

Consolidated Financial Results for the Six Months Ended February 28, 2021 [Japanese GAAP]



April 9, 2021

Company name: CURVES HOLDINGS Co., Ltd.
 Stock exchange listing: Tokyo Stock Exchange Section 1
 Stock code: 7085
 URL: <https://www.curvesholdings.co.jp/>
 Representative: Takeshi Masumoto, Representative Director and President
 Contact: Shinya Matsuda, Director and General Manager, Administration Division
 Tel: +81-3-5418-9922
 Scheduled date of filing quarterly securities report: April 13, 2021
 Scheduled date of commencing dividend payments: —
 Availability of supplementary briefing material on quarterly financial results: Available
 Schedule of quarterly financial results briefing session: Scheduled

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

1. Consolidated Financial Results for the Six Months Ended February 28, 2021 (September 1, 2020 to February 28, 2021)

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

| | Net sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of parent | |
|-------------------|-------------|--------|------------------|--------|-----------------|--------|---|--------|
| Six months ended | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| February 28, 2021 | 11,891 | (17.6) | 871 | (70.8) | 669 | (78.0) | 347 | (83.1) |
| February 29, 2020 | 14,431 | - | 2,988 | - | 3,046 | - | 2,056 | - |

(Note) Comprehensive income: Six months ended February 28, 2021: (121) million yen [-%]
 Six months ended February 29, 2020: 2,259 million yen [-%]

| | Earnings per share | Diluted earnings per share |
|-------------------|--------------------|----------------------------|
| Six months ended | Yen | Yen |
| February 28, 2021 | 3.70 | - |
| February 29, 2020 | 24.98 | - |

(Note) Changes from the previous corresponding period for six months ended February 29, 2020 are not available due to the quarterly consolidated statements having started to be published since the 1st quarter of FY 8/2020.

(2) Consolidated Financial Position

| | Total assets | Net assets | Equity ratio |
|-------------------|--------------|-------------|--------------|
| As of | Million yen | Million yen | % |
| February 28, 2021 | 35,023 | 7,552 | 21.6 |
| August 31, 2020 | 36,837 | 8,142 | 22.1 |

(Reference) Equity: As of February 28, 2021: 7,552 million yen
 As of August 31, 2020: 8,142 million yen

2. Dividends

| | Annual dividends | | | | |
|---|------------------|-----------------|-----------------|----------|-------|
| | 1st quarter-end | 2nd quarter-end | 3rd quarter-end | Year-end | Total |
| | Yen | Yen | Yen | Yen | Yen |
| Fiscal year ended August 31, 2020 | - | 0.00 | - | 5.00 | 5.00 |
| Fiscal year ending August 31, 2021 | - | 0.00 | | | |
| Fiscal year ending August 31, 2021 (Forecast) | | | - | 3.00 | 3.00 |

(Note) Revision to the forecast for dividends announced most recently: No

3. Consolidated Financial Results Forecast for the Fiscal Year Ending August 31, 2021 (September 1, 2020 to August 31, 2021)

(% indicates changes from the previous corresponding period.)

| | Net sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of parent | Earnings per share |
|-----------|-------------|-------|------------------|------|-----------------|-------|---|--------------------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | Yen |
| Full year | 24,000 | (4.3) | 1,300 | 11.4 | 1,100 | (5.6) | 720 | (5.8) |
| | | | | | | | | 7.67 |

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

For the consolidated financial results forecast, please see the “Notice of Differences between Financial Results Forecast and Actual Results for the Six Months Ended February 28, 2021 and Revisions to the Full-Year Financial Results Forecast” released today (April 9, 2021).

* Notes:

(1) Changes in significant subsidiaries during the six months ended February 28, 2021 (changes in specified subsidiaries resulting in changes in scope of consolidation): No

Newly added: — (Name:) Excluded: — (Name:)

(2) Accounting policies adopted specially for the preparation of quarterly consolidated financial statements: No

(3) Changes in accounting policies, changes in accounting estimates and restatements

1) Changes in accounting policies due to the revision of accounting standards: No

2) Changes in accounting policies other than 1) above: No

3) Changes in accounting estimates: No

4) Restatements: No

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

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

February 28, 2021: 93,857,493 shares

August 31, 2020: 93,857,493 shares

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

February 28, 2021: 121 shares

August 31, 2020: 121 shares

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

Six months ended February 28, 2021: 93,857,372 shares

Six months ended February 29, 2020: 82,298,284 shares

* This summary of the quarterly financial results is outside the scope of quarterly review by certified public accountants or audit firms.

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

(Note on forward-looking statements, etc.)

The financial results forecast and other forward-looking statements contained in this document are based on information currently available to the Company and certain assumptions deemed reasonable by the Company. Such forward-looking statements are not intended to represent a commitment on the part of the Company to achieve them. Actual results may vary significantly due to various factors. Please refer to “(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information,” on page 4 of the attached material for the assumptions used in the financial results forecast, as well as precautions for using the financial results forecast.

(How to obtain supplementary briefing materials on the financial results and the content of the financial results briefing session)

In light of the COVID-19 pandemic, the Company’s results briefing will be held by posting video recorded in advance on its website (<https://www.curvesholdings.co.jp/>) on Friday, April 16, 2021.

The Company will post the supplementary materials used in this video on TDnet and the Company’s website on the same day.

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1. Qualitative Information on Quarterly Financial Results for the Period under Review

(1) Explanation of Operations Results

The Group (the Company and consolidated subsidiaries, hereinafter referred to as the “Group”) has been striving to contribute to the creation of a society with a healthy and long life expectancy through its core business, “Curves,” a 30-minute fitness club for women. The Group has endeavored to enhance the satisfaction of its members and expand membership by strengthening customer services as “community-oriented health infrastructure” that contributes to solving social issues.

It is the Group’s understanding that the market environment during and after the COVID-19 pandemic will change dramatically in the following two ways:

(i) Growth of the health market: The pandemic forced people to focus on their lives and health, and the trend toward taking care of their own health will gain momentum in the medium and long term. This is a golden opportunity for the growth of the health market.

(ii) Growing demand for contactless services: Extending beyond the end of the COVID-19 pandemic, consumer sentiment, society and the economy will remain “scared” by COVID-19, and qualitative changes will occur, such as an increase in demand for non-contact services.

Under these operating conditions, the Group aims to achieve business recovery and establish business models in the new management environments by the end of 2022, in other words, in around two years’ time, and is pursuing strategies positioning the fiscal year ending August 31, 2021 (from September 1, 2020 to August 31, 2021) as the fiscal year for getting firmly on track towards this goal.

During the second quarter of the current fiscal year (from December 1, 2020 to February 2021), the number of new members was poorer than in usual years due to the impact of the state of emergency declared by the government on January 7, 2021, and the number of absentees also increased. From December to February, the Company’s second quarter, the number of new members remains low and membership declines every year due to seasonal factors. However, membership declined more significantly than usual in the second quarter of the current fiscal year.

However, the impact of the COVID-19 pandemic on membership and the Company’s financial results was within the range assumed at the beginning of the current fiscal year, and the Group worked to improve customer satisfaction by improving the quality of services for existing customers, strengthen the business operations of clubs, and expand sales of merchandise such as protein through diet consultations for members in the second quarter of the current fiscal year, as initially planned.

The Group also proceed with the closure and merging of the clubs that have been severely affected by COVID-19. In the process, more than 70% of the members of closed and merged clubs have transferred to other clubs.

Accordingly, the number of Curves facilities (excluding Men’s Curves) and membership in Japan as of February 28, 2021 were as follows.

1. Number of Curves facilities in Japan

(Percentage figures represent changes from the end of the previous fiscal year)

| | As of August 31, 2020 | As of February 28, 2021 | |
|---|-----------------------|-------------------------|--------|
| Number of facilities | 2,020 facilities | 1,988 facilities | (1.6)% |
| Of which, number of corporate operated facilities | 70 facilities | 75 facilities | 7.1% |
| Number of franchisee facilities | 1,950 facilities | 1,913 facilities | (1.9)% |

2. Curves membership in Japan

| | As of August 31, 2020 | As of February 28, 2021 | |
|---|-----------------------|-------------------------|---------|
| Active memberships excluding absentee members | 600K | 641K | 6.8% |
| Absentee members | 99K | 44K | (55.2)% |
| Total membership | 700K | 686K | (2.0)% |

(Note) All absentee members under Special Absentee Program have had their monthly dues for the applicable period refunded in full.

There were six Men's Curves facilities for men.

In overseas business, the Group considers Europe where it acquired the franchiser operations in July 2019 to be its priority market. As of the end of the first six months of the fiscal year under review (December 31, 2020 (two-month lag due to difference in fiscal year end)), there were 164 Curves facilities in Europe (UK, Italy, Spain and five other countries, all facilities are franchisees' facilities), of which 124 facilities were closed due to government directives, including lockdowns.

In terms of costs, SGA expenses in the second quarter of the current fiscal year decreased 945 million yen from the first quarter due to the containment of marketing expenses in light of seasonal factors and the market environment, a reduction of financial aid to franchisees associated with closures and absentees, and the continuous reduction of stationary costs.

As a result, net sales for the six months ended February 28, 2021 were 11,891 million yen (down 17.6% year on year), leading to operating profit of 871 million yen (down 70.8% year on year). Ordinary profit was 669 million yen (down 78.0% year on year) due to the generation of foreign exchange losses at Curves International, Inc., which did not have an impact on changes in cash. Profit attributable to owners of parent was 347 million yen (down 83.1% year on year) mainly due to the recording of income taxes - current of 527 million yen.

The Ad Fund (collected from franchisees) that was included in net sales up to the previous fiscal year is not included in net sales as from the first quarter of the current fiscal year. When compared with net sales for the previous corresponding period excluding the ad fund sales, net sales for the six months ended February 28, 2021 are 11.4% down year-on-year. This change was necessitated due to a revision in the franchise agreement to the effect that any excess of advertising expenses Curves Japan has spent over the total ad funds income actually collected from franchisees would not be additionally charged to franchisees, but be recorded as SGA expenses.

Since the Group operates in a single business segment, the Curves business, the segment information is omitted.

(2) Explanation of Financial Position

(Assets)

Total assets as of February 28, 2021 decreased by 1,814 million yen, compared to the end of the previous fiscal year to 35,023 million yen (down 4.9% from the end of the previous fiscal year).

Current assets decreased by 598 million yen to 14,676 million yen (down 3.9% year on year). This was mainly due to a decrease of 232 million yen in merchandise.

Property, plant and equipment decreased by 1 million yen to 324 million yen (down 0.5% year on year).

Intangible assets decreased by 1,329 million yen to 19,459 million yen (down 6.4% year on year). This was mainly due to decreases of 1,195 million yen in trademark right, 128 million yen in other intangible assets and 93 million yen in goodwill.

Investments and other assets increased by 115 million yen to 562 million yen (up 25.9% year on year).

Total non-current assets decreased by 1,215 million yen to 20,346 million yen (down 5.6% year on year).

(Liabilities)

Current liabilities increased by 569 million yen to 7,832 million yen (up 7.8% year on year). This was mainly due to an increase of 625 million yen in the current portion of long-term borrowings.

Non-current liabilities decreased by 1,794 million yen to 19,638 million yen (down 8.4% year on year). This was mainly due to a decrease of 1,545 million yen in long-term borrowings.

Total liabilities decreased by 1,224 million yen to 27,471 million yen (down 4.3% year on year).

(Net assets)

Net assets decreased by 590 million yen to 7,552 million yen (down 7.3% year on year). This was mainly due to a decrease of 121 million yen in retained earnings resulting from the payment of dividends of 469 million yen, offsetting the recording of profit attributable to owners of parent of 347 million yen.

(Status of cash flows)

The balance of cash and cash equivalents (hereinafter referred to as “net cash”) as of February 28, 2021 was 9,515 million yen, a decrease of 18 million yen compared with the end of the previous fiscal year.

(Cash flows from operating activities)

As a result of operating activities during the six months ended February 28, 2021, net cash provided by operating activities stood at 1,628 million yen (down 25.6% year on year). This was mainly attributable to profit before income taxes of 669 million yen, depreciation of 284 million yen, amortization of trademark right of 494 million yen, income taxes refund of 455 million yen, and income taxes paid of 331 million yen.

(Cash flows from investing activities)

As a result of investing activities during the six months ended February 28, 2021, net cash used in investing activities stood at 251 million yen (down 13.8% year on year). This was mainly attributable to purchase of intangible assets of 189 million yen and purchase of property, plant and equipment of 46 million yen.

(Cash flows from financing activities)

As a result of financing activities during the six months ended February 28, 2021, net cash used in financing activities stood at 1,389 million yen (down 52.7% year on year). This was mainly attributable to dividends paid of 469 million yen and repayments of long-term borrowings of 920 million yen.

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

As announced in the “Notice of Differences between Financial Results Forecast and Actual Results for the Six Months Ended February 28, 2021 and Revisions to the Full-Year Financial Results Forecast” released on April 9, 2021, the Company has revised its consolidated financial results forecast. In the revised full-year consolidated financial results forecast, the Company expects net sales of 24.0 billion yen (down 4.3% year on year), operating profit of 1.3 billion yen (up 11.4% year on year), ordinary profit of 1.1 billion yen (down 5.6% year on year) and profit attributable to owners of parent of 720 million yen (down 5.8% year on year). Details are as follows.

The Group aims to achieve a business recovery and establish business models in the new management environments by the end of 2022, in other words, in around two years’ time, and executes strategies positioning the current fiscal year (from September 1, 2020 to August 31, 2021) as the fiscal year for getting firmly on track to accomplish this goal.

During the six months ended February 28, 2021, the Group achieved greater than anticipated results, but the current economic environment is still unclear and unstable. The Group recognizes that in order to early achieve business recovery and establish business models in the new management environments in these circumstances, the following measures continue to be important.

(i) Further improve customer satisfaction and protect and foster our operating base, including the stabilization

of franchisee management.

(ii) Recover membership by strengthening marketing and actively using funds.

(iii) Quickly get new business models such as the online fitness program, Ouchi de Curves (Curves at Home) on track.

In the second half of the current fiscal year, the Group plans active strategic investment in these measures.

(Japan)

- The Group plans to open 20 new facilities and to close or merge 100 franchisee facilities that have been significantly affected by COVID-19 during the fiscal year ending August 31, 2021. The number of facilities is forecast to be 1,940 at the end of the period, at a net decrease of 80 facilities.
- Membership (the number of active members), which had decreased to 600K as of August 31, 2020, recovered to 640K as of February 28, 2021, despite the impact of the declaration of a state of emergency. The Company revised the expected number of members on August 31, 2021, upward to 700K (excluding online members) because the Company will strengthen its marketing for new sign-ups from April 2021.
- Contribution to profit by new businesses such as the online fitness program “Ouchi de Curves” is not reflected in the forecast.
- To achieve business recovery and establish business models in the new management environments by the end of 2022, the quick recovery of membership is a priority issue. For that purpose, the Group plans to actively push forward with strategic investment in marketing.

(Overseas)

- In Europe, the focus area, (UK, Italy, Spain, etc.), club closures are still repeated due to government directives including lockdowns. Because the Group assumed from the beginning that this unpredictable situation would continue, assumptions for overseas financial results forecasts remain unchanged. The Group plans to formulate and implement strategies adapted to the changing management environment, while experimenting with new business models including provision of online fitness, gradually starting from regions where socio-economic conditions have quieted down.

Any further revisions to the financial results forecast necessitated by changes in the business environment due to future COVID-19 conditions and other factors will be promptly disclosed.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Thousands of yen)

| | As of August 31, 2020 | As of February 28, 2021 |
|--|-----------------------|-------------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 9,533,587 | 9,515,075 |
| Notes and accounts receivable - trade | 3,243,741 | 3,540,909 |
| Merchandise | 1,511,593 | 1,279,428 |
| Raw materials and supplies | 6,116 | 8,240 |
| Other | 1,127,615 | 468,571 |
| Allowance for doubtful accounts | (147,384) | (135,782) |
| Total current assets | 15,275,269 | 14,676,442 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures, net | 220,379 | 222,601 |
| Vehicles, tools, furniture and fixtures, net | 105,807 | 101,819 |
| Total property, plant and equipment | 326,187 | 324,420 |
| Intangible assets | | |
| Goodwill | 1,392,773 | 1,299,706 |
| Trademark right | 17,997,264 | 16,801,985 |
| Software | 666,101 | 753,270 |
| Other | 733,374 | 604,814 |
| Total intangible assets | 20,789,513 | 19,459,776 |
| Investments and other assets | | |
| Investment securities | 20,000 | 20,000 |
| Leasehold and guarantee deposits | 253,498 | 268,157 |
| Deferred tax assets | 155,771 | 257,416 |
| Other | 21,166 | 20,681 |
| Allowance for doubtful accounts | (3,492) | (3,660) |
| Total investments and other assets | 446,943 | 562,595 |
| Total non-current assets | 21,562,644 | 20,346,792 |
| Total assets | 36,837,913 | 35,023,235 |

(Thousands of yen)

| | As of August 31, 2020 | As of February 28, 2021 |
|--|-----------------------|-------------------------|
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable - trade | 1,562,764 | 1,652,899 |
| Current portion of long-term borrowings | 1,840,000 | 2,465,000 |
| Accounts payable - other | 919,875 | 607,312 |
| Accrued expenses | 291,399 | 345,416 |
| Income taxes payable | 364,394 | 552,390 |
| Provision for bonuses | 223,835 | 225,005 |
| Provision for point card certificates | 44,320 | 57,352 |
| Provision for shareholder benefit program | 30,622 | - |
| Deposits received | 1,653,990 | 1,691,884 |
| Other | 331,404 | 235,195 |
| Total current liabilities | 7,262,606 | 7,832,457 |
| Non-current liabilities | | |
| Long-term borrowings | 17,420,000 | 15,875,000 |
| Deferred tax liabilities | 3,887,324 | 3,632,069 |
| Asset retirement obligations | 125,377 | 131,477 |
| Total non-current liabilities | 21,432,701 | 19,638,547 |
| Total liabilities | 28,695,308 | 27,471,004 |
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 848,666 | 848,666 |
| Capital surplus | 828,666 | 828,666 |
| Retained earnings | 6,328,053 | 6,206,177 |
| Treasury shares | (76) | (76) |
| Total shareholders' equity | 8,005,310 | 7,883,435 |
| Accumulated other comprehensive income | | |
| Foreign currency translation adjustment | 137,294 | (331,205) |
| Total accumulated other comprehensive income | 137,294 | (331,205) |
| Total net assets | 8,142,605 | 7,552,230 |
| Total liabilities and net assets | 36,837,913 | 35,023,235 |

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statement of Income

Six Months Ended February 28, 2021

(Thousands of yen)

| | For the six months ended February 29, 2020 | For the six months ended February 28, 2021 |
|--|---|---|
| Net sales | 14,431,720 | 11,891,843 |
| Cost of sales | 8,328,433 | 6,928,218 |
| Gross profit | 6,103,286 | 4,963,625 |
| Selling, general and administrative expenses | 3,115,215 | 4,092,037 |
| Operating profit | 2,988,071 | 871,587 |
| Non-operating income | | |
| Interest income | 123 | 89 |
| Foreign exchange gains | 86,044 | - |
| Subsidy income | 942 | 16,825 |
| Other | 5,126 | 11,023 |
| Total non-operating income | 92,236 | 27,937 |
| Non-operating expenses | | |
| Interest expenses | 28,577 | 33,338 |
| Foreign exchange losses | - | 196,793 |
| Other | 5,194 | 187 |
| Total non-operating expenses | 33,772 | 230,319 |
| Ordinary profit | 3,046,535 | 669,205 |
| Extraordinary losses | | |
| Loss on retirement of non-current assets | 2,192 | 181 |
| Total extraordinary losses | 2,192 | 181 |
| Profit before income taxes | 3,044,342 | 669,024 |
| Income taxes - current | 1,143,469 | 527,082 |
| Income taxes - deferred | (155,262) | (205,469) |
| Total income taxes | 988,206 | 321,613 |
| Profit | 2,056,135 | 347,411 |
| Profit attributable to owners of parent | 2,056,135 | 347,411 |

Quarterly Consolidated Statement of Comprehensive Income

Six Months Ended February 28, 2021

(Thousands of yen)

| | For the six months ended February 29, 2020 | For the six months ended February 28, 2021 |
|--|---|---|
| Profit | 2,056,135 | 347,411 |
| Other comprehensive income | | |
| Foreign currency translation adjustment | 203,236 | (468,499) |
| Total other comprehensive income | 203,236 | (468,499) |
| Comprehensive income | 2,259,371 | (121,088) |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | 2,259,371 | (121,088) |
| Comprehensive income attributable to non-controlling interests | - | - |

(3) Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

| | For the six months ended February 29, 2020 | For the six months ended February 28, 2021 |
|---|---|---|
| Cash flows from operating activities | | |
| Profit before income taxes | 3,044,342 | 669,024 |
| Depreciation | 288,786 | 284,359 |
| Amortization of goodwill | 39,090 | 39,422 |
| Amortization of trademark right | 510,070 | 494,401 |
| Increase (decrease) in allowance for doubtful accounts | 25,474 | (6,311) |
| Increase (decrease) in provision for bonuses | 8,214 | 1,867 |
| Interest and dividend income | (123) | (89) |
| Interest expenses | 28,577 | 33,338 |
| Foreign exchange losses (gains) | (86,044) | 196,749 |
| Decrease (increase) in trade receivables | (330,219) | (313,774) |
| Decrease (increase) in inventories | (235,426) | 226,560 |
| Increase (decrease) in trade payables | (363,178) | 92,098 |
| Loss on retirement of property, plant and equipment | 2,192 | 181 |
| Decrease (increase) in prepaid expenses | 25,267 | (35,608) |
| Increase (decrease) in accounts payable - other | (246,192) | (334,972) |
| Increase (decrease) in accrued expenses | (64,393) | 55,434 |
| Other | 111,443 | 135,238 |
| Subtotal | 2,757,882 | 1,537,921 |
| Interest and dividends received | 123 | 89 |
| Interest paid | (28,577) | (33,338) |
| Income taxes refund (paid) | (539,891) | 124,249 |
| Net cash provided by (used in) operating activities | 2,189,536 | 1,628,921 |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | (80,526) | (46,268) |
| Purchase of intangible assets | (206,614) | (189,067) |
| Payments of guarantee deposits | (4,807) | (15,186) |
| Proceeds from refund of guarantee deposits | 1,775 | 432 |
| Other | (1,809) | (1,453) |
| Net cash provided by (used in) investing activities | (291,982) | (251,543) |
| Cash flows from financing activities | | |
| Repayments of long-term borrowings | (920,000) | (920,000) |
| Dividends paid | (2,016,307) | (469,286) |
| Net cash provided by (used in) financing activities | (2,936,307) | (1,389,286) |
| Effect of exchange rate change on cash and cash equivalents | 5,444 | (6,603) |
| Net increase (decrease) in cash and cash equivalents | (1,033,310) | (18,511) |
| Cash and cash equivalents at beginning of period | 5,350,073 | 9,533,587 |
| Cash and cash equivalents at end of period | 4,316,762 | 9,515,075 |

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

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

Not applicable.

(Additional information)

There are no significant changes to our assumptions regarding the spread of COVID-19 pandemic and the time it will end that we stated in the securities report of the previous fiscal year as additional information.