



Annual Report 2019

Year Ended September 30, 2019

Tasty Sushi for All. Tasty Sushi for the Heart.



Sushiro's Mission

Tasty Sushi for All.
Tasty Sushi for the Heart.



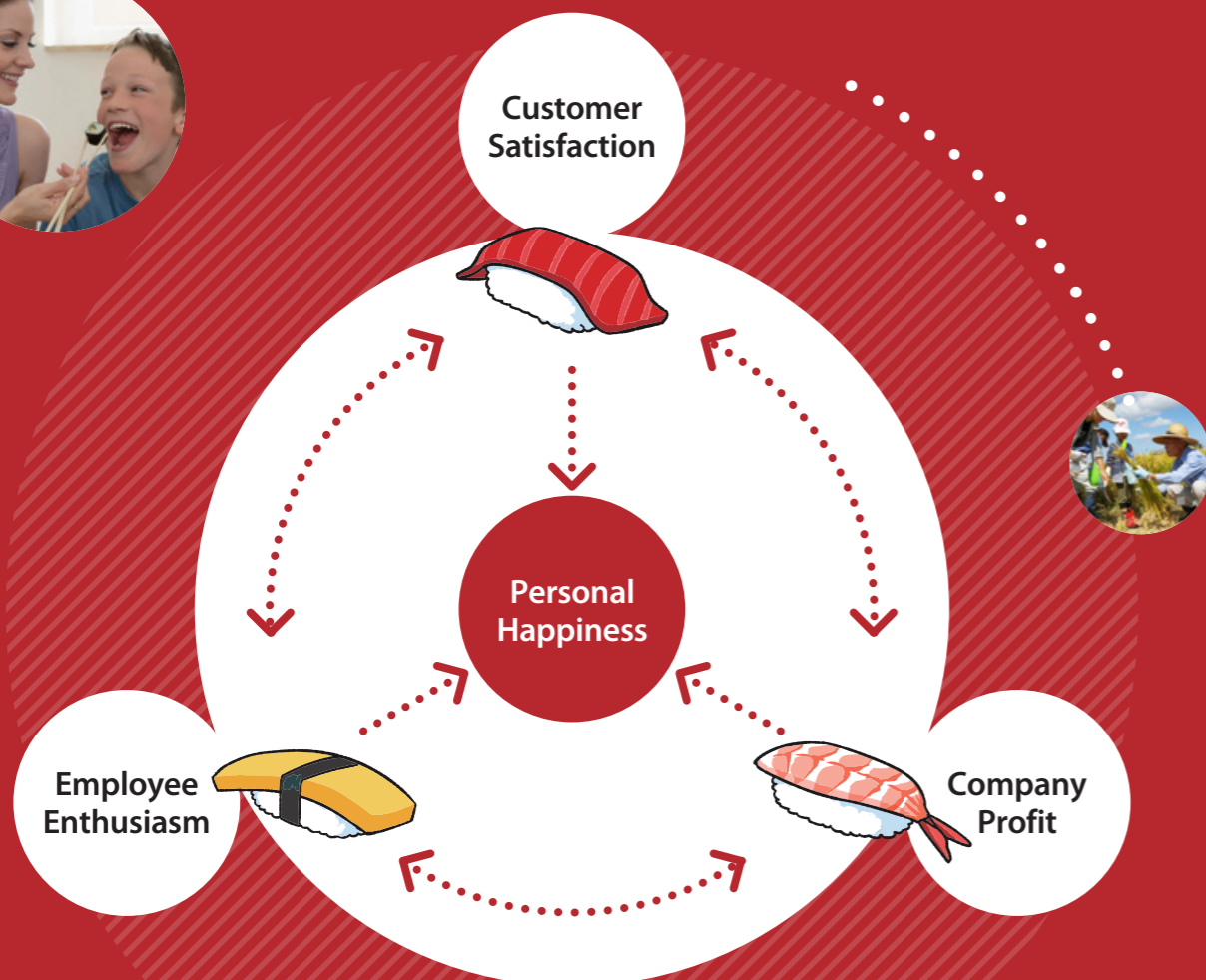
Sushiro's Goals

To achieve Sushiro's mission of customer satisfaction through sushi, we must sustain enthusiasm among our fellow employees, while contributing to company profit.

Fulfilling our five promises instills happiness in customers, employees and the Company. These triumphs collectively support our own personal happiness as well.

Sushiro's Promises

1. Love for sushi. Gratitude to customers and colleagues.
2. Uphold the basics of sushi; Freshness, cleanliness, ingenuity and speed.
3. Fill our stores with "greetings" and "thank yous."
4. Listen intently and perform to perfection.
5. Create stores that generate joy in the community.



To Our Stakeholders

Message from the CEO

Please allow me to offer my sincere thanks for the continuous support that you have given to the Sushiro Group.

The Sushiro Group's origins lie in the Taisushi restaurant that opened in Abeno Ward, Osaka City. The Sushiro conveyor belt (*kaiten*) sushi restaurant business that we founded in 1984 and that continues today was based on the idea of providing delicious sushi to as many people as possible. Our concept of "Tasty Sushi for All. Tasty Sushi for the Heart." has been passed down over the years to the entire Group from our earliest days, and has been our unchanging mission, both in the past and into the future.

During the fiscal year ended September 30, 2019, in our domestic business we continued to solidify our position as No. 1 in sales in the *kaiten* sushi industry by steadily opening new stores and achieving year-on-year growth of 7.4% in sales from existing stores. We also posted strong sales performance at both existing and new casual izakaya SUGIDAMA stores and we picked up the pace with which we opened new stores. In our overseas business, we not only increased the number of stores in Korea and Taiwan but also opened new stores in Hong Kong and Singapore. We are making steady progress toward the goals set out in our Medium-Term Management Plan (FY19–FY21), namely operating in at least 5 countries or regions, overseas revenue of 20 billion yen and a ratio of overseas stores to domestic stores that exceeds 10%. As a result of these domestic and overseas initiatives, we posted historic highs in revenue and profit.

I would like to ask for your continued understanding and support as we forge ahead.



Koichi Mizutome
President & CEO
Sushiro Global Holdings Ltd.

March 2020

Contents

3	Financial Highlights	27	Consolidated Statement of Financial Position
5	CEO Interview	28	Consolidated Statement of Profit or Loss
11	Special Feature: Overseas Development/Human Resources	29	Consolidated Statement of Comprehensive Income
13	: Dialogue with Local Staff	30	Consolidated Statement of Changes in Equity
15	Corporate Governance	31	Consolidated Statement of Cash Flows
19	Dialogue with Outside Directors	32	History
21	Corporate Social Responsibility	33	Corporate Data
22	Operating Risks	34	Stock and Investor Information
25	Management Discussion and Analysis		

Financial Highlights

	FY 2015/9 (From October 1, 2014 to September 30, 2015)	FY 2016/9 (From October 1, 2015 to September 30, 2016)	FY 2017/9 (From October 1, 2016 to September 30, 2017)	FY 2018/9 (From October 1, 2017 to September 30, 2018)	FY 2019/9 (From October 1, 2018 to September 30, 2019)
	(in millions, JPY)				
Revenue	136,174	147,702	156,402	174,883	199,088
Operating profit	6,888	7,509	9,204	11,718	14,546
Profit before income taxes	5,226	4,692	8,995	11,508	14,363
Profit attributable to owners of the parent	3,826	3,184	6,952	7,991	9,959
Total comprehensive income for the year attributable to owners of the parent	3,950	3,248	6,951	7,979	9,523
Total equity attributable to owners of the parent	46,712	24,922	31,853	40,835	47,367
Total assets	116,472	122,356	125,562	132,062	136,349

	(JPY)				
Total equity per share attributable to owners of the parent (BPS)	665.99	892.43	1,145.36	1,435.99	1,630.54
Basic earnings per share (EPS)	54.79	90.11	253.16	276.93	343.25
Diluted earnings per share	54.29	85.86	247.09	273.54	341.08
Return on equity (ROE) (%)	8.6	9.0	24.8	21.9	22.4
Return on assets (ROA) (%)	3.3	2.7	5.6	6.2	7.4

	(in millions, JPY)				
Cash flows from operating activities	6,972	15,215	11,574	14,744	17,309
Cash flows from investing activities	(4,980)	(4,581)	(5,533)	(6,398)	(10,682)
Cash flows from financing activities	(7,812)	(5,854)	(5,663)	(4,516)	(8,578)
Cash and cash equivalents at end of year	3,394	8,149	8,538	12,386	10,341

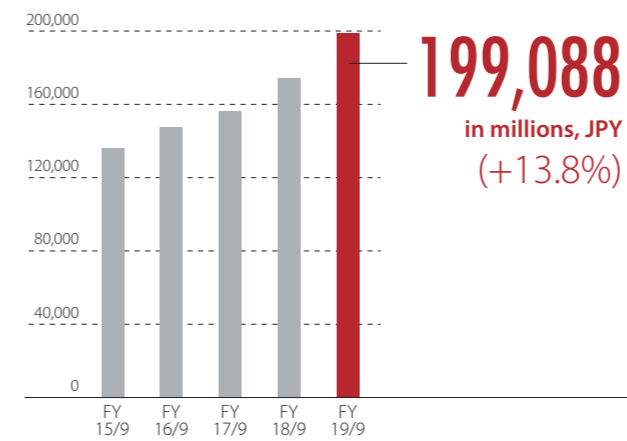
*1 The Company has been preparing its consolidated financial statements based on the International Financial Reporting Standards (IFRS) since the fiscal year ended September 30, 2016. Figures based on IFRS for the fiscal year ended September 30, 2015 have also been included for reference.

*2 The Company conducted a reverse stock split of its common shares at a ratio of 1 share for every 590 shares on December 22, 2016. Total equity per share attributable to owners of the parent, basic earnings per share and diluted earnings per share were calculated based on the number of issued shares after the stock consolidation on the assumption that the stock consolidation was conducted at the start of the fiscal year ended September 30, 2015.

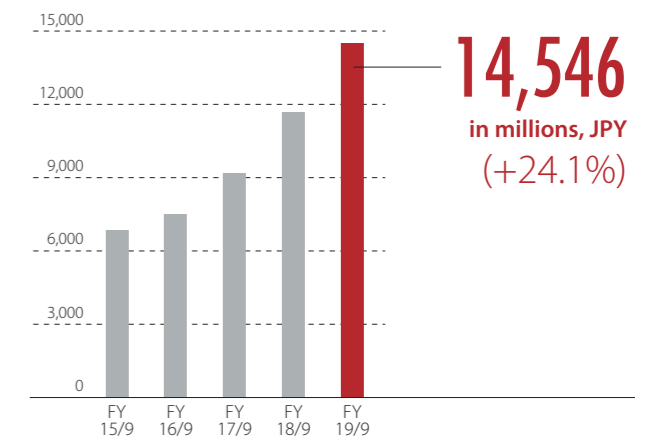
*3 ROE = Profit attributable to owners of the parent / Average of total equity attributable to owners of the parent during the period

*4 ROA = Profit for the year / Average of total assets during the period

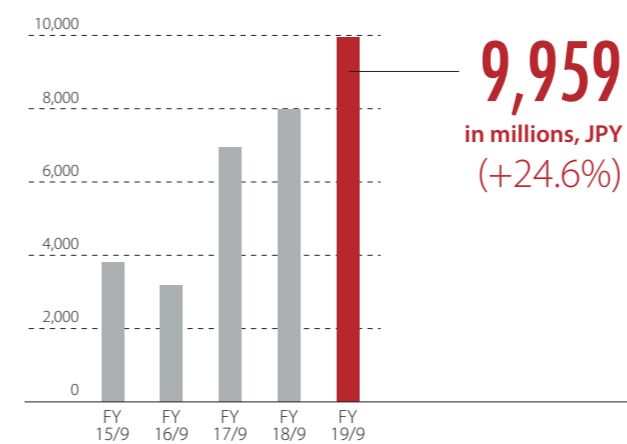
Revenue



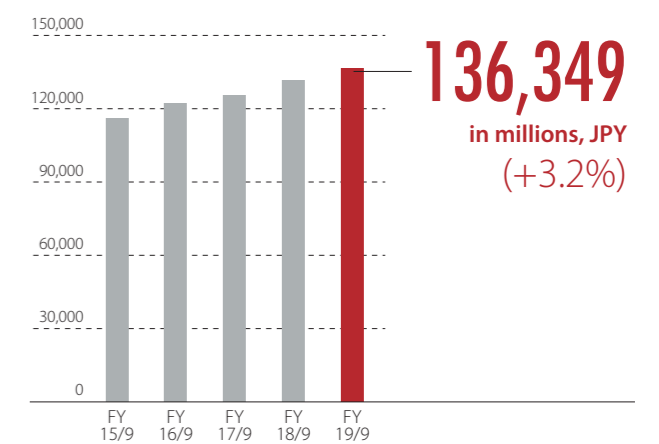
Operating profit



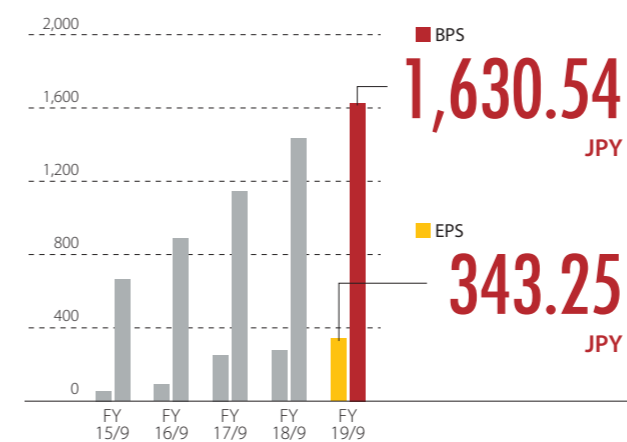
Profit attributable to owners of the parent



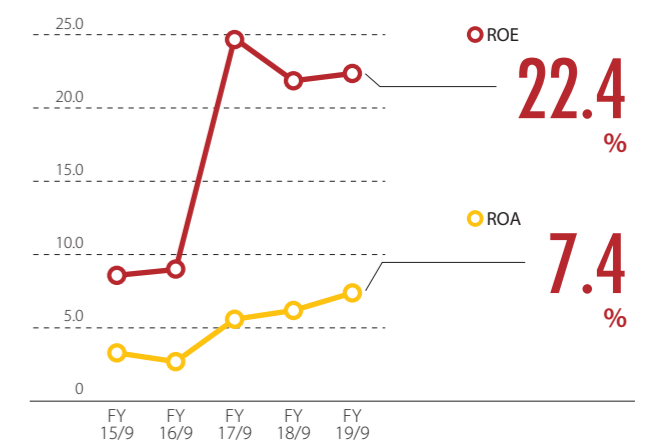
Total assets



Total equity per share attributable to owners of the parent (BPS) Basic earnings per share (EPS)



Return on equity (ROE) Return on assets (ROA)



Accelerating Overseas Expansion Based on Domestic Growth

The Sushiro Group's business results, Medium-Term Management Plan (FY19-FY21) and overseas expansion

Results and Initiatives for the Fiscal Year Under Current Market Conditions

For the fiscal year ended September 30, 2019, the Sushiro Group once again posted solid growth in our existing stores. The dining industry in general is struggling to make year-on-year sales gains at existing stores. However, during the fiscal year we succeeded in driving fairly large growth in industry terms of 7.4% at our existing stores. We see this as a sign that Sushiro itself has become more competitive and that our efforts have been well received by customers.

In Japan, while there is talk about the declining birthrate and consumption tax hike, there has actually been an increase in the rate at which people dine out as the number of working women increases and work-style reforms take hold. We believe that the rate of dining out will increase per person and per household going forward. We do not expect any major decline in the overall dining market for at least the next 10 years, even for *kaiten* sushi.

Although it is not a special measure, in addition to our standard menu, known as the grand menu, we offer limited-time menus around twice a month. While the development of these limited-time menus is no easy task, it has not stopped us from coming up with new menus twice every month. We attribute this to our exceptional organizational structure and teamwork. By continuing to offer these limited-time menus, customers can return to Sushiro over and over again without getting tired of the same food, which makes their experience more fun while also providing them with delicious food. I am confident that this has led to strong sales at existing stores.

We have also continued to open new casual izakaya "SUGIDAMA" stores on the back of strong sales. Since each store is not that large, we have the opportunity to open stores in different locations. Our initial target was 100 stores but we now realize that this number can be further increased.

Summary of Operating Results for the Fiscal Year Ended September 30, 2019

- Posted historic highs in both revenue and profit at each stage
- Further improved profit rate despite the high-cost environment

	FY2018		FY2019		YoY
	Actual	% in revenue	Actual	% in revenue	
Revenue	174,883	100.0%	199,088	100.0%	+13.8%
Operating Profit	11,718	6.7%	14,546	7.3%	+24.1%
Profit for the Year	7,990	4.6%	9,959	5.0%	+24.6%
Adjusted Profit for the Year*	8,053	4.6%	9,995	5.0%	+24.1%

*The fiscal year ended September 30, 2019 includes issuance of new shares and sales-related expenses amounting to 48 million yen.

SUGIDAMA Entering the Expansion Phase as New Openings Accelerated in the 2nd Half

- Picked up pace of new store openings in light of solid sales; Opened roughly one new store per month in the 2nd half



Response in the 1st Fiscal Year of the Medium-Term Management Plan (FY19–FY21)

As mentioned, our domestic business has been solid. In our overseas business, we are steadily increasing the number of stores in Korea and Taiwan, regions in which we have been developing over the years. In addition, we opened one store in Hong Kong and one store in Singapore this fiscal year. This means we now operate in a total of 4 countries and regions. Sales have been strong at both our Hong Kong and Singapore stores and we believe that we can further expand the number of stores in these regions. We are confident in our ability to provide top quality and that this has led to a very favorable response in the foreign markets we have entered. As such, we feel that we can viably continue expanding our operations overseas.

Of course, we are not satisfied with just operating in these four countries and regions. There are other regions waiting for us to open Sushiro stores, and we would like to move into these regions as well. Thus, we will move forward with a strategy encompassing both cultivation and expansion.



Review of Our Medium-Term Growth Strategy

Medium-Term Growth Strategy (FY21)	Results (FY19)
1 Continue to expand Sushiro brand in domestic market ⇒ Open new stores and continue driving growth at existing stores	Opened 26 new stores Revenue LFL 107.4%
2 Cultivate new opportunities in peripheral sushi markets with new brands ⇒ Expand SUGIDAMA and take on other formats	SUGIDAMA entered the expansion phase (accelerated new openings)
3 Embark on active overseas expansion ⇒ Operate in at least 5 countries/regions ⇒ Overseas revenue 20 billion yen, Ratio of the number of overseas stores to domestic stores 10%+	Expanded business in Korea and Taiwan Positive response to new stores in Hong Kong and Singapore

Overseas Expansion

We will undertake initiatives to achieve the goals set out in our Medium-Term Management Plan, namely operating in at least five countries or regions, overseas revenue of 20 billion yen and a ratio of the number of overseas stores to domestic stores 10%+. These are not our final goals, however. They are merely the goals of our current Medium-Term Management Plan and ones that we will revise once achieved.

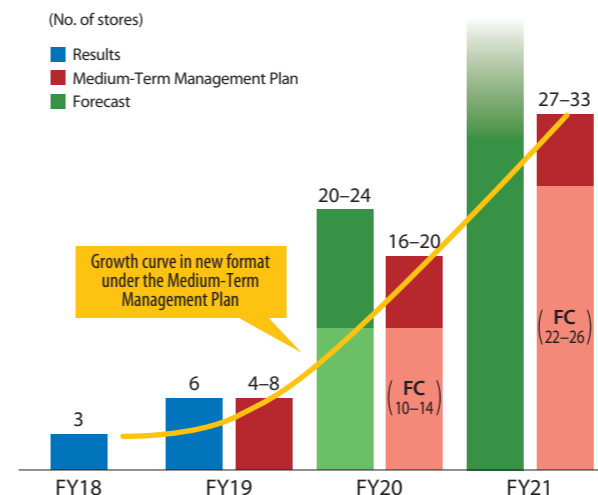
We have been developing our operations focusing mainly on Asia and there are still markets in Asia that have high potential. North America is the also large market and there are possibilities in Europe as well. I believe that going forward the biggest area of growth for us will be the overseas market. To give an example, we aim to continue developing operations overseas so that when people travel abroad they see the Sushiro sign wherever they go.

It is not difficult to procure ingredients overseas. At present, the majority of food offered at our stores in Japan is imported. For example, shrimp is imported from Thailand and Vietnam. We are also working on a platform with a supply chain linking countries overseas. This will enable us, for example, to send the same quality and priced food directly to Taiwan without passing through Japan.

New Format: Diversified Initiatives to Achieve the Medium-Term Management Plan

- Increase the pace of store openings in excess of the medium-term management plan target while maintaining solid results at existing stores
- Opened 1st franchise store in December 2019

SUGIDAMA New Openings



FY2019/9 Review

- Significant increase in revenue at existing stores; A year that helped establish the brand.
- New openings in line with plan (only franchise development postponed to FY20)

FY2020/9 Initiatives

- **SUGIDAMA**
 - Maintain and improve revenue at newly opened stores
 - Open franchise stores
- **Next new format**
 - Open trial stores

Active Overseas Expansion

- Open 4 stores in Korea and increase revenue like-for-like 4.4% YoY
- Open 7 stores in Taiwan, each store has extremely high revenue, making Taiwan the core of our overseas business

Busan Seomyeon Store

(Busan, Korea, July 2019)



- The Busan Seomyeon Store was opened in Busan, Korea's 2nd largest city.
- The interior design, similar in style to our Japanese stores, has been very well received in Korea, and the store continues to post strong revenue.

Taichung Liming Shizheng South Store

(Taichung, Taiwan, August, 2019)



- The Taichung Store is both our 1st store in central Taiwan and our 1st roadside store in Taiwan, and is the 6th store we have opened on the island.
- The store recently recorded the highest revenue if all locations in Taiwan.

New Format : Diversified Initiatives to Achieve the Medium-Term Management Plan



Driving Force behind the Sushiro Group

Sushiro’s management philosophy of “Tasty Sushi for All. Tasty Sushi for the Heart.” is in its 36th year. We intend to continue to hold dear that which we have cultivated over the years. We treat each encounter with customers as a once-in-a-lifetime encounter, and as such, aim to bring them joy on each visit, filling them up with delicious sushi and providing a memorable time with family and friends. Our employees strive to make our customers happy and take pride in their work environment to make this a reality. These are the driving forces behind everything we do at Sushiro.

I personally respect all tasks and make sure that I communicate in such a way that does not give priority to any one task. However, not everything can be properly conveyed just by using words. Actions speak louder than words. What action am I taking? What sort of decisions are other directors making and what kind of instruction are they giving? What decisions is the organization making?

Policies are also portrayed through action, and action is a form of communication.

Our stance is to use ingredients up to a cost rate of around 50% in order to provide the best quality. If we move away from this stance when we develop a product, naturally employees will wonder why they are being forced to sell such products. Our mission, from the planning stage, is to provide products worthy of the Sushiro name based on the conviction that we are capable of providing delicious food at a reasonable price. This enables our employees to work with confidence, knowing that the Company is unwavering in its commitment to this policy. Our goal is to make sure that this is firmly understood throughout our ranks.

Sushiro’s Social Contribution

The biggest way we contribute to society is through employment. The dining industry is community-based in and of itself. We offer a diverse array of opportunities that

enable our employees to only work in the morning, or from evening to night, or while taking care of children. We also offer employment opportunities to retirees looking to start a second life. Employing such a range of people adds value and helps bring happiness to the community. For us, this is just as significant as providing food in the dining industry.

Moreover, more than half of the people we hire start as part-timers and end up as full-time employees. By working together with the store manager and other staff, a part-timer can build up experience and confidence and eventually become a full-time employee or even reach a managerial position, thus enabling them to lead a stable life. We believe that offering diverse work styles is one way of giving back to society.

Recently we had the opportunity to conclude a business alliance with the Development Bank of Japan. Through this alliance, we are debating ways to drive positive reform in the industry to bring growth not only to the dining out sector but also to Japanese cuisine in general. In addition to funding, we are discussing how we can use our experience to help venture companies and others with growth potential. It is not really our mission to make this one of our growth drivers, but we are providing advice to various companies as part of our social contribution program.

Message to our Stakeholders

I was appointed chairman of AKINDO SUSHIRO in October 2019. One of the reasons for my appointment is to spread my resources. Sushiro’s domestic business is the backbone of our operations and therefore very important. But upon examining the business in detail I feel that we need to dedicate considerable resources to it. Our business is going well in Japan and has really started to take shape. As such,



I have decided to leave operations to the next generation.

I will now be focusing on management and administration with an eye on our overseas business, the creation of a supply chain abroad and the pursuit of further growth for the Group through M&A and other initiatives. As far as M&A is concerned, if we can work together with a company possessing valuable resources within the dining industry and improve the management of both entities, then there is potential for us to undertake M&A in areas that transcend sushi. Having said that, sushi will undoubtedly remain our mainstay business for the foreseeable future.

I ask for your ongoing support over the medium to long term as we take the steps necessary to achieve our goal of strong sustainable growth.

Acceleration toward a Global Dining Group

Sushiro is pushing ahead in earnest with overseas expansion with the aim of becoming a global sushi/Japanese cuisine dining group commanding one trillion yen in revenue.

In Korea and Taiwan, regions we have already made a foray into, we managed to maintain solid performance during the fiscal year and continue to open new stores.

In September 2019, We also expanded into new areas with the establishment of local subsidiaries in Hong Kong and Singapore. We aim to expand even further with a view to operating in at least 5 countries and regions, one of the goals included in the plan.

Overseas expansion goals under the Medium-Term Management Plan (FY19–FY21)

- ▶ Operate in at least 5 countries/regions
- ▶ Overseas revenue of 20 billion yen, ratio of the number of overseas stores to domestic stores of 10%+

New stores opened in FY2019/9

Korea	14
Taiwan	9
Hong Kong	1
Singapore	1

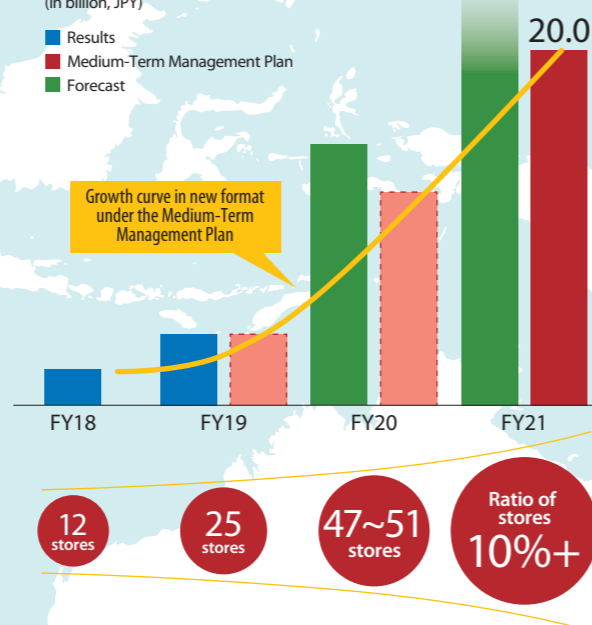
Plan to open new stores in FY2020

22–26

Korea	3–5	Taiwan	10–14
Hong Kong Singapore	5–7	New	2

Overseas revenue

(in billion, JPY)
■ Results
■ Medium-Term Management Plan
■ Forecast



FY2020/9 Initiatives

Actively expand in Taiwan, a core area for growth

Aim to open 10–14 new stores, double the number in the previous fiscal year (7 stores)

Strengthen Head Office store development functions to achieve this

Bolster product development and advertising to stabilize and improve store revenue

Enhance collaboration throughout the Group

Increase stores in Hong Kong and Singapore

Open around 3 additional stores in each location building on the success of the 1st store

Solidify our position by controlling multiple areas based on customer needs and the competitive situation

Steadily strengthen Head Office functions and prepare for further expansion

Stabilize operations and bolster business management, etc.

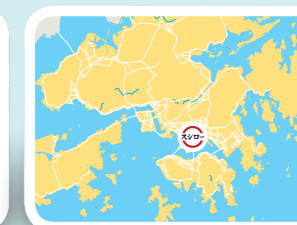
Enter new countries and regions

Leverage past results overseas and enter 2 new countries or regions



Hong Kong

Hong Kong was the 3rd overseas location (after Korea and Taiwan) in which we opened a Sushiro store. We opened a store on Nathan Road in Jordan on August 13, 2019. The store measures around 750m² and has 144 seats. Japanese sushi is popular in Hong Kong so we will actively accelerate store expansion there with the aim of attracting as many customers as we do to our Japanese stores.



Singapore

Southeast Asia's 1st Sushiro store was opened in Tiong Bahru Plaza in Singapore on August 19, 2019. The store provides over 100 varieties of sushi as well as side menus, with prices starting from SGD2.2. Ingredients are imported directly from Japan to deliver the delicious, cost-effective taste of Japan to Singaporean customers.



Dialogue with Local Staff on

Overseas Business Development

Q: Can you explain what your job entails and the background to your position?

Seitetsu Kin (Sushiro Hong Kong): I'm in charge of opening new Sushiro stores in Hong Kong, in-store operations and hiring locally. Prior to that, I was involved in Product/Sales Department and launching new branches in Japan. After serving as store manager in Japan for 4 and a half years, I took the opportunity offered by the Company and made my way to Taiwan. After opening 3 stores in Taiwan, I was asked to go to Hong Kong to open our 1st branch there, so I made the move.

Kazuhiro Maenou (Sushiro Singapore): I'm mainly responsible for opening new stores, in-store operations, recruitment and product logistics at Sushiro Singapore. The impetus for my move overseas came 4 years ago when I was assistant manager of the Esaka Store and Sales Department Manager Mr. Takegawa (current president of Sushiro Singapore) heard me conversing with a foreign customer in English and asked if I'd like to take up a position in Singapore.

Q: Sushiro is expanding steadily in various countries and regions. Having actually worked in these places, what do you think are the secrets to success?

Kin: The key factor mirrors Japan – providing delicious sushi at a reasonable price. The store in Hong Kong has a sign saying "Japan's 1st," meaning Japan's best. Overseas, where safety and security are paramount, we are building a name



Seitetsu Kin
Manager of Sushiro Hong Kong



for serving excellent sushi at an affordable price. Many local customers have offered words of gratitude for bringing such wonderful sushi to their region.

Sushiro has been booked solid since opening in August, with people even waiting outside for their turn.

Maenou: In Singapore, success stems from a commitment to providing "Tasty Sushi for All. Tasty Sushi for the Heart." There are plenty of sushi restaurants in Singapore, but very few offer reasonably priced and great tasting food. Sushiro offers inexpensive, delicious sushi that entices customers inside.

While tuna, young yellowtail and salmon roe are popular in Japan, people love salmon and egg in Singapore. Many customers eat not only sushi but also side dishes.

Q: Have you encountered any concerns or difficulties serving the same sushi in a country with different culture, customs and dietary habits to Japan?

Kin: The sushi culture already existed in Hong Kong and there were even *kaiten* sushi restaurants. Like Japan, the different types of tuna, such as fatty and medium-fatty tuna, are favored sushi toppings. That said, British culture has pervaded life here in Hong Kong historically and people tend to love Europe and the United States more while there is only minimal awareness of working at a Japanese company. For this reason, there are a host of factors that need to be taken into consideration when training local staff. As an example, in Japan it's common to wipe one's hands after cutting fish and other sushi toppings for hygiene management, whereas this isn't the case in Hong Kong. There are many cases where understanding differs in detailed areas, so I'm careful to provide minute guidance,

knowing that some things are difficult to convey.

It was also pretty tough trying to get staff to greet people cheerfully and to be on time at 1st. Often people think if they're 5 minutes late, they can simply make up the time at the end of their shift. After spending time and effort explaining how to greet people in a friendly way and the need for punctuality, all members of staff now come to work on time and provide a pleasant and warm service. I believe that the key to success in a place with a different culture is explaining each point carefully and ensuring mutual understanding.

Maenou: It's well known in Singapore that Japan maintains high levels of safety and security, which helps in understanding the need for rules to be followed in store. Having said that, few people know the names of fish since people rarely eat raw food in Singapore. Also, the mix of different religions prohibits some people from eating or touching certain foods. I'd like staff to taste the difference in fish depending on the cut, but I'm unable to do so. To get around these issues, we work as a team, with those who can eat the different foods asked to sample the ingredients and getting only those who are permitted to handle the food to do so.

Although the number of foreign staff is increasing in Japan, we need to consider religious restrictions and eating habits more seriously here. Obviously, the key to success is understanding one another.

Q: Can you explain how you recruit human resources and create a comfortable workplace?

Kin: Since we opened we have not had any problems recruiting in Hong Kong. However, most members of staff work so they can earn money to have fun rather than needing to work to survive, which means there is minimal interest in overtime. People tend to finish their 8-hour shift the minute it's up. The number of customers exceeded our expectations when we 1st opened and staff were asked to work overtime, which actually led to some people quitting. We hired more staff to compensate for this and created an environment in which staff are welcome to take a break when they want to. We have recruited 1.2 to 1.3 times more registered personnel than planned, and are trying to build an environment that staff find comfortable and motivating.

Maenou: In Singapore, the proportion of people working in restaurants is low, making recruitment difficult. Nonetheless, despite hearing that turnover was high here, not one person complained and quit for quite a while after we opened. We also pay attention to national character and other such factors and carefully explain areas we want improved until the person is on board. Another reason for such low



turnover is our effort to create a good workplace environment in which people can communicate within a fun setting.

Q: Can you tell us the challenges you'd like to take on and your future goals?

Kin: I may sometimes focus a little too much on minute details, so I'm glad that Sushiro Hong Kong's President Aratani, who has extensive experience, is around to back me up, and I think we work well as a team. In the future, I hope to open more Sushiro stores in Hong Kong. I'd also like to try and open stores in China, my country of birth. I'm confident that people on Chinese mainland will recognize the great sushi that Japan's Sushiro serves.

Maenou: Eating out is commonplace in Singaporean culture and there are many homes where very little cooking is done. For this reason, many of our staff actually pick up a knife for the 1st time at Sushiro. It's easy to see the commitment of Sushiro Singapore's President Takegawa in conceiving ways to overcome differences with Japan and improve areas that need addressing with everyone. I hope to use my experience in Singapore to contribute to the advance into new overseas markets.



Kazuhiro Maenou
Manager of Sushiro Singapore

Basic Approach to Corporate Governance

Sushiro's basic approach to corporate governance is for management to take personal responsibility for confirming adherence to laws, regulations and the articles of incorporation, and establishing a management system that upholds corporate governance. In order to achieve our management philosophy

and management targets, we believe that establishing management systems that guide the attitudes of all officers and employees and provide direction in our business activities will lead to fairer and more transparent management, and bring about benefits for all of Sushiro's stakeholders.

Corporate Governance System

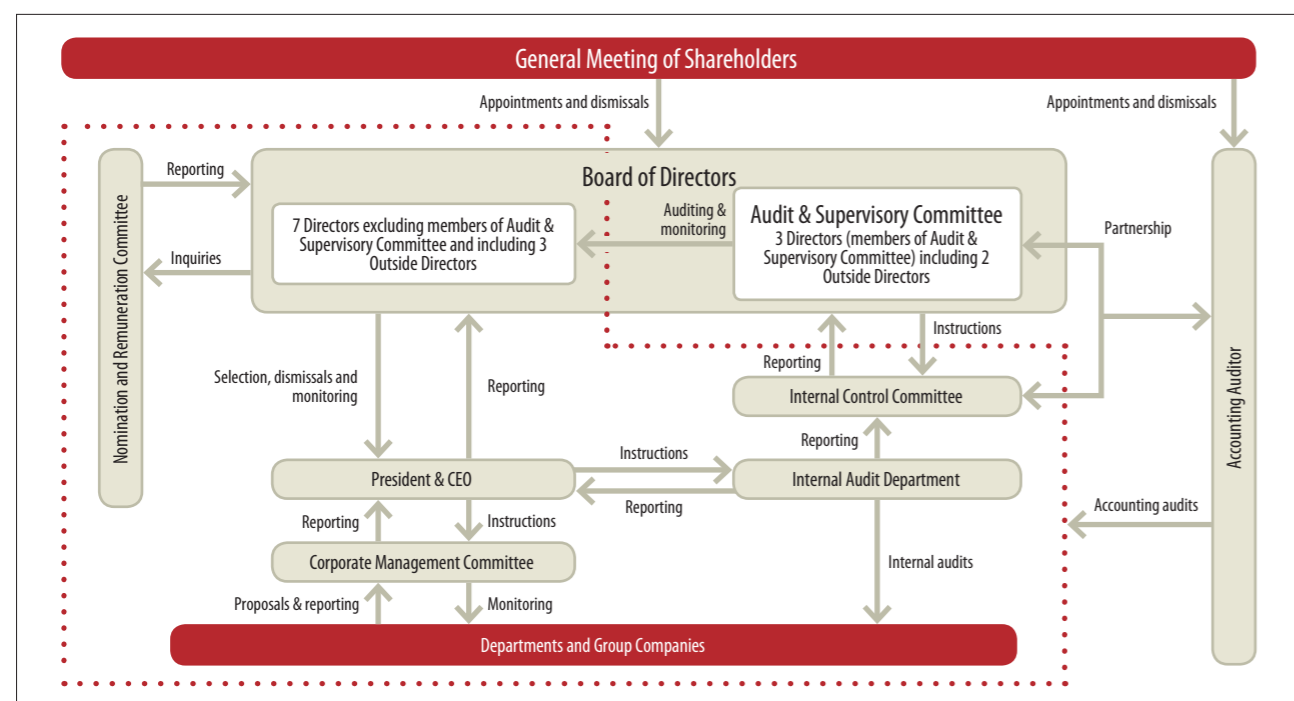
Sushiro is a "company with audit & supervisory committee." We have established the Audit & Supervisory Committee to provide a framework for supervising the Company's operations, and have strengthened the transparency and objectivity of our Board of Directors by increasing the composition ratio of Outside Directors and creating a more diverse membership. Additionally, we delegate decision-making authority to directors, which helps separate business execution and supervision while also streamlining the business decision-making process.

The Board of Directors (10 directors, including 5 Outside Directors), Sushiro's decision-making body, meets once a month in principle. During these meetings, the Board determines material business matters and reports on the execution of business. Sushiro also has an Audit & Supervisory Committee comprising 3 members, including 2 Outside Directors. These members monitor whether the directors are performing their duties appropriately, by attending Board of Directors meetings and checking the daily activities of directors. To augment the Board of Directors' supervisory function, we have established the

Corporate Management Committee and the Nomination and Remuneration Committee, both all of which are under the Board's control. The majority of the members of the Nomination and Remuneration Committee are independent Outside Directors. With a view to further enhancing our corporate governance structure, we established the Internal Control Committee. Chaired by the President, the Internal Control Committee comprises expert advisers (legal professionals) and other members appointed by the Chair. The Secretariat calls meetings of the Internal Control Committee as necessary, and the Committee otherwise meets once every quarter.

The Corporate Management Committee is entirely comprised of directors, including Outside Board members. The Committee deliberates on matters to be resolved by the Board of Directors as well as other important business managerial matters.

Our system of corporate governance is represented in the chart below.



The Functions and Roles of Outside Directors

Outside directors play an essential role. By monitoring and checking the management team, and by offering independent opinions and professional insights, they help ensure effective decision-making and business oversight, and contribute toward healthier and more transparent business operations.

Sushiro has adopted specific standards for the independence of our Outside Directors. We only select Outside Directors who are free from any conflicts of interest with general shareholders and who have a solid business acumen born from a vast range of business activities outside the Company.

Our Outside Directors keep abreast of the Company's business by receiving timely reports from the Internal Control

Committee and Internal Audit Department via the Board of Directors. Outside Directors who serve on the Audit & Supervisory Committee keep tabs on audit & supervisory matters by requesting reports on the method or results of audits from the accounting auditor or the Internal Audit Department, as well as by exchanging information and coordinating with each other as necessary. Such Outside Directors also ascertain any matters that will require further investigation or that warrant a swift response. In this way, they contribute to rational and efficient business management.

Reasons for Appointment as Outside Directors

Outside Director Akira Matsumoto	Mr. Akira Matsumoto has many years of management experience and good insight as a manager. We appointed him as an Outside Director to benefit from his supervision based on his experience and insight as an expert manager, which he would be able to provide in enhancing the sustainable corporate value of the Group.
Outside Director Akira Kondo	Mr. Akira Kondo has abundant experience and an excellent track record as a manager at multiple financial institutions and business corporations. We appointed him as an Outside Director to benefit from his experience and track record for management supervision for the sustainable improvement of the Group's corporate value.
Outside Director Kozo Takaoka	Mr. Kozo Takaoka has abundant experience and an excellent track record as a corporate manager. We appointed him as an Outside Director to benefit from his pertinent advice and track record for management supervision for the sustainable improvement of the Group's corporate value from a broad perspective.
Outside Director Yoshihiro Noutsuka	Mr. Yoshihiro Noutsuka has abundant experience and broad insight in accounting and finance and compliance cultivated through his experience over the years. We appointed him as an Outside Director serving on the Audit & Supervisory Committee since he has been serving as an Audit & Supervisory Board member at the company and is familiar with audit work.
Outside Director Yumiko Ichige	Ms. Yumiko Ichige has abundant experience and broad insight as an attorney and is familiar with corporate legal affairs. We appointed her as an Outside Director serving on the Audit & Supervisory Committee to benefit from her experience and insight.

None of the Outside Directors has any personal or financial interests in the Company or any other conflict of interest.

Directors' Remuneration

In accordance with a resolution of a General Meeting of Shareholders, we have set a limit on the amount of remuneration paid to each director for both those directors who are on the Audit & Supervisory Committee and those who are not.

Remuneration paid in cash to directors who do not serve on the Audit & Supervisory Committee (excludes Outside Directors) consists of two components, a fixed salary (same amount paid regularly) and a performance-linked variable salary. On December 19, 2019, a General Meeting of Shareholders passed a resolution setting upper limit on remuneration of directors that are not a member of Audit & Supervisory Committee at 400 million yen per year, while on December 16, 2015, a General Meeting of Shareholders passed a resolution setting remuneration for directors who are on the Audit & Supervisory Committee at 100 million yen per year.

Base salary is paid according to each director's position and

role. 50% of base salary is paid as variable salary when targets (rate of growth in consolidated revenue in the earnings forecast and degree of achievement of profit for the year attributable to owners of the parent) set for the purpose of increasing the incentive for performance improvement are achieved. Variable salary is paid in a lump sum after business results are confirmed, within a range of 0% to 200%, calculated by setting the maximum amount paid when Sushiro recorded its best-ever performance as 200% and the amount when results falls below Sushiro's worst-ever performance as 0%. The same policy applies to our executive officers, and to the directors and executive officers of our subsidiaries.

Remuneration for Outside Directors is composed entirely of fixed salary so as to ensure they discharge their duties as Outside Directors independently from those who execute business.

● Method of calculating variable salary for directors who are not Audit & Supervisory Committee members (from September 2020)

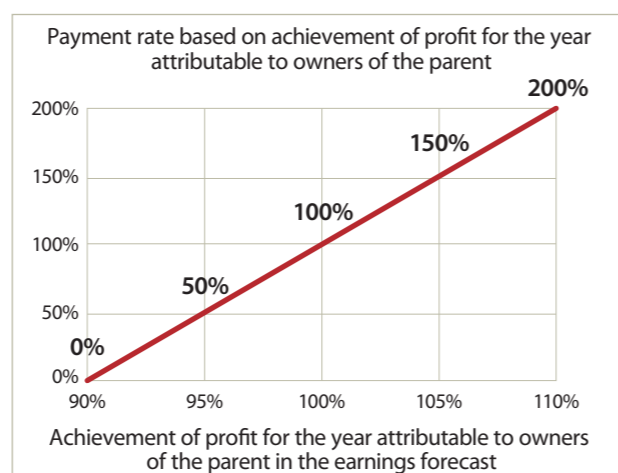
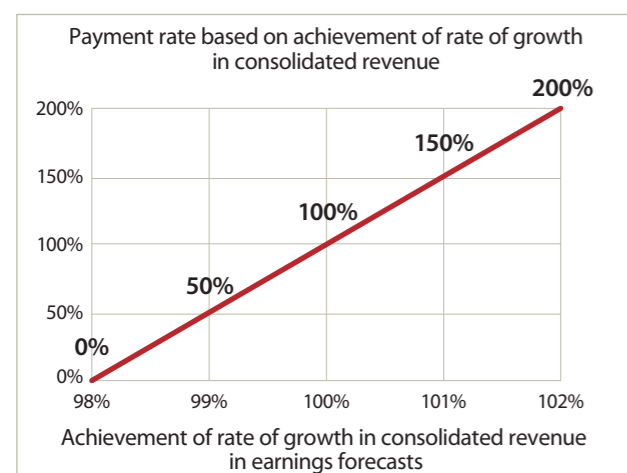
Variable salary based on company-wide performance evaluations and individual performance evaluations for each director.

Company-wide performance evaluation	Basic salary (35% of annual salary) × [payment rate based on achievement of consolidated revenue growth rate*1 × 50% + achievement of profit for the year attributable to owners of the parent in the earnings forecast*2 × 50%]
Individual performance evaluation	Basic salary (15% of annual salary) × [payment rate based on achievement of consolidated revenue growth rate*1 × 50% + achievement of profit for the year attributable to owners of the parent in the earnings forecast*2 × 50%] × achievement rate of individual performance indicators for each director × rate of fluctuation

*1. Achievement of consolidated revenue growth rate (%) = actual consolidated revenue for the year ÷ forecast of consolidated revenue for the year × 100

*2. Achievement of profit for the year attributable to owners of the parent in the earnings forecast (%) = actual profit for the year attributable to owners of the parent ÷ forecast profit for the year attributable to owners of the parent in the earnings forecast × 100

For directors whose have been in office for less than one business year, variable salary is calculated by multiplying the result of the calculation by the ratio obtained by dividing the number of months in office by 12.



As a medium-to long-term incentive, Sushiro grants stock options with stock price-contingent compensation.

● Stock options with stock price-contingent compensation

Stock options with stock price-contingent compensation are granted with an exercise period of 40 years and an exercise price of 1 yen from the day following the allotment date of the stock subscription rights. However, if the calculated vesting rate falls below the following value (hereinafter referred to as the minimum vesting rate), the vesting rate shall be the minimum vesting rate. The minimum vesting rate is applied if the absolute total shareholder return falls below 1 (100%), or if the stock price at the end of the year (average closing price of common stock on the Tokyo Stock Exchange on each day of the month prior to the month in which 3 years have passed since the allotment date) falls below the stock price at the

beginning of the year. The same calculation method is applied when granting stock options with stock price contingent compensation to our executive officers, and to the directors and executive officers of our subsidiaries.

Position	Minimum vesting rate
Sushiro President & CEO	16.60%
Sushiro director and executive managing officer Sushiro director and executive officers	20.75%
Sushiro executive officers Subsidiary directors Subsidiary executive officers	27.66%

● Total remuneration

Type of director	Total remuneration (in millions, JPY)	Remuneration breakdown (in millions, JPY)				Number of persons
		Base salary	Stock options	Bonus	Other*	
Directors excluding members of Audit & Supervisory Committee and Outside Directors	285	126	30	127	3	4
Directors (Audit & Supervisory Committee) (excluding Outside Directors)	9	9	—	—	—	1
External Board member	40	40	—	—	—	6

*Other" includes to an amount equivalent to the rent for company housing provided free of charge to directors.

Internal Control and Risk Management System

We analyze a broad spectrum of risks in a uniform manner, identifying and assessing risks and devising preemptive measures. When a risk becomes an imminent threat, we act swiftly and effectively so as to minimize any damage, take steps to prevent a recurrence, and thus protect our corporate value. To ensure compliance with laws, we have established the Risk Management Guidelines and the Operating Guidelines of the Internal Control System. Both guidelines are managed and enforced by the Internal Control Committee.

The Internal Control Committee has the President as its Chair and the General Affairs Department as its Secretariat. Its membership comprises expert advisers (legal professionals) and other members appointed by the Chair. The Committee takes charge of risk management by identifying, analyzing, and assessing material risks to the Group's business, and determining corrective actions in view of such risks. The Secretariat requests the Chair to call meetings of the Internal Control Committee as necessary, and the Committee otherwise meets once every quarter.

We have established the Crisis Management Guidelines to

help ensure a swift and effective response during emergencies. Additionally, wishing to lead the way in information security, we have established the Basic Guidelines on Information Systems, which sets forth standards for handling informational assets.

Sushiro also has an Internal Audit Department under the direct control of the President. The Internal Audit Department conducts regularly scheduled audits of the Company's business processes, issuing recommendations or directives for corrective action to the divisions or personnel concerned and reporting the results of its audits to the President as necessary. The Department closely liaises with Audit & Supervisory Committee members and the accounting auditor, exchanging information as necessary. In this way, the Internal Audit Department works to forestall risk.

Anyone who notices or suspects a breach of a law or Company rule, or any other serious malpractice, can immediately report the matter to a member of the Audit & Supervisory Committee or the Internal Control Committee. The Company has a whistleblower hotline in place so that such matters can be identified and resolved early.

Sushiro Global Holdings Strengths and Challenges to Future Growth

Yoshihiro Noutsuka  Yumiko Ichige

Previous Experience and Role as Outside Director

Yoshihiro Noutsuka: I previously worked for 6 years as a Standing Corporate Auditor at a pharmaceutical company.

Before that, I was in charge of intellectual property and legal affairs, IR and overall planning and control mainly in the accounting and finance department of that company. I was also responsible for CSR, which was starting to grow in importance around that time.

During that period, the company was aggressively expanding overseas and efforts were being made to globalize the areas I was in charge of.

At Sushiro Global Holdings (SGH), I have been appointed by shareholders as a full-time outside director (Audit & Supervisory Committee member).

It may be slightly unusual for a company to have a full-time outside director, but assigning such a position is significant since SGH listed on the stock market fairly recently.

Being full-time means I can attend Board of Director and Audit & Supervisory Committee meetings as well as take part in important meetings in executive departments, interview top management, inspect critical documents and monitor and audit pertinent departments. I hope to leverage my experience and conduct monitoring and audit activities from a broader outside perspective and from the standpoint of shareholders and other stakeholders.

Yumiko Ichige: I was previously involved in corporate law as a lawyer. I started out as an in-house lawyer in the legal department of a foreign-owned computer manufacturer. Although as an in-house lawyer I was an employee of the company, I was taught to be aware of my independence to ensure I maintained my position as a professional within the corporate organization.

After that, I worked for a general law firm and my



relationship with my clients has remained the same. The crux of being a lawyer lies in the ability to respect social justice and human rights. As an outside director, it's important to also consider enhancing the interests of general shareholders and improving corporate value.

SGH's Strengths

Noutsuka: The company I used to work for was the top company in its industry in Japan and ranked high in global terms as well. SGH is also No.1 in the *kaiten* sushi industry and has all the characteristics of an exceptional company in terms of its efforts to further expand overseas in the future and having a clear philosophy and vision.

There is a real sense of closeness with the customer. I'm not sure if you agree with me, but when I go to the store as a customer I see elderly citizens, families and young couples, and everyone looks like they're really enjoying their sushi. This is one indicator that business is doing well. I believe that the strength of the company lies in the freshness of the ingredients, the delicious taste and the reasonable price.

Ichige: I think that Sushiro's excellent sourcing capabilities are a key reason for its competitiveness. Sushiro can procure superb, cost-effective ingredients and has established a system to ensure almost identical quality and service at over

500 stores. The framework enabling this must also be seen as a strength.

Challenges at SGH

Noutsuka: On the subject of procurement, the company must also consider the future of the world's resources, including marine resources. Sushiro stores currently offer more than 100 types of sushi. One challenge will be to continue providing this level of service at the same low price while increasing the number of stores.

From a CSR perspective, this suggests the need to make a commitment to nurturing elements of the business found upstream in the supply chain. Another topic that must be considered concerns contributing to social needs and creating value via business while generating profit.

Ichige: I think capital cost and diversity are important when considering a sustainable growth strategy. It's essential to thoroughly discuss capital cost at Board of Directors meetings when taking on challenges such as entering foreign markets and new industries. From a viewpoint of diversity, the sushi industry has traditionally been dominated by men, including the chefs. However, since it is generally women who control the household budget nowadays, another important challenge for Sushiro is

determining how to incorporate gender diversity in management. There are unfortunately no women on the management team at present, so rectifying this should be an urgent issue.

On top of this, it's critical to bring other elements of diversity into management in terms of different generations and becoming more international.

Sushiro must continue looking at how best to communicate with female managers, get them involved in the core running of the company and motivate them. The company also needs to consider what support they need and how that support can be provided. Establishing role models is a good idea too. I intend to listen carefully to what female employees have to say and convey their circumstances clearly to management at Board of Directors meetings.

A Message to Investors

Ichige: President Mizutome is looking at a growth strategy with a view to 10 years down the track, but we are already seeing changes in the social environment as well as labor shortages and population decline. In the face of such social issues, the company will be unable to grow without taking calculated risks, either by developing business overseas or taking on the challenge of entering new food-related industries.

As outside directors, we will make decisions having given due consideration to these risks as well as oversee efforts aimed at further driving up corporate value while evaluating and monitoring such aspects as appointments and remuneration.

Noutsuka: The decision to dissolve a capital and business alliance taken recently has altered shareholder composition. This also means that the Company can now communicate with the market more freely than before. This brings it a step closer to enhancing corporate value in the market.

Value is created when the three components of customer, employee and an appropriately created value chain are efficiently and effectively managed and monitored. Success only comes when this is achieved. SGH has the potential to make this happen. I think the market can look forward to seeing SGH continue to grow.

Yoshihiro
Noutsuka

Apr. 1976, Joined Santen Pharmaceutical Co., Ltd. ("Santen")
Dec. 1999, Manager of Accounting and Finance Group, Santen
Jan. 2002, Manager of Corporate Planning Finance Group, Santen
Oct. 2004, Manager of Compliance Group, Santen
May 2006, Deputy General Manager of Corporate Development Division, Santen
Jul. 2006, Executive Officer and General Manager of Planning and Control Division, Santen
Oct. 2008, Executive Officer in charge of Society and Environment, Santen
Jun. 2010, Standing Corporate Auditor, Santen
Jun. 2016, Consultant, Santen
Dec. 2018, Outside Director serving on the Audit and Supervisory Committee, SGH (to present)



Yumiko
Ichige

Apr. 1989, Registered as Attorney
Apr. 1989, Joined IBM Japan, Ltd.
Dec. 2007, Partner, Nozomi Sogo Attorneys At Law (to present)
Apr. 2009, Vice-chairman, NIBEN
Sep. 2010, Deputy Secretary General, Japan Federation of Bar Associations
Jun. 2012, Outside Director, NEC Networks & System Integration Corporation
May 2014, Outside Auditor, AEON MALL Co., Ltd.
Dec. 2014, Outside Director serving on the Audit and Supervisory Committee, SANYO TRADING CO., LTD.
Dec. 2016, Outside Director serving on the Audit and Supervisory Committee, SGH (to present)
Jun. 2018, Outside Director, ITOHAM YONEYU HOLDINGS INC. (to present)



Corporate Social Responsibility

Sushi is a business that shares the limited resources of the sea. It is also a business that connects a large number of people who transport the goodness from the sea, process it and prepare it for consumption.

To continue serving tasty sushi to as many people as possible, Sushiro aims to be a company that places more value on the sea and people than anyone else. Everyone at Sushiro cherishes the wide, open sea as well as each person they encounter. We are committed to connecting the sushi culture born in Japan to the future.

Environmental Initiatives

Supporting sustainable production

It is ideal for Sushiro to have stable, long-term business partnerships with suppliers and producers so that the sourcing of ingredients is not unduly affected by market price or the market in general. We believe in the importance of supporting the sustainable business growth of one another and being a partner with a passion for the ingredients we use. We have built medium- and long-term relationships with producers, some of who have even commented that because of this they feel confident enough to pass on their business to their sons. Our hope is that Sushiro's business plays a part in protecting and nurturing Japan's fisheries and agriculture.



Initiatives for Society

Contributing to producers with "Sushiro Rice"

Rice is an essential ingredient. The rice we use plays another significant role. In fiscal 2011, with the full cooperation of ZEN-NOH Pearl Rice Corp., Sushiro concluded agreements with producers to make rice suitable for use in sushi specifically for our restaurants as part of our efforts to ensure the stable supply of rice and enhance its quality. Knowing that the harvested rice will be used for Sushiro's sushi boosts the motivation of the producers while also serving to safeguard rice-eating culture. Sushiro will team up with producers for a span of 5 to 10 years and work together for the future of Japan's agricultural industry.



Operating Risks

Operating Risks

We have outlined below those risks to the Group's financial position and operating performance that may materially influence an investment decision. These descriptions contain forward-looking statements. Such statements are based on the Group's forecasts as of the time of this Report; they are not intended to exhaustively cover the risks that may potentially arise in the future.

● Risks associated with economic change

Most of the Group's stores are in Japan. As such, the Group's business operations, operating performance, and financial position may be affected by economic fluctuations in the country or by consumption tax hikes and other economic policies of the governments concerned. The Group's business operations, operating performance, and financial position are particularly vulnerable to a decline in disposable income (driven by changes in employment levels or other factors), which results in people spending less on dining-out or takeouts, *kaiten* sushi restaurants being no exception in this regard. Another such factor is foreign exchange fluctuation (the primary concern being the weakening yen), which drives up the cost of procuring seafood materials.

● Risks associated with competition in the *kaiten* sushi industry and the dining industry in general

The Group specializes in the sushi business and directly operates a large network of low-price *kaiten* sushi restaurants. Low-price *kaiten* sushi enterprises, which offer a plate of sushi for 100 yen, have been spreading throughout Japan recently, creating an increasingly oligopolistic market. In addition to the large chains, there are traditional sushi restaurants, smaller low-price *kaiten* sushi chains, and expensive *kaiten* sushi restaurants. While the price ranges differ, we also regard these chains and restaurants as our competitors. Sushiro also competes with various other types of restaurants, including family restaurants, fast food outlets, and individually or family-owned restaurants, as well as convenience stores, takeout/delivery services, and supermarkets.

Price competition in the low-price *kaiten* sushi industry is particularly intense. While continuing to place priority on the quality of our sushi and side menus, as well as on keeping a generous range of menu items, we may be required to enter a pricing battle with competitors. Furthermore, Japan's shrinking population may stall overall growth in the restaurant and food services industry, leading to even fiercer competition.

● Risks associated with changing consumer preferences

The restaurant and food services industry in which we operate is vulnerable to rapidly changing consumer preferences. The Group's mission is to develop *kaiten* sushi restaurants with a view to serving fresh, high-quality sushi at attractive prices, in a clean and comfortable *kaiten* sushi setting, and with excellent customer service. We regard the low-price (100 yen-per plate) *kaiten* sushi as a low-end market that has attracted abroad customer base. However, the Group's business operations and the performance of its stores may be adversely affected if consumer preferences drift away from the either Sushiro concept—the core concept of the Group—or the core menu that the Group provides.

● Risks associated with food hygiene management

The Group's core menu consists of fresh fish and other sea food. If these products are not properly stored, transported, or prepared, the food chain may become contaminated, leading to a food safety crisis. The Group places the utmost importance on food safety. At all points along the chain—during procurement, storage, transport, preparation, and serving—we adhere strictly to the Food Sanitation Act and other relevant legislation, and we invest a vast amount of resources in minimizing food safety risks. Nevertheless, even with the very best of our efforts, we may never be able to completely eliminate the possibility of food poisoning incidents involving norovirus, E. coli or salmonella infection or similar food safety incidents.

Moreover, since the Group relies on third-party suppliers for fresh fish and other raw materials, there are certain food poisoning risk factors that are beyond the Group's control, and these risks could potentially impact a large number of the Group's stores. There is also a risk of infection outbreaks involving novel or divergent strains or diseases with long incubation periods. If such outbreaks occur, it may be difficult to quickly pinpoint the source and take the appropriate remedial measures. Additionally, the Group's credibility may be adversely affected by media reportage, public rumors, or allegations (factual or otherwise) regarding food safety matters (including food poisoning, foreign body-contamination, and microbial contamination incidents) that pertain to the Group or to the low-price *kaiten* sushi industry in general. Such an eventuality may have serious negative repercussions for the Group's reputation, as well as its business operations, financial position, and operating performance.

The Group is insured against food poisoning incidents such as those involving norovirus infection; however, if

contamination occurs in even only a small part of the Group's food stock, it may become necessary to dispose of all food stock that is not confirmed as being free from the contamination. Such a measure may result in massive transitory costs.

The Group complies with the Food Sanitation Act and many other legal requirements concerning health and food safety. If the Group fails to comply with any legal requirement concerning health and food safety, stores may lose their license or be subject to a business suspension order. Fines and legal sanctions are also a possibility in such cases. Additionally, if any new laws, rules, or standards on health and food safety are introduced, this may lead to an increase in the Group's overall operating costs.

● **Risks associated with procurement difficulties or the rising cost of ingredients**

To maintain the profitability of the Group's business operations, it is essential to accurately predict any fluctuations in the price of fresh fish and other food materials, as well as other store equipment, and then act accordingly. Prices for these items are affected by numerous factors, including the following: inflation in Japan and overseas; bad or abnormal weather or natural disasters; a surge in demand created by sustained growth in emerging economies, creating upward pressure on prices; logistical obstructions; government-imposed import restrictions; international fishing restrictions; cases where supply is suspended because a supplier has fallen bankrupt or because of an accident or disaster; food sanitation issues or fears of radioactive contamination that result in an order to suspend shipments or reputational damage; foreign exchange fluctuations; and tax hikes. As a result of the above factors, which are difficult for the Group to control or predict, the procurement of raw materials may become unstable or the procurement prices may rise. Such an eventuality may lead to higher sales prices and in turn impact the Group's operating performance.

● **Risks associated with unforeseeable natural disasters**

The Group operates stores across Japan. The areas in which the Group operates may be exposed to natural disasters, including large-scale earthquakes, floods, or typhoons, as well as epidemics involving infectious diseases such as new strains of influenza. These areas may also experience tragic and catastrophic events, social or political unrest, or rioting. As a result of such incidents, the supply of raw materials may be disrupted, the head office may become dysfunctional, stores may be lost, and people in the area may dine out less. Such eventualities may impact the Group's business operations, financial position, and operating performance.

● **Risks associated with dependence on senior management and the need to secure competent store managers**

The Group relies on its senior management team to determine strategy, manage operations, identify business opportunities, act against potential risks, and manage its trading partners. If any member of the senior management team separates from the Group's business for business, financial, health, or domestic reasons, the Group may struggle to secure an effective replacement in a short space of time or at the same cost level as the previous incumbent. Such problems may adversely affect the Group's business operations.

A key priority in the management of the Group's business is to provide an attractive working environment so as to secure an adequate number of store managers. In addition to setting employee work schedules, store managers are responsible for ordering the appropriate amount of supplies for their store, including supplies of fresh fish and other raw materials or equipment. Under this system, store managers manage the store's running costs by directly controlling sales costs and personnel costs.

There is a possibility that the Group may not secure adequate human resources with the skills and experience necessary to perform their roles competently. Competition over such human resources may put pressure on the Group to offer higher salaries or grant more generous benefit packages. Failure to recruit and retain competent managers may lead to a higher staff turnover or higher personnel costs, and it may also cause a decline in the quality of the Group's services. Such eventualities may adversely affect the Group's business operations.

● **Risks associated with securing and managing part-time staff**

The Group has a large part-time workforce, and our policy of recruiting and retaining many part-time employees is an essential component of our strategy to keep store running costs low. As such, the Group relies to a great extent on part-time employees in running the stores. Labor demands have increased in recent years amid the declining birthrate, aging population, and depopulation, leading to higher wages for part-time employees. This trend may make it harder for the Group to secure an adequate workforce for existing and prospective stores. Consequently, the Group may face rising labor-related costs and have to suspend or cut back on store operations. The Group may also find it necessary to discontinue plans for new store openings until it can achieve a staffing level that is adequate from a cost-benefit perspective. Such factors may adversely impact the Group's business operations, financial position, and operating performance.

● **Risks associated with information and communication systems**

The Group relies to a great extent on information and communication systems across a broad spectrum of its business management operations, examples of which include supply chain management, reception system, touch panel ordering system, order and lane management, disposal management. In February 2015, we introduced a Sushiro smartphone app, which among other things allows users to check waiting times and place orders for takeout items. As such, to ensure effective management of the Group's business operations as a whole and to effectively coordinate the preparation, delivery, and sale of menu items, it is essential that these systems are reliable and functional. Risks associated with these systems include the following: systems may fail to function effectively; problems may occur during an upgrade or migration to an alternative system; systems may sustain heavy network damage as a result of cyber attacks, and it may otherwise become difficult to maintain a sustainable and safe online platform. Such eventualities may lead to delays in customer service and a decline in the efficiency of the Group's business management. Additionally, the problems may require sizable capital investments to fix, and they may prompt rumors that damage the Group's reputation.

● **Risks associated with reputational damage**

The Sushiro brand is of paramount importance to the Group's business success. If the Group's trademark is used improperly, or if complaints or allegations surface online (such as allegations about foreign body-contamination), reputational damage may result and proliferate. Regardless of their factuality, the rumors may affect the Group's business operations, financial position, operating performance, brand image, and public reputation. Additionally, Sushiro's brand image and public reputation may also be undermined by improper actions among employees or third parties, or as a result of other incidents.

Reputational damage may arise from a number of factors. Examples include legal infringements, unfair practices, claims brought by unscrupulous employees, employee grievances, disease, injury, media reportage, inappropriate comments on the Internet or social media, criminal acts, data privacy breaches, inadequate internal controls, and scandals that involve Group employees or the employees of other companies within the industry or in a similar industry. Regardless of whether the claims or allegations are justified, unfavorable criticism levied against a store of Group or a competitor, or against Japan's food industry more broadly, may adversely affect the credibility of the all of the Group's stores. Additionally, criticism may be directed at the Group as a whole or the

industry in which it operates (including criticism concerning food safety, the results of government or industry group-led inquiries on food products, ecological concerns about overfishing, or management issues involving Group stores). Such criticism may undermine the Group's reputation, adversely affect its ability to attract customers and expand revenue, and thus seriously damage its financial position and operating performance.

● **Risks associated with overseas business operations**

The Group is taking concrete steps as part of an overseas expansion strategy under the slogan "Bringing Sushi to the People Around the World." The task of managing overseas business operations as a whole entails, potentially, a host of challenges: consumers in overseas locations may exhibit different preferences, price consciousness, dining-out habits, and consumption trends; brand awareness may be poor; there may be many alternative dining-out options to compete with; fluctuations in the local economy may affect consumer trends, raw material costs, or logistics or personnel expenses; material costs and foreign exchange markets are subject to fluctuation; overseas locations maybe exposed to acts of war, terrorist incidents, epidemics, or other circumstances that are beyond the Group's control; moreover, changes in the location's legal or regulatory requirements may affect the Group's managerial capacity or operational costs in the market concerned. Such challenges may adversely affect the Group's financial position, operating performance, and growth strategy.

● **Risks associated with foreign exchange markets**

Management of the Group is affected by currency fluctuations on foreign exchange markets and by changes to foreign exchange regulations. The Group procures fresh fish materials directly from suppliers such as trading companies and wholesalers. The majority of these procurement costs are on a yen basis, but the procurement costs for some suppliers are on a foreign currency basis. If these foreign currencies rise against the yen, and if the suppliers attempt to offload speculation-driven cost increases onto the Group, this may lead to higher procurement costs for the Group.

Analysis of Financial Position, Operating Results and Cash Flows

Accounting principles and assumptions

The Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards. It is necessary, in preparing the consolidated financial statements, for the management team to make certain assumptions and forecasts that shape the financial position, operating performance, and cash flows as of the settlement date. Such assumptions and forecasts are made on the basis that they are reasonable in light of past performance indices and circumstances. However, actual results may differ from estimated results if underlying assumptions prove incorrect or if the environment subsequently changes.

(1) Performance

During the consolidated fiscal year under review, the Japanese economy continued to recover moderately against the backdrop of a robust employment and income environment. However, the outlook remains clouded by political trends and economic uncertainty overseas, such as the prolonged trade issues between the United States and China and the United Kingdom's departure from the EU.

The restaurant sector continued to face a challenging management environment due to such factors as an increase in labor costs caused by chronic labor shortages and the impact of the consumption tax hike on personal consumption.

Under such circumstances, the Sushiro Group worked to enhance product development, in-store preparation, health and safety initiatives, and services guided by our motto "Tasty Sushi for All. Tasty Sushi for the Heart." and the desire to surprise and move our customers with delicious sushi.

In terms of store development, the Group opened 45 new stores (domestic: 32, overseas: 13) and closed 4 stores (domestic: 4) bringing the total number of stores to 566 (domestic: 541, overseas: 25) at the end of the consolidated fiscal year ended September 30, 2019.

As a result, revenue for the consolidated fiscal year ended September 30, 2019, totaled 199,088 million yen (up 13.8% year on year), operating profit 14,546 million yen (up 24.1%), profit before income taxes 14,363 million yen (up 24.8%), and profit for the year attributable to owners of the parent 9,959 million yen (up 24.6%).

In addition, adjusted profit for the year* came to 9,995 million yen (up 24.1%).

(2) Analysis of Operating Performance

Revenue and Gross profit

Revenue increased 24,205 million yen (up 13.8% year on year), to 199,088 million yen. This increase was primarily attributable to a sales boost generated by the opening of 45 new locations, the introduction of a topical side menu, and promotional campaigns.

Cost of sales came to 95,797 million yen, and the sales-to-cost ratio remained at 48.1%. The contributing factors to this

result include stable supplier costs and reduced waste.

Consequently, gross profit amounted to 103,291 million yen, an increase of 12,540 million yen (up 13.8%).

Selling, general and administrative expenses, Other income, Other expenses and Operating profit

Selling, general and administrative expenses increased 9,606 million yen (up 12.2% year on year), to 88,146 million yen. This result was primarily attributable to the increase in personnel and rent costs accompanying new store openings.

Other income increased 54 million yen (up 77.8%), to 123 million yen. The primary cause of this result is that reversal of impairment losses increased 33 million yen.

Other expenses increased 159 million yen (up 28.3%), to 722 million yen. The primary cause of this result is that reversal of impairment losses increased 123 million yen.

Consequently, operating profit totaled 14,546 million yen, an increase of 2,828 million yen (up 24.1%).

Finance income, Finance expenses and Profit attributable to owners of the parent

Finance income decreased 19 million yen (down 12.8% year on year), to 128 million yen. This result was primarily caused by an increase of 25 million yen in income from insurance, and a decrease of 41 million yen in foreign exchange gains in the previous consolidated fiscal year. Finance expenses decreased 46 million yen (down 12.9%), to 310 million yen. The factors behind this result include the fact that interest due decreased 54 million yen.

Consequently, profit attributable to owners of the parent came to 9,959 million yen, an increase of 1,968 million yen (up 24.6%).

(3) Overview of Financial Position

Assets

The balance of total assets rose 4,287 million yen from the end of the previous consolidated fiscal year, to 136,349 million yen.

The balance of current assets decreased 916 million yen from the end of the previous consolidated fiscal year, to 15,612 million yen. This mainly reflected a 1,045 million yen increase in trade and other receivables and a 2,045 million yen decrease in cash and cash equivalents.

The balance of non-current assets increased 5,203 million yen from the end of the previous consolidated fiscal year, to 120,737 million yen. This was mainly due to decreases of 128 million yen in intangible assets and 103 million yen in other financial assets, while property, plant and equipment increased by 2,984 million yen due to new store openings, investments accounted for using the equity method increased by 1,816 million yen, and lease and guarantee deposits increased by 655 million yen.

Liabilities

Total liabilities declined 2,245 million yen from the end of the

previous consolidated fiscal year, to 88,982 million yen.

The balance of current liabilities rose 2,743 million yen from the end of the previous consolidated fiscal year, to 33,536 million yen. This mainly reflected a 2,667 million yen increase in trade and other payables, a 523 million yen increase in provisions and a 244 million yen increase in other current liabilities, alongside a 407 million yen decrease in other financial liabilities and a 300 million yen decrease in income taxes payable.

The balance of non-current liabilities declined 4,988 million yen from the end of the previous consolidated fiscal year, to 55,447 million yen. This mainly reflected a 204 million yen increase in provisions, alongside a 4,074 million yen decrease in borrowings, a 796 million yen decrease in other financial liabilities, a 352 million yen decrease in deferred tax liabilities.

Equity

Total equity increased 6,532 million yen from the end of the previous consolidated fiscal year, to 47,367 million yen. This was mainly attributable to a decrease of 116 million yen in capital surplus due to dividend payments, a decrease of 2,350 million yen in retained earnings due to dividend payments, a decrease of 1,419 million yen due to the retirement of subscription rights to treasury shares and an increase of 9,959 million yen due to the booking of profit, an increase of 1,764 million yen due to the retirement of subscription rights to treasury shares and a decrease of 913 million yen due to the purchase of share acquisition rights.

(4) Factors That Can Significantly Affect Operating Performance

The Group's revenue and expenses are affected by factors such as economic circumstances, competition with other companies, changes in consumer preferences, food material prices, utility expenses, new store openings, rent, natural disasters, and personnel costs. If any of these factors arise and the Group is unable to respond appropriately, they may affect the Group's operating performance.

Please see "Operating Risks" for details about other factors that can materially affect the Group's operating performance.

(5) Sources of Capital and Liquidity of Assets

(5.1) Capital Sources

In the interests of capital investment and operating capital, the Group adopts the financial policy of retaining an ample level of assets while maintaining financial liquidity and robustness.

As regards to liquidity of assets, in addition to retaining appropriate levels of cash and cash equivalents, we have entered into committed credit line agreements with banks, and thus believe that the Group has secured a level of liquidity for pursuing growth.

(5.2) Financial Liquidity Analysis

1. Cash flows

In the consolidated fiscal year ended September 30, 2019, cash and cash equivalents decreased 2,045 million yen year on year to

10,341 million yen.

The breakdown of cash flows by activities and underlying factors for the consolidated fiscal year ended September 30, 2019, is shown below.

Cash flows from operating activities

Net cash from operating activities totaled 17,309 million yen (up 17.4% year on year).

This mainly reflected the booking of 14,363 million yen in profit before income taxes, 4,794 million yen in depreciation and amortization and 584 million yen in impairment losses, and a 2,355 million yen increase in trade and other payables, alongside a 1,060 million yen increase in trade and other receivables, 155 million yen in interest paid and 4,690 million yen in income taxes paid.

Cash flow from investing activities

Net cash used in investing activities came to 10,682 million yen (up 67.0% year on year).

This was mainly attributable to payments for purchase of property, plant and equipment of 7,416 million yen for new store openings, purchase of intangible assets of 309 million yen, payments for lease and guarantee deposits of 1,033 million yen, and payments for acquisition of investments accounted for using the equity method of 1,994 million yen.

Cash flow from financing activities

Cash used in financing activities amounted to 8,578 million yen (up 90.0% year on year).

This mainly reflected 4,168 million yen in repayments of long-term borrowings, 1,049 million yen in repayments of lease obligations, 945 million yen in payments for acquisition of subscription rights to shares and 2,465 million yen in cash dividends paid.

2. Differences in the key accounting treatments concerning financial performance

Goodwill and Intangible assets

The following describes differences between the key accounting treatments for financial statements under IFRS and their corresponding treatments under Japanese Generally Accepted Accounting Principles (J-GAAP).

Under J-GAAP, goodwill is reported for a defined period using the straight-line method. Under IFRS, goodwill is differentiated from distinguishable assets. Additionally, IFRS treats goodwill as well as intangible assets with no fixed service life as non-depreciable.

Accordingly, under IFRS, selling, general and administrative expenses declined by 3,517 million yen in the previous consolidated fiscal year and by the same amount in the consolidated fiscal year under review.

Note:

Adjusted profit for the year = profit for the year + expenses related to the payments for acquisition of subscription rights to shares + expenses related to the share offering + tax effect adjustments, etc.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in millions, JPY)

	Fiscal Year Ended September 30, 2018	Fiscal Year Ended September 30, 2019
Assets		
Current assets:		
Cash and cash equivalents	12,386	10,341
Trade and other receivables	1,634	2,678
Inventories	1,343	1,313
Other financial assets	280	316
Other current assets	886	963
Total current assets	16,528	15,612
Non-current assets:		
Property, plant and equipment	22,595	25,579
Goodwill	30,371	30,371
Intangible assets	54,688	54,560
Investments accounted for using the equity method	—	1,816
Lease and guarantee deposits	7,304	7,959
Other financial assets	108	6
Other non-current assets	467	446
Total non-current assets	115,534	120,737
Total assets	132,062	136,349
Liabilities and equity		
Liabilities		
Current liabilities:		
Trade and other payables	18,589	21,256
Borrowings	4,132	4,149
Income taxes payable	1,759	1,459
Other financial liabilities	1,724	1,317
Provisions	1,927	2,449
Other current liabilities	2,662	2,906
Total current liabilities	30,793	33,536
Non-current liabilities:		
Trade and other payables	39	36
Borrowings	40,696	36,622
Other financial liabilities	1,447	651
Provisions	1,778	1,982
Deferred tax liabilities	16,459	16,107
Other non-current liabilities	16	49
Total non-current liabilities	60,435	55,447
Total liabilities	91,227	88,982
Equity		
Capital stock	100	100
Capital surplus	15,863	15,747
Retained earnings	25,663	31,859
Treasury stock	(0)	(0)
Other components of equity	(790)	(339)
Total equity attributable to owners of the parent	40,835	47,367
Total equity	40,835	47,367
Total liabilities and equity	132,062	136,349

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(in millions, JPY)

	Fiscal Year Ended September 30, 2018 (From October 1, 2017 to September 30, 2018)	Fiscal Year Ended September 30, 2019 (From October 1, 2018 to September 30, 2019)
Revenue	174,883	199,088
Cost of sales	(84,132)	(95,797)
Gross profit	90,751	103,291
Selling, general and administrative expenses	(78,539)	(88,146)
Other income	69	123
Other expenses	(563)	(722)
Operating profit	11,718	14,546
Finance income	147	128
Finance expenses	(356)	(310)
Profit before income taxes	11,508	14,363
Income taxes	(3,518)	(4,405)
Profit for the year	7,990	9,959
Profit attributable to:		
Owners of the parent	7,991	9,959
Non-controlling interests	(1)	—
Profit for the year	7,990	9,959
Earnings per share:		
Basic earnings per share (JPY)	276.93	343.25
Diluted earnings per share (JPY)	273.54	341.08

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in millions, JPY)

Fiscal Year Ended September 30, 2018 <small>(From October 1, 2017 to September 30, 2018)</small>	Fiscal Year Ended September 30, 2019 <small>(From October 1, 2018 to September 30, 2019)</small>
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	7,990	9,959
Profit for the year		
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	(11)	(371)
Effective portion of changes in fair value of cash flow hedges	(5)	(65)
Total of items that may be reclassified subsequently to profit or loss	(15)	(436)
Other comprehensive income after taxes	(15)	(436)
Total comprehensive income for the year	7,975	9,523
Attributable to:		
Owners of the parent	7,979	9,523
Non-controlling interests	(5)	—
Total comprehensive income for the year	7,975	9,523

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in millions, JPY)

	Capital stock	Capital surplus	Retained earnings	Treasury stock	Other components of equity	Total equity attributable to owners of the parent	Non-controlling interests	Total equity
Balance as of October 1, 2017	100	13,573	17,730	(0)	450	31,853	(53)	31,800
Profit for the year			7,991			7,991	(1)	7,990
Other comprehensive income					(11)	(11)	(4)	(15)
Total comprehensive income	—	—	7,991	—	(11)	7,979	(5)	7,975
Capital reduction	(1,715)	1,715				—		—
Exercise of share acquisition rights	1,715	1,811			(239)	3,287		3,287
Purchase of share acquisition rights					(1,006)	(1,006)		(1,006)
Share-based payment transactions			1		16	17		17
Dividends		(1,236)				(1,236)		(1,236)
Changes in ownership interests in subsidiaries that do not result in loss of control			(59)			(59)	58	(2)
Total transactions with the owners	—	2,290	(58)	—	(1,229)	1,003	58	1,061
Balance as of September 30, 2018	100	15,863	25,663	(0)	(790)	40,835	—	40,835
Profit for the year			9,959			9,959		9,959
Other comprehensive income					(436)	(436)		(436)
Total comprehensive income	—	—	9,959	—	(436)	9,523	—	9,523
Purchase of share acquisition rights					(913)	(913)		(913)
Cancellation of treasury share acquisition rights			(1,419)		1,764	344		344
Share-based payment transactions			8		37	44		44
Dividends		(116)	(2,350)			(2,466)		(2,466)
Total transactions with the owners	—	(116)	(3,763)	—	887	(2,991)	—	(2,991)
Balance as of September 30, 2019	100	15,747	31,859	(0)	(339)	47,367	—	47,367

CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions, JPY)

Fiscal Year Ended September 30, 2018 <small>(From October 1, 2017 to September 30, 2018)</small>	Fiscal Year Ended September 30, 2019 <small>(From October 1, 2018 to September 30, 2019)</small>
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Cash flows from operating activities		
Profit before income taxes	11,508	14,363
Depreciation and amortization	4,425	4,794
Impairment losses	461	584
Finance income	(145)	(128)
Finance expenses	356	303
Amount of rent offset by lease and guarantee deposits	297	298
Increase / decrease in trade and other receivables, (increase)	(415)	(1,060)
Increase / decrease in inventories, (increase)	(173)	19
Increase / decrease in trade and other payables, (decrease)	1,666	2,355
Others	1,368	625
Subtotal	19,348	22,152
Interest and dividend income received	0	2
Interest paid	(176)	(155)
Income taxes paid	(4,429)	(4,690)
Net cash from operating activities	14,744	17,309
Cash flows from investing activities		
Purchase of property, plant and equipment	(5,464)	(7,416)
Purchase of intangible assets	(294)	(309)
Payments for lease and guarantee deposits	(632)	(1,033)
Payments for acquisition of investments accounted for using the equity method	—	(1,994)
Others	(8)	70
Cash flows from investing activities	(6,398)	(10,682)
Cash flows from financing activities		
Repayments of long-term borrowings	(4,168)	(4,168)
Repayments of lease obligations	(1,205)	(1,049)
Payments for commission fees	(9)	(7)
Proceeds from exercise of subscription rights to shares	3,287	—
Payments for acquisition of subscription rights to shares	(1,006)	(945)
Cash dividends paid	(1,229)	(2,465)
Others	(186)	57
Cash flows from financing activities	(4,516)	(8,578)
Net Increase / decrease in cash and cash equivalents, (decrease)	3,830	(1,951)
Cash and cash equivalents at beginning of year	8,538	12,386
Effect of exchange rate changes on cash and cash equivalents	18	(94)
Cash and cash equivalents at end of year	12,386	10,341

Sushiro's History

1975 July	Yoshio Shimizu, the founder, starts "Taisushi" in Abeno Ward, Osaka City
1984 June	Opens the 1st store in Toyonaka City, Osaka Prefecture
1984 October	Yoshio Shimizu establishes Sushitaro Co., Ltd.
1988 September	Yutaka Shimizu establishes Sushitaro Co., Ltd., and opens the 1st store in Suita City, Osaka Prefecture
1996 September	Opens a 100-yen sushi store in Kawanishi City, Hyogo Prefecture
1999 August	Sushitaro Co., Ltd. (Toyonaka City) and Sushitaro Co., Ltd. (Suita City) merge
2003 September	Lists shares on 2nd Section of Tokyo Stock Exchange
2004 February	Discontinues the use of central kitchen, and starts in-store food preparation
2006 April	Keiji Yaso becomes the President & CEO as the founder resigns
2007 August	Establishes a capital and business alliance with Unison Capital Inc.
2009 April	Delists from 2nd Section of Tokyo Stock Exchange
2009 June	New management team is installed and Kenichi Toyosaki becomes the 3rd President & CEO
2010 March	Becomes the No. 1 under Food & Dining Category of the Japan Customer Satisfaction Index
2011 March	Achieves the highest sales in the domestic <i>kaiten</i> sushi industry
2011 December	Expands its business to Korea
2012 September	Forms a strategic business alliance with a UK-based private equity fund Permira Advisors Ltd.
2015 January	Opens a new style of restaurant, Tumamigui, in Nakameguro
2015 February	Koichi Mizutome becomes the President & CEO
2015 March	Establishes Sushiro Global Holdings Ltd.
2015 June	Opens the 400th Sushiro store in Japan
2015 October	Establishes Sushiro Creative Dining Ltd.
2015 November	Opens a new style of restaurant, Nanamino Sachi, in Nakameguro
2016 December	Opens the 450th Sushiro store in Japan
2017 March	Lists shares on 1st Section of Tokyo Stock Exchange
2017 August	Opens a new style of restaurant, SUGIDAMA, in Nishinomiya
2017 September	Opens a Sushiro store in our 47th prefecture in Japan
2017 September	Signs a capital and business alliance agreement with SHINMEI Co., LTD and GENKI SUSHI CO., LTD.
2018 June	Expands its business to Taiwan
2018 July	Opens the 500th Sushiro store in Japan
2019 August	Expands its business to Hong Kong and Singapore

Company Outline (As of September 30, 2019)

Company Name	Sushiro Global Holdings Ltd.
Established	March 2015
Head Office	1-22-2 Esaka-cho, Suita-shi, Osaka 564-0003, Japan
Capital	100 million yen
Number of Employees	2,220 (Full-time, consolidated)
Main Banks	Sumitomo Mitsui Banking Corporation The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mizuho Bank, Ltd.
Line of Business	Sushi restaurant chain
Group Companies	AKINDO SUSHIRO CO., LTD. Sushiro Creative Dining Ltd. Sushiro Korea, Inc. Sushiro Taiwan Co., Ltd. Sushiro GH Singapore Pte. Ltd. Sushiro Hong Kong Limited

Board of Directors (As of December 20, 2019)

President & CEO	Koichi Mizutome
Director & Executive corporate officer, Secretary to president, corporate strategy / quality management	Yoshihito Kinoshita
Director & Executive corporate officer, procurement / product development	Kohei Nii
Director	You Horie
Director	Akira Matsumoto
Director	Akira Kondo
Director	Kozo Takaoka
Director (Audit & Supervisory Committee Member)	Yoshihiro Noutsuka
Director (Audit & Supervisory Committee Member)	Kenichi Toyosaki
Director (Audit & Supervisory Committee Member)	Yumiko Ichige

Directors Akira Matsumoto, Akira Kondo and Kozo Takaoka and Director and Audit & Supervisory Committee members Yoshihiro Noutsuka and Yumiko Ichige are Outside Directors.

Stock Information (As of September 30, 2019)

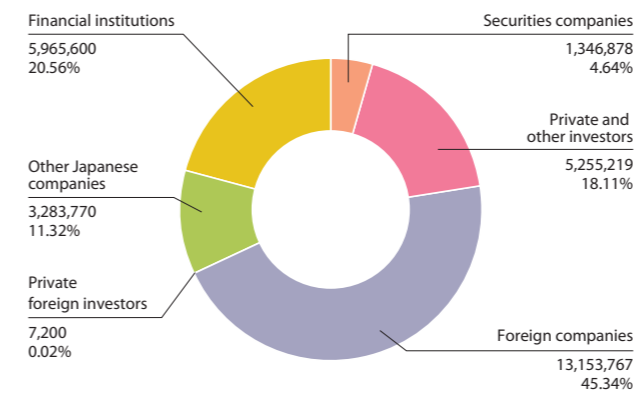
Total number of authorized shares	109,000,000 shares
Total number of issued shares	29,012,496 shares
Number of shareholders	27,452

Major Shareholders (top 5) (As of September 30, 2019)

	Shares held (1,000 shares)	Shareholding ratio (%)
SHINMEI Holdings Co., Ltd.	1,903	6.55
The Master Trust Bank of Japan, Ltd. (trust)	1,722	5.93
National Federation of Agricultural Cooperative Associations	1,111	3.82
Japan Trustee Services Bank, Ltd. (trust)	923	3.18
JPMorgan Securities Japan Co., Ltd.	649	2.23

Note: Shareholding ratio is calculated based on the total number of issued shares excluding treasury shares (62 shares).

Shareholder Composition (As of September 30, 2019)



Note: The percentage values for shareholder composition are rounded to 2 decimal places; therefore, the sum shows 99.99%.

Stock Price and Trading Volume



Forward-Looking Statements

The future outlook and other forward-looking statements presented in this Report are based on information available to the Company at the time of preparation. They do not constitute guarantees by the Company of future performance. Factors such as economic conditions, market trends in the dining industry, shifts in consumer preferences, and fluctuations in the price of raw materials may cause actual operating results, financial position, and other results of the Company to differ materially from those discussed herein.

Organizations and Period Covered

In principle, the information in this Report concerns Sushiro Global Holdings Ltd. and its consolidated subsidiaries (as of September 30, 2019) for the fiscal year ended September 30, 2019. When appropriate, however, information from outside this period is included, as when citing past circumstances and data or using recent examples for illustration purposes.