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The financial information contained in this report is taken from our unaudited financial statements.

Consolidated Financial Report for the Six-month Period Ended September 30, 2018 (IFRS)

November 14, 2018

Company name: RIZAP GROUP, Inc.
Stock exchange listing: Sapporo Securities Exchange's Ambitious market
Stock code: 2928
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Scheduled date to submit the Quarterly Securities Report (*Shihanki Houkokusho*): November 14, 2018
Scheduled date for commencement of dividend payments: –
Supplementary documents for quarterly results: Yes
Quarterly results briefing: Yes (for institutional investors, analysts, and news media)

(Millions of yen; amounts are rounded to the nearest million yen)

1. Consolidated Financial Results for Six-month Period Ended September 30, 2018 (April 1, 2018 to September 30, 2018)

(1) Consolidated Operating Results

(Percentages indicate year-on-year change)

	Revenue		Operating income		Income before income taxes		Net income		Net income attributable to owners of the parent		Total comprehensive income for the period	
		%		%		%		%		%		%
Six-month period ended September 30, 2018	¥109,105	74.3	¥(8,829)	–	¥(9,705)	–	¥(9,929)	–	¥(8,532)	–	¥(9,546)	–
Six-month period ended September 30, 2017	¥62,581	50.8	¥4,987	(22.0)	¥4,377	(27.8)	¥3,430	(23.2)	¥2,932	(31.2)	¥3,420	(23.0)

	Basic earnings per share (yen)	Diluted earnings per share (yen)
Six-month period ended September 30, 2018	(15.90)	(15.90)
Six-month period ended September 30, 2017	5.75	5.75

* The Company conducted a capital increase by public offering (20,270,000 shares) on the payment date of June 13, 2018 and a third-party allotment (2,967,200 shares) on the payment date of July 13, 2018.
* The Company split the common stock at the ratio of 1 to 2 on the effective dates of October 1, 2017 and August 1, 2018. Accordingly, basic earnings per share and diluted earnings per share were calculated based on the assumption that the said stock split was conducted at the beginning of the previous consolidated fiscal year.
* The Company finalized the provisional account processing in relation to the business combinations during the tree-month period ended September 30, 2018 and reflected the information after the finalization of the said provisional account processing for the fiscal year ended March 31, 2018.

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of the parent	Percentage of equity attributable to owners of the parent
				%
As of September 30, 2018	¥202,285	¥66,860	¥53,553	26.5
As of March 31, 2018	¥174,326	¥42,833	¥28,352	16.3

* The Company finalized the provisional account processing in relation to the business combinations during the tree-month period ended September 30, 2018 and reflected the information after the finalization of the said provisional account processing for the fiscal year ended March 31, 2018.

2. Dividends

	Annual dividends				
	First quarter	Second quarter	Third quarter	Fourth quarter	Total
	(yen)	(yen)	(yen)	(yen)	(yen)
Fiscal year ended March 31, 2018	–	0.00	–	7.30	7.30
Fiscal year ending March 31, 2019	–	0.00			
Fiscal year ending March 31, 2019 (Forecasts)			–	0.00	0.00

(Note) Revision of forecasts on the dividends: Yes

3. Forecasts on the Consolidated Results for the Fiscal Year Ending March 2019 (April 1, 2018 to March 31, 2019)

(Percentages indicate year-on-year change)

	Revenue		Operating income		Income before income taxes		Net income		Net income attributable to owners of the parent		Basic earnings per share
		%		%		Yen		%		%	Yen
Full year ending March 31, 2019	¥230,900	69.5	¥(3,300)	–	¥(4,900)	–	¥(6,400)	–	¥(7,000)	–	(12.81)

(Note) Revision of forecasts on the results: Yes
* The Company conducted a public offering by the issue of new shares (20,270,000 shares) with the payment date of June 13, 2018 and a third-party allotment (2,967,200 shares) with the payment date of July 13, 2018.
* The Company split the common stock at the ratio of 1 to 2 on the effective date of August 1, 2018. Accordingly, basic earnings per share were calculated reflecting the said public offering, third-party allotment and stock split.

* Notes

(1) Significant changes in scope of consolidation (change in scope of consolidation of specified subsidiaries): Yes
Newly consolidated: SHICATA CO., Shonan Bellmare Co., Ltd., ISSHIN WATCH Corp., Onko Inc., Sohken Homes Co., Ltd.
Excluded from consolidation: None

(2) Changes in accounting policies and changes in accounting estimates

1. Changes in accounting policies required by IFRS:	Yes
2. Changes in accounting policies other than 1.:	No
3. Changes in accounting estimates:	Yes

(3) Number of outstanding shares (common stock)

[1] Number of outstanding shares including treasury stock:	
As of September 30, 2018	556,218,400 shares
As of March 31, 2018	509,744,000 shares
[2] Number of shares of treasury stock:	
As of September 30, 2018	932 shares
As of March 31, 2018	932 shares
[3] Average number of shares during the period (April-September):	
As of September 30, 2018	536,779,438 shares
As of September 30, 2017	509,743,484 shares

* The Company conducted a capital increase by public offering (20,270,000 shares) on the payment date of June 13, 2018 and a third-party allotment (2,967,200 shares) on the payment date of July 13, 2018.
* The Company split the common stock at the ratio of 1 to 2 on the effective dates of October 1, 2017 and August 1, 2018. Accordingly, the number of outstanding shares (common shares) is calculated based on the assumption that the said stock split was conducted at the beginning of the previous consolidated fiscal year.

* Quarterly consolidated financial summaries are not subject to quarterly review by a certified public accountant or an audit corporation.

* Explanation about the proper use of results forecasts, and additional information
(Method of obtaining the information of the financial results briefing)
The Company plans to hold a briefing for institutional investors, analysts, and news media on November 14, 2018 (Wednesday). The video of the briefing will be distributed live and, together with the materials of the financial results briefing used, will be uploaded onto the website of the Company after the briefing.

(Appendix)

Contents

The Company will hold a briefing for institutional investors/ analysts/ news media on November14, 2018, at which this consolidated financial report will be announced. With respect to the progress of the financial results briefing, a livestream broadcast will be provided on the website of the Company, and the video will be available at a later date. In addition, the materials distributed at the financial results briefing will be uploaded on the website of the Company immediately after the briefing.

1. Qualitative Information on the Financial Results

(1) Description of Operating Results

During the six-month period ended September 30, 2018 (the “first half”), the Japanese economy slowly recovered while employment and income conditions and consumer spending picked up against a background of continued strength in corporate earnings. Meanwhile, the outlook remained unclear due to increased uncertainties in overseas economies as well as natural disasters, among other factors.

In this business environment, RIZAP GROUP, Inc. (the “Company”) continued to expand its business steadily toward the realization of the Group’s vision of being the “top global company in the self-investment industry.” The Company opened about five stores per month on average, and there were 182 stores as of October. The number of members of the RIZAP body making business exceeded 120,000 persons in total. These results were achieved with advertising and other marketing initiatives, the development of stores, the recruitment of human resources and other growth investments in the core business, the RIZAP personal training gym and the RIZAP businesses, including the new businesses RIZAP GOLF and RIZAP ENGLISH. In addition, with the new consolidation of WonderCorporation, which joined the Group through M&A and the growth driving force of JEANS MATE, DREAM VISION and other companies which showed good progress in management reorganization, the Company hit another record high in terms of revenue for the first half of the fiscal year, for the seventh consecutive period.

On the other hand, management reorganization was behind the initial plan, mainly in the companies and businesses that were included in the Group in the past year, such as WonderCorporation, Japan Gateway, SANKEI LIVING SHIMBUN Inc., PADO, and the mega solar business of Tatsumi Planning. There was also a delay in the recovery of the business results, mainly due to the impact of the temporary production delay of mainstay products and the continuation of structural reforms at MRK HOLDINGS INC. (the company name was changed from MARUKO on October 1, 2018), which saw progress in structural reforms and a gradual change to the growth path. In addition, SD ENTERTAINMENT recorded an extraordinary loss due to the Hokkaido Eastern Iburi Earthquake on September 6, 2018. Accordingly, the Company posted a significant operating loss as compared to the same period of the previous fiscal year.

As a result, the Group posted consolidated revenue of ¥109,105 million in the first half, compared with ¥62,581 million in the same period a year earlier (up 74.3% year-on-year). The Company’s consolidated operating loss was ¥8,829 million, compared with operating income of ¥4,987 million in the same period a year earlier, and its loss attributable to owners of the parent was ¥8,532 million, compared with profit attributable to owners of the parent of ¥2,932 million in the same period a year earlier.

In response to the direction of the operating results in the first half, the Group decided to pursue initiatives for structural reforms aiming for the sustainable growth of the Group, including “early completion of management reorganization of the group companies and businesses,” “change to the strong management structure,” “selection and concentration of businesses,” “freezing of new mergers and acquisitions as a principle,” and “concentration of management resources on the growth businesses.” Based on this decision, the Group revised its full-year forecasts for the fiscal year ending March 2019. As for consolidated operating results, the major components of the difference between the previously forecast income of ¥23,000 million and the consolidated operating loss of ¥3,300 million in the revised forecast include the impact of delayed management recovery, particularly of companies that have joined the Group in the last one year, amounting to approximately ¥7,160 million, a non-recurring loss of approximately ¥8,350 million, which includes restructuring -related expenses to be recognized in the current fiscal year for the early completion of structural reforms, the impact of the freezing of new mergers and acquisitions as a principle amounting to approximately ¥10,360 million, and ¥430 million expected to be incurred for other activities such as consolidation adjustments.

Through the structural reforms it has made, the Company will accelerate the change to a strong management structure capable of achieving sustainable growth and maintaining high profitability, restore its financial performance at an early stage, and continue aiming to realize the Group’s vision of being the “top global company in the self-investment industry.”

A summary of business by segment is as shown below.

(Beauty and Healthcare)

In the RIZAP businesses, prior investment was made into the active opening of new studios and advertising, among other initiatives, in the RIZAP personal training gym and the new businesses RIZAP GOLF and RIZAP ENGLISH, as stated above. Owing to this, the number of members increased progressively and the business expanded steadily. In addition to the one-to-one service that the Company has provided, new one-to-many services are also actively provided, including women-only muscle diet studio EXPA, which utilizes RIZAP's method, and programs for corporations and local government. As described above, not only the growth of the main body making business but also the launch of a range of new businesses will be achieved in order to diversify revenues.

With respect to MRK HOLDINGS, there was a delay in production despite the popularity of the mainstay product Curvaceous and thus a revenue increase was secured with discounted sales of the old mainstay products. On the other hand, in terms of profits, the gross profit margin fell due to the discount sales described above, and prior investments were made for active store openings and store renovations, the recruitment of body stylists (store sales employees) and other staff, and advertising for strengthening promotions. Accordingly, operating income fell below the level in the same period of the previous fiscal year.

With respect to SD ENTERTAINMENT, there was a negative effect on sales due to the temporary closure of business following a power failure in the Hokkaido Eastern Iburi Earthquake in September and the increased atmosphere of self-restraint, among other causes. On the other hand, closures of unprofitable stores and changes of the business models were proceeded with as in the previous fiscal year. Both the entertainment and wellness businesses achieved good results until August. Increases in both revenue and profits were achieved.

As a result, in the Beauty and Healthcare segment, revenue was ¥39,318 million (up 33.9% year-on-year as compared with ¥29,361 million for the same period a year earlier), and operating loss was ¥1,928 million (as compared with operating income of ¥3,110 million for the same period a year earlier).

(Lifestyle)

With respect to IDEA INTERNATIONAL, in the interior goods business, the sales of the BRUNO interior goods brand, whose main products are kitchen goods, and the MILESTO travel goods brand were strong. In April 2018, SHICATA, which undertakes the planning and manufacturing of bags, among other business, was turned into a consolidated subsidiary and the sales of the said company were included in the scope of consolidation, resulting in higher revenue. Meanwhile, in terms of profits, due to the consolidation of SHICATA, which mainly handles OEM products with a relatively high cost rate, the product cost rate increased somewhat. In addition, due to the strategy for increasing the brand recognition, advertising expenses and sales promotion expenses increased.

With respect to HAPiNS, the opening of new stores under the new brand of HAPiNS and the change of products and assortments were undertaken, as in the previous fiscal year. As a result, the business situation improved and increases in both revenue and operating income were achieved.

With respect to JEANS MATE, the effects of the improvement of the mark-up, the restraint of price reductions/discounts and cost reductions were seen, and the gross profit margin and the SG&A to sales ratio improved significantly. In addition, there were hot-selling products as a result of initiatives for changing the method of promoting each product by ranking the products offered. Initiatives were taken to expand the range of brands that are popular among foreign tourists in response to the demand from foreign tourists to Japan, and the scrap and build of stores was also implemented. As a result, operating income in the first half was achieved for the first time in the past eleven fiscal years.

With respect to DREAM VISION, the sales of the main apparel business remained strong due to the improvement of merchandise and product planning, the strengthening of the SPA strategy, the strengthening of the sales strategy by store and other initiatives. Meanwhile, the jewelry business was stagnant and system investment was undertaken. Mainly due to these factors, operating income fell below the level of the same period of the previous fiscal year.

With respect to Marusho hotta, structural reforms were continued. However, mainly due to the measures for reducing the inventory of the Apparel business, both revenue and operating income fell below the level of the same period of the previous year.

As a result, in the Lifestyle segment, revenue was ¥25,961 million (up 3.3% year-on-year, as compared with ¥25,127 million for the same period a year earlier) and operating loss was ¥1,126 million (as compared with operating income of ¥2,630 million for the same period a year earlier).

(Platform)

WonderCorporation became a subsidiary of the Company from March 2018. By taking advantage of the range of merchandise and services offered by the Group, change to a highly profitable hybrid store is being undertaken. Mainly the reduction and withdrawal of items whose space efficiency had worsened, the opening of the RIZAP personal training gym and the RIZAP GOLF personal golf gym, the introduction of products of HAPiNS and JEANS MATE, which are group companies, and other initiatives were conducted by taking advantage of the group synergy. Meanwhile, with respect to the operating results, significant deficits were recorded, mainly due to recognition of restructuring -related expenses such as a valuation loss on goods.

With respect to PADO, a review of the issue of the home-edition in unprofitable areas, the promotion the division of work in the sales organization, the introduction of simple SFA tools, the expansion of the target media and the promotion of shifting to web media were conducted, along with other initiatives. However, partly due to impairment loss on the websites relating to beauty, both revenue and operating income fell below the level of the same period of the previous fiscal year.

As a result, in the Platform segment, revenue was ¥44,465 million (up 383.1% year-on-year as compared with ¥9,204 million for the same period a year earlier) and operating loss was ¥4,089 million (as compared with operating income of ¥392 million for the same period a year earlier).

In addition, because of internal revenue for transactions among segments of ¥640 million and the adjustment of segment income that cannot be allocated to each segment, including administrative department costs of the Company, which is the parent company, of ¥1,685 million, the revenue of the entire Group was ¥109,105 million and the operating loss was ¥8,829 million.

(2) Description of Financial Position

a. Overview of assets, liabilities and equity

(Assets)

Total assets increased 16.0% or ¥27,958 million as compared to the end of the previous fiscal year, to ¥202,285 million.

Current assets increased 21.1% or ¥24,552 million as compared to the end of the previous fiscal year, to ¥141,167 million. This increase was mainly attributable to an increase of ¥13,589 million in cash and cash equivalents and an increase of ¥9,210 million in inventories due to an increase in new subsidiaries and change in the use of property, plant and equipment.

Non-current assets increased 5.9% or ¥3,405 million as compared to the end of the previous fiscal year, to ¥61,117 million. This increase was mainly attributable to an increase of ¥1,053 million in deferred tax assets, an increase of ¥695 million in intangible assets chiefly due to the new addition of subsidiaries, and a rise of ¥644 million in other financial assets.

(Liabilities)

Total liabilities increased 3.0% or ¥3,932 million as compared to the end of the previous fiscal year, to ¥135,424 million.

Current liabilities increased 6.5% or ¥5,200 million as compared to the end of the previous fiscal year, to ¥85,780 million. This increase was mainly attributable to an increase of ¥3,359 million in interest-bearing debts due in part to a new addition of subsidiaries and an increase of ¥1,816 million in operating payables and other payables due to expansion of the RIZAP businesses and an increase in new subsidiaries, among other causes.

Non-current liabilities decreased 2.5% or ¥1,268 million as compared to the end of the previous fiscal year, to ¥49,644 million. This decrease was mainly attributable to a decrease of ¥2,361 million in interest-bearing debts of the Company and WonderCorporation, among others, largely due to the repayment of borrowings.

(Equity)

Total equity increased 56.1% or ¥24,026 million as compared to the end of the previous fiscal year, to ¥66,860 million. This increase was mainly attributable to increases of ¥17,799 million in capital stock and ¥18,017 million in share premiums due to the capital increase by public offering and third-party allotment that the Company conducted during the first half under review and in relation to which payment was made, which were offset by a decrease of ¥10,956 million in retained earnings.

b. Overview of cash flows

In the first half ended September 30, 2018, the balance of cash and cash equivalents ("cash") increased ¥13,589 million as compared to the end of the previous fiscal year, to ¥57,220 million.

The situations of the increase and decrease of each cash flow and the major causes for them are as stated below.

(Cash flows from operating activities)

In the first half ended September 30, 2018, there was a decrease in cash from operating activities of ¥7,616 million (an increase of ¥1,028 million in the same period of the previous fiscal year). The main causes of the decrease were a loss before tax of ¥9,705 million and income taxes paid of ¥2,225 million, among others.

(Cash flows from investing activities)

In the first half ended September 30, 2018, there was a decrease in cash from investing activities of ¥8,764 million (a decrease of ¥5,370 million in the same period of the previous fiscal year). The main causes of the decrease included expenditure of ¥5,039 million due to the acquisition of the subsidiaries, including SHICATA CO., and expenditure of ¥3,240 million due to the purchase of property, plant and equipment in relation to the stores of HAPiNS, WonderCorporation, MRK HOLDINGS, the RIZAP businesses and other businesses.

(Cash flows from financing activities)

In the first half ended September 30, 2018, there was an increase in cash from financing activities of ¥29,945 million (an increase of ¥11,173 million in the same period of the previous fiscal year). The main factor for the increase was proceeds of ¥35,480 million from the issue of shares due to the capital increase by public offering and third-party allotment that was conducted in the first half of the fiscal year under review. The main causes of the decrease included a decrease of ¥6,707 million in repayments of long-term loans payable due to repayments and cash dividends paid of ¥1,856 million.

(3) Information on the Future Outlook (including consolidated results forecasts)

The Company has revised the full-year consolidated results forecasts based on the operating results for the first half of the fiscal year under review.

The Group continued to focus on the management reorganization of the companies that joined the Group upon the merger and acquisition to achieve the results forecasts during the first half under review. However, the improvement of business was behind the initial plan, mainly in the companies and businesses that were included in the Group in the last one year, such as WonderCorporation, Japan Gateway, SANKEI LIVING SHIMBUN, PADO, and the mega solar business of Tatsumi Planning. There was also a delay in the recovery of business results, mainly due to the impact of the temporary production delay of mainstay products and the continuation of structural reforms at MRK HOLDINGS INC. (the company name was changed from MARUKO on October 1, 2018), which saw progress in structural reforms and a gradual change to the growth path. In addition, SD ENTERTAINMENT recorded an extraordinary loss due to the Hokkaido Eastern Iburi Earthquake on September 6, 2018. Because of these and other causes, the operating results of these group companies and businesses are likely to be far from achieving the full-year results forecasts.

The recovery of the operating results of these group companies and businesses as soon as possible is an urgent issue for the entire Group. Accordingly, the Group decided to implement the initiatives for structural reforms toward the sustainable growth of the Group, including “early completion of management reorganization of the group companies and businesses,” “change to the strong management structure,” “selection and concentration of businesses,” “general freezing of new mergers and acquisitions” and “concentration of management resources on the growth businesses.” With this decision, the Group revised the results forecasts.

For the details of the initiatives described above, please refer to the “Notice regarding revision to the consolidated results forecasts and dividend forecasts and structural reforms of the Group” announced today.

We deeply apologize for the significant concerns and problems caused to our shareholders and many stakeholders. We will work toward the early recovery and further expansion of the operating results to recover the trust of the market and all the stakeholders.

2. Condensed Consolidated Financial Statements and Major Notes

(1) Condensed consolidated statement of financial position

(Millions of yen)

	Notes	As of March 31, 2018	As of September 30, 2018
Assets			
Current assets			
Cash and cash equivalents		43,630	57,220
Trade and other receivables		33,019	33,598
Inventories		35,179	44,389
Accrued income taxes		214	233
Other financial assets		607	920
Other current assets		3,962	4,804
Total current assets		116,614	141,167
Non-current assets			
Property, plant and equipment		29,696	30,184
Goodwill		7,430	7,953
Intangible assets		2,502	3,197
Other financial assets		14,894	15,539
Deferred tax assets		1,878	2,932
Other non-current assets		1,308	1,311
Total non-current assets		57,711	61,117
Total assets		174,326	202,285

(Millions of yen)

	Notes	As of March 31, 2018	As of September 30, 2018
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables		39,204	41,020
Interest-bearing debts		33,587	36,947
Income taxes payable		2,167	1,253
Provisions		1,883	2,158
Other financial liabilities		34	20
Other current liabilities		3,701	4,380
Total current liabilities		80,579	85,780
Non-current liabilities			
Interest-bearing debts		43,197	40,835
Net defined benefit liability		1,771	2,199
Provisions		3,312	3,627
Other financial liabilities		1,594	2,292
Deferred tax liabilities		257	337
Other non-current liabilities		780	350
Total non-current liabilities		50,912	49,644
Total liabilities		131,492	135,424
Equity			
Capital stock		1,400	19,200
Capital Surplus		5,436	23,453
Retained earnings		21,357	10,401
Other components of equity		158	498
Total equity attributable to owners of the parent		28,352	53,553
Non-controlling interests		14,481	13,307
Total equity		42,833	66,860
Total liabilities and equity		174,326	202,285

(2) Condensed Consolidated Statements of Income or Loss and Condensed Consolidated Statements of Comprehensive Income

Condensed Consolidated Statements of Income or Loss

For the six-month period ended September 30, 2018

(Millions of yen)

	Notes	Six-month period ended September 30, 2017 (From April 1, 2017 to September 30, 2017)	Six-month period ended September 30, 2018 (From April 1, 2018 to September 30, 2018)
Revenue	2	62,581	109,105
Cost of sales		31,765	61,372
Gross profit		30,815	47,732
Selling, general and administrative expenses		28,482	53,132
Other income		3,086	1,794
Other expenses		432	5,223
Operating income (loss)	2	4,987	(8,829)
Finance income		8	58
Finance cost		617	934
Income (loss) before tax		4,377	(9,705)
Income tax expense		947	223
Net income (loss)		3,430	(9,929)
Net income (loss) attributable to:			
Owners of the parent		2,932	(8,532)
Non-controlling interests		497	(1,396)
Net income (loss)		3,430	(9,929)
Earnings per share			
Basic earnings (loss) per share (yen)	4	5.75	(15.90)
Diluted earnings (loss) per share (yen)	4	5.75	(15.90)

For the three-month period ended September 30, 2018

(Millions of yen)

	Notes	Three-month period ended September 30, 2017 (From July 1, 2017 to September 30, 2017)	Three-month period ended September 30, 2018 (From July 1, 2018 to September 30, 2018)
Revenue	2	33,928	56,930
Cost of sales		17,630	32,176
Gross profit		16,297	24,753
Selling, general and administrative expenses		13,996	25,609
Other income		162	301
Other expenses		178	4,549
Operating income (loss)	2	2,285	(5,103)
Finance income		3	57
Finance cost		463	654
Income (loss) before tax		1,825	(5,700)
Income tax expense		868	880
Net income (loss)		956	(6,580)
Net income (loss) attributable to:			
Owners of the parent		764	(5,434)
Non-controlling interests		192	(1,146)
Net income (loss)		956	(6,580)
Earnings per share			
Basic earnings (loss) per share (yen)	4	1.50	(9.78)
Diluted earnings (loss) per share (yen)	4	1.50	(9.78)

Condensed Consolidated Statements of Comprehensive Income
For the six-month period ended September 30, 2018

(Millions of yen)

	Notes	Six-month period ended September 30, 2017 (From April 1, 2017 to September 30, 2017)	Six-month period ended September 30, 2018 (From April 1, 2018 to September 30, 2018)
Net income (loss)		3,430	(9,929)
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Equity instruments measured at the fair value through other comprehensive income		(34)	289
Re-measurements of defined benefit obligation		51	57
Total in the item		16	346
Items that may be transferred to profit (loss)			
Exchange differences on translating foreign operations		(26)	36
Total in the item		(26)	36
Total other comprehensive income		(9)	383
Total comprehensive income		3,420	(9,546)
Total comprehensive income attributable to:			
Owners of the parent		2,909	(8,200)
Non-controlling interests		511	(1,346)
Total comprehensive income		3,420	(9,546)

For the three-month period ended September 30, 2018

(Millions of yen)

	Notes	Three-month period ended September 30, 2017 (From July 1, 2017 to September 30, 2017)	Three-month period ended September 30, 2018 (From July 1, 2018 to September 30, 2018)
Net income (loss)		956	(6,580)
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Equity instruments measured at the fair value through other comprehensive income		(3)	290
Re-measurements of defined benefit obligation		13	7
Total in the item		9	298
Items that may be transferred to profit (loss)			
Exchange differences on translating of foreign operations		(5)	21
Total in the item		(5)	21
Total other comprehensive income		4	319
Total comprehensive income		961	(6,261)
Total comprehensive income attributable to:			
Owners of the parent		766	(5,145)
Non-controlling interests		194	(1,115)
Total comprehensive income		961	(6,261)

(3) Condensed Consolidated Statements of Changes in Equity

For the six-month period ended September 30, 2017 (From April 1, 2017 to September 30, 2017) (Millions of yen)

	Notes	Equity attributable to owners of the parent						
		Capital stock	Capital surplus	Retained earnings	Other components of equity	Total	Non-controlling interests	Total equity
Balance on April 1, 2017		1,400	1,692	13,696	228	17,018	4,436	21,454
Net income		–	–	2,932	–	2,932	497	3,430
Other comprehensive income		–	–	–	(22)	(22)	13	(9)
Total comprehensive income for the period		–	–	2,932	(22)	2,909	511	3,420
Dividends of surplus		–	–	(1,541)	–	(1,541)	(19)	(1,561)
Changes due to business combinations		–	–	–	–	–	985	985
Change in the ownership interests in the subsidiary that does not lead to loss of control		–	3,674	–	–	3,674	5,094	8,769
Share-based payment transactions		–	–	–	4	4	–	4
Other		–	(47)	(1)	(0)	(49)	–	(49)
Total amount of transactions with owners		–	3,627	(1,543)	3	2,087	6,060	8,148
Balance on September 30, 2017		1,400	5,320	15,085	209	22,015	11,007	33,023

For the six-month period ended September 30, 2018 (From April 1, 2018 to September 30, 2018) (Millions of yen)

	Notes	Equity attributable to owners of the parent						
		Capital stock	Capital surplus	Retained earnings	Other components of equity	Total	Non-controlling interests	Total equity
Balance on April 1, 2018		1,400	5,436	21,357	158	28,352	14,481	42,833
Impact of change of the accounting policy		–	–	(535)	–	(535)	–	(535)
Balance after the revised presentation on April 1, 2018		1,400	5,436	20,821	158	27,816	14,481	42,298
Net income		–	–	(8,532)	–	(8,532)	(1,396)	(9,929)
Other comprehensive income		–	–	–	332	332	50	383
Total comprehensive income for the period		–	–	(8,532)	332	(8,200)	(1,346)	(9,546)
Issuance of new shares		17,799	17,714	–	–	35,514	–	35,514
Dividends of surplus		–	–	(1,860)	–	(1,860)	(77)	(1,937)
Changes due to business combinations		–	–	–	–	–	5	5
Change in the ownership interests in the subsidiary that does not lead to loss of control		–	302	–	–	302	243	546
Share-based payment transactions		–	–	–	7	7	–	7
Other		–	–	(27)	–	(27)	–	(27)
Total amount of transactions with owners		17,799	18,017	(1,887)	7	33,936	171	34,108
Balance on September 30, 2018		19,200	23,453	10,401	498	53,553	13,307	66,860

(4) Condensed Consolidated Statements of Cash Flows

(Millions of yen)

	Notes	Six-month period ended September 30, 2017 (From April 1, 2017 to September 30, 2017)	Six-month period ended September 30, 2018 (From April 1, 2018 to September 30, 2018)
Cash flows from operating activities			
Income (loss) before tax		4,377	(9,705)
Depreciation and amortization		940	2,586
Impairment loss		12	387
Finance income and costs		226	388
Change in inventory		(1,867)	(269)
Change in operating receivables and other receivables		(1,176)	492
Change in operating payables and other payables		721	625
Change in retirement benefit liabilities		(331)	(126)
Change in provisions		(145)	265
Other		(1,258)	101
Subtotal		1,499	(5,253)
Interest and dividend income received		8	31
Interest expenses paid		(236)	(457)
Income taxes paid		(685)	(2,225)
Income taxes refunded		443	289
Net cash provided by (used in) operating activities		1,028	(7,616)
Cash flows from investing activities			
Payments into time deposits		(58)	(187)
Proceeds from withdrawal of time deposits		149	245
Purchase of property, plant and equipment		(2,568)	(3,240)
Proceeds from sales of property, plant and equipment		127	140
Acquisition of subsidiary		(1,070)	(5,039)
Proceeds from acquisition of subsidiary		–	44
Payments for lease and guarantee deposits		(215)	(609)
Proceeds from collection of lease and guarantee deposits		256	561
Payments for transfer of business		(1,492)	–
Other		(498)	(678)
Net cash provided by (used in) investing activities		(5,370)	(8,764)

(Millions of yen)

	Notes	Six-month period ended September 30, 2017 (From April 1, 2017 to September 30, 2017)	Six-month period ended September 30, 2018 (From April 1, 2018 to September 30, 2018)
Cash flows from financing activities			
Net increase (decrease) in short-term loans payable		(2,312)	(1,400)
Proceeds from long-term loans payable		10,737	5,516
Repayments of long-term loans payable		(5,036)	(6,707)
Proceeds from issue of bonds, notes and debentures		2,137	223
Redemption of bonds		(1,213)	(1,198)
Repayments of lease obligations		(397)	(699)
Proceeds from issuing shares		–	35,480
Proceeds from share issuance to non-controlling interests		8,982	743
Cash dividends paid		(1,538)	(1,856)
Dividends paid to non-controlling interests		(19)	(78)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation		–	(185)
Other		(165)	107
Net cash provided by (used in) financing activities		11,173	29,945
Effect of exchange rate change on cash and cash equivalents		(15)	24
Net increase (decrease) in cash and cash equivalents		6,815	13,589
Cash and cash equivalents at the beginning of the period		24,643	43,630
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation		(295)	–
Cash and cash equivalents at the end of the period		31,163	57,220

(5) Notes on Condensed Consolidated Financial Statements

1. Significant accounting policy

The important accounting policy that was applied to the preparation of this consolidated financial summary is the same as the accounting policy that was applied to the consolidated financial statements for the previous fiscal year, except for the following. The Company adopted the following standards in the three-month period ended June 30, 2018 (the "first quarter").

Standard	Name of standard	Summary of new establishment and revision
IFRS 15	Revenue from Contracts with Customers	Revision to the account processing in relation to the recognition of revenues

The Company adopted IFRS 15 "Revenue from Contracts with Customers" (announced in May 2014) and "Clarifications to IFRS 15" (announced in April 2016) (collectively, "IFRS 15") in the first quarter of the fiscal year under review.

In relation to the application of IFRS 15, the following five steps were applied in recognition of revenues, except for interest and dividend income under IFRS 9 "Financial Instruments."

Step 1: Identify contracts with customers.

Step 2: Identify the obligation of performance under the contracts.

Step 3: Calculate the transaction price.

Step 4: Allocate the transaction price to the obligation of performance under the contracts.

Step 5: Recognize revenues at the time of (or with the progress of) the fulfilment of the obligation of performance.

In the adoption of this standard, the method of recognizing the cumulative impact on the date of commencement of application was adopted. As a result, in comparison with the case where the former accounting standards were applied, retained earnings at the beginning of the first quarter of the fiscal year under review, which were stated in the condensed consolidated statement of financial position, decreased ¥535 million. In addition, at the end of the first half of the fiscal year under review, trade and other receivables increased ¥583 million, other current liabilities increased ¥1,333 million and retained earnings decreased ¥749 million.

In addition, revenue in the second quarter of the fiscal year under review, which is stated in the condensed consolidated statements of income, decreased ¥213 million.

Specific standards for the recognition of revenues are as stated below.

(Beauty and Healthcare)

In the Beauty and Healthcare segment, the management of the RIZAP businesses, including the RIZAP personal training gym and RIZAP GOLF, sales of foundation, beauty goods, cosmetics, health foods, sporting goods and other products, and other businesses are conducted.

The RIZAP businesses assumes the obligation to provide the service to the members for the contract period. This performance obligation is fulfilled at the time of providing the service, and thus revenue is recognized at that time.

In sales of foundation, beauty goods, sporting goods and other products, it is judged that the performance obligation is fulfilled at the time of the delivery of the products to customers, and revenue is recognized at that time.

(Lifestyle)

In the Lifestyle segment, planning, development, manufacturing and sales of interior, apparel goods, casual wear, fancy twisted yarn, etc., custom-built home, reform business, and other businesses are conducted.

In any of these businesses, it is judged that the performance obligation is fulfilled at the time of the delivery of the products to customers, and revenue is recognized at that time.

(Platform)

In the Platform segment, the business of retail sales and the reuse of entertainment products and other products, the editing and issue of free newspapers, the publishing business, and other businesses are conducted.

In the business of retail sales and the reuse of entertainment products and other products and the publishing business, it is judged that the performance obligation is fulfilled at the time of the delivery of the products to customers, and revenue is recognized at that time.

In the issue of free newspapers, it is judged that the performance obligation is fulfilled at the time of the issue of the information magazine that contains advertisements, and revenue is recognized at that time.

2. Segment information

(1) Summary of the reporting segments

The reporting segments of the Group were decided based on the constituent units of the Company whose financial information can be obtained and which are the business segments to be regularly reviewed so that the board of directors can decide on the allocation of management resources and evaluate the business performance.

Based on the views described above, the Group previously used the four reporting segments of “Beauty and Healthcare,” “Apparel,” “Housing Related and Lifestyle” and “Entertainment.” However, in the first quarter of the fiscal year under review, these segments were changed to the three segments of “Beauty and Healthcare,” “Lifestyle” and “Platform” to link the reporting segments to the strategy of the Group. The details of the business of each segment are as stated below.

- “Beauty and Healthcare” segment: management of the RIZAP businesses, including the RIZAP personal training gym and RIZAP GOLF, sales of foundation, beauty goods, cosmetics, health foods, sporting goods, and other items
- “Lifestyle” segment: planning, development, manufacturing and sales of interior, apparel goods, casual wear, fancy twisted yarn and other products, custom-built house, renovation business, and other business
- “Platform” segment: management of stores in the business of retail sale and reuse of entertainment products and other products, the editing and issue of free newspapers, the publishing business, and other business that constitutes the base of the value chain of the entire Group, such as development, planning, production, marketing, sales, and other operations.

In addition, the segment information for the six-month period ended September 30, 2017, and the three-month period ended September 30, 2017, was prepared based on the category of the changed reporting segments in the disclosure.

(2) Information relating to revenues and operating results of the reporting segments

The accounting policy for reporting segments is the same as that of “3. Important Accounting Policy” in general.

The profits of the reporting segments are the figures based on the operating income. Transactions between the segments are based on the prevailing market price.

Information relating to the revenues and operating results of the reporting segments is as shown below.

For the six-month period ended September 30, 2017 (April 1, 2017 to September 30, 2017)

(Millions of yen)

	Beauty and Healthcare	Lifestyle	Platform	Total	Adjustment (Note 1)	Amount posted in the condensed consolidated financial statements
Revenue						
Revenue from outside customers	29,239	24,281	9,060	62,581	–	62,581
Revenue from transactions between the segments	121	846	143	1,111	(1,111)	–
Total	29,361	25,127	9,204	63,692	(1,111)	62,581
Segment income (loss)	3,110	2,630	392	6,134	(1,147)	4,987
Finance income	–	–	–	–	–	8
Finance costs	–	–	–	–	–	617
Income (loss) before tax	–	–	–	–	–	4,377

(Notes) 1. Revenue from transactions between the segments and segment profit (loss) are attributable to the elimination of transactions among the segments or the head office expenses not allocated to each reporting segment.

2. The Company finalized the provisional account processing in relation to the business combinations during the tree-month period ended September 30, 2018 and reflected the information after the finalization of the said provisional account processing for the fiscal year ended March 31, 2018.

For the six-month period ended September 30, 2018 (April 1, 2018 to September 30, 2018)

(Millions of yen)

	Beauty and Healthcare	Lifestyle	Platform	Total	Adjustment (Note 1)	Amount posted in the condensed consolidated financial statements
Revenue						
Revenue from outside customers	39,078	25,749	44,277	109,105	–	109,105
Revenue from transactions between the segments	240	211	188	640	(640)	–
Total	39,318	25,961	44,465	109,745	(640)	109,105
Segment income (loss)	(1,928)	(1,126)	(4,089)	(7,144)	(1,685)	(8,829)
Finance income	–	–	–	–	–	58
Finance costs	–	–	–	–	–	934
Income (loss) before tax	–	–	–	–	–	(9,705)

(Note) 1. Revenue from transactions between the segments and segment income or loss are attributable to the elimination of transactions among the segments or the head office expenses not allocated to each reporting segment.

For the three-month period ended September 30, 2017 (July 1, 2017, to September 30, 2017)

(Millions of yen)

	Beauty and Healthcare	Lifestyle	Platform	Total	Adjustment (Note 1)	Amount posted in the condensed consolidated financial statements
Revenue						
Revenue from outside customers	15,422	13,538	4,967	33,928	–	33,928
Revenue from transactions between the segments	79	117	115	313	(313)	–
Total	15,502	13,656	5,082	34,241	(313)	33,928
Segment income (loss)	2,352	123	449	2,925	(640)	2,285
Finance income	–	–	–	–	–	3
Finance costs	–	–	–	–	–	463
Income (loss) before tax	–	–	–	–	–	1,825

(Notes) 1. Revenue from transactions between the segments and segment income or loss are attributable to the elimination of transactions among the segments or the head office expenses not allocated to each reporting segment.

2. The Company finalized the provisional account processing in relation to the business combinations during the tree-month period ended September 30, 2018 and reflected the information after the finalization of the said provisional account processing for the fiscal year ended March 31, 2018.

For the three-month period ended September 30, 2018 (July 1, 2018 to September 30, 2018)

(Millions of yen)

	Beauty and Healthcare	Lifestyle	Platform	Total	Adjustment (Note 1)	Amount posted in the condensed consolidated financial statements
Revenue						
Revenue from outside customers	21,022	14,118	21,789	56,930	–	56,930
Revenue from transactions between the segments	228	120	124	473	(473)	–
Total	21,251	14,239	21,913	57,403	(473)	56,930
Segment income (loss)	(31)	(509)	(3,738)	(4,278)	(824)	(5,103)
Finance income	–	–	–	–	–	57
Finance costs	–	–	–	–	–	654
Income (loss) before tax	–	–	–	–	–	(5,700)

(Note) 1. Revenue from transactions between the segments and segment income or loss are attributable to the elimination of transactions among the segments or the head office expenses not allocated to each reporting segment.

3. Business combination and acquisition of non-controlling interest, among other matters

For the six-month period ended September 30, 2017 (April 1, 2017 to September 30, 2017)

(1) Business combination by acquisition

1) TRECENTI, Inc.

DREAM VISION CO., LTD., a subsidiary of the Group, acquired the shares of TRECENTI, Inc. which engages in the retail sale of jewelry from Nissen Holdings Co., Ltd. and changed it into its subsidiary at the meeting of the board of directors held on April 28, 2017.

a. Outline of the business combination

i) Name and business of the company acquired

Name of acquiree: TRECENTI, Inc.

Business description: retail sale of jewelry

ii) Main reasons for the business combination

By taking advantage of the expertise in web advertising and the operation of e-commerce sites of Dream Vision Co., Ltd., it is expected that the structure of customer attraction of TRECENTI, Inc. will be improved and the number of customers and sales will increase.

In addition, the member customers of DREAM VISION CO., LTD., which is about 1.6 million people with a high percentage of unmarried people based on their age groups, will include prospective customers who may become customers of TRECENTI. By considering mutual customer transfers and other measures, synergy effects will be produced.

iii) Date of the business combination: April 28, 2017

iv) Legal form of the business combination Stock acquisition in consideration for cash

v) Name after the business combination TRECENTI, Inc.

vi) Percentage share of voting rights acquired 100.0%*

* DREAM VISION CO., LTD. acquired all the shares with voting rights of TRECENTI, Inc. in consideration for cash.

vii) Major grounds for the decision of the acquiring company

Because the stock was acquired in consideration for cash in the business combination, the company that delivered the cash (DREAM VISION CO., LTD.) is the acquiring company.

b. Payment for acquisition and its breakdown

(Million yen)

Consideration	Amounts
Cash	0
Total	0

(Notes) 1. Acquisition-related costs of ¥19 million arising from the business combination are recognized in "Other expenses."

2. There is no contingent consideration.

c. Fair value, non-controlling interests and goodwill of acquired assets and acceptance liabilities on the date of acquisition

(Million yen)

Account title	Amounts
Current assets (Notes 1, 2)	690
Non-current assets	133
Current liabilities	673
Non-current liabilities	143
Net assets	7
Consolidated revision	561
Goodwill (gain on discount purchase) (Note 3)	(569)

(Notes) 1. Cash and deposits of ¥31 million are included.

2. Fair value of receivables acquired, contractual amounts receivable and estimated loss:

With respect to the fair value of the acquired operating receivables and other receivables, which is ¥22 million, the total contractual amount is ¥22 million, and there is no contractual cash flow that will be uncollectible.

3. Goodwill: The net assets measured at the fair value exceed the consideration paid, and thus there is gain on discount purchase. It is included in "other income" of the condensed consolidated statements of income in the presentation.

d. Impact on the operating results of the Group

The operating results of TRECENTI, Inc. from the date of acquisition that is included in the condensed consolidated statements of income for the six months ended September 30, 2018 are as shown below.

(Million yen)

	Six-month period ended September 30, 2017
Revenue	374
Profit (loss)	(2)

2) MARUSYOHOTTA CO., LTD.

a. Outline of the business combination

i) Name and business of the company acquired

Name of acquiree: MARUSYOHOTTA CO., LTD.

Business description: manufacture/ wholesale of Western clothing and other products and manufacture/ sale of fancy twisted yarn

ii) Main reasons for the business combination

Because it was judged that in the business of fancy twisted yarn and the business of Western clothing, among other business, of MARUSYOHOTTA CO., LTD., by taking charge of the manufacturing department of the SPA (manufacture and retail sale) model of the Group that had multiple apparel retailers under its umbrella, a contribution would be made to increase sales of MARUSYOHOTTA CO., LTD. and increase the profit of the Group.

iii) Date of the business combination: June 28, 2017

iv) Legal form of the business combination:

Subscription of shares by capital increase by third-party allotment

v) Name after the business combination: MARUSYOHOTTA CO., LTD.

vi) Percentage share of voting rights acquired: 62.3%

vii) Major grounds for the decision of the acquiring company:

Because the stock was acquired in consideration for cash in the business combination, the company that delivered the cash (the Company) is the acquiring company.

b. Payment for acquisition and its breakdown

(Million yen)

Consideration	Amounts
Cash	1,925
Total	1,925

(Notes) 1. Acquisition-related costs of ¥12 million arising from the business combination are recognized in "Other expenses."

2. There is no contingent consideration.

c. Fair value, non-controlling interests and goodwill of acquired assets and acceptance liabilities on the date of acquisition

(Million yen)

Account title	Amounts
Current assets (Notes 1, 2)	5,277
Non-current assets	941
Current liabilities	1,551
Non-current liabilities	59
Net assets	4,608
Non-controlling interests (Note 3)	(1,168)
Goodwill (gain on discount purchase) (Note 4)	(1,514)

(Notes) 1. Cash and cash equivalents of ¥1,866 million are included.
2. Fair value of receivables acquired, contractual amounts receivable and estimated loss:
With respect to the fair value of the acquired operating receivables and other receivables, which is ¥1,318 million, the total contractual amount is ¥1,339 million, and the contractual cash flow that will be uncollectible is estimated at ¥21 million as of the date of acquisition.
3. Non-controlling interests: the fair value of non-controlling interests is calculated comprehensively considering the financial/ assets situations and the corporate valuation, among other factors, thoroughly investigated through due diligence by a third party.
4. Goodwill: The net assets measured at the fair value exceed the consideration paid, and thus there is gain on discount purchase. It is included in “other income” of the condensed consolidated statements of income in the presentation.

d. Impact on the operating results of the Group

The operating results of MARUSHOHOTTA CO., LTD. from the date of acquisition that is included in the condensed consolidated statements of income for the six months ended September 30, 2018 are as shown below.

(Million yen)

	Six-month period ended September 30, 2017
Revenue	1,991
Profit (loss)	26

3) K.K. GORIN

a. Outline of the business combination

i) Name and business of the company acquired

Name of acquiree: GORIN Inc. and GORIN Packing Inc., PHILIPPINE ADVANCED PROCESSING TECHNOLOGY, INC. and other one company

Note: On August 10, 2017, the trade name was changed from GORIN Packing Inc. (SPC) to GORIN Inc.

Business description: Processing and sale of electrical parts and manufacturing and sale of various types of packing in Japan and abroad

ii) Main reasons for the business combination

The Company has begun to build the SPA model (business model of the manufacturing and retail business) for the total process from materials development, planning/production upstream to sales downstream as part of the initiatives for increasing competitiveness through the realization of synergies of the Group on a global scale. To strengthen these initiatives and accelerate the growth of the entire Group in the future, the Company considered business partners with production bases abroad.

The Company judges that by acquiring the shares of GORIN Inc., the business operations of this company will be expanded as a strategic important subsidiary under the policy for strengthening the Group’s overseas production system, and that this expansion will therefore lead to an increase in competitiveness and the further growth of the entire Group.

iii) Date of the business combination: August 10, 2017

iv) Legal form of the business combination Stock acquisition in consideration for cash

v) Name after the business combination: GORIN Inc.

vi) Percentage share of voting rights acquired: 100.0%

vii) Major grounds for the decision of the acquiring company

Because the stock was acquired in consideration for cash in the business combination, the company that delivered the cash (the Company) is the acquiring company.

b. Payment for acquisition and its breakdown

(Million yen)

Consideration		Amounts
Cash		1,450
	Total	1,450

(Notes) 1. Acquisition-related costs of ¥82 million arising from the business combination are recognized in “Other expenses.”

2. There is no contingent consideration.

c. Fair value and goodwill of acquired assets and acceptance liabilities of GORIN (consolidated) on the date of acquisition

(Million yen)

Account title	Amounts
Current assets (Notes 1, 2)	2,123
Non-current assets	1,579
Current liabilities	1,665
Non-current liabilities	1,261
Net assets	776
Goodwill (Note 3)	673

(Notes) 1. Cash and cash equivalents of ¥625 million are included.

2. Fair value of receivables acquired, contractual amounts receivable and estimated loss:
With respect to the fair value of the acquired operating receivables and other receivables, which is ¥1,042 million, the total contractual amount is ¥1,048 million, and the contractual cash flow that will be uncollectible is estimated at ¥5 million as of the date of acquisition.

3. Goodwill: the factors that constitute goodwill are mainly synergy effects due to the integration of operating activities, the economies of scale, and intangible assets that do not meet the requirements for individual recognition. Of such goodwill, no amounts are expected to be deductible from taxable income.

d. Impact on the operating results of the Group

The operating results of GORIN Inc. (consolidated) from the date of acquisition that is included in the condensed consolidated statements of income for the six months ended September 30, 2018 are as shown below.

(Million yen)

	Six-month period ended September 30, 2017
Revenue	990
Profit (loss)	72

(2) Pro forma information

The pro forma information (unaudited information) based on the assumption that the business combination of TRECENTI, Inc., MARUSYOHOTTA CO., LTD. and GORIN Inc. was conducted at the beginning of the six months ended September 30, 2018 is not stated because it is difficult to obtain accurate financial figures for these companies prior to their acquisition by the Company.

(3) Acquisition of significant non-controlling interests

The Company did not acquire any significant non-controlling interests during the first six months of the fiscal year under review.

For the six-month period ended September 30, 2018 (April 1, 2018 to September 30, 2018)

(1) Business combination by acquisition

1) SHICATA CO.

IDEA INTERNATIONAL Co., Ltd., which is a consolidated subsidiary of the Company, resolved to acquire all the shares of SHICATA CO. and turn it into a subsidiary at the meeting of its board of directors held on April 6, 2018.

In addition, IDEA INTERNATIONAL Co., Ltd. acquired the said shares on April 27, 2018.

a. Outline of the business combination

i) Name and business of the company acquired

Name of acquiree: SHICATA CO.

Business description: planning/ manufacture of bags (OEM, ODM business), brand business

ii) Main reasons for the business combination

Because IDEA INTERNATIONAL Co., Ltd. judged that by making SHICATA CO. into a wholly owned subsidiary, it would become possible to mutually utilize the bag brand of IDEA INTERNATIONAL Co., Ltd., the expertise of SHICATA CO. relating to the planning/ manufacture/ sale of bags, and the human and physical management resources of both companies, thereby achieving the development of their respective businesses and the further improvement of corporate value.

iii) Date of the business combination: April 27, 2018

iv) Legal form of the business combination Stock acquisition in consideration for cash

v) Name after the business combination: SHICATA CO.

vi) Percentage share of voting rights acquired: 100.0%(*)

* IDEA INTERNATIONAL Co., Ltd. acquired all the shares with the voting rights of SHICATA CO. in consideration of cash.

vii) Major grounds for the decision of the acquiring company

Because IDEA INTERNATIONAL Co., Ltd. acquired the shares in consideration of cash, the said company is the acquiring company.

b. Payment for acquisition and its breakdown

(Million yen)

Consideration	Amounts
Cash	1,594
Total	1,594

(Notes) 1. Acquisition-related costs of ¥4 million arising from the business combination are recognized in “Other expenses.”
2. There is no contingent consideration.

c. Fair value, non-controlling interests and goodwill of acquired assets and acceptance liabilities on the date of acquisition

(Million yen)

Account title	Amounts
Current assets (Notes 1, 2)	1,700
Non-current assets	554
Current liabilities	1,167
Non-current liabilities	203
Net assets	883
Goodwill (Note 3)	711

(Notes) 1. Cash and cash equivalents of ¥163 million are included.
2. Fair value of receivables acquired, contractual amounts receivable and estimated loss:
With respect to the fair value of the acquired operating receivables and other receivables, which is ¥1,038 million, the total contractual amount is ¥1,043 million, and the contractual cash flow that will be uncollectible is estimated at ¥4 million as of the date of acquisition.
3. Goodwill: the factors that constitute goodwill are mainly synergy effects due to the integration of operating

activities, the economies of scale, and intangible assets that do not meet the requirements for individual recognition. Of such goodwill, no amounts are expected to be deductible from taxable income.

4. The acquisition cost is allocated to the acquired assets and the acceptance liabilities based on the fair value on the date of acquisition of control. The amounts described above are the provisional fair values based on the best estimates at the present time, and thus in the case of valuation with any additional information regarding the facts and situations existing on the date of the acquisition of control, a revision may be made for a year from the date of the acquisition of control.

d. Impact on the operating results of the Group

The operating results of SHICATA CO. from the date of acquisition that is included in the condensed consolidated statements of income for the six months ended September 30, 2018 are as shown below.

(Million yen)

	Six-month period ended September 30, 2018
Revenue	2,073
Profit (loss)	94

2) Establishment of a joint venture and acquisition of the shares of Shonan Bellmare Co., Ltd. by the said joint venture

The Company established a joint venture that is a subsidiary of the Company (K.K. Meldia RIZAP Shonan Sports Partners) together with Sanei Architecture Planning Co., Ltd. for the purpose of the operation of Shonan Bellmare Co., Ltd. The said joint venture, by the underwriting of a capital increase by third-party allotment of Shonan Bellmare Co., Ltd., turned Shonan Bellmare Co., Ltd. into a subsidiary (sub-subsidiary) of the Company.

1. K.K. Meldia RIZAP Shonan Sports Partners

An outline of K.K. Meldia RIZAP Shonan Sports Partners, which is a subsidiary of the Company, is as shown below.

Name	K.K. Meldia RIZAP Shonan Sports Partners
Address	Shinjuku Center Building 32F 1-25-1, Nishishinjuku, Shinjuku-ku, Tokyo
Title/name of representative	Director and Chairman, Sinzo Koike Representative Director and President, Takeshi Seto
Business description	Performance of soccer and various sporting events and management of the team, among other business
Capital stock	101 million yen
Date of establishment	April 9, 2018
Fiscal year-end	March
Capital contribution ratio	The Company: 49.95% Sanei Architecture Planning Co., Ltd.: 50.05% (Note)

(Note) The shares acquired by Sanei Architecture Planning Co., Ltd. are the shares without voting rights, and thus K.K. Meldia RIZAP Shonan Sports Partners became a consolidated subsidiary of the Company.

2. Shonan Bellmare Co., Ltd.

a. Outline of the business combination

i) Name and business of the company acquired

Name of acquiree: Shonan Bellmare Co., Ltd.

Business description: management of the soccer club, holding/ management of soccer games, planning/ operation/ management of events relating to sports, and other business

ii) Main reasons for the business combination

Because by making investments in Shonan Bellmare Co., Ltd. through K.K. Meldia RIZAP Shonan Sports Partners, the Group will be able to accelerate the growth of the sports area listed for the achievement of the medium-term management plan COMMIT 2020.

iii) Date of the business combination: April 27, 2018

iv) Legal form of the business combination Subscription of shares by capital increase by third-party allotment (Note 1)

v) Name after the business combination: Shonan Bellmare Co., Ltd.

vi) Percentage share of voting rights acquired: 50.0% (Note)

(Note) This percentage of voting rights includes, in addition to the voting rights acquired by the underwriting of shares in a capital increase by third-party allotment, 6,800 shares of the stocks of Shonan Bellmare Co., Ltd. held by Sanei Architecture Planning Co., Ltd., and a contribution in kind made for the establishment of K.K. Meldia RIZAP Shonan Sports Partners.

vii) Major grounds for the decision of the acquiring company

It is the undertaking of a capital increase by third-party allotment by the joint venture.

b. Payment for acquisition and its breakdown

(Million yen)

Consideration	Amounts
Cash	101
Total	101

(Notes) 1. Acquisition-related costs of ¥5 million arising from the business combination are recognized in "Other expenses."

2. There is no contingent consideration.

c. Fair value, non-controlling interests and goodwill of acquired assets and acceptance liabilities on the date of acquisition

(Million yen)

Account title	Amounts
Current assets (Notes 1, 2)	533
Non-current assets	62
Current liabilities	782
Non-current liabilities	27
Net assets	(214)
Non-controlling interests (Note 3)	107
Goodwill (Note 4)	311

(Notes) 1. Cash and cash equivalents of ¥100 million are included.

2 Fair value of receivables acquired, contractual amounts receivable and estimated loss:
With respect to the fair value of the acquired operating receivables and other receivables, which is ¥160 million, the total contractual amount is ¥164 million, and the contractual cash flow that will be uncollectible is estimated at ¥4 million as of the date of acquisition.

3. Non-controlling interests: the fair value of non-controlling interests is calculated comprehensively considering the financial/ assets situations and the corporate valuation, among other factors, thoroughly investigated through due diligence by a third party.

4. Goodwill: the factors that constitute goodwill are mainly synergy effects due to the integration of operating activities, the economies of scale, and intangible assets that do not meet the requirements for individual recognition. Of such goodwill, no amounts are expected to be deductible from taxable income.

5. The acquisition cost is allocated to the acquired assets and the acceptance liabilities based on the fair value on the date of acquisition of control. The amounts described above are the provisional fair values based on the best estimates at the present time, and thus in the case of valuation with any additional information regarding the facts and situations existing on the date of the acquisition of control, a revision may be made for a year from the date of the acquisition of control.

d. Impact on the operating results of the Group

The operating results of Shonan Bellmare Co., Ltd. from the date of acquisition that is included in the condensed consolidated statements of income for the six months ended September 30, 2018 are as shown below.

(Million yen)

	Six-month period ended September 30, 2018
Revenue	1,062
Profit (loss)	190

(2) Pro forma information

The pro forma information (unaudited information) based on the assumption that the business combination of SHICATA CO. and Shonan Bellmare Co., Ltd. was conducted at the beginning of the six months ended September 30, 2018 is not stated because it is difficult to obtain accurate financial figures for these companies prior to their acquisition by the Company.

(3) Finalization of provisional accounting treatment related to business combination

The Company performed provisional accounting treatment in the previous fiscal year for the business combination with K.K. GORIN conducted in August 2017 and finalized this accounting treatment in the three months ended September 30, 2018.

As a result of this finalization of the provisional accounting treatment, the initial allocation amount of the acquisition cost has been revised, in which intangible assets increased by ¥390 million and, consequently, goodwill decreased by ¥390 million.

Fair value of the price paid and amounts recognized by type of acquired asset and acceptance liability on the date of acquisition

(million yen)

Price	Provisional	Retroactive adjustment	Final
Cash	1,450	–	1,450
Total	1,450	–	1,450

(million yen)

Item	Provisional	Retroactive adjustment	Final
Current assets	2,123	–	2,123
Non-current Assets	1,189	390	1,579
Current liabilities	1,665	–	1,665
Non-current Liabilities	1,261	–	1,261
Net assets	386	390	776
Goodwill	1,063	(390)	673

4. Earnings per share

(1) Basis for calculation of basic earnings per share

The basic earnings per share and the basis for their calculation are as shown below.

	Six-month period ended September 30, 2017	Six-month period ended September 30, 2018
Profit (loss) attributable to ordinary equity holders of the parent (million yen)	2,932	(8,532)
Basic weighted average ordinary shares (shares)	509,743,484	536,779,438
Basic earnings (loss) per share (yen)	5.75	(15.90)

	Three-month period ended September 30, 2017	Three-month period ended September 30, 2018
Profit (loss) attributable to ordinary equity holders of the parent (million yen)	764	(5,434)
Basic weighted average ordinary shares (shares)	509,743,072	555,443,416
Basic earnings (loss) per share (yen)	1.50	(9.78)

(Note) The Company split the common stock at the ratio of 1 to 2 on the effective dates of October 1, 2017, and August 1, 2018. Accordingly, diluted earnings per share were calculated based on the assumption that the said stock splits were conducted at the beginning of the previous consolidated fiscal year.

(2) Basis for calculation of diluted earnings per share

The diluted earnings per share and the basis for their calculation are as shown below.

	Six-month period ended September 30, 2017	Six-month period ended September 30, 2018
Profit (loss) attributable to ordinary equity holders of the parent (million yen)	2,932	(8,532)
Adjustment	(2)	–
Earnings (loss) to be used in the calculation of diluted earnings per share (million yen)	2,929	(8,532)
Basic weighted average ordinary shares (shares)	509,743,484	536,779,438
Impact of potential ordinary shares with the effect of dilution (shares)	–	–
Weighted average ordinary shares to be used in the calculation of diluted earnings per share (shares)	509,743,484	536,779,438
Diluted earnings (loss) per share (yen)	5.75	(15.90)

	Three-month period ended September 30, 2017	Three-month period ended September 30, 2018
Profit (loss) attributable to ordinary equity holders of the parent (million yen)	764	(5,434)
Adjustment	(0)	–
Earnings (loss) to be used in the calculation of diluted earnings per share (million yen)	764	(5,434)
Basic weighted average ordinary shares (shares)	509,743,072	555,443,416
Impact of potential ordinary shares with the effect of dilution (shares)	–	–
Weighted average ordinary shares to be used in the calculation of diluted earnings per share (shares)	509,743,072	555,443,416
Diluted earnings (loss) per share (yen)	1.50	(9.78)

(Note) The Company split the common stock at the ratio of 1 to 2 on the effective dates of October 1, 2017, and August 1, 2018. Accordingly, diluted earnings per share were calculated based on the assumption that the said stock splits were conducted at the beginning of the previous consolidated fiscal year.

5. Events after reporting period

Not applicable.