

Translation

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FY2023, the year ending March 31, 2024

Flash Report on the Consolidated Results for the Second Quarter Ended September 30, 2023 [JGAAP]

November 9, 2023

Company Name: **DAIICHIKOSHO CO., LTD.**
 Stock Exchange Listing: Tokyo Stock Exchange
 Code Number: 7458
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 Date to Submit the Quarterly Securities Report: November 13, 2023
 Start Date for Dividend Payment: December 5, 2023
 Availability of Supplementary Briefing Material on Quarterly Financial Results: Available
 Schedule of Quarterly Financial Results Briefing Session: None

(Amounts below one million yen are truncated.)

1. Consolidated Performance for the Six Months Ended September 30, 2023 (From April 1, 2023, to September 30, 2023)

(1) Consolidated operating results (Percentage figures indicate increase/decrease from a year earlier.)

	Net sales		Operating profit		Ordinary profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2023	71,256	17.4	9,377	71.5	9,758	69.0
Six months ended September 30, 2022	60,671	53.5	5,469	—	5,773	—

	Profit attributable to owners of parent		Basic earnings per share	Diluted earnings per share
	Millions of yen	%	Yen	Yen
Six months ended September 30, 2023	6,576	9.8	60.91	60.79
Six months ended September 30, 2022	5,990	—	54.86	54.78

(Notes) 1. Comprehensive income:

Six months ended September 30, 2023: 7,029 million yen 13.2%

Six months ended September 30, 2022: 6,208 million yen — %

2. Shares were split on April 1, 2023 at a ratio of 2 for 1 common share. Basic earnings per share and diluted earnings per share were calculated as if said split had been carried out at the beginning of the previous fiscal year.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of September 30, 2023	174,219	105,860	59.9
As of March 31, 2023	188,623	107,915	56.4

(Reference) Shareholders' equity:

As of September 30, 2023: 104,352 million yen

As of March 31, 2023: 106,451 million yen

2. Dividend

	Annual dividend				
	First Quarter	Second Quarter	Third Quarter	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2023	—	56.00	—	57.00	113.00
Year ending March 31, 2024	—	28.00			
Year ending March 31, 2024 (forecast)			—	29.00	57.00

(Notes) 1. Changes in dividends forecast from most recently announced figures: None

2. Shares were split on April 1, 2023 at a ratio of 2 for 1 common share. Actual dividend amounts before stock split are listed for the year ended March 31, 2023.

3. Forecast of Consolidated Performance for FY2023, the Year Ending March 31, 2024 (From April 1, 2023, to March 31, 2024)

(Percentage figures indicate increase/decrease from a year earlier.)

	Net sales		Operating profit		Ordinary profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ending March 31, 2024 (full year)	144,500	12.8	18,000	38.9	19,100	40.4

	Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	
Year ending March 31, 2024 (full year)	12,700	52.6	Yen 118.85

(Note) Changes in forecast of consolidated performance from most recently announced figures: None

***Notes**

- (1) Significant changes in subsidiaries during the period under review (changes to specific subsidiaries resulting in changes in scope of consolidation): None
- (2) Adoption of special accounting policies for quarterly 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: None
 - 2) Changes in accounting policies other than 1) above: None
 - 3) Changes in accounting estimates: None
 - 4) Retrospective restatement: None
- (4) Number of common shares issued

1) Number of shares issued (including treasury shares)	As of September 30, 2023	109,468,400 shares	As of March 31, 2023	109,468,400 shares
2) Number of treasury shares	As of September 30, 2023	2,613,807 shares	As of March 31, 2023	282,604 shares
3) Average number of shares during the period	Six months ended September 30, 2023	107,970,535 shares	Six months ended September 30, 2022	109,185,863 shares

(Note) Shares were split on April 1, 2023 at a ratio of 2 for 1 common share. Number of shares issued, number of treasury shares, and average number of shares during the period were calculated as if said split had been carried out at the beginning of the previous fiscal year.

* These consolidated financial results are outside the scope of quarterly review by Certified Public Accountants or auditing corporations.

* Explanation for the appropriate use of performance forecasts and other special notes:

The statements regarding forecast of financial results in this report are based on the information that is available, as well as estimates, assumptions and projections that are believed to be reasonable at the time of publication.

Therefore, there might be cases in which actual results greatly differ from forecast values. For the conditions underlying the assumptions made for financial results forecasts and their use, please see “Explanation of Forecast of Consolidated Performance and Other Forward-looking Information” on page 7 of the Attachments.

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1. Qualitative Information on Quarterly Performance

(1) Explanation of Operating Results

In the six months ended September 30, 2023 (the “six months under review”), Japan’s economy showed signs of a moderate recovery due to the downgrading of the status of COVID-19 under the Act on the Prevention of Infectious Diseases and Medical Care for Patients with Infectious Diseases in May and a recovery trend in consumer spending and capital expenditures. The economic outlook, however, remains unclear mainly due to concerns that a downward swing in the global economy could put pressure on Japan’s economy, as well as prolonged depreciation of the yen and price hikes of commodities.

In the karaoke industry, where DAIICHIKOSHO CO., LTD. (the “Company,” together with its subsidiaries, the “Group”) operates, markets were on a recovery trend as a whole, mainly in the night business and the karaoke cabin markets, the Company’s mainstay markets.

As a result of taking a series of measures in our businesses amid such a situation, in the six months under review, net sales amounted to 71,256 million yen (up 17.4% year on year), a record high for the first six months, operating profit was 9,377 million yen (up 71.5% year on year), and ordinary profit was 9,758 million yen (up 69.0% year on year). Profit attributable to owners of parent amounted to 6,576 million yen (up 9.8% year on year), as subsidy income of 2,868 million yen posted in the previous corresponding period was absent in the six months under review.

(Millions of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2023	Year-on-year change	% change
Net sales	60,671	71,256	10,584	17.4%
Operating profit	5,469	9,377	3,908	71.5%
Ordinary profit	5,773	9,758	3,985	69.0%
Profit attributable to owners of parent	5,990	6,576	585	9.8%

Operating results by segment are as follows.

(Commercial karaoke business)

In the commercial karaoke business, the Company sought to strengthen its stable profit base on the back of an improvement in the business environment by increasing the number of equipment rentals and expediting the replacement of previous models with newer ones, which had slowed due to the impact of COVID-19. At the same time, we strived to improve our Karaoke DAM products by further expanding our visual content, including live videos, animated videos, and music videos.

In such an environment, we launched LIVE DAM AiR, a successor of our flagship model, in April. With the expansion of the Ai Assistant function that allows users to queue a song and remotely operate the unit vocally through a microphone, it is now compatible with speech in English, Chinese, and Korean. In addition, the Live Sound function, which reproduces acoustic characteristics of actual concert venues, is now complemented by “Excite Live Hall,” which creates a huge chorus of several thousand persons singing together or engaging in call and response. These and other new functions that further pursue the joy of singing received a favorable reception from users, and we have shipped more units than originally planned since its release.

Furthermore, in the seniors’ market, the business environment improved as we could resume some of our door-to-door sales activities targeting nursing facilities and others, which were not possible during the pandemic. We also focused on utilizing the Internet by, for example, organizing online events periodically, in an effort to increase the number of units in operation.

As a result, net sales increased by 6.2% year on year, owing to strong shipments of new products and steady increases in the number of equipment rentals and the number of DAM units in operation, while operating profit decreased by 7.0% year on year mainly due to an increase in costs related to equipment rentals and in selling, general and administrative expenses.

(Millions of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2023	Year-on-year change	% change
Net sales	28,716	30,483	1,766	6.2%
Operating profit	7,472	6,947	(525)	(7.0)%

(Karaoke cabin and restaurant business)

In the karaoke cabin and restaurant business, we opened three karaoke cabins and five restaurants and closed two karaoke cabins, and nine restaurants due to the integration of food and beverage complexes type as well as change of business type, and we operated 509 karaoke cabins and 167 restaurants as of the end of the six months under review.

Thanks to the downgrading of the status of COVID-19 under the Act on the Prevention of Infectious Diseases and Medical Care for Patients with Infectious Diseases in May, we have seen a recovery trend in the flow of customers since the beginning of the six months under review. During the six months under review, existing karaoke cabin sales recovered to a level approximately 10% lower than before the COVID-19 pandemic and restaurants to a level approximately 10% higher, for an approximately 30% increase for karaoke cabins and approximately 40% increase for restaurants, year on year.

Under such circumstances, for BIG ECHO karaoke cabins, which marked its 35th anniversary in September, we tried to bring back customers visiting karaoke cabins less frequently than before, through collaboration with popular artists such as Yuuri and Momoiro Clover Z, as well as various campaigns making the 35th anniversary more exciting, such as the Good Company Room, which is a Karaoke room decorated with major brands of our business partners, and BIG ECHO Karaoke Grand Prix, while at the same time introducing the top-end model, LIVE DAM AiR, early and equipping BIG ECHO app with the Denmoku function, in an effort to enhance customer satisfaction.

For restaurants, we made efforts to increase customer traffic in a wide-ranging manner by, for example, expanding the call center function to win more reservations for banquets and opening three premises in the darts business.

As a result, net sales increased by 35.2% year on year, and operating profit amounted to 2,680 million yen.

(Millions of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2023	Year-on-year change	% change
Net sales	22,702	30,685	7,983	35.2%
Operating profit	(1,671)	2,680	4,352	—

(Music software business)

In the music software business, product sales of CDs and DVDs and the TV program production business progressed nearly as planned, while the music industry has been booming again as events and concerts have resumed.

As a result, net sales decreased by 1.6% year on year and operating profit increased by 58.0% year on year.

(Millions of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2023	Year-on-year change	% change
Net sales	3,221	3,169	(51)	(1.6)%
Operating profit	98	156	57	58.0%

(Other businesses)

In the other businesses, the parking business operating “The Park” brand as its new pillar of revenue made steady progress, and the business scale expanded to more than 2,300 parking facilities and 28,000 parking spots as of the end of the six months under review. In addition, we strove to expand recognition of “The Park” brand through TV commercials targeting land owners.

As a result, net sales increased by 14.7% year on year owing to factors such as an increase in revenue from the parking business, and operating profit increased by 0.9% year on year.

(Millions of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2023	Year-on-year change	% change
Net sales	6,030	6,917	886	14.7%
Operating profit	788	795	7	0.9%

(2) Explanation of Financial Position

Total assets at the end of the six months under review decreased by 14,403 million yen from the end of the previous fiscal year to 174,219 million yen.

Major changes from the previous fiscal year were a decrease in cash and deposits by 19,613 million yen, and an increase in prepaid expenses included in “other” by 1,324 million yen, in current assets.

In non-current assets, karaoke equipment for rental and karaoke cabin and restaurant facilities increased by 1,785 million yen and 1,175 million yen, respectively.

Liabilities decreased by 12,349 million yen from the end of the previous fiscal year to 68,358 million yen.

Major changes from the previous fiscal year were decreases in notes and accounts payable – trade and accounts payable – other included in “other” by 1,374 million yen and 895 million yen, respectively, in current liabilities.

In non-current liabilities, long-term borrowings decreased by 9,966 million yen.

Net assets decreased by 2,054 million yen from the end of the previous fiscal year to 105,860 million yen.

The decrease is primarily attributable to an increase in retained earnings of 6,576 million yen due to profit attributable to owners of parent, a decrease in retained earnings of 3,111 million yen due to the dividends of surplus, and a decrease of 6,000 million yen due to purchase of treasury shares.

(3) Explanation of Cash Flows

Cash and cash equivalents (hereinafter referred to as “funds”) at the end of the six months under review decreased by 19,613 million yen from the end of the previous fiscal year to 51,810 million yen.

The following is the explanation of cash flows in the six months under review and their contributing factors.

(Cash Flows from Operating Activities)

Funds provided by operating activities were 9,446 million yen, a decrease of 1,920 million yen compared to the previous corresponding period, mainly due to profit before income taxes of 9,631 million yen, depreciation of 5,830 million yen, decrease in trade payables of 1,386 million yen, decrease in accounts payable – other of 644 million yen, and income taxes paid of 2,897 million yen.

(Cash Flows from Investing Activities)

Funds used in investing activities increased by 3,774 million yen year on year to 9,676 million yen, mainly due to purchase of property, plant and equipment of 7,075 million yen, purchase of intangible assets of 1,560 million yen, and payments for acquisition of video licenses of 1,003 million yen.

(Cash Flows from Financing Activities)

Funds used in financing activities increased by 15,950 million yen year on year to 19,450 million yen, mainly due to repayments of long-term borrowings of 10,421 million yen, dividends paid of 3,112 million yen, and purchase of treasury shares of 6,000 million yen.

(4) Explanation of Forecast of Consolidated Performance and Other Forward-looking Information

There is no change to the full-year performance forecast announced on August 9, 2023.

The forecast was prepared based on information available on the date this report was released, and actual results may vary from forecast values due to various factors in the future.

Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

	(Millions of yen)	
	FY2022 (As of March 31, 2023)	Current Second quarter (As of September 30, 2023)
Assets		
Current assets		
Cash and deposits	71,812	52,198
Notes and accounts receivable - trade	5,367	5,483
Inventories	11,735	10,917
Other	4,888	6,954
Allowance for doubtful accounts	(374)	(353)
Total current assets	93,429	75,200
Non-current assets		
Property, plant and equipment		
Karaoke equipment for rental, net	6,306	8,092
Karaoke cabin and restaurant facilities, net	9,192	10,367
Land	40,218	40,218
Other, net	6,574	7,127
Total property, plant and equipment	62,292	65,806
Intangible assets		
Goodwill	606	569
Other	6,056	5,720
Total intangible assets	6,663	6,289
Investments and other assets		
Investment securities	4,914	5,502
Leasehold and guarantee deposits	14,477	14,458
Other	6,986	7,100
Allowance for doubtful accounts	(140)	(138)
Total investments and other assets	26,237	26,923
Total non-current assets	95,193	99,019
Total assets	188,623	174,219

DAIICHIKOSHO CO., LTD.

(Millions of yen)

	FY2022 (As of March 31, 2023)	Current Second quarter (As of September 30, 2023)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	4,954	3,580
Short-term borrowings	13,511	13,146
Income taxes payable	3,106	3,332
Provision for bonuses	1,151	1,654
Other	12,564	11,350
Total current liabilities	35,288	33,064
Non-current liabilities		
Long-term borrowings	31,135	21,168
Provision for retirement benefits for directors (and other officers)	1,113	646
Retirement benefit liability	7,991	8,217
Asset retirement obligations	2,018	2,010
Other	3,160	3,251
Total non-current liabilities	45,419	35,294
Total liabilities	80,707	68,358
Net assets		
Shareholders' equity		
Share capital	12,350	12,350
Capital surplus	4,211	4,211
Retained earnings	89,885	93,350
Treasury shares	(571)	(6,571)
Total shareholders' equity	105,876	103,340
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,047	1,409
Revaluation reserve for land	(733)	(733)
Foreign currency translation adjustment	99	178
Remeasurements of defined benefit plans	160	157
Total accumulated other comprehensive income	574	1,011
Share acquisition rights	292	326
Non-controlling interests	1,172	1,181
Total net assets	107,915	105,860
Total liabilities and net assets	188,623	174,219

**(2) Quarterly Consolidated Statements of Income and Comprehensive Income
(Quarterly Consolidated Statements of Income)**

	(Millions of yen)	
	Six months ended September 30, 2022 (From April 1, 2022, to September 30, 2022)	Six months ended September 30, 2023 (From April 1, 2023, to September 30, 2023)
Net sales	60,671	71,256
Cost of sales	39,771	45,381
Gross profit	20,899	25,874
Selling, general and administrative expenses	15,430	16,497
Operating profit	5,469	9,377
Non-operating income		
Interest income	9	12
Insurance claim income	94	48
Cooperative monetary aid received	93	98
Foreign exchange gains	—	11
Other	350	371
Total non-operating income	548	541
Non-operating expenses		
Interest expenses	87	70
Foreign exchange losses	40	—
Cancellation penalty	35	4
Other	80	84
Total non-operating expenses	243	159
Ordinary profit	5,773	9,758
Extraordinary income		
Gain on sale of non-current assets	3	2
Gain on bargain purchase	112	—
Subsidy income	2,868	—
Total extraordinary income	2,983	2
Extraordinary losses		
Loss on disposal of non-current assets	26	93
Impairment losses	18	35
Total extraordinary losses	44	129
Profit before income taxes	8,712	9,631
Income taxes - current	1,807	3,179
Income taxes - deferred	895	(139)
Total income taxes	2,703	3,039
Profit	6,009	6,592
Profit attributable to non-controlling interests	19	16
Profit attributable to owners of parent	5,990	6,576

(Quarterly Consolidated Statements of Comprehensive Income)

	(Millions of yen)	
	Six months ended September 30, 2022 (From April 1, 2022, to September 30, 2022)	Six months ended September 30, 2023 (From April 1, 2023, to September 30, 2023)
Profit	6,009	6,592
Other comprehensive income		
Valuation difference on available-for-sale securities	136	361
Foreign currency translation adjustment	45	78
Remeasurements of defined benefit plans, net of tax	17	(3)
Total other comprehensive income	198	437
Comprehensive income	6,208	7,029
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	6,189	7,013
Comprehensive income attributable to non-controlling interests	19	16

(3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	Six months ended September 30, 2022 (From April 1, 2022, to September 30, 2022)	Six months ended September 30, 2023 (From April 1, 2023, to September 30, 2023)
Cash flows from operating activities		
Profit before income taxes	8,712	9,631
Depreciation	5,079	5,830
Amortization of goodwill	54	37
Impairment losses	18	35
Increase (decrease) in provision for retirement benefits for directors (and other officers)	33	(466)
Interest and dividend income	(78)	(82)
Interest expenses	87	70
Foreign exchange losses (gains)	(33)	(66)
Loss (gain) on disposal of non-current assets	23	91
Subsidy income	(2,868)	—
Gain on bargain purchase	(112)	—
Decrease (increase) in trade receivables	(566)	(77)
Decrease (increase) in inventories	(491)	823
Transfer of cost of sales on karaoke equipment for rental	27	38
Decrease (increase) in advance payments to suppliers	(242)	(251)
Increase (decrease) in trade payables	326	(1,386)
Increase (decrease) in accounts payable - other	548	(644)
Other, net	(352)	(1,248)
Subtotal	10,168	12,335
Interest and dividends received	78	81
Interest paid	(88)	(72)
Subsidies received	3,036	—
Income taxes paid	(1,827)	(2,897)
Net cash provided by (used in) operating activities	11,367	9,446
Cash flows from investing activities		
Payments into time deposits	(10)	(10)
Proceeds from withdrawal of time deposits	10	10
Purchase of property, plant and equipment	(3,527)	(7,075)
Proceeds from sale of property, plant and equipment	7	3
Purchase of intangible assets	(1,615)	(1,560)
Payments for acquisition of video licenses	(536)	(1,003)
Purchase of investment securities	—	(73)
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	143	—
Payments for acquisition of businesses	(16)	—
Loan advances	(106)	(30)
Proceeds from collection of loans receivable	106	117
Payments of leasehold and guarantee deposits	(472)	(131)
Proceeds from refund of leasehold and guarantee deposits	206	101
Other, net	(89)	(23)
Net cash provided by (used in) investing activities	(5,901)	(9,676)

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(Millions of yen)

	Six months ended September 30, 2022 (From April 1, 2022, to September 30, 2022)	Six months ended September 30, 2023 (From April 1, 2023, to September 30, 2023)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	25	(309)
Proceeds from long-term borrowings	130	400
Repayments of long-term borrowings	(537)	(10,421)
Dividends paid	(3,111)	(3,112)
Purchase of treasury shares	(0)	(6,000)
Other, net	(7)	(7)
Net cash provided by (used in) financing activities	(3,500)	(19,450)
Effect of exchange rate change on cash and cash equivalents	33	66
Net increase (decrease) in cash and cash equivalents	1,998	(19,613)
Cash and cash equivalents at beginning of period	68,125	71,423
Cash and cash equivalents at end of period	70,124	51,810

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable.

(Notes in Case of Significant Changes in Shareholders' Equity)

Pursuant to a resolution at the Board of Directors meeting held on February 8, 2023, the Company purchased 2,331,100 treasury shares. With this purchase and other factors, the amount of treasury shares increased by 6,000 million yen during the six months ended September 30, 2023 and treasury shares amounted to 6,571 million yen at the end of the six months under review.

(Segment Information)

[Segment information]

Six months ended September 30, 2022 (From April 1, 2022, to September 30, 2022)

1. Information on the amounts of net sales and profit or loss by reportable segment

(Millions of yen)

	Reportable segments				Other (Note 1)	Total	Adjusted amount (Note 2)	Posted amount to the consolidated quarterly statements of income
	Commercial karaoke	Karaoke cabin and restaurant	Music software	Subtotal				
Net sales	28,716	22,702	3,221	54,640	6,030	60,671	—	60,671
Segment profit or Segment loss (Operating profit or Operating loss)	7,472	(1,671)	98	5,899	788	6,688	(1,219)	5,469

- Notes:
1. The category "Other" comprises a business segment not attributable to reportable segments, including parking, real estate leasing and BGM broadcasting businesses.
 2. The (1,219) million yen adjustment posted to segment profit or segment loss is primarily composed of general and administrative expenses incurred by the administrative department at the head office that are not attributable to any particular reportable segment.

2. Information on impairment loss of non-current assets or goodwill, etc. by reportable segment

The statements are omitted due to little significance.

Six months ended September 30, 2023 (From April 1, 2023, to September 30, 2023)

1. Information on the amounts of net sales and profit or loss by reportable segment

(Millions of yen)

	Reportable segments				Other (Note 1)	Total	Adjusted amount (Note 2)	Posted amount to the consolidated quarterly statements of income
	Commercial karaoke	Karaoke cabin and restaurant	Music software	Subtotal				
Net sales	30,483	30,685	3,169	64,338	6,917	71,256	—	71,256
Segment profit (Operating profit)	6,947	2,680	156	9,784	795	10,580	(1,202)	9,377

- Notes:
1. The category "Other" comprises a business segment not attributable to reportable segments, including parking, real estate leasing and BGM broadcasting businesses.
 2. The (1,202) million yen adjustment posted to segment profit is primarily composed of general and administrative expenses incurred by the administrative department at the head office that are not attributable to any particular reportable segment.

2. Information on impairment loss of non-current assets or goodwill, etc. by reportable segment

The statements are omitted due to little significance.

(Quarterly Consolidated Statements of Income)

Subsidy income

Following the issuance of the declaration of state of emergency due to the spread of COVID-19, employment adjustment subsidies, which are subsidies that are provided to cover salaries, etc. for the period during which employees are furloughed, as well as subsidies, etc. that are received from the national government, local municipalities, etc., have been posted in subsidy income.