128,912 | — | 2,128,912 |
| Intersegment sales or transfer | — | — | — | — | — |
| Total | 2,088,868 | 40,044 | 2,128,912 | — | 2,128,912 |
| Segment profit (loss) | 368,365 | (50,732) | 317,633 | 374 | 318,007 |

Notes : “Other” refers to businesses not included within the Company's reportable segments and mainly comprises entertainment related business operations that utilize new technologies.

2. Total profits or losses for reportable segments and the primary reasons for discrepancies between these values and corresponding figures stated in the quarterly non-consolidated statements of income (matters related to the adjustment of discrepancies)

(Thousands of yen)

| Income | Amount |
|--|-----------|
| Subtotal for reportable segments | 317,633 |
| Income from “Other” businesses | 374 |
| Company-wide expenses (Note) | (246,195) |
| Operating profit (loss) in the quarterly non-consolidated statements of income | 71,812 |

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

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

(Significant impairment losses related to fixed assets)

Not applicable