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Consolidated Financial Results for the Nine Months Ended November 30, 2022 [Japanese GAAP]



January 13, 2023

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 Stock exchange listing: Tokyo Stock Exchange
 Code number: 4343
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 Scheduled date of filing quarterly securities report: January 16, 2023
 Scheduled date of commencing dividend payments: –
 Availability of supplementary explanatory materials on quarterly financial results: Available
 Schedule of quarterly financial results briefing session: Not scheduled

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

1. Consolidated Financial Results for the Nine Months Ended November 30, 2022 (March 1, 2022 - November 30, 2022)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended November 30, 2022	52,778	23.8	(134)	–	354	–	(2,232)	–
Nine months ended November 30, 2021	42,625	41.0	(3,930)	–	(4,013)	–	(4,687)	–

(Note) Comprehensive income: Nine months ended November 30, 2022: ¥(2,301) million [–%]
 Nine months ended November 30, 2021: ¥(4,669) million [–%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended November 30, 2022	(112.95)	–
Nine months ended November 30, 2021	(237.17)	–

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of November 30, 2022	49,917	9,342	18.3
As of February 28, 2022	51,235	11,841	22.8

(Reference) Equity: As of November 30, 2022: ¥9,147 million
 As of February 28, 2022: ¥11,692 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended February 28, 2022	—	15.00	—	5.00	20.00
Fiscal year ending February 28, 2023	—	5.00	—		
Fiscal year ending February 28, 2023 (Forecast)				5.00	10.00

(Note) Revision to the forecast for dividends announced most recently: Yes

3. Consolidated Financial Results Forecast for the Fiscal Year Ending February 28, 2023 (March 1, 2022 - February 28, 2023)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share	
Full year	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen	
	73,200	21.7	300	—	350	—	(3,400)	—	(172.0)	

(Note) Revision to the financial results forecast announced most recently: Yes

For the revision to the consolidated financial results forecast, please refer to the “Notice Concerning the Revisions to the Financial Results Forecast and Forecast for Dividends” announced today (January 13, 2023).

*** Notes:**

- (1) Changes in significant subsidiaries during the period under review
(Changes in specified subsidiaries resulting in changes in scope of consolidation): None
- (2) Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements: None
- (3) Changes in accounting policies, changes in accounting estimates and retrospective restatement
- 1) Changes in accounting policies due to the revision of accounting standards: Yes
 - 2) Changes in accounting policies other than 1) above: None
 - 3) Changes in accounting estimates: None
 - 4) Retrospective restatement: None
- (Note) For details, please refer to “2. Quarterly Consolidated Financial Statements and Principal Notes (3) Notes to Quarterly Consolidated Financial Statements (Changes in accounting policies)” on page 9 of the Attachments.

(4) Total number of issued shares (common shares)

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

November 30, 2022:	19,768,825 shares
February 28, 2022:	19,768,825 shares

2) Total number of treasury shares at the end of the period:

November 30, 2022:	1,919 shares
February 28, 2022:	1,743 shares

3) Average number of shares during the period:

Nine months ended November 30, 2022:	19,766,980 shares
Nine months ended November 30, 2021:	19,763,880 shares

* These quarterly financial results are outside the scope of quarterly review by certified public accountants or an audit firm.

* Explanation on the proper use of financial results forecast and other notes

The financial results forecasts and other forward-looking statements herein are based on information currently available to the Company and certain assumptions deemed to be reasonable, and the Company does not guarantee the achievement of the projections. In addition, actual results may differ significantly from these forecasts due to various factors.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

In April 2022, the Company formulated the “Purpose” of “inspiring enthusiasm in every child so that there is a smile on every face.” At the same time, the Company established the Sustainability Policy, and is moving ahead with business activities toward the realization of contributing to a sustainable society and improving corporate value.

For the nine months ended November 30, 2022 (March 1, 2022 to November 30, 2022), the operating results of the Company and its consolidated subsidiaries were as follows: net sales of ¥52,778 million (up 23.8% year on year), operating loss of ¥134 million (operating loss of ¥3,930 million in the same period of the previous fiscal year), ordinary profit of ¥354 million (ordinary loss of ¥4,013 million in the same period of the previous fiscal year), and loss attributable to owners of parent of ¥2,232 million (loss attributable to owners of parent of ¥4,687 million in the same period of the previous fiscal year). Operating profit showed drastic improvements year on year, with improvements of ¥3,305 million in the Japan business and ¥1,591 million in the ASEAN business. As a result of the depreciation of the yen against other currencies, foreign exchange gains of ¥809 million were posted under non-operating income, and ¥1,083 million were posted as extraordinary losses due to the temporary closing of operating activities.

Throughout the third quarter ended November 30, 2022, the Japan business and ASEAN business performed well. In the Japan business, the Prizes Department and the Capsule Toys Department, which we are focusing our efforts on, and the Cards Department, which boasts high market share in the industry, showed robust sales performance. The ASEAN business achieved record-high profits and remained robust especially in Malaysia, the Philippines, and Vietnam. The business environment remains challenging in the China business, with even stricter regulations on behavior since September under the zero-COVID policy.

On October 1, the total number of our stores in eight countries around the world reached 1,000. Many guests enjoyed free invitational events and other events held at our playgrounds in all these countries, which were offered to commemorate the opening of our 1,000th store.

As for the number of stores, 111 new stores were opened and 27 stores were closed during the nine months ended November 30, 2022. As a result, the total number of stores as of November 30, 2022 was 1,024 (1,015 directly managed stores, nine franchised stores, etc.), including 590 stores in Japan and 434 stores overseas.

(Japan business)

The Japan business was affected by the sharp increase in COVID-19 cases across the country during the summer vacation period but gradually recovered from the latter half of August, and from September onwards, recovered to nearly the level of the fiscal year 2019. As a result, operating profit for the third quarter ended November 30, 2022 amounted to ¥188 million, securing operating profit for four consecutive quarters from the fourth quarter of the fiscal year ended February 28, 2022.

During the third quarter ended November 30, 2022, we opened 30 new stores of TOYS SPOT PALO, a capsule toy specialty store, which we have been opening at an accelerated rate in a strategic way. Accordingly, the total number of stores reached 139. Net sales of the Capsule Toys Department for the third quarter ended November 30, 2022 were 150.0% compared to the same period of the previous fiscal year (493.5% compared to the same period of 2019), showing continued growth. During the third quarter ended November 30, 2022, we opened 11 new stores of PRIZE SPOT PALO, a prize specialty store, and the total number of stores reached 22. In the Prizes Department, we have been accelerating business strategically in the kids’ category, which has performed well. Net sales of existing stores in the kids’ prizes section for the third quarter ended November 30, 2022 were 118.4% compared to the same period of the previous fiscal year (130.6% compared to the same period of 2019). As a result of the big hit of our limited premiums, such as those for the boys’ dance and vocal unit NCT 127, net sales of existing stores in the overall Prizes Department for third quarter ended November 30, 2022 were 113.1% compared to the same period of the previous fiscal year (108.5% compared to the same period of 2019).

Throughout November, we held “events to commemorate the opening of our 1,000th store worldwide.” We

promoted the “Molly Friends DX” membership-only promotional campaigns and gain extra medals campaigns. As a result, the number of new members in November increased significantly, more than three times that in the average month. This led to the revitalization of the Medals Department and Time-Based Facilities Department which were slow in recovering from the impacts of COVID-19. On Sunday, November 20, World Children’s Day, we provided free admission at 210 of our time-based playground equipment facilities, such as SKIDS GARDEN, and there many children enjoyed themselves with a smiles on their faces.

During the nine months ended November 30, 2022, we opened nine stores of Mollyfantasy, a total of 80 new stores of capsule toy specialty stores and prize specialty stores, and one OYUGIWA store in our hot-bath business, while 14 stores including unprofitable stores (13 directly managed stores, one franchised store, etc.) were closed. As of November 30, 2022, the total number of stores was 590.

As a result, regarding operating results in the Japan business for the nine months ended November 30, 2022, net sales were ¥42,696 million (up 18.6% year on year) and operating profit was ¥996 million (operating loss of ¥2,308 million in the same period of the previous fiscal year).

(China business)

In the China business, with the continuous lockdowns and rigid regulations on behavior under the zero-COVID policy, from September onwards, the number of customers decreased significantly with the increased number of temporarily closed stores. While net sales of existing stores for the third quarter ended November 30, 2022 recorded a severe result of 47.7% compared to the same period of 2019, we worked hard to reduce costs through initiatives such as negotiating reductions on store rent, lowering investments, and reviewing staff allocation.

During the nine months ended November 30, 2022, while three new directly managed stores and one new franchised store were opened, eight stores including unprofitable stores were closed. Accordingly, as of November 30, 2022, the total number of stores was 195 including six franchised stores.

As a result, regarding operating results in the China business for the nine months ended November 30, 2022, net sales were ¥3,717 million (down 35.3% year on year) and operating loss was ¥2,027 million (operating loss of ¥926 million in the same period of the previous fiscal year).

(ASEAN business)

In the ASEAN business, operating profit for the third quarter ended November 30, 2022 amounted to ¥212 million, achieving record-high operating profit compared to the same quarters of the past for four consecutive quarters from the fourth quarter of the fiscal year ended February 28, 2022.

In Malaysia, where performance was particularly outstanding, during the third quarter ended November 30, 2022, net sales were ¥1,004 million (net sales of existing stores were 129.4% compared to the same period of 2019), which was strong, and operating profit was ¥157 million. Even under the COVID-19 pandemic, we continued investments to live along with COVID-19, carried out new initiatives, and differentiated ourselves from competitors, which led to increased sales. Business performance has been strong in the Philippines and Vietnam, with net sales of ¥594 million (net sales of existing stores were 119.0% compared to the same period of 2019) in the Philippines and net sales of ¥203 million (net sales of existing stores were 124.7% compared to the same period of 2019) in Vietnam during the third quarter ended November 30, 2022.

To commemorate the opening of our 1,000th store worldwide, we held free invitational events at our playgrounds in each of the ASEAN countries, and about 6,000 children joined and enjoyed the events with smiles on their faces.

During the nine months ended November 30, 2022, while 17 new stores were opened, four unprofitable stores were closed. Accordingly, the total number of stores as of November 30, 2022 was 239, including three franchised stores.

As a result, regarding operating results in the ASEAN business for the nine months ended November 30, 2022, net sales were ¥6,365 million (up 576.5% year on year) and operating profit was ¥897 million (operating loss of ¥694 million in the same period of the previous fiscal year).

(2) Explanation of Financial Position

(Assets)

Current assets at the end of the third quarter under review were ¥11,589 million, an increase of ¥669 million from the end of the previous fiscal year. The main factor was an increase in deposits paid from sales (¥801 million).

Non-current assets at the end of the third quarter under review were ¥38,328 million, a decrease of ¥1,987 million from the end of the previous fiscal year. The main factor was a decrease in amusement machines and facilities (¥1,731 million) due to depreciation that exceeded capital investments.

As a result, total assets were ¥49,917 million, a decrease of ¥1,317 million from the end of the previous fiscal year.

(Liabilities)

Current liabilities at the end of the third quarter under review were ¥33,855 million, an increase of ¥2,346 million from the end of the previous fiscal year. The main factors were an increase in short-term borrowings (¥706 million), an increase in accrued expenses (¥678 million, mainly accrued rent expenses), and an increase in accounts payable - trade (¥560 million).

Non-current liabilities at the end of the third quarter under review were ¥6,719 million, a decrease of ¥1,164 million from the end of the previous fiscal year. The main factors were a decrease in long-term borrowings at consolidated subsidiaries (¥821 million), and a decrease in long-term accounts payable - installment purchase (¥424 million).

As a result, total liabilities amounted to ¥40,575 million, an increase of ¥1,181 million from the end of the previous fiscal year.

(Net assets)

Net assets at the end of the third quarter under review amounted to ¥9,342 million, a decrease of ¥2,499 million from the end of the previous fiscal year. The main factor was the recording of loss attributable to owners of parent (¥2,232 million).

(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information

As for the consolidated financial results forecast for the fiscal year ending February 28, 2023, the Company revised the consolidated financial results forecast announced on April 8, 2022.

For details, please refer to the “Notice Concerning the Revisions to the Financial Results Forecast and Forecast for Dividends” announced today (January 13, 2023).

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Thousand yen)

	As of February 28, 2022	As of November 30, 2022
Assets		
Current assets		
Cash and deposits	6,008,031	5,947,358
Accounts receivable - trade	232,656	263,651
Deposits paid from sales	303,081	1,104,822
Inventories	2,207,960	2,521,169
Other	2,168,124	1,752,435
Total current assets	10,919,854	11,589,437
Non-current assets		
Property, plant and equipment		
Buildings, net	5,316,819	5,278,633
Amusement machines and facilities, net	18,708,947	16,977,283
Right of use assets, net	3,796,074	3,683,745
Other, net	2,405,244	2,250,610
Total property, plant and equipment	30,227,085	28,190,273
Intangible assets		
Goodwill	146,866	139,815
Software	1,326,946	1,379,585
Other	4,159	4,793
Total intangible assets	1,477,972	1,524,194
Investments and other assets		
Leasehold and guarantee deposits	4,374,139	4,586,882
Other	4,236,443	4,026,762
Total investments and other assets	8,610,583	8,613,644
Total non-current assets	40,315,641	38,328,112
Total assets	51,235,496	49,917,549

(Thousand yen)

	As of February 28, 2022	As of November 30, 2022
Liabilities		
Current liabilities		
Accounts payable - trade	1,261,480	1,821,640
Short-term borrowings	20,201,040	20,907,706
Current portion of long-term borrowings	2,037,420	1,621,993
Current portion of long-term accounts payable - installment purchase	559,719	564,666
Lease liabilities	1,746,936	1,899,340
Accrued expenses	1,441,349	2,120,237
Income taxes payable	310,981	653,493
Provision for bonuses	263,721	594,661
Provision for remuneration for directors (and other officers)	10,920	30,712
Provision for loss on closing of stores	24,121	43,962
Notes payable - facilities	682,294	974,617
Other	2,969,412	2,622,847
Total current liabilities	31,509,396	33,855,878
Non-current liabilities		
Long-term borrowings	1,779,408	958,009
Long-term accounts payable - installment purchase	2,207,469	1,783,349
Lease liabilities	2,501,834	2,600,004
Retirement benefit liability	199,989	181,507
Asset retirement obligations	928,810	984,746
Other	266,815	211,789
Total non-current liabilities	7,884,328	6,719,407
Total liabilities	39,393,725	40,575,285
Net assets		
Shareholders' equity		
Share capital	1,806,987	1,806,987
Capital surplus	4,825,630	4,825,630
Retained earnings	5,477,154	3,046,863
Treasury shares	(3,704)	(4,176)
Total shareholders' equity	12,106,068	9,675,305
Accumulated other comprehensive income		
Foreign currency translation adjustment	(364,491)	(492,225)
Remeasurements of defined benefit plans	(49,145)	(35,756)
Total accumulated other comprehensive income	(413,636)	(527,982)
Share acquisition rights	31,437	31,437
Non-controlling interests	117,901	163,503
Total net assets	11,841,771	9,342,264
Total liabilities and net assets	51,235,496	49,917,549

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statements of Income
Nine Months Ended November 30

(Thousand yen)

	For the nine months ended November 30, 2021	For the nine months ended November 30, 2022
Net sales	42,625,447	52,778,388
Cost of sales	42,744,241	48,422,142
Gross profit (loss)	(118,793)	4,356,245
Selling, general and administrative expenses	3,811,621	4,490,652
Operating loss	(3,930,415)	(134,406)
Non-operating income		
Interest income	54,820	53,969
Foreign exchange gains	289,132	809,593
Insurance claim income	16,275	28,042
Gain on sale of non-current assets	438	203
Gains on write off of deposits	17,498	6,138
Gain on cancellation of leases	45,429	21,888
Refund of Chinese value added tax	–	27,941
Other	37,626	30,718
Total non-operating income	461,220	978,495
Non-operating expenses		
Interest expenses	496,743	446,369
Loss on sale of non-current assets	19,225	14,030
Other	27,906	29,269
Total non-operating expenses	543,874	489,670
Ordinary profit (loss)	(4,013,068)	354,419
Extraordinary income		
Subsidies for employment adjustment	185,984	33,476
Income from assistance fund receivables	343,652	–
Total extraordinary income	529,637	33,476
Extraordinary losses		
Provision for loss on closing of stores	29,113	40,036
Impairment losses	176,774	601,321
Loss on store closings	33,838	12,193
Loss on temporary closing of stores	1,493,756	1,083,264
Loss on disaster	–	15,039
Total extraordinary losses	1,733,482	1,751,854
Loss before income taxes	(5,216,914)	(1,363,958)
Income taxes - current	165,981	570,999
Income taxes - deferred	(615,101)	252,252
Total income taxes	(449,120)	823,251
Loss	(4,767,793)	(2,187,210)
Profit (loss) attributable to non-controlling interests	(80,344)	45,410
Loss attributable to owners of parent	(4,687,448)	(2,232,620)

Quarterly Consolidated Statements of Comprehensive Income

Nine Months Ended November 30

(Thousand yen)

	For the nine months ended November 30, 2021	For the nine months ended November 30, 2022
Loss	(4,767,793)	(2,187,210)
Other comprehensive income		
Foreign currency translation adjustment	82,378	(127,542)
Remeasurements of defined benefit plans, net of tax	15,635	13,388
Total other comprehensive income	98,014	(114,154)
Comprehensive income	(4,669,779)	(2,301,365)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(4,600,482)	(2,346,966)
Comprehensive income attributable to non-controlling interests	(69,297)	45,601

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Notes in case of significant changes in shareholders' equity)

Not applicable.

(Changes in significant subsidiaries during the nine months ended November 30, 2022)

Not applicable

(Changes in accounting policies)

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

The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020; hereinafter referred to as the "Revenue Recognition Accounting Standard") and other standards from the beginning of the first quarter ended May 31, 2022, whereby revenue is recognized at the amount of money expected to be received in exchange for goods or services when control of the agreed goods or services is transferred to the customer.

Accordingly, revenue related to proxy procurement of amusement machines and facilities and the like for overseas subsidiaries and others, which was recognized as a total amount of consideration received from the customer, is now recognized as the net amount received from the customer minus the amount paid to suppliers, after considering the roles (of the principal or agent) in the provision of goods or services to customers.

The application of the Revenue Recognition Accounting Standard and other standards is in accordance with the transitional treatment stipulated in the proviso to Paragraph 84 of the Revenue Recognition Accounting Standard, whereby the cumulative effects of retroactively applying the new accounting policy prior to the beginning of the first quarter ended May 31, 2022 has been added to or subtracted from the retained earnings at the beginning of the first quarter ended May 31, 2022. However, this has no impact on the balance at the beginning of the first quarter ended May 31, 2022.

As a result, for the nine months ended November 30, 2022, the impact on net sales and cost of sales is minor, and there is no impact on operating loss, ordinary profit, or loss before income taxes.

(Application of accounting standard for fair value measurement)

From the beginning of the first quarter ended May 31, 2022, the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019; hereinafter referred to as the "Fair Value Measurement Accounting Standard") and other standards have been applied, and, in accordance with the transitional treatments stipulated in Paragraph 19 of the Fair Value Measurement Accounting Standard and Paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), the Company will prospectively apply the new accounting policies stipulated in the Fair Value Measurement Accounting Standard and other standards. This has no impact on the quarterly consolidated financial statements.

(Additional information)

(Important accounting estimates: Impairment of non-current assets)

In the nine months ended November 30, 2022, the Company amended a portion of assumptions about the “Important accounting estimates: Impairment of non-current assets” as stated in the securities report for the previous fiscal year as below.

In the estimation of future cash flows, the Company has reviewed the timing of recovery of net sales from stores in China, considering the governmental regulations against the impacts of COVID-19. Regarding the assumption that net sales will recover to the level before the COVID-19 pandemic, the Company revised it to the assumption that they will recover during the first half of the fiscal year ending February 29, 2024. In addition, for stores in Japan and ASEAN, assumptions for the estimation of future cash flows have not been changed.

(Segment information, etc.)

I. Nine months ended November 30, 2021 (from March 1, 2021 to November 30, 2021)

1. Information on the amount of net sales and profit (loss) by reportable segment

(Thousand yen)

	Reportable segment				Adjustment	Amount recorded in Quarterly Consolidated Statements of Income (Note)
	Japan	China	ASEAN	Total		
Net sales						
Net sales to external customers	35,938,133	5,746,283	941,030	42,625,447	–	42,625,447
Inter-segment net sales or transfers	62,699	–	–	62,699	(62,699)	–
Total	36,000,833	5,746,283	941,030	42,688,147	(62,699)	42,625,447
Segment profit (loss)	(2,308,932)	(926,097)	(694,512)	(3,929,541)	(873)	(3,930,415)

(Note) Adjustments were made due to the elimination of inter-segment transactions, etc.

2. Information on impairment losses on non-current assets or goodwill by reportable segment

(Important impairment losses on non-current assets)

For the nine months ended November 30, 2021, impairment losses were recorded as follows: ¥3,774 thousand for Japan, ¥113,514 thousand for China, and ¥59,485 thousand for ASEAN.

II. Nine months ended November 30, 2022 (from March 1, 2022 to November 30, 2022)

1. Information on the amount of net sales and profit (loss) by reportable segment

(Thousand yen)

	Reportable segment				Adjustment	Amount recorded in Quarterly Consolidated Statements of Income (Note)
	Japan	China	ASEAN	Total		
Net sales						
Net sales to external customers	42,694,930	3,717,471	6,365,985	52,778,388	–	52,778,388
Inter-segment net sales or transfers	1,841	–	–	1,841	(1,841)	–
Total	42,696,772	3,717,471	6,365,985	52,780,229	(1,841)	52,778,388
Segment profit (loss)	996,250	(2,027,755)	897,260	(134,244)	(161)	(134,406)

(Note) Adjustments were made due to the elimination of inter-segment transactions, etc.

2. Information on impairment losses on non-current assets or goodwill by reportable segment
(Important impairment losses on non-current assets)

For the nine months ended November 30, 2022, impairment losses were recorded as follows: ¥16,684 thousand for Japan, ¥545,477 thousand for China, and ¥39,159 thousand for ASEAN.

3. Matters concerning changes in reportable segment

As stated in (Changes in accounting policies), the Accounting Standard for Revenue Recognition and other standards have been applied from the beginning of the first quarter ended May 31, 2022, and the accounting

treatment for revenue recognition has been changed. Accordingly, the calculation method for net sales of the business segments has also been changed.

The impact of the said changes on the net sales of each business segment is minor.

(Significant subsequent events)

Not applicable