Consolidated Financial Statements

FANCL CORPORATION
and Consolidated Subsidiaries

Year ended March 31, 2017
with Independent Auditor's Report

FANCL CORPORATION and Consolidated Subsidiaries

Consolidated Balance Sheet

	March 31, 2017	March 31, 2016	2017
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Assets			
Current assets:			
Cash and bank deposits *(Notes 3 and 13)*	¥31,609	¥ 18,034	$281,752
Notes and accounts receivable *(Note 3)*	11,101	9,997	98,950
Marketable securities *(Notes 3, 4 and 13)*	–	8,006	–
Merchandise and products	3,833	3,548	34,165
Work in progress	23	26	213
Raw materials and supplies	3,763	3,787	33,545
Deferred tax assets *(Note 6)*	1,598	1,352	14,247
Others	1,675	1,616	14,934
Less: Allowance for doubtful accounts *(Note 3)*	(79)	(51)	(706)
Total current assets	53,526	46,317	477,102
Fixed assets:			
Tangible fixed assets *(Notes 9, 10 and 14)*:			
Buildings and structures	27,156	25,355	242,057
Less: Accumulated depreciation and accumulated impairment loss	(14,985)	(14,513)	(133,576)
Buildings and structures (net)	12,170	10,841	108,481
Machinery, vehicles, tools, furniture and fixtures	16,433	15,153	146,477
Less: Accumulated depreciation and accumulated impairment loss	(13,306)	(12,773)	(118,608)
Machinery and transport equipment (net)	3,126	2,380	27,869
Land	11,607	11,951	103,460
Leased assets	268	386	2,394
Less: Accumulated depreciation and accumulated impairment loss	(148)	(227)	(1,327)
Leased assets (net)	119	158	1,066
Construction in progress	25	1,230	229
Total tangible fixed assets, net	27,049	26,562	241,106
Intangible fixed assets:			
Others	2,045	2,639	18,234
Total intangible assets	2,045	2,639	18,234
Investments and other assets:			
Investment securities *(Notes 3 and 4)*	128	5,656	1,141
Long-term loans	305	300	2,718
Long-term prepaid expense	106	153	948
Lease and guarantee deposits *(Note 3)*	1,173	1,128	10,461
Deferred tax assets *(Note 6)*	1,183	850	10,550
Others	183	183	1,636
Less: Allowance for doubtful accounts	(24)	(24)	(214)
Total investments and other assets	3,056	8,248	27,241
Total fixed assets	32,151	37,449	286,583
Total assets	¥85,677	¥ 83,767	$ 763,686

	March 31,		
	2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars) (Note 2)
Liabilities and net assets			
Current liabilities:			
Notes and accounts payable *(Note 3)*	¥2,307	¥ 2,547	$ 20,566
Accrued liabilities	4,082	4,980	36,385
Accrued income taxes	1,088	898	9,705
Allowance for bonuses	1,030	1,074	9,184
Allowance for point program	1,617	1,507	14,413
Others	1,184	1,135	10,562
Total current liabilities	11,310	12,143	100,817
Long-term liabilities:			
Lease obligations	62	81	559
Liability for retirement benefits *(Note 7)*	1,303	1,324	11,617
Asset retirement obligations	416	385	3,714
Others	182	193	1,625
Total long-term liabilities	1,965	1,984	17,516
Total liabilities	13,275	14,128	118,334
Net assets *(Notes 5 and 12)*:			
Shareholders' equity *(Note 5)*:			
Common stock:			
Authorized – 233,838,000 shares in 2017 and 2016			
Issued – 65,176,600 shares in 2017 and 2016	10,795	10,795	96,222
Capital surplus	11,706	11,706	104,342
Retained earnings	52,339	50,134	466,525
Less: Treasury stock 2,184,389 shares in 2017 and 2,553,377 shares in 2016	(3,170)	(3,706)	(28,263)
Total shareholders' equity	71,670	68,930	638,827
Accumulated other comprehensive income *(Note 17)*:			
Foreign currency translation adjustment	119	146	1,069
Retirement benefit liability adjustments	(159)	(166)	(1,417)
Total accumulated other comprehensive income	(39)	(20)	(348)
Share subscription rights	771	729	6,872
Total net assets	72,402	69,639	645,351
Total liabilities and net assets	¥85,677	¥83,767	$763,686

See notes to consolidated financial statements.

FANCL CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Income

	Year ended March 31,		
	2017	2016	2017
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Net sales *(Note15)*	¥96,305	¥90,850	$858,418
Cost of sales	28,495	26,972	253,996
Gross profit	67,810	63,878	604,422
Selling, general and administrative expenses *(Note 8)*	65,565	62,673	584,415
Operating income	2,244	1,204	20,006
Other income (expenses):			
Interest and dividend income	5	11	44
Rent income	103	104	926
Foreign exchange gains (Loss)	(27)	(29)	(241)
Gain on sale of investment securities	4,440	–	39,582
Expenses for unused property	(4)	(5)	(43)
Loss on retirement of fixed assets	(38)	(24)	(342)
Loss on impairment of fixed assets *(Note 10)*	(914)	(124)	(8,151)
Loss on closing of stores	(44)	(46)	(395)
Others, net	61	161	547
Income before income taxes	5,826	1,252	51,934
Income taxes *(Note 6)*:			
Current	1,260	1,273	11,238
Deferred	(581)	(544)	(5,180)
	679	729	6,058
Net income	5,146	522	45,876
Profit (loss) attributable to owners of parent *(Note 15)*	¥ 5,146	¥ 522	$ 45,876

See notes to consolidated financial statements.

FANCL CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income

	Year ended March 31,		
	2017	**2016**	**2017**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Net Income	¥5,146	¥ 522	$ 45,876
Other comprehensive income *(Note 17)*:			
Foreign currency translation adjustment	(26)	0	(237)
Retirement benefit liability adjustments	7	(194)	70
Total other comprehensive income (loss)	(18)	(194)	(167)
Comprehensive income	¥5,128	¥ 328	$ 45,708
(Breakdown)			
Comprehensive income attributable to owners of parent	¥5,128	¥ 328	$ 45,708
Comprehensive income attributable to non-controlling interests	–	–	–

See notes to consolidated financial statements.

FANCL CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets

For the years ended March 31, 2017 and 2016

	Shareholders' equity						Accumulated other comprehensive income				
	Common stock										
	Number of shares	Amount	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Translation adjustments	Retirement benefit liability adjustments	Total accumulated other comprehensive income	Share subscription rights	Total net assets
	(Thousands)					*(Millions of yen)*					
April 1, 2015	65,176	¥10,795	¥11,706	¥51,468	¥(1,362)	¥72,607	¥ −	¥27	¥27	¥579	¥73,214
Dividends of surplus	–	–	–	(2,152)	–	(2,152)	–	–	–	–	(2,152)
Net income (loss)	–	–	–	522	–	522	–	–	–	–	522
Purchase of treasury stock	–	–	–	–	(2,489)	(2,489)	–	–	–	–	(2,489)
Disposal of treasury stock	–	–	–	(26)	146	119	–	–	–	–	119
Change of scope of consolidation	–	–	–	322	–	322	–	–	–	–	322
Change of scope of consolidation – foreign currency translation adjustment	–	–	–	–	–	–	146	−	146	–	146
Other net changes during the year	–	–	–	–	–	–	0	(194)	(194)	149	(44)
Total changes during the year	–	–	–	(1,333)	(2,343)	(3,677)	146	(194)	(47)	149	(3,574)
April 1, 2016	65,176	10,795	11,706	50,134	(3,706)	68,930	146	(166)	(20)	729	69,639
Dividends of surplus	–	–	–	(2,889)	–	(2,889)	–	–	–	–	(2,889)
Net income	–	–	–	5,146	–	5,146	–	–	–	–	5,146
Purchase of treasury stock	–	–	–	–	(1)	(1)	–	–	–	–	(1)
Disposal of treasury stock	–	–	–	(52)	537	484	–	–	–	–	484
Other net changes during the year	–	–	–	–	–	–	(26)	7	(18)	41	22
Total changes during the year	–	–	–	2,204	535	2,739	(26)	7	(18)	41	2762
March 31, 2017	65,176	¥10,795	¥11,706	¥52,339	¥(3,170)	¥71,670	¥119	¥(159)	¥(39)	¥771	¥72,402

	Shareholders' equity						Accumulated other comprehensive income				
	Capital stock										
	Number of shares	Amount	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Translation adjustments	Retirement benefit liability adjustment	Total accumulated other comprehensive income	Share subscription rights	Total net assets
	(Thousands)					*(Thousands of US dollars)*					
April 1, 2016	65,176	$96,222	$104,342	$446,875	$(33,036)	$614,403	$1,307	$(1,487)	$(180)	$6,504	$620,727
Dividends of surplus	–	–	–	(25,758)	–	(25,758)	–	–	–	–	(25,758)
Net income	–	–	–	45,876	–	45,876	–	–	–	–	45,876
Purchase of treasury stock	–	–	–	–	(14)	(14)	–	–	–	–	(14)
Disposal of treasury stock	–	–	–	(467)	4,787	4320	–	–	–	–	4,319
Other net changes during the year	–	–	–	–	–	–	(237)	70	(167)	368	201
Total changes during the year	–	–	–	19,650	4,772	24,422	(237)	70	(167)	368	24,623
March 31, 2017	65,176	$96,222	$104,342	$466,525	$(28,263)	$638,827	$1,069	$(1,417)	$(348)	$6,872	$645,351

See notes to consolidated financial statements.

FANCL CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Cash Flows

	Year ended March 31,		
	2017	2016	2017
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Cash flows from operating activities:			
Income (loss) before income taxes	¥ 5,826	¥ 1,252	$ 51,934
Depreciation	3,185	3,207	28,394
Impairment loss	914	124	8,151
Stock compensation expense	126	187	1,129
Increase (decrease) in allowance for doubtful accounts	27	1	243
Increase (decrease) in allowance for bonuses	(44)	107	(395)
Increase (decrease) in allowance for point program	110	87	980
Increase (decrease) in liability for retirement benefits	(9)	(18)	(87)
Increase (decrease) in allowance for directors' retirement benefits	–	(88)	–
Interest and dividend income	(5)	(11)	(44)
Loss (gain) on foreign exchange	48	54	432
Loss (gain) on investments in anonymous association	–	(36)	–
Loss (gain) on sales of investment securities	(4,440)	–	(39,582)
Loss (gain) on sales of fixed assets	(0)	(0)	(7)
Loss on disposal of fixed assets	38	24	342
Loss on closing of stores	44	46	395
Gain on reversal of subscription rights to shares	(37)	(3)	(336)
Decrease (increase) in accounts receivable	(1,122)	(979)	(10,002)
Decrease (increase) in inventories	(270)	(950)	(2,407)
Decrease (increase) in other current assets	440	146	3,925
Decrease (increase) in other fixed assets	9	4	85
Decrease (increase) in accounts payable	(239)	350	(2,137)
Increase (decrease) in other current liabilities	(644)	1,832	(5,745)
Increase (decrease) in other fixed liabilities	1	11	10
Others	(80)	(5)	(720)
Sub-total	3,877	5,342	34,558
Interest and dividends received	5	11	44
Income taxes paid	(1,890)	(2,184)	(16,853)
Income taxes refund	201	–	1,796
Net cash provided by (used in) operating activities	2,192	3,170	19,546
Cash flows from investing activities			
Payment for purchase of tangible fixed assets	(3,586)	(2,638)	(31,967)
Proceeds from sales of tangible fixed assets	79	0	704
Payment for purchase of intangible fixed assets	(488)	(1,087)	(4,352)
Proceeds from sales and redemption of investment securities	9,785	40	87,219
Proceeds from repayment of investments in silent partnerships	–	620	–
Payments for loans	(5)	(300)	(44)
Other payments	(117)	(229)	(1,051)
Other proceeds	126	204	1,123
Net cash provided by (used in) investing activities	5,976	(3,389)	53,270

FANCL CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Cash Flows (continued)

	Year ended March 31,		
	2017	2016	2017
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Cash flows from financing activities			
Proceeds from disposal of treasury stock	432	85	3,851
Payment for purchase of treasury stock	(1)	(2,489)	(14)
Cash dividends paid	(2,884)	(2,149)	(25,711)
Others	(98)	(92)	(879)
Net cash provided by (used in) financing activities	(2,552)	(4,647)	(22,755)
Effect of exchange rate changes on cash and cash equivalents	(47)	(54)	(423)
Net increase in cash and cash equivalents	5,568	(4,920)	49,637
Cash and cash equivalents at beginning of the year	26,040	30,659	232,114
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	–	301	–
Cash and cash equivalents at end of the year	¥31,609	¥26,040	$281,752

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

FANCL CORPORATION and Consolidated Subsidiaries

For the years ended March 31, 2017 and 2016

1. Summary of Significant Accounting Policies

(a) Basis of preparation

FANCL CORPORATION (the "Company") and its domestic consolidated subsidiaries maintain their books of account in accordance with accounting standards generally accepted in Japan, and its overseas consolidated subsidiaries maintain their books of accounts in conformity with those of its country of domicile. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan. Certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is familiar to readers outside Japan. Certain amounts in the prior years' financial statements have been reclassified to conform to the current year's presentation.

(b) Basis of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its consolidated subsidiaries (collectively, the "Group") over which substantial control is exerted through either majority ownership of voting stock and/or by other means. All significant intercompany balances and transactions have been eliminated in consolidation. Investments in non-consolidated subsidiaries and other affiliates are stated at cost because of their immateriality.

All assets and liabilities of the subsidiaries are revalued at their respective fair value upon acquisition, if applicable, and the excess of cost over the underlying net assets at the date of acquisition is amortized over a period based on an estimated useful life on a straight-line basis. However, if such excess is insignificant, it is charged to income when incurred.

There are nine consolidated subsidiaries, namely FANCL COSMETICS CORPORATION, FANCL HEALTH SCIENCE CORPORATION, ATTENIR CORPORATION, FANCL Hatsuga Genmai Co., Ltd., FANCL ASIA (PTE) LTD, FANCL B&H CORPORATION, FANCL INTERNATIONAL, INC., boscia, LLC and NICOSTAR BEAUTECH Co., Ltd.

FANCL ASIA (PTE) LTD, FANCL INTERNATIONAL, INC. and boscia, LLC are consolidated using their financial statements as of their respective fiscal year end, which falls on December 31, and necessary adjustments are made to their financial statements to reflect any significant transactions from January 1 to March 31.

1. Summary of Significant Accounting Policies (continued)

(c) Foreign currency translation

All assets and liabilities denominated in foreign currencies of the Company and its domestic consolidated subsidiaries are translated at the current exchange rates in effect at each balance sheet date when not hedged by forward foreign exchange contracts, or at the contracted rates of exchange when hedged by forward foreign exchange contracts. The resulting foreign exchange gain or loss is recognized as other income or expense.

(d) Cash equivalents

Cash and cash equivalents consist of cash on hand, cash in banks, which can be withdrawn at any time, and short-term investments with a maturity of three months or less when purchased which can easily be converted to cash and are subject to little risk of change in value.

Under the accounting standard governing the statement of cash flows, the definition of cash and cash equivalents in the statement of cash flows differs from that of cash and bank deposits in the balance sheet with respect to certain items. The reconciliation between the cash definitions referred to above is presented in Note 13.

(e) Securities

All securities owned by the Company and its consolidated subsidiaries are considered to be available-for-sale securities and are classified as "other" securities, one of the three categories (trading, held-to-maturity and other) defined in the Accounting Standard for Financial Instruments.

Other securities with quoted market prices are carried at fair market value. The difference between the acquisition cost and the carrying value of other securities, net of taxes, is recognized as a component of net assets and is reflected as "Net unrealized holding gain (loss) on securities." The cost of other securities sold is computed by the average method. Other securities without quoted market prices are stated at cost by the average method.

(f) Inventories

Merchandise, products, work in progress and raw materials are stated at cost by the average method. Supplies are stated at cost by the last purchase price method. Inventories are stated principally at the lower of cost or market.

(g) Depreciation and amortization

Depreciation expenses are calculated by the methods under the Corporation Tax Law as follows:

	Buildings	Assets other than buildings
Acquired prior to April 1, 1998	Previous Declining-balance method	Previous Declining-balance method
Acquired during the period from April 1, 1998 to March 31, 2007	Previous Straight-line method	Previous Declining-balance method
Acquired on or after April 1, 2007	Straight-line method	Declining-balance method

Provided, however, that the straight-line method is adopted for building fixtures and structures acquired on or after April 1, 2016.

1. Summary of Significant Accounting Policies (continued)

(g) Depreciation and amortization (continued)

The following summarizes the estimated useful lives of tangible fixed assets by major category:

Buildings and structures	2 – 50 years
Machinery, vehicles	2 – 22 years
Tools, furniture and fixtures	2 – 20 years

Effective the year ended March 31, 2009, the residual value of tangible fixed assets which were acquired before April 1, 2007 and have been fully depreciated to their respective depreciable limits under the Corporation Tax Law, is to be depreciated to nil over a period of five years.

Intangible assets are amortized by the straight-line method. The cost of software intended for internal use is amortized by the straight-line method over an estimated useful life of five years.

(h) Leases

The Company and its consolidated subsidiaries lease certain equipment under non-cancelable lease agreements referred to as finance leases.

Finance leases other than those which transfer the ownership of the leased assets to the lessee are depreciated to nil over the period of the lease term.

(i) Research and development expenses

Research and development expenses are charged to income when incurred.

(j) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at an amount sufficient to cover possible losses on the collection of receivables and is determined based on the historical experience with write-offs plus an estimated amount for probable doubtful accounts after a review of the collectability of individual receivables.

(k) Allowance for employees' bonuses

The allowance for employees' bonuses represents a provision for the future payment of employees' bonuses.

(l) Allowance for point program

The allowance for point program represents a provision for redemptions of coupons from the customer loyalty program provided at an amount reasonably estimated to be incurred in the future based on the historical experience with respect to the usage of coupons against unused coupons at the balance sheet date.

1. Summary of Significant Accounting Policies (continued)

(m) Liability for retirement benefits

The Group has retirement benefit plans which entitle its employees upon retirement to either a lump-sum payment or pension annuity payments for life, or a combination of both, based on their length of service, salary at the time of retirement and number of years of participation in the plans.

The accrued retirement benefits for employees have been provided based on an estimate of the retirement benefit obligation and the pension fund assets.

The retirement benefit obligation for employees is attributed to each period by the benefit formula basis over the estimated years of service of the eligible employees.

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized over periods (5 years), which are shorter that the average remaining working life.

Certain domestic consolidated subsidiaries that have defined benefit pension plans calculate liabilities and expenses using the simplified method.

(n) Deferred income taxes

Deferred income taxes are recognized by the asset and liability method under which deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities, and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(o) Derivatives

Derivative financial instruments are stated at fair value.

(p) Changes in accounting policy

In connection with the amendment of the Corporation Tax Law, "Practical Treatment on Changes in the Depreciation Method for the Tax Reform in FY2016 (Practical Issues Task Force No. 32 issued on June 17, Heisei 28)" was applied in the current consolidated fiscal year, Depreciation method for building fixtures and structures acquired on or after April 1, 2016 has been changed from the declining balance method to the straight-line method.

Application Guidelines on Recoverability of Deferred Tax Assets "(ASBJ Guidance No. 26 issued on March 28, Heisei 28) have been applied from the current consolidated fiscal year.

2. U.S. Dollar Amounts

For the convenience of the reader, the accompanying consolidated financial statements with respect to the year ended March 31, 2017 have been presented in U.S. dollars by translating all yen amounts at ¥112.19 = U.S.$1.00, the exchange rate prevailing on March 31, 2017. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

3. Financial Instruments

1. Matters relating to financial instruments

   (1) Basic policy on financial instruments
   With respect to managing surplus funds, the Group limits such management to short-term deposits and highly safe financial assets, based on internal regulations governing fund management.
   With regard to derivatives, the Group's policy is to avoid speculative transactions. The Group had no derivative transactions during the current fiscal year.

   (2) Types, risks and risk management framework regarding financial instruments
   Notes and accounts receivable, which are operating receivables, are exposed to the credit risk of counterparties. To mitigate this risk, the Group, in line with internal regulations for managing credit exposure, manages the accounts and remaining balances for each customer at the appropriate closing date. The Group also has a system for assessing the credit status of major customers on an annual basis.
   Shares, which are investment securities, are exposed to the risk from fluctuations in market prices. These shares, however, consist mainly of common stock other companies with which the Group has business relationship, and, the fair values of those are periodically assessed and reported to the Board of Directors.
   Deposits and guarantee money set aside for rental properties are exposed to the credit risk of corporate counterparties. To mitigate this risk, the Group researches the credit standing of corporate counterparties – the parties covered under guarantees – at the time that the Group opens stores.

   (3) Supplementary explanation to matters regarding fair values of financial instruments
   Fair values of financial instruments are based on market price. If market price is not available, other reasonable valuation techniques are used. Such techniques include variable factors and the results of valuation may change depending on the assumptions used.

3. Financial Instruments (continued)

2. Matters regarding fair values of financial instruments

The following table represents the amounts of financial instruments recorded in the consolidated balance sheet, their fair values, and the differences between the balance sheet amounts and the fair values. Financial instruments whose fair values are deemed extremely difficult to assess are not included (refer to "Note ii" below).

As of March 31, 2017

	Carrying value	Fair value	Unrealized gain (loss)	Carrying value	Fair value	Unrealized gain (loss)
	(Millions of yen)			*(Thousands of U.S. dollars)*		
(1) Cash and bank deposits	¥31,609	¥31,609	¥ –	$281,752	$281,752	$ –
(2) Notes and accounts receivable	11,021	11,021	–	98,243	98,243	–
Total assets	42,631	42,631	–	379,996	379,996	–
(1) Notes and accounts payable	2,307	2,307	–	20,566	20,566	–
(2) Accrued liabilities	4,082	4,082	–	36,385	36,385	–
Total liabilities	¥ 6,389	¥ 6,389	¥ –	$ 56,951	$ 56,951	$ –

As of March 31, 2016

	Carrying value	Fair value	Unrealized gain (loss)
	(Millions of yen)		
(1) Cash and bank deposits	¥18,034	¥18,034	¥ –
(2) Notes and accounts receivable	9,945	9,945	–
(3) Marketable securities	8,006	8,006	–
Total assets	35,986	35,986	–
(1) Notes and accounts payable	2,547	2,547	–
(2) Accrued liabilities	4,980	4,980	–
Total liabilities	¥ 7,527	¥ 7,527	¥ –

Note i: Methods for calculating fair value of financial instruments and matters regarding securities and derivatives

Assets

(1) Cash and bank deposits and (2) Notes and accounts receivable

Due to short-term settlement, the fair value for these items is almost the same as their book value. As such, the book value represents the fair value.

Notes and accounts receivable are deducted by the relating allowance for doubtful accounts.

(3) Marketable securities

For marketable securities, the fair value of bonds is based largely on the price quoted by the financial institution involved in the transaction.

Liabilities

(1) Notes and accounts payable and (2) Accrued liabilities
Due to short-term settlement, the fair value for these items is almost the same as their book value. As such, the book value represents the fair value.

3. Financial Instruments (continued)

2. Matters regarding fair values of financial instruments (continued)

Note ii: Financial instruments whose fair values are deemed extremely difficult to assess

Category	March 31, 2017	March 31, 2016	March 31, 2017
	Carrying value		
	(Millions of yen)		*(Thousands of U.S. dollars)*
Unlisted equity securities *	¥128	¥5,656	$1,141

* The fair values of unlisted equity securities are not disclosed because their market prices are not available and future cash flows cannot be estimated, therefore, their fair values are deemed extremely difficult to assess.

Note iii: Projected redemption amounts for monetary receivables and securities with maturities after the account closing date

As of March 31, 2017

	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
	(Millions of yen)				*(Thousands of U.S. dollars)*			
Cash and bank deposits	¥31,586	¥ –	¥ –	¥ –	$281,543	$ –	$ –	$ –
Notes and accounts receivable	11,021	–	–	–	$98,243	–	–	–
Total	¥42,627	¥ –	¥ –	¥ –	$379,786.	$ –	$ –	$ –

As of March 31, 2016

	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
	(Millions of yen)			
Cash and bank deposits	¥18,012	¥ –	¥ –	¥ –
Notes and accounts receivable	9,991	5	–	–
Other	8,006	–	–	–
Total	¥36,010	¥ 5	¥ –	¥ –

4. Securities

(1) Information regarding investment securities with quoted market prices classified as other securities at March 31, 2017 and 2016 is summarized as follows:

	As of March 31, 2017					
	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
	(Millions of yen)			*(Thousands of U.S. dollars)*		
Securities whose carrying value exceeds their acquisition cost:						
Stocks	¥ –	¥ –	¥ –	$ –	$ –	$ –
Bonds	–	–	–	–	–	–
Other	–	–	–	–	–	–
Subtotal	–	–	–	–	–	–
Securities whose acquisition cost exceeds their carrying value:						
Stocks	–	–	–	–	–	–
Bonds	–	–	–	–	–	–
Other	–	–	–	–	–	–
Subtotal	–	–	–	–	–	–
Total	¥ –	¥ –	¥ –	$ –	$ –	$ –

	As of March 31, 2016		
	Carrying value	Acquisition cost	Unrealized gain (loss)
	(Millions of yen)		
Securities whose carrying value exceeds their acquisition cost:			
Stocks	¥ –	¥ –	¥ –
Bonds	–	–	–
Other	–	–	–
Subtotal	–	–	–
Securities whose acquisition cost exceeds their carrying value:			
Stocks	–	–	–
Bonds	–	–	–
Other	8,006	8,006	–
Subtotal	8,006	8,006	–
Total	¥8,006	¥8,006	¥ –

4. Securities (continued)

(2) Investment securities sold during the fiscal years ended March 31, 2017 and 2016

	2017					
	Proceeds from sales	Gross realized gains	Gross realized losses	Proceeds from sales	Gross realized gains	Gross realized losses
	(Millions of yen)			(Thousands of U.S. dollars)		
Stocks	¥ 9,800	¥ 4,400	¥ –	$ 87,351	$ 39,582	$ –

	2016		
	Proceeds from sales	Gross realized gains	Gross realized losses
	(Millions of yen)		
Stocks	¥ –	¥ –	¥ –

(3) Investments in unconsolidated subsidiaries and affiliates

Investments in unconsolidated subsidiaries and affiliates included in "investment securities" as of March 31, 2017 and 2016 amounted to ¥57 million ($514 thousand) and ¥241 million, respectively. Investments in unconsolidated subsidiaries and affiliates as of March 31, 2017 and 2016 also included investments in stock of jointly controlled companies in the amounts of ¥69 million ($617 thousand) and ¥69 million, respectively.

(4) Accounting for the impairment of securities

"Acquisition cost" in the table above is recognized at book value after impairment treatment.

When the market value of the securities at year-end declines by more than 50% of the acquisition cost, the Company deems market value to be irrecoverable and recognizes impairment loss for such securities.

In cases when market value declines by more than 30% but by less than 50% of the acquisition cost at year-end, the Company does not recognize impairment losses, apart from the cases in which market value declines due to the factors of downturns in business and others.

5. Shareholders' Equity

The Companies Act provides that amounts from capital surplus and retained earnings may be distributed to the shareholders at any time by resolution of the shareholders or by the Board of Directors if distributions are within the extent of the surplus available for distribution. The Companies Act further provides that amounts equal to 10% of such distributions need to be transferred to the legal capital surplus included in capital surplus or the legal retained earnings included in retained earnings until the sum of the legal capital surplus and the legal retained earnings equals 25% of the capital stock account.

The Company may make dividend payments as the appropriation of retained earnings by a resolution of the Board of Directors pursuant to the provisions of Article 459, Paragraph 1 of the Companies Act.

The amount of year-end cash dividends per share and half-year cash dividends per share, which the Company recorded at the respective period ends for the years ended March 31, 2017 and 2016, were as follows:

	2017	**2016**	**2017**
	(Yen)		*(U.S. dollars)*
Year-end	¥29.00	¥17.00	$0.25
Half-year	29.00	17.00	0.25

The effective dates of the distribution for year-end and half-year cash dividends, which were paid during the year ended March 31, 2017, were June 27, 2016 and December 5, 2016, respectively.

The cash dividends of retained earnings of the Company for the year ended March 31, 2017 approved at a meeting of the Board of Directors, which was held on April 27, 2017, were as follows:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Cash dividends	¥1,826	$16,282
	(Yen)	*(U.S. dollars)*
Cash dividends per share	¥29.00	$0.25

6. Income Taxes

The significant components of deferred tax assets and liabilities at March 31, 2017 and 2016 were as follows:

	2017	2016	2017
	(Millions of yen)		*(Thousands of U.S. dollars)*
Deferred tax assets:			
Current assets			
Accrued enterprise taxes	¥ 73	¥ 32	$ 654
Accrued special local corporation tax	16	12	145
Allowance for bonuses	322	334	2,874
Allowance for doubtful accounts	24	15	216
Allowance for point program	505	490	4,508
Loss on valuation of inventories	109	102	976
Unrealized gain and loss on inventories	33	32	296
Accrued business office taxes	11	11	105
Loss carryforwards	420	332	3,752
Asset retirement obligations	0	–	6
Others	372	233	3,319
Less: Valuation allowance	(284)	(236)	(2,535)
Set-off by deferred tax liabilities	(7)	(8)	(71)
Subtotal	1,598	1,352	14,247
Fixed assets			
Liability for retirement benefits (Note 7)	432	422	3,855
Long-term accrued amount payable	13	17	121
Allowance for doubtful accounts	5	7	48
Golf club membership	16	16	147
Loss on valuation of investment securities	18	1,452	162
Affiliate company equity	2	2	20
Loss carried forward	1,632	1,199	14,550
Impairment loss	440	268	3,930
Asset retirement obligations	122	112	1,093
Other	116	101	1,038
Valuation allowance	(1,264)	(2,420)	(11,271)
Set-off by deferred tax liabilities	(353)	(330)	(3,147)
Subtotal	1,183	850	10,550
Total deferred tax assets	2,782	2,202	24,798
Deferred tax liabilities:			
Current liabilities			
Income taxes receivable	(7)	(8)	(71)
Set-off by deferred tax assets	7	8	71
Subtotal	–	–	–
Long-term liabilities			
Unrealized intercompany profit on land	(232)	(232)	(2,068)
Net unrealized holding gain (loss) on other securities	(60)	(61)	(538)
Removal expenses associated with asset retirement obligations	(25)	(17)	(224)
Other	(35)	(19)	(315)
Set-off by deferred tax assets	353	330	3,147
Subtotal	–	–	–
Total deferred tax liabilities	–	–	–
Net deferred tax assets	¥ 2,782	¥ 2,202	$ 24,798

6. Income Taxes (continued)

A reconciliation between the statutory tax rate and the effective tax rates as a percentage of income before income taxes and non-controlling interests for the years ended March 31, 2017 and 2016 are summarized as follows:

	2017	2016
Statutory tax rate	30.81%	33.01%
Additions to (deductions from) income taxes resulting from:		
Permanent nondeductible differences, such as entertainment expenses	0.98	4.98
Inhabitants' per capita taxes	2.21	10.35
Permanent nontaxable differences, such as dividend income	(0.00)	(0.00)
Valuation allowance	(19.51)	2.75
Tax credits, such as for research and development expenses	(1.90)	(5.56)
Differences in effective tax rates among the Company and its consolidated subsidiaries	(0.73)	(1.49)
Effects of changes in income tax rates	0.18	13.27
Other	(0.37)	0.93
Effective tax rate	11.67%	58.24%

7. Retirement Benefits

The Company and its consolidated subsidiaries mainly adopt a defined benefit corporate pension plan, a lump sum retirement allowance plan and a welfare pension fund system for employees' retirement benefits.
In the defined benefit corporate pension plan and the retirement lump sum payment plan, lump-sum payment or annuity based on salary and service period is paid. For defined benefit corporate pension plans and lump sum retirement plans owned by certain consolidated subsidiaries, liabilities related to retirement benefits and retirement benefit expenses are calculated using the simplified method.
The Employees' Pension Fund System is subscribed to the "Yokohama City Industrial Welfare Pension Fund" under the multiple business owner system, and the Company and certain consolidated subsidiaries should reasonably calculate the amount of pension assets corresponding to their contributions Regarding the system that can not be done, we account for it in the same way as defined contribution plan. The Fund has resolved the special dissolution policy at the delegation meeting held on February 24, 2015 and has received permission to dissolve on May 25, 2017.

Defined benefit pension plans and lump-sum retirement payment plans

The changes in the retirement benefit obligation during the year ended March 31, 2017 and 2016 are as follows (excluding plans for which the simplified method is applied):

	March 31,		
	2017	**2016**	**2017**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Retirement benefit obligation at the beginning of fiscal year	¥2,298	¥2,006	$20,490
Restated balance at the beginning of fiscal year	2,298	2,006	20,490
Service cost	233	203	2,085
Interest cost	3	17	28
Actuarial loss	22	191	202
Retirement benefit paid	(127)	(109)	(1,137)
Other	(2)	(10)	(25)
Retirement benefit obligation at the end of fiscal year	¥2,428	¥2,298	$21,643

7. Retirement Benefits (continued)

The changes in plan assets during the year ended March 31, 2017 and 2016 are as follows (excluding plans for which the simplified method is applied):

	March 31,		
	2017	2016	2017
	(Millions of yen)		*(Thousands of U.S. dollars)*
Plan assets at the beginning of fiscal year	¥1,380	¥1,320	$12,306
Expected return on plan assets	41	39	369
Actuarial loss	8	(70)	75
Contributions by the Company	172	165	1,541
Retirement benefit paid	(78)	(68)	(703)
Other	(3)	(6)	(29)
Plan assets at the end of fiscal year	¥1,521	¥1,380	$13,559

Defined benefit pension plans and lump-sum retirement payment plans (continued)

The changes in the retirement benefit obligation of consolidated subsidiaries which adopt the simplified method during the year ended March 31, 2017 and 2016 are as follows:

	March 31,		
	2017	2016	2017
	(Millions of yen)		*(Thousands of U.S. dollars)*
Retirement benefit obligation the beginning of fiscal year	¥406	¥377	$3,624
Retirement benefit expense	63	88	562
Retirement benefit paid	(24)	(16)	(217)
Contribution to the plans	(53)	(52)	(480)
Other	4	9	43
Retirement benefit obligation at the end of fiscal year	¥396	¥406	$3,533

7. Retirement Benefits (continued)

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2017 and 2016 for the Company's and the consolidated subsidiaries' defined benefit plans:

	March 31,		
	2017	2016	2017
	(Millions of yen)		*(Thousands of U.S. dollars)*
Funded retirement benefit obligation	¥ 3,294	¥ 3,106	$ 29,365
Plan assets at fair value	(2,052)	(1,850)	(18,297)
	1,241	1,256	11,067
Unfunded retirement benefit obligation	61	68	549
Net liability for retirement benefits in the balance sheet	1,303	1,324	11,617
Liability for retirement benefits	1,303	1,324	11,617
Net liability for retirement benefits in the balance sheet	¥ 1,303	¥ 1,324	$ 11,617

Note: Including the plans of consolidated subsidiaries which adopt the simplified method.

Defined benefit pension plans and lump-sum retirement payment plans (continued)

The components of retirement benefit expense for the year ended March 31, 2017 and 2016 are as follows:

	March 31,		
	2017	2016	2017
	(Millions of yen)		*(Thousands of U.S. dollars)*
Service cost	¥233	¥203	$2,085
Interest cost	3	17	28
Expected return on plan assets	(41)	(39)	(369)
Amortization of actuarial loss	26	(11)	232
Amortization of prior service cost	—	(7)	—
Retirement benefit expense calculated by the simplified method	63	88	562
Retirement benefit expense	¥284	¥251	$2,539

7. Retirement Benefits (continued)

The components of retirement benefits liability adjustments included in other comprehensive income (before tax effect) for the year ended of March 31, 2017 and 2016 are as follows:

	March 31,		
	2017	2016	2017
	(Millions of yen)		*(Thousands of U.S. dollars)*
Prior service cost	¥ —	¥ (7)	$ —
Actuarial gain and loss	(11)	(273)	(104)
Total	¥(11)	¥(280)	$(104)

Unrecognized prior service cost and unrecognized actuarial loss included in accumulated other comprehensive income (before tax effect) as of March 31, 2017 and 2016 are as follows:

	March 31,		
	2017	2016	2017
	(Millions of yen)		*(Thousands of U.S. dollars)*
Unrecognized actuarial loss	228	240	2,038
Total	¥228	¥240	$2,038

Defined benefit pension plans and lump-sum retirement payment plans (continued)

The fair values of plan assets, by major category, as a percentage of total plan assets as of March 31, 2017 and 2016 are as follows:

	March 31,	
	2017	2016
General accounts at life insurance companies	49%	49%
Bonds	23%	22%
Stocks	21%	23%
Short-term deposits	5%	5%
Other	2%	1%
Total	100%	100%

Note: The total amounts of plan assets do not include the employee pension trust set up for the corporate pension plan.

7. Retirement Benefits (continued)

The expected return on assets has been estimated based on the anticipated allocation to each asset class and the expected long-term returns on assets held in each category.

The assumptions used in accounting for the above plans as of March 31, 2017 and 2016 were as follows:

	March 31,	
	2017	2016
Discount rates	0.14%	0.14%
Expected rates of return on plan assets	3.00%	3.00%

Note: The Company and subsidiaries calculate retirement benefit obligation based on “point-based benefits system.” Accordingly, expected rates of salary increases are not used.

Multi-employer Welfare Pension Fund Plan

The Company and its consolidated subsidiaries participating in the Fund have accounted for their contributions to the Fund as retirement benefit expenses. The required contribution to the Fund during the year ended March 31, 2017 and 2016 is ¥108 million ($970 thousands) and ¥192 million, respectively.

(1) Funded status of the Fund as of March 31, 2017 and 2016:

	March 31,		
	2016	2015	2016
	(Millions of yen)		*(Thousands of U.S. dollars)*
Fund’s assets	¥10,602	¥10,597	$94,504
Projected benefit obligation	10,363	10,467	92,371
Funded status	¥ 239	¥ 130	$ 2,133

Multi-employer Welfare Pension Fund Plan (continued)

(2) The percentage of the contributions paid by the Group over total contributions paid by all participants into the Fund were 65.6% and 63.9% for the year ended March 31, 2016 and 2015, respectively.

(3) Supplementary explanation

- The funded status (1) above is mainly resulted from surplus of the current fiscal year.
- The Group does not make special contributions to the Fund.
- The share of the contributions paid in (2) above dose not correspond to the proportionate share of the benefit obligation of the Group.
- The Fund was authorized to return public pension assets on behalf of the government on November 1, 2015, and prepaid ¥7,000 million, the part of the minimum amount of policy reserve, on November 27, 2015.

8. Research and Development Expenses

Research and development expenses charged to income for the years ended March 31, 2017 and 2016 were as follows:

	2017	2016	2017
	(Millions of yen)		*(Thousands of U.S. dollars)*
Research and development expenses	¥3,277	¥2,852	$29,217

9. Leases

Non-ownership-transfer finance lease transaction as lessee

(1) Type of assets
Tangible assets: Office equipment such as personal computer, copy multifunction machine
Intangible assets: Not applicable.

(2) The method of depreciation
Leased assets are depreciated by straight-line method over the lease period.

Operating lease transaction

Not applicable

10. Loss on Impairment of Fixed Assets

Loss on impairment of fixed assets for the years ended March 31, 2017 and 2016 consisted of the following:

For the year ended March 31, 2017

Used for	Type of assets	Amount		Place
		(Millions of yen)	*(Thousands of U.S. dollars)*	
Store equipment	Building and structures Tools and equipment	¥ 4 0	$ 35 5	Kanto Area
Accounting system	Software	108	968	Kanto Area
Factory and warehouse equipment	Building Land	28 30	256 274	Shikoku Area
Factory equipment	Building and structures Mechanical equipment and vehicles Tools and equipment Software Land	348 90 3 0 297	3,103 810 28 6 2,650	Chubu Area
Total		¥914	8,151	

Outline of impairment loss recognition:

For store equipment, the Company wrote down the book values of such equipment to the recoverable value of these assets, after deciding to close stores or renovate stores and dispose of unneeded assets. This reduction in value of ¥5 million was booked as an impairment loss in other expenses.

The recoverable value of Accounting system is calculated as the net sale value. Assets are unlikely to be sold and have a value of zero.
For the Kagawa factory and warehouse facilities, since the decision to sell was made, the carrying amount of the asset was reduced to the recoverable value, and the amount of reduction of ¥59 million yen was recorded as an extraordinary loss as an impairment loss.

For Nagano factory facilities, because it was judged that it is difficult to recover the investment amount due to a decline in profitability, the book value of the corresponding asset is reduced to the recoverable value, and the decrease of ¥740 million yen as an impairment loss as an extraordinary loss It is recorded.

Grouping method:

The Group primarily groups assets by type of operation. Idle assets are grouped by facility.

Method for calculating recoverable value:

The recoverable value of store equipment is calculated as the net sale value. Assets other than those that can be diverted are unlikely to be sold and have a value of zero.

The recoverable value of the holding company system is calculated as the net sale value. It’s unlikely to be sold and have a value of zero.
The recoverable value of Kagawa factory and warehouse facilities are calculated based on the sales contract value.

10. Loss on Impairment of Fixed Assets (continued)

The recoverable value of Nagano factory facilities, the land is calculated based on the property tax assessment value, and There is no plan to sell anything except land and have a value of zero.

For the year ended March 31, 2016

Used for	Type of assets	Amount (Millions of yen)	Place
Mail order system	Tools and equipment Software	¥ 0 124	Kanto Area
Total		¥124	

Outline of impairment loss recognition:

The Company wrote down the book values of such equipment to the recoverable value of these assets, after deciding to introduce a new system. This reduction in value of ¥124 million ($1,100 thousands) was booked as an impairment loss in other expenses.

Grouping method:

The Group primarily groups assets by type of operation. Idle assets are grouped by facility.

Method for calculating recoverable value:

The recoverable value of mail order system is calculated as the net sale value. Assets are unlikely to be sold and have a value of zero.

11. Stock Option Plans

Stock Option-related Expenses:

Stock option expenses of ¥126 million ($1,129 thousand) and ¥187 million were recorded in selling, general and administrative expenses for the years ended March 31, 2017 and 2016, respectively.

Stock option-related gains due to expiration:

A gain on reversal of stock options to shares of ¥37 million ($336 thousand) and ¥3million were recorded for the year ended March 31, 2017 and 2016, respectively.

At March 31, 2016, the Company had the following stock option plans, which were approved by the Board of Directors.

Date of approval by the Board of Directors	November 15, 2006	November 12, 2007	November 14, 2008	November 12, 2009	November 15, 2010	September 12, 2011	November 14, 2011
Grantees	9 directors and 9 executive officers	11 directors and 5 executive officers	9 directors and 3 executive officers	7 directors and 3 executive officers	7 directors and 5 executive officers	2,519 employees of the Company and subsidiaries	7 directors and 5 executive officers
Type of shares with warrants granted	Common stock	Common stock	Common stock	Common stock	Common stock	Common stock	Common stock
Number of shares with warrants granted	62,800 shares	90,700 shares	78,200 shares	44,900 shares	73,300 shares	928,000 shares	90,500 shares
Option price per warrant	¥1	¥1	¥1	¥1	¥1	¥1,098	¥1
Exercise period	December 2, 2006 – December 1, 2036	December 4, 2007 – December 3, 2037	December 2, 2008 – December 1, 2038	December 2, 2009 – December 1, 2039	December 2, 2010 – December 1, 2040	September 13, 2013 – September 12, 2016	December 2, 2011 – December 1, 2041

Date of approval by shareholders or the Board of Directors	September 13, 2012	November 12, 2012	November 14, 2013	January 15, 2014	October 30, 2014	October 29, 2015	October 28, 2016
Grantees	9 directors and 5 executive officers of the Company, and 7 directors of subsidiaries	7 directors and 5 executive officers	10 directors and 10 executive officers	2,606 employees of the Company and subsidiaries	10 directors and 5 executive officers of the Company, and 3 directors of subsidiaries	10 directors and 9 executive officers of the Company, and 9 directors of subsidiaries	10 directors and 9 executive officers of the Company, and 7 directors of subsidiaries
Type of shares with warrants granted	Common stock	Common stock	Common stock	Common stock	Common stock	Common stock	Common stock
Number of shares with warrants granted	147,000 shares	116,300 shares	120,100 shares	1,442,900 shares	78,400 shares	84,800 shares	91,200 shares
Option price per warrant	¥907	¥1	¥1	¥1,223	¥1	¥1	¥1
Exercise period	September 14, 2014 – September 13, 2017	December 4, 2012 – December 3, 2042	December 3, 2013 – December 2, 2043	January 16, 2016 – January 15, 2019	December 12, 2014 – December 1, 2044	December 2, 2015 – December 1, 2045	December 2, 2016– December 1, 2046

11. Stock Option Plans (continued)

Fair value as of the grant date for the seventeenth stock options, approved at the meeting of the Board of Directors held on October 28, 2016, during the year ended March 31, 2017 was estimated using the Black-Scholes model with the following assumptions.

	Seventeenth stock options, 2016
Expected volatility (*1)	23.54%
Expected life (*2)	6 years
Expected dividend (*3)	34.00 yen
Risk-free rate (*4)	(0.09)%

Notes:

*1. The expected volatility is estimated by taking into account the entire stock market, the characteristics of the Company's stock and the fair value of the stock options over six years from December 2010 to November 2016 corresponding to the expected life of the option.

*2. The expected life of the option is estimated by the assumption that the options are exercised at retirement of the grantee expected based on internal regulations.

*3. This is based on the Company's dividend for the year ended March 31, 2016.

*4. Risk-free interest rate is the yield on Japanese government bonds for a period that corresponds to the expected life of the option.

12. Amounts per Share

Basic profit (loss) attributable to owners of parent per share is computed based on the profit (loss) attributable to owners of parent available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during each year. Diluted profit (loss) attributable to owners of parent per share is computed based on the profit (loss) attributable to owners of parent available for distribution to the shareholders of common stock and the weighted-average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the exercise of warrants and stock subscription rights. Net assets per share are computed based on the net assets and the number of shares of common stock outstanding at the year-end (excluding share warrants).

	2017	2016	2017
	(Yen)		*(U.S. dollars)*
Profit (loss) attributable to owners of parent:			
– Basic	¥ 81.92	¥ 8.31	$ 0.73
– Diluted	80.91	8.22	0.72
Net assets	1,137.14	1,100.39	10.13

Note: The following represents the basis of computation of profit (loss) attributable to owners of parent per share and diluted profit (loss) attributable to owners of parent per share:

	2017	2016	2017
	(Millions of Yen or share)		*(Thousands of U.S. dollars or share)*
Profit (loss) attributable to owners of Parent per share			
Profit (loss) attributable to owners of parent	¥ 5,146	¥ 522	$ 45,876
Amount not attributable to common shareholders	–	–	–
Net profit (loss) attributable to owners of parent on common stock	5,146	522	45,876
Average number of shares of common stock outstanding during the period	62,831,621	62,949,241	62,831,621
Diluted profit (loss) attributable to owners of parent per share			
Adjustment for profit (loss) attributable to owners of parent	–	–	–
Increase in shares of common stock mainly consists of:			
Share warrants	779,236	641,000	779,236
Residual securities not included in the calculation of diluted profit (loss) attributable to owners of parent due to their anti-dilutive effects	–	–	–

13. Supplementary Cash Flow Information

The following table represents a reconciliation of cash and bank deposits in the accompanying consolidated balance sheets with cash and cash equivalents in the accompanying consolidated statements of cash flows at March 31, 2017 and 2016:

	2017	2016	2017
	(Millions of yen)		*(Thousands of U.S. dollars)*
Cash and bank deposits	¥31,609	¥18,034	$281,752
	–	8,006	–
Cash and cash equivalents	¥31,609	¥26,040	$281,752

14. Asset Retirement Obligations

Information on asset retirement obligations

(1) Overview of asset retirement obligations

① Obligation to restore property to its original condition based on real estate lease agreements

The Group has the obligation to restore offices and stores used under real estate lease agreements to their original condition following termination of lease agreements.

② Pursuant to the Japanese Act on Ensuring the Implementation of Recovery and Destruction of Fluorocarbons Concerning Designated Products, the Construction Material Recycling Law, and the Law Concerning Special Measures Against PCB Waste

The Group has the legal obligation following retirement of offices and manufacturing facilities to undertake certain environmental management measures.

(2) Method for calculating amount of asset retirement obligations

As of March 31, 2017

① Obligation to restore property to its original condition based on real estate lease agreements

The Group has estimated the usage period within the range from 5 to 15 years from the acquisition of property, and calculates the amounts of asset retirement obligations using the discount rates of 0.00 – 3.33%.

② Pursuant to the Act on Ensuring the Implementation of Recovery and Destruction of Fluorocarbons Concerning Designated Products, the Construction Material Recycling Law, and the Law Concerning Special Measures Against PCB Waste

The Company has estimated the usage period at 15 years from the acquisition of property, and, calculates the amounts of asset retirement obligations using the discount rates of 0.80 – 1.50%.

14. Asset Retirement Obligations (continued)

Information on asset retirement obligations (continued)

As of March 31, 2016

① Obligation to restore property to its original condition based on real estate lease agreements

The Group has estimated the usage period within the range from 5 to 15 years from the acquisition of property, and calculates the amounts of asset retirement obligations using the discount rates of 0.00 – 2.38%.

② Pursuant to the Act on Ensuring the Implementation of Recovery and Destruction of Fluorocarbons Concerning Designated Products, the Construction Material Recycling Law, and the Law Concerning Special Measures Against PCB Waste

The Company has estimated the usage period at 15 years from the acquisition of property, and, calculates the amounts of asset retirement obligations using the discount rates of 0.80 – 1.50%.

(3) Total changes in applicable asset retirement obligations during the years ended March 31, 2017 and 2016.

	2017	**2016**	**2017**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Balance at beginning of year	¥385	¥359	$3,432
Liabilities incurred due to the acquisition of tangible fixed assets	40	21	358
Accretion expense	1	2	13
Settlement		–	–
Decrease due to extinguishment of obligation to restore	(6)	–	(58)
Others, net	(1)	1	(9)
Balance at end of year	¥419	¥385	$3,735

15. Segment Information

(a) Overview of Reportable Segments

The reportable segments of the Group consist of business components for which separate financial statements are available. The reportable segments are the subject of periodical review by board of directors' meetings for the purpose of making decisions on the allocation of business resources and evaluating business performance.

The Corporate Group is engaged in a wide range of businesses focusing primarily on the manufacture and sale of cosmetics and nutritional supplements. Within the Company and its consolidated subsidiaries, there are some companies that do not manufacture a single product, but rather manufacture and sell multiple products, and the Corporate Group pursues it business by formulating overriding strategies for Japan and overseas for each product handled.

15. Segment Information (continued)

(a) Overview of Reportable Segments (continued)

Therefore, the Corporate Group is comprised of segments delineated by product based on the products handled, and the Group has three reportable segments, Cosmetics Business, Nutritional Supplements Business and Other Businesses.

Cosmetics-related Business consists of the manufacture and sale of cosmetics and supply for OEMs. Nutritional Supplement-related Business comprises the manufacture and sale of nutritional supplements. Other Businesses comprise of sundries, personnel effects, comfort undergarments, Hatsuga genmai (germinated brown rice), and Kale juice.

(b) Accounting methods for sales, income and losses, assets and liabilities and other items in each reportable segment

The accounting treatments for reportable segments are substantially the same as those disclosed in the significant accounting policies in Note 1. Segment performance is evaluated based on operating income.

(c) Information by reportable segments

	Year ended March 31, 2017					
	Reportable segments				Adjustments and eliminations (*2)	Consolidated (*3)
	Cosmetics business	Nutritional supplements business	Other businesses (*1)	Total		
	(Millions of yen)					
I. Sales, profits or losses and assets by reportable segments						
Sales to external customers	¥56,926	¥32,085	¥7,294	¥96,305,	¥ –	¥96,305
Intersegment sales or transfers	–	–	–	–	–	–
Total sales	56,926	32,085	7,294	96,305	–	96,305
Segment profits (losses)	5,253	(865)	(599)	3,788	(1,544)	2,244
Segment assets	¥33,267	¥17,206	¥3,544	¥54,018	¥31,659	¥85,677
II. Other items						
Depreciation and amortization	¥ 1,741	¥ 894	¥ 123	¥ 2,759	¥ 385	¥ 3,145
Increase in tangible and intangible fixed assets	1,433	2,200	101	3,735	422	4,158

*1 Other businesses mainly consist of sundries, personnel effects, comfort undergarments, Hatsuga genmai (germinated brown rice), and Kale juice.

*2 Not allocable operating expenses included under "Adjustments and eliminations" amounted to ¥1,544 million and consisted of operating expenses incurred in the Administration Department of the Company. Corporate assets included under "Adjustments and eliminations" amounted to ¥31,659 million and consisted principally of cash and cash equivalents, land, buildings and investment securities of the Company.

*3 Segment profits (losses) are adjusted for operating income (loss) as recorded in the consolidated financial statements.

15. Segment Information (continued)

(c) Information by reportable segments (continued)

	Year ended March 31, 2016					
	Reportable segments				Adjustments and eliminations (*2)	Consolidated (*3)
	Cosmetics business	Nutritional supplements business	Other businesses (*1)	Total		
	(Millions of yen)					
I. Sales, profits or losses and assets by reportable segments						
Sales to external customers	¥55,016	¥28,612	¥ 7,221	¥90,850	¥ –	¥90,850
Intersegment sales or transfers	–	–	–	–	–	–
Total sales	55,016	28,612	7,221	90,850	–	90,850
Segment profits (losses)	6,275	(1,779)	(1,774)	2,721	(1,517)	1,204
Segment assets	¥32,390	¥15,543	¥ 4,460	¥52,394	¥31,373	¥83,767
II. Other items						
Depreciation and amortization	¥ 1,977	¥ 723	¥ 116	¥ 2,817	¥ 351	¥ 3,168
Increase in tangible and intangible fixed assets	2,147	984	204	3,335	374	3,709

*1 Other businesses mainly consist of sundries, personnel effects, comfort undergarments, Hatsuga genmai (germinated brown rice), and Kale juice.

*2 Not allocable operating expenses included under “Adjustments and eliminations” amounted to ¥1,517 million and consisted of operating expenses incurred in the Administration Department of the Company. Corporate assets included under “Adjustments and eliminations” amounted to ¥31,373 million and consisted principally of cash and cash equivalents, marketable securities, land, buildings and investment securities of the Company.

*3 Segment profits (losses) are adjusted for operating income (loss) as recorded in the consolidated financial statements.

	Year ended March 31, 2017					
	Reportable segments				Adjustments and eliminations (*2)	Consolidated (*3)
	Cosmetics business	Nutritional supplements business	Other businesses (*1)	Total		
	(Thousands of U.S. dollars)					
I. Sales, profits or losses and assets by reportable segments						
Sales to external customers	$507,408	$285,991	$ 65,018	$858,418	$ –	$858,418
Intersegment sales or transfers	–	–	–	–	–	–
Total sales	507,408	285,991	65,018	858,418	–	858,418
Segment profits (losses)	46,828	(7,718)	(5,341)	33,769	(13,762)	20,006
Segment assets	$296,525	$153,372	$ 31,595	$481,494	$282,195	$763,686
II. Other items						
Depreciation and amortization	$ 15,526	$ 7,971	$ 1,101	$ 24,599	$ 3,434	$ 28,034
Increase in property, plant and equipment and intangible fixed assets	12,780	19,613	905	33,299	3,766	37,065

*1 Other businesses mainly consist of sundries, personnel effects, comfort undergarments, Hatsuga genmai (germinated brown rice), and Kale juice.

*2 Not allocable operating expenses included under “Adjustments and eliminations” amounted to $13,762 thousand and consisted of operating expenses incurred in the Administration Department of the Company. Corporate assets included under “Adjustments and eliminations” amounted to $282,195 thousand and consisted principally of cash and cash equivalents, land, buildings and investment securities of the Company.

*3 Segment profits (losses) are adjusted for operating income (loss) as recorded in the consolidated financial statements.

15. Segment Information (continued)

(c) Information by reportable segments (continued)

Related Information

1. Information by product and service

   Information is not shown as the same information is disclosed in segment information.

2. Segment information by location

   (1) Net sales

   The net sales in Japan accounted for over 90% of the total consolidated net sales, and therefore the net sales by location has been omitted.

   (2) Tangible fixed assets

   Tangible fixed assets held in Japan accounted for over 90% of the total consolidated balance sheet, and therefore the tangible fixed assets by location has been omitted.

3. Information by major customer

   Of total sales to external customers, no customer accounts for more than 10% of net sales in the consolidated statements of income, and therefore this section has been omitted.

(d) Information related to impairment loss on fixed assets by reportable segments

	Cosmetics business	Nutritional supplements business	Other businesses (*1)	Total	Adjustments and eliminations	Consolidated
			(Millions of yen)			
Impairment loss for the year ended March 31, 2017 *1	¥ 67	¥ 42	¥ 804	¥ 914	¥–	¥ 914
Impairment loss for the year ended March 31, 2016	¥ 67	¥ 36	¥ 20	¥ 124	¥–	¥ 124

	Cosmetics business	Nutritional supplements business	Other businesses (*1)	Total	Adjustments and eliminations	Consolidated
			(Thousands of U.S. dollars)			
Impairment loss for the year ended March 31, 2017	$ 601	$ 375	$ 7,173	$ 8,151	$–	$ 8,151

*1 Other businesses mainly consist of sundries, personnel effects, comfort undergarments, Hatsuga genmai (germinated brown rice), and Kale juice.

16. Related Party Transactions

(1) The Company's transactions with the directors of Company and related parties for the years ended March 31, 2017 and 2016 were principally summarized as follows:

		Year ended March 31,		
Name of related party	Detail of transaction	2017	2016	2017
		(Millions of yen)		(Thousands of U.S. dollars)
Yukio Ikemori	Payments of advisor remuneration *4	¥12	¥12	$111
Keiai Corporation *1	Deposit security	1	—	12
	Payments of rents *5	43	42	385
KENKOIN MEDICAL CORPORATION *2	Payments of remuneration *6	–	92	–
PILLOWS Co., Ltd. *3	Payments of rents *5	¥22	¥22	$198

In the table above, the amount of transactions does not include consumption taxes.

Transaction terms and conditions, and, policies for determining transaction terms and conditions are as follows:

*1 Mr. Kenji Ikemori, a director and major shareholder of the Company holds all the voting rights of this company.

*2 The foundation was established by the donation provided completely by Mr. Kenji Ikemori, a director and major shareholder of the Company. Mr. Ikemori served as one of the directors of the foundation until December 9, 2015. The amount of the transaction until December 9, 2015 is represented in the table above.

*3 Close relatives of Mr. Kenji Ikemori, a director and major shareholder of the Company holds all the voting rights of this company.

*4 Advisor remuneration is determined in accordance with the internal rules of the Company.

*5 Terms of rents are determined by negotiation based on market-price.

*6 Terms of these transactions are determined by periodical negotiation.

16. Related Party Transactions (continued)

(2) Transactions between the consolidated subsidiaries of the Company and the related parties for the years ended March 31, 2017 and 2016 were principally summarized as follows:

Name of related party	Detail of transaction	Year ended March 31, 2017	2016	2017
		(Millions of yen)		(Thousands of U.S. dollars)
I'foret Co., Ltd [*1]	Sale of products [*3]	¥57	¥105	$514
KENKOIN MEDICAL CORPORATION [*2]	Commissions earned [*4]	—	20	—

In the table above, the amount of transactions does not include consumption taxes.

Transaction terms and conditions, and, policies for determining transaction terms and conditions are as follows:

*1 Mr. Kenji Ikemori, a director and major shareholder of the Company, and Mr. Tsuyoshi Tatai, a director of the company, hold all the voting rights of this company.

*2 The foundation was established by the donation provided completely by Mr. Kenji Ikemori, a director and major shareholder of the Company. Mr. Ikemori served as one of the directors of the foundation until December 9, 2015. The amount of the transaction until December 9, 2015 is represented in the table above.

*3 Terms of these transactions are same as the terms of third party transactions.

*4 Terms of these transactions are determined by periodical negotiation.

17. Other Comprehensive Income

Reclassification adjustment and tax effect on components of other comprehensive income

	March 31, 2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars)
Foreign currency translation adjustment			
Amount arising during the year	¥ (26)	¥ 0	$ (237)
Retirement benefits liability adjustments			
Amount arising during the year	(14)	(261)	(127)
Reclassification adjustment	26	(18)	232
Total before tax effect	11	(280)	104
Tax effect	(3)	86	(34)
Net Retirement benefits liability adjustments	7	(194)	70
Total other comprehensive income (loss)	¥ (18)	¥ (194)	$ (167)

18. Material Subsequent Events

(1) Overview of transaction

① The name of acquired company:
"FANCL COSMETICS CORPORATION" and "FANCL HEALTH SCIENCE CORPORATION"
② The business of acquired company:
Cosmetics division and health foods division
③ Date of the business combination: April 1, 2017
④ Legal form of the business combination:
Absorption merger method with FANCL CORPORATION as surviving company, and "FANCL COSMETICS CORPORATION" and "FANCL HEALTH SCIENCE CORPORATION" dissolved.
⑤ Name of the company following the business combination:
"FANCL CORPORATION"
⑥ Other matters relating to the business combination:
This business combination aim to build a system to promote the medium-term management plan while making full use of the strengths of the corporate group against environmental change.

(2) Overview of accounting treatment:

The transaction was accounted for as a transaction under common control based on the "Accounting Standard for Business Combinations" ASBJ Statement No.21 issued on September 13, 2013, and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" ASBJ Guidance No.10 issued on September 13, 2013.

Report of the Independent Auditor

Independent Auditor's Report

The Board of Directors
FANCL CORPORATION

We have audited the accompanying consolidated financial statements of FANCL CORPORATION and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2017, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of FANCL CORPORATION and its consolidated subsidiaries as at March 31, 2017, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 2.

Ernst & Young ShinNihon LLC

June 16, 2017
Tokyo, Japan

The above is an electronic representation of the items described in the original document of the audit report, and the original is stored by the Company.