Consolidated Financial Statements

FANCL CORPORATION
and Consolidated Subsidiaries

Year ended March 31, 2019
with Independent Auditor's Report

FANCL CORPORATION and Consolidated Subsidiaries

Consolidated Balance Sheet

	March 31, 2019	March 31, 2018	2019
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Assets			
Current assets:			
Cash and bank deposits *(Notes 5 and 15)*	¥18,635	¥36,641	$167,900
Notes and accounts receivable *(Note 5)*	15,580	13,791	140,378
Merchandise and products	5,244	4,109	47,252
Work in progress	26	21	234
Raw materials and supplies	6,185	4,169	55,727
Others	1,189	965	10,718
Less: Allowance for doubtful accounts *(Note 5)*	(171)	(155)	(1,548)
Total current assets	46,689	59,543	420,662
Fixed assets:			
Tangible fixed assets *(Notes 11, 12 and 16)*:			
Buildings and structures	28,082	27,402	253,018
Less: Accumulated depreciation and accumulated impairment loss	(16,321)	(15,665)	(147,056)
Buildings and structures (net)	11,760	11,736	105,961
Machinery, vehicles, tools, furniture and fixtures	18,268	16,746	164,591
Less: Accumulated depreciation and accumulated impairment loss	(14,806)	(13,920)	(133,399)
Machinery and transport equipment (net)	3,461	2,825	31,191
Land	11,839	11,607	106,669
Leased assets	256	301	2,310
Less: Accumulated depreciation and accumulated impairment loss	(106)	(170)	(957)
Leased assets (net)	150	131	1,353
Construction in progress	314	302	2,833
Total tangible fixed assets, net	27,526	26,603	248,008
Intangible fixed assets:			
Others	2,229	2,465	20,086
Total intangible assets	2,229	2,465	20,086
Investments and other assets:			
Investment securities *(Notes 5 and 6)*	176	126	1,593
Long-term loans	100	205	900
Long-term prepaid expense	136	87	1,227
Lease and guarantee deposits *(Note 5)*	1,051	1,137	9,475
Deferred tax assets *(Note 8)*	2,263	2,078	20,396
Others	158	158	1,426
Less: Allowance for doubtful accounts	(24)	(26)	(225)
Total investments and other assets	3,862	3,768	34,796
Total fixed assets	33,617	32,836	302,891
Total assets	¥80,307	¥92,380	$ 723,554

	March 31,		
	2019	2018	2019
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Liabilities and net assets			
Current liabilities:			
Notes and accounts payable *(Note 5)*	¥3,253	¥3,025	$ 29,315
Accrued liabilities	6,470	6,146	58,293
Accrued income taxes	3,600	1,230	32,437
Allowance for bonuses	1,512	1,343	13,627
Allowance for point program	1,676	1,576	15,100
Others	1,439	2,101	12,968
Total current liabilities	17,951	15,424	161,742
Long-term liabilities:			
Lease obligations	98	63	891
Liability for retirement benefits *(Note 9)*	738	703	6,657
Asset retirement obligations *(Note 16)*	412	409	3,719
Allowance for directors' bonuses	64	—	579
Others	123	182	1,113
Total long-term liabilities	1,438	1,358	12,961
Total liabilities	19,390	16,782	174,703
Net assets *(Notes 7 and 14)*:			
Shareholders' equity *(Note 7)*:			
Common stock:			
Authorized – 467,676,000 shares in 2019 and 233,838,000 shares in 2018			
Issued – 130,353,200 shares in 2019 and 65,176,600 shares in 2018	10,795	10,795	97,262
Capital surplus	11,706	11,706	105,471
Retained earnings	58,902	54,796	530,699
Less: Treasury stock 10,395,292 shares in 2019 and 1,610,007 shares in 2018	(21,160)	(2,338)	(190,647)
Total shareholders' equity	60,243	74,959	542,784
Accumulated other comprehensive income *(Note 19)*:			
Foreign currency translation adjustment	67	89	609
Retirement benefit liability adjustments	(261)	(243)	(2,353)
Total accumulated other comprehensive income	(193)	(154)	(1,744)
Share subscription rights	866	791	7,809
Total net assets	60,916	75,597	548,850
Total liabilities and net assets	¥80,307	¥92,380	$723,554

See notes to consolidated financial statements.

FANCL CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Income

	Year ended March 31,		
	2019	2018	2019
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Net sales *(Note 17)*	¥122,496	¥109,019	$1,103,674
Cost of sales	35,118	31,588	316,410
Gross profit	87,378	77,431	787,263
Selling, general and administrative expenses *(Note 10)*	74,990	68,983	675,650
Operating income	12,387	8,448	111,612
Other income (expenses):			
Interest and dividend income	4	4	38
Rent income	80	103	724
Foreign exchange gains	4	27	44
Compensation income	16	21	149
Gain on sales of fixed assets	299	–	2,701
Interest expenses	(0)	–	(0)
Compensation expenses	(166)	–	(1,497)
Loss on retirement of fixed assets	(201)	(68)	(1,813)
Loss on impairment of fixed assets *(Note 12)*	(12)	(6)	(114)
Loss on closing of stores	(93)	(124)	(842)
Others, net	29	36	266
Profit (loss) before income taxes	12,349	8,440	111,270
Income taxes *(Note 8)*:			
Current	3,878	1,509	34,944
Deferred	(178)	739	(1,608)
	3,700	2,248	33,336
Profit (loss)	8,649	6,191	77,934
Profit (loss) attributable to owners of parent	¥8,649	¥6,191	$ 77,934

See notes to consolidated financial statements.

FANCL CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income

	Year ended March 31,		
	2019	**2018**	**2019**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Profit (loss)	¥8,649	¥6,191	$ 77,934
Other comprehensive income *(Note 19)*			
Foreign currency translation adjustment	(21)	(30)	(194)
Retirement benefit liability adjustments	(17)	(84)	(160)
Total other comprehensive income (loss)	(39)	(115)	(355)
Comprehensive income	¥8,610	¥6,076	$ 77,578
(Breakdown)			
Comprehensive income attributable to owners of parent	¥8,610	¥6,076	$ 77,578
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, 2019 and 2018

	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, 2017	65,176	¥10,795	¥11,706	¥52,339	¥(3,170)	¥71,670	¥ 119	¥(159)	¥(39)	¥771	¥72,402
Dividends of surplus	–	–	–	(3,667)	–	(3,667)	–	–	–	–	(3,667)
Profit (loss)	–	–	–	6,191	–	6,191	–	–	–	–	6,191
Purchase of treasury stock	–	–	–	–	(5)	(5)	–	–	–	–	(5)
Disposal of treasury stock	–	–	–	(67)	837	770	–	–	–	–	770
Other net changes during the year	–	–	–	–	–	–	(30)	(84)	(115)	20	(94)
Total changes during the year	–	–	–	2,457	832	3,289	(30)	(84)	(115)	20	3,195
April 1, 2018	65,176	¥10,795	¥11,706	¥54,796	¥(2,338)	¥74,959	¥89	¥(243)	¥(154)	¥791	¥75,597
Dividends of surplus	–	–	–	(3,754)	–	(3,754)	–	–	–	–	(3,754)
Profit (loss)	–	–	–	8,649	–	8,649	–	–	–	–	8,649
Purchase of treasury stock	–	–	–	–	(20,004)	(20,004)	–	–	–	–	(20,004)
Disposal of treasury stock	–	–	–	(790)	1,183	393	–	–	–	–	393
Other net changes during the year	–	–	–	–	–	–	(21)	(17)	(39)	74	35
Stock split	65,176	–	–	–	–	–	–	–	–	–	–
Total changes during the year	65,176	–	–	4,105	(18,821)	(14,715)	(21)	(17)	(39)	74	(14,680)
March 31, 2019	130,353	¥10,795	¥11,706	¥58,902	¥(21,160)	¥60,243	¥67	¥(261)	¥(193)	¥866	¥60,916

	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, 2018	65,176	$97,262	$105,471	$493,708	$(21,072)	$675,369	$804	$(2,193)	$(1,388)	$7,135	$681,115
Dividends of surplus	–	–	–	(33,823)	–	(33,823)	–	–	–	–	(33,823)
Profit (loss)	–	–	–	77,934	–	77,934	–	–	–	–	77,934
Purchase of treasury stock	–	–	–	–	(180,237)	(180,237)	–	–	–	–	(180,237)
Disposal of treasury stock	–	–	–	(7,120)	10,662	3,542	–	–	–	–	3,542
Other net changes during the year	–	–	–	–	–	–	(194)	(160)	(355)	674	319
Stock split	65,176	–	–	–	–	–	–	–	–	–	–
Total changes during the year	65,176	–	–	36,990	(169,575)	(132,584)	(194)	(160)	(355)	674	(132,265)
March 31, 2019	130,353	$97,262	$105,471	$530,699	$(190,647)	$542,784	$609	$(2,353)	$(1,744)	$7,809	$548,850

See notes to consolidated financial statements.

FANCL CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Cash Flows

	2019	2018	2019
	Year ended March 31,		
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Cash flows from operating activities:			
Profit (loss) before income taxes	¥ 12,349	¥ 8,440	$ 111,270
Depreciation	3,057	2,826	27,551
Impairment loss	12	6	114
Stock compensation expense	207	164	1,867
Increase (decrease) in allowance for doubtful accounts	15	77	136
Increase (decrease) in allowance for bonuses	169	312	1,527
Increase (decrease) in allowance for directors' bonuses	64	–	579
Increase (decrease) in allowance for point program	100	(41)	900
Increase (decrease) in liability for retirement benefits	9	(721)	86
Interest and dividend income	(4)	(4)	(38)
Loss (gain) on foreign exchange	9	(17)	81
Loss (gain) on sales of fixed assets	(299)	0	(2,701)
Loss on retirement of fixed assets	201	68	1,813
Loss on closing of stores	93	124	842
Gain on reversal of subscription rights to shares	(17)	(3)	(153)
Decrease (increase) in accounts receivable	(1,793)	(2,699)	(16,161)
Decrease (increase) in inventories	(3,165)	(694)	(28,516)
Decrease (increase) in other current assets	(173)	136	(1,562)
Decrease (increase) in other fixed assets	(51)	(34)	(460)
Increase (decrease) in accounts payable	230	721	2,073
Increase (decrease) in other current liabilities	(603)	2,522	(5,439)
Increase (decrease) in other fixed liabilities	(61)	(0)	(552)
Others	141	(140)	1,273
Sub-total	10,492	11,044	94,532
Interest and dividends received	4	4	37
Income taxes paid	(1,598)	(1,185)	(14,405)
Income taxes refund	–	668	–
Others	(166)	–	(1,497)
Net cash provided by (used in) operating activities	8,731	10,531	78,667
Cash flows from investing activities			
Payment for purchase of tangible fixed assets	(2,916)	(1,489)	(26,272)
Proceeds from sales of tangible fixed assets	0	6	1
Payment for purchase of intangible fixed assets	(766)	(986)	(6,910)
Proceeds from sales of intangible fixed assets	300	–	2,702
Payment for purchase of investment securities	(49)	–	(450)
Collection of loans	100	–	900
Other payments	(42)	(147)	(385)
Other proceeds	215	224	1,939
Net cash provided by (used in) investing activities	(3,160)	(2,392)	(28,473)

FANCL CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Cash Flows (continued)

	Year ended March 31,		
	2019	2018	2019
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Cash flows from financing activities			
Proceeds from disposal of treasury stock	277	630	2,504
Payment for purchase of treasury stock	(20,004)	(5)	(180,237)
Cash dividends paid	(3,749)	(3,661)	(33,780)
Others	(83)	(90)	(751)
Net cash provided by (used in) financing activities	(23,559)	(3,126)	(212,265)
Effect of exchange rate changes on cash and cash equivalents	(17)	18	(162)
Net increase (decrease) in cash and cash equivalents	(18,006)	5,031	(162,233)
Cash and cash equivalents at beginning of the year	36,641	31,609	330,133
Cash and cash equivalents at end of the year *(Note 15)*	¥18,635	¥36,641	$167,900

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

FANCL CORPORATION and Consolidated Subsidiaries

For the years ended March 31, 2019 and 2018

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.

The amounts indicated in millions of yen are rounded down by omitting figures less than one million. Totals may therefore not add up exactly because of this rounding.

(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 six consolidated subsidiaries, namely ATTENIR CORPORATION, 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 15.

(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 directors' bonuses

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

1. Summary of Significant Accounting Policies (continued)

(m) 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.

(n) 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 over specific periods (i.e. 5 years) which are shorter than the average remaining working year, in the year following the year when the actuarial gain or loss is recognized.

Certain domestic consolidated subsidiaries that have defined benefit pension plans calculate liabilities and expenses using the simplified method. The domestic consolidated subsidiaries also provide accrued retirement benefits for directors at the full amount which would be required to be paid if all directors retired at the balance sheet date based on their respective internal regulations.

(o) 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.

(p) Derivatives

Derivative financial instruments are stated at fair value.

2. Accounting standard and guidance not yet adopted

Accounting Standard and Implementation Guidance on Revenue Recognition On March 30, 2018, the ASBJ issued “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29) and “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30).

(1) Overview
This is a comprehensive accounting standard for revenue recognition. Specifically, the accounting standard establishes the following five-step model that will apply to revenue from customers:
1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

(2) Scheduled date of adoption
The Company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending March 31, 2022.

(3) Impact of the adoption of accounting standard and implementation guidance
The Company is currently evaluating the effect of the adoption of this accounting standard and implementation guidance on its consolidated financial statements.

3. U.S. Dollar Amounts

For the convenience of the reader, the accompanying consolidated financial statements with respect to the year ended March 31, 2019 have been presented in U.S. dollars by translating all yen amounts at ¥110.99 = U.S.$1.00, the exchange rate prevailing on March 31, 2019. 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.

4. Change in Presentation

(Changes associated with adoption of “Partial Amendments to Accounting Standard for Tax Effect Accounting”)
“Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) have been applied from the beginning of the year ended March 31, 2019. Accordingly, deferred tax assets are presented under investments and other assets and changes are made to the income taxes note.

As a result, in the consolidated balance sheet as of March 31, 2018, deferred tax assets of ¥1,633 million recorded under current assets are presented as part of deferred tax assets of ¥2,078 million recorded under investments and other assets.

Also, the income taxes note includes new disclosure required by annotation 8 (except for total amounts of valuation allowance) and annotation 9 of the explanatory note for the Accounting Standard for Tax Effect Accounting which are stated in Paragraphs 3 to 5 of “Partial Amendments to Accounting Standard for Tax Effect Accounting.”

5. 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.

    (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.

5. 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, 2019

	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
	(Millions of yen)			*(Thousands of U.S. dollars)*		
(1) Cash and bank deposits	¥18,635	¥18,635	¥ –	$167,900	$167,900	$ –
(2) Notes and accounts receivable	15,408	15,408	–	138,829	138,829	–
Total assets	34,043	34,043	–	306,730	306,730	–
(1) Notes and accounts payable	3,253	3,253	–	29,315	29,315	–
(2) Accrued liabilities	6,470	6,470	–	58,293	58,293	–
Total liabilities	¥ 9,723	¥ 9,723	¥ –	$ 87,608	$ 87,608	$ –

As of March 31, 2018

	Carrying value	Fair value	Difference
	(Millions of yen)		
(1) Cash and bank deposits	¥36,641	¥36,641	¥ –
(2) Notes and accounts receivable	13,635	13,635	–
Total assets	50,276	50,276	–
(1) Notes and accounts payable	3,025	3,025	–
(2) Accrued liabilities	6,146	6,146	–
Total liabilities	¥ 9,172	¥ 9,172	¥ –

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. Therefore, the book value represents the fair value.
Notes and accounts receivable are deducted by the relating allowance for doubtful accounts.

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. Therefore, the book value represents the fair value.

5. 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, 2019	March 31, 2018	March 31, 2019
	Carrying value		
	(Millions of yen)		*(Thousands of U.S. dollars)*
Unlisted equity securities *	¥176	¥126	$1,593

* 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, 2019

	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	¥18,605	¥ –	¥ –	¥ –	$167,629	$ –	$ –	$ –
Notes and accounts receivable	15,408	–	–	–	$138,829	–	–	–
Total	¥34,013	¥ –	¥ –	¥ –	$306,459	$ –	$ –	$ –

As of March 31, 2018

	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	¥36,618	¥ –	¥ –	¥ –
Notes and accounts receivable	13,635	–	–	–
Total	¥50,253	¥ –	¥ –	¥ –

6. Securities

Investments in unconsolidated subsidiaries and affiliates included in "investment securities" as of March 31, 2019 and 2018 amounted to ¥56 million ($510 thousand) and ¥56 million, respectively. Investments in unconsolidated subsidiaries and affiliates as of March 31, 2019 and 2018 also included investments in stock of jointly controlled companies in the amounts of ¥44 million ($397 thousand) and ¥44 million, respectively.

7. 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, 2019 and 2018, were as follows:

	2019	2018	2019
	(Yen)		*(U.S. dollars)*
Year-end	¥29.00	¥29.00	$0.26
Half-year	30.00	29.00	0.27

The effective dates of the distribution for year-end and half-year cash dividends, which were paid during the year ended March 31, 2019, were June 25, 2018 and December 5, 2018, respectively.

The cash dividends of retained earnings of the Company for the year ended March 31, 2019 approved at a meeting of the Board of Directors, which was held on April 25, 2019, were as follows:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Cash dividends	¥1,799	$16,211
	(Yen)	*(U.S. dollars)*
Cash dividends per share	¥15.00	$0.13

Note: The two-for-one stock split of the Company's common stock was executed effective December 1, 2018.

8. Income Taxes

The significant components of deferred tax assets and liabilities at March 31, 2019 and 2018 were as follows:

	2019	2018	2019
	(Millions of yen)		*(Thousands of U.S. dollars)*
Deferred tax assets:			
Accrued enterprise taxes	¥ 212	¥ 108	$ 1,917
Allowance for bonuses	511	416	4,606
Allowance for point program	512	481	4,617
Tax loss carried forward	500	651	4,512
Liability for retirement benefits (Note 9)	254	233	2,293
Retirement benefit trust	235	235	2,121
Asset retirement obligations	121	120	1,095
Share subscription rights	240	229	2,167
Impairment loss	407	402	3,667
Others	698	615	6,296
Subtotal	3,695	3,496	33,296
Valuation allowance for tax loss carried forward	(500)	(532)	(4,512)
Valuation allowance for deductible temporary differences	(559)	(524)	(5,041)
Subtotal	(1,060)	(1,057)	(9,553)
Total deferred tax assets	2,635	2,439	23,742
Deferred tax liabilities:			
Unrealized intercompany profit on land	(232)	(232)	(2,090)
Others	(139)	(129)	(1,255)
Total deferred tax liabilities	(371)	(361)	(3,346)
Net deferred tax assets	¥ 2,263	¥ 2,078	$ 20,396

8. Income Taxes (continued)

The expiry schedule on tax loss carried forward and the related deferred tax assets subsequent to March 31, 2019 was as follows:

	Millions of Yen		
	Tax loss carried forward (a)	Valuation allowance	Deferred tax assets
Due in one year	¥ —	¥ —	¥ —
Due after one year through two years	—	—	—
Due after two years through three years	—	—	—
Due after three years through four years	—	—	—
Due after four years through five years	—	—	—
Due after five years	500	(500)	—
Total	¥500	¥(500)	¥—

	Thousands of U.S. Dollars		
	Tax loss carried forward (a)	Valuation allowance	Deferred tax assets
Due in one year	$ —	$ —	$ —
Due after one year through two years	—	—	—
Due after two years through three years	—	—	—
Due after three years through four years	—	—	—
Due after four years through five years	—	—	—
Due after five years	4,512	(4,512)	—
Total	$4,512	$(4,512)	$ —

Note: Tax loss carried forward is the amount multiplied by the statutory tax rate.

8. Income Taxes (continued)

The difference between the statutory tax rate and the effective tax rate as a percentage of profit before income taxes for the year ended March 31, 2019 has been omitted because it is less than 5% of the statutory tax rate.

A reconciliation between the statutory tax rate and the effective tax rate as a percentage of profit before income taxes for the year ended March 31, 2018 was summarized as follows:

	2018
Statutory tax rate	30.81%
Additions to (deductions from) income taxes resulting from:	
Permanent nondeductible differences, such as entertainment expenses	0.75
Inhabitants' per capita taxes	1.52
Permanent nontaxable differences, such as dividend income	(0.01)
Valuation allowance	(5.83)
Tax credits, such as for research and development expenses	(2.50)
Differences in effective tax rates among the Company and its consolidated subsidiaries	(0.29)
Effects of changes in income tax rates	0.13
Expiration of carried forward deficit	0.86
Retained earnings of foreign consolidated subsidiaries	0.37
Other	0.83
Effective tax rate	26.64%

9. Retirement Benefits

The Company and its consolidated subsidiaries mainly adopt a defined benefit corporate pension plan and a lump sum retirement allowance plan to cover employee 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. A retirement benefit trust has been set up in certain retirement lump-sum payment plans.

Defined benefit pension plans and lump-sum retirement payment plans

The changes in the retirement benefit obligation during the years ended March 31, 2019 and 2018 are as follows (excluding plans for which the simplified method is applied):

	March 31,		
	2019	**2018**	**2019**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Retirement benefit obligation at the beginning of fiscal year	¥3,412	¥2,428	$30,747
Service cost	341	310	3,073
Interest cost	4	4	41
Actuarial gain and loss	(0)	131	(7)
Retirement benefit paid	(120)	(84)	(1,083)
Accruals by the pension fund dissolution	—	623	—
Other	(4)	(0)	(41)
Retirement benefit obligation at the end of fiscal year	¥3,632	¥3,412	$32,730

The changes in plan assets during the years ended March 31, 2019 and 2018 are as follows (excluding plans for which the simplified method is applied):

	March 31,		
	2019	**2018**	**2019**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Plan assets at the beginning of fiscal year	¥3,087	¥1,521	$27,821
Expected return on plan assets	92	72	834
Actuarial loss	(40)	(60)	(367)
Contributions by the Company	259	1,001	2,338
Retirement benefit paid	(85)	(51)	(771)
Accruals by the pension fund dissolution	—	608	—
Other	—	(3)	—
Plan assets at the end of fiscal year	¥3,313	¥3,087	$29,854

9. Retirement Benefits (continued)

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 years ended March 31, 2019 and 2018 are as follows:

	March 31, 2019	March 31, 2018	2019
	(Millions of yen)		*(Thousands of U.S. dollars)*
Retirement benefit obligation at the beginning of fiscal year	¥378	¥396	$3,412
Retirement benefit expense	126	101	1,140
Retirement benefit paid	(15)	(15)	(138)
Contribution to the plans	(81)	(84)	(734)
Accruals by the pension fund dissolution	—	(21)	—
Other	11	2	102
Retirement benefit obligation at the end of fiscal year	¥419	¥378	$3,781

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2019 and 2018 for the Company's and the consolidated subsidiaries' defined benefit plans:

	March 31, 2019	March 31, 2018	2019
	(Millions of yen)		*(Thousands of U.S. dollars)*
Funded retirement benefit obligation	¥ 4,936	¥ 4,613	$ 44,473
Plan assets at fair value	(4,197)	(3,909)	(37,816)
Net liability for retirement benefits in the balance sheet	738	703	6,657
Liability for retirement benefits	738	703	6,657
Net liability for retirement benefits in the balance sheet	¥ 738	¥ 703	$ 6,657

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

9. Retirement Benefits (continued)

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

The components of retirement benefit expense for the years ended March 31, 2019 and 2018 are as follows:

	March 31,		
	2019	**2018**	**2019**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Service cost	¥341	¥310	$3,073
Interest cost	4	4	41
Expected return on plan assets	(92)	(72)	(834)
Amortization of actuarial loss	14	69	128
Retirement benefit expense calculated by the simplified method	126	101	1,140
Other	–	(2)	–
Retirement benefit expense	¥393	¥410	$3,549

The components of retirement benefits liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2019 and 2018 are as follows:

	March 31,		
	2019	**2018**	**2019**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Actuarial loss	25	121	231
Total	¥25	¥121	$231

Unrecognized prior service cost and unrecognized actuarial loss included in accumulated other comprehensive income (before tax effect) as of March 31, 2019 and 2018 are as follows:

	March 31,		
	2019	**2018**	**2019**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Unrecognized actuarial loss	376	350	3,390
Total	¥376	¥350	$3,390

9. Retirement Benefits (continued)

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, 2019 and 2018 are as follows:

	March 31,	
	2019	2018
General accounts at life insurance companies	23%	21%
Bonds	36%	22%
Stocks	9%	16%
Short-term deposits	4%	8%
Other	28%	33%
Total	100%	100%

Note: The total amounts of plan assets include 20% of the employee pension trust set up for the corporate pension plan for the year ended March 31, 2019.

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, 2019 and 2018 were as follows:

	March 31,	
	2019	2018
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.

10. Research and Development Expenses

Research and development expenses charged to income for the years ended March 31, 2019 and 2018 were as follows:

	2019	2018	2019
	(Millions of yen)		*(Thousands of U.S. dollars)*
Research and development expenses	¥3,464	¥3,112	$31,213

11. 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 the straight-line method over the lease period.

Operating lease transaction

Not applicable.

12. Loss on Impairment of Fixed Assets

Loss on impairment of fixed assets for the years ended March 31, 2019 and 2018 consisted of the following:

For the year ended March 31, 2019

Used for	Type of assets	Amount *(Millions of yen)*	Amount *(Thousands of U.S. dollars)*	Place
Store equipment	Building and structures Tools and equipment	¥ 12 0	$ 111 2	Kanto Area
Total		¥ 12	$ 114	

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 unnecessary assets. This reduction in value of ¥12 million ($114 thousand) 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 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.

12. Loss on Impairment of Fixed Assets (continued)

For the year ended March 31, 2018

Used for	Type of assets	Amount *(Millions of yen)*	Place
Store equipment	Building and structures Tools and equipment	¥ 6 0	Kanto Area
Total		¥ 6	

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 unnecessary assets. This reduction in value of ¥6 million 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 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.

13. Stock Option Plans

Stock Option-related Expenses:

Stock option expenses of ¥207 million ($1,867 thousand) and ¥164 million were recorded in selling, general and administrative expenses for the years ended March 31, 2019 and 2018, respectively.

The following reflects the two-for-one stock split of the Company's common stock executed effective December 1, 2018.

At March 31, 2019, 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	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	7 directors and 5 executive officers
Type of shares with warrants granted	Common stock	Common stock	Common stock	Common stock	Common stock	Common stock
Number of shares with warrants granted	125,600 shares	181,400 shares	156,400 shares	89,800 shares	146,600 shares	181,000 shares
Option price per warrant	¥1	¥1	¥1	¥1	¥1	¥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	December 2, 2011 – December 1, 2041

Date of approval by shareholders or the Board of Directors	November 12, 2012	November 14, 2013	January 15, 2014	October 30, 2014	October 29, 2015	October 28, 2016
Grantees	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
Number of shares with warrants granted	232,600 shares	240,200 shares	2,885,800 shares	156,800 shares	169,600 shares	182,400 shares
Option price per warrant	¥1	¥1	¥1,223	¥1	¥1	¥1
Exercise period	December 4, 2012 – December 3, 2042	December 3, 2013 – December 2, 2043	January 16, 2016 – January 15, 2019	December 2, 2014 – December 1, 2044	December 2, 2015 – December 1, 2045	December 2, 2016– December 1, 2046

Date of approval by shareholders or the Board of Directors	October 30, 2017	October 30, 2018
Grantees	10 directors and 11 executive officers of the Company, and 4 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
Number of shares with warrants granted	106,600 shares	69,400 shares
Option price per warrant	¥1	¥1
Exercise period	December 2, 2017– December 1, 2047	December 4, 2018– December 3, 2048

13. Stock Option Plans (continued)

Fair value as of the grant date for the nineteenth stock options, approved at the meeting of the Board of Directors held on October 30, 2018, during the year ended March 31, 2019 was estimated using the Black-Scholes model with the following assumptions.

	Nineteenth stock options, 2018
Expected volatility (*1)	36.99%
Expected life (*2)	5 years
Expected dividend (*3)	17.00 yen
Risk-free rate (*4)	(0.1)%

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 five years from December 2013 to December 2018 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, 2018.

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

14. 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).

	2019	2018	2019
	(Yen)		*(U.S. dollars)*
Profit (loss) attributable to owners of parent:			
– Basic	¥ 68.82	¥ 48.83	$ 0.62
– Diluted	68.02	48.28	0.61
Net assets	500.59	588.40	4.51

Notes:

1. The two-for-one stock split of the Company's common stock was executed effective December 1, 2018. The figures for net assets per share, basic profit (loss) attributable to owners of parent per share, and diluted profit (loss) attributable to owners of parent per share are adjusted accordingly assuming that the stock split had been effective from April 1, 2017.
2. 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:

	2019	2018	2019
	(Millions of yen, except per share data)		*(Thousands of U.S. dollars, except per share data)*
Profit (loss) attributable to owners of parent per share			
Profit (loss) attributable to owners of parent	¥ 8,649	¥ 6,191	$ 77,934
Amount not attributable to common shareholders	–	–	–
Net profit (loss) attributable to owners of parent on common stock	8,649	6,191	77,934
Average number of shares of common stock outstanding during the period	125,685,258	126,806,972	125,685,258
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 subscription rights	1,478,190	1,432,577	1,478,190
Residual securities not included in the calculation of diluted profit (loss) attributable to owners of parent due to their anti-dilutive effects	–	–	–

15. Supplementary Cash Flow Information

The following table represents a reconciliation of cash and bank deposits in the accompanying consolidated balance sheet with cash and cash equivalents in the accompanying consolidated statement of cash flows at March 31, 2019 and 2018:

	2019	2018	2019
	(Millions of yen)		*(Thousands of U.S. dollars)*
Cash and bank deposits	¥18,635	¥36,641	$167,900
Cash and cash equivalents	¥18,635	¥36,641	$167,900

16. 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 and the Construction Material Recycling Law.

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, 2019

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-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%.

16. Asset Retirement Obligations (continued)

Information on asset retirement obligations (continued)

As of March 31, 2018

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-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, 2019 and 2018.

	2019	2018	2019
	(Millions of yen)		*(Thousands of U.S. dollars)*
Balance at beginning of year	¥409	¥419	$3,686
Liabilities incurred due to the acquisition of tangible fixed assets	10	7	91
Accretion expense	3	1	30
Decrease due to extinguishment of obligation to restore	(14)	(18)	(129)
Others, net	4	0	39
Balance at end of year	¥412	¥409	$3,719

17. 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 Group is engaged in a wide range of businesses focusing primarily on the manufacture and sale of cosmetics and nutritional supplements. The Company and some of its consolidated subsidiaries manufacture and sell multiple products rather than manufacturing a single product. The Group pursues a business goal with such comprehensive and global strategy.

17. Segment Information (continued)

(a) Overview of reportable segments (continued)

Therefore, the Group is comprised of segments delineated by product based on the products handled, and the Group has three reportable segments, Cosmetics-related Business, Nutritional Supplement-related 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 are comprised of sundries, personal effects, comfort undergarments, Hatsuga genmai (germinated brown rice), and kale juice.

(b) Accounting treatments of the sales, profit (loss), assets, and other items for 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 segment

	Year ended March 31, 2019					
	Reportable segments					
	Cosmetics -related business	Nutritional supplements-related business	Other businesses (*1)	Total	Adjustments and eliminations (*2)	Consolidated (*3)
			(Millions of yen)			
I. Sales, profits or losses and assets by reportable segment						
Sales to external customers	¥71,599	¥43,919	¥ 6,977	¥122,496	¥ –	¥122,496
Intersegment sales or transfers	–	–	–	–	–	–
Total sales	71,599	43,919	6,977	122,496	–	122,496
Segment profits (losses)	11,101	3,519	(299)	14,322	(1,934)	12,387
Segment assets	¥33,834	¥19,015	¥2,725	¥55,574	¥24,732	¥80,307
II. Other items						
Depreciation and amortization	¥ 1,539	¥ 963	¥ 164	¥ 2,667	¥ 390	¥ 3,057
Increase in tangible and intangible fixed assets	2,361	1,071	226	3,659	369	4,029

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

*2 Not allocable operating expenses included under “Adjustments and eliminations” amounted to ¥1,934 million and consisted of operating expenses incurred in the Administration Department of the Company. Corporate assets included under “Adjustments and eliminations” amounted to ¥24,732 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.

17. Segment Information (continued)

(c) Information by reportable segment (continued)

	Year ended March 31, 2018					
	Reportable segments					
	Cosmetics -related business	Nutritional supplements -related business	Other businesses (*1)	Total	Adjustments and eliminations (*2)	Consolidated (*3)
			(Millions of yen)			
I. Sales, profits or losses and assets by reportable segment						
Sales to external customers	¥66,048	¥35,933	¥ 7,037	¥109,019	¥ –	¥109,019
Intersegment sales or transfers	–	–	–	–	–	–
Total sales	66,048	35,933	7,037	109,019	–	109,019
Segment profits (losses)	9,150	864	149	10,165	(1,717)	8,448
Segment assets	¥32,231	¥17,357	¥2,460	¥52,049	¥40,331	¥92,380
II. Other items						
Depreciation and amortization	¥ 1,377	¥ 899	¥ 133	¥ 2,409	¥ 370	¥ 2,780
Increase in tangible and intangible fixed assets	1,546	805	159	2,511	321	2,833

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

*2 Not allocable operating expenses included under “Adjustments and eliminations” amounted to ¥1,717 million and consisted of operating expenses incurred in the Administration Department of the Company. Corporate assets included under “Adjustments and eliminations” amounted to ¥40,331 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.

	Year ended March 31, 2019					
	Reportable segments					
	Cosmetics -related business	Nutritional supplements -related business	Other businesses (*1)	Total	Adjustments and eliminations (*2)	Consolidated (*3)
			(Thousands of U.S. dollars)			
I. Sales, profits or losses and assets by reportable segment						
Sales to external customers	$645,098	$395,709	$ 62,866	$1,103,674	$ –	$1,103,674
Intersegment sales or transfers	–	–	–	–	–	–
Total sales	645,098	395,709	62,866	1,103,674	–	1,103,674
Segment profits (losses)	100,026	31,707	(2,695)	129,039	(17,426)	111,612
Segment assets	$304,844	$171,322	$ 24,551	$500,717	$222,836	$723,554
II. Other items						
Depreciation and amortization	$ 13,872	$ 8,678	$ 1,482	$ 24,033	$ 3,517	$ 27,551
Increase in tangible and intangible fixed assets	21,274	9,653	2,042	32,969	3,333	36,302

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

*2 Not allocable operating expenses included under “Adjustments and eliminations” amounted to $17,426 thousand and consisted of operating expenses incurred in the Administration Department of the Company. Corporate assets included under “Adjustments and eliminations” amounted to $222,836 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.

17. Segment Information (continued)

(c) Information by reportable segment (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 segment

	Cosmetics -related business	Nutritional supplements -related business	Other businesses (*1)	Total	Adjustments and eliminations	Consolidated
			(Millions of yen)			
Impairment loss for the year ended March 31, 2019	¥ 8	¥ 4	¥ 0	¥ 12	¥–	¥ 12
Impairment loss for the year ended March 31, 2018	¥ 4	¥ 2	¥ 0	¥ 6	¥–	¥ 6

	Cosmetics -related business	Nutritional supplements -related business	Other businesses (*1)	Total	Adjustments and eliminations	Consolidated
			(Thousands of U.S. dollars)			
Impairment loss for the year ended March 31, 2019	$ 77	$ 37	$ 1	$ 116	$–	$ 116

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

18. Related Party Transactions

(1) The Company's transactions with the directors of Company and related parties for the years ended March 31, 2019 and 2018 were principally summarized as follows:

Name of related party	Detail of transaction	Year ended March 31, 2019	2018	2019
		(Millions of yen)		*(Thousands of U.S. dollars)*
Yukio Ikemori	Payments of advisor remuneration *3	¥12	¥12	$112
Keiai Corporation *1	Purchase of treasury stock*4	¥19,997	¥–	$180,174
	Payments of rents *5	44	44	396
PILLOWS Co., Ltd *2	Payments of rents *5	¥ –	¥ 9	$ –

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

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

*4 The purchase price of treasury stock is based on a price discounted from market price.

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

(2) Transactions between the consolidated subsidiaries of the Company and the related parties for the years ended March 31, 2019 and 2018 were principally summarized as follows:

Name of related party	Detail of transaction	Year ended March 31, 2019	2018	2019
		(Millions of yen)		*(Thousands of U.S. dollars)*
I'foret Co., Ltd *1	Sale of products *2	¥86	¥76	$782

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 a majority of the voting rights of this company.

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

19. Other Comprehensive Income

Reclassification adjustment and tax effect on components of other comprehensive income

	March 31,		
	2019	**2018**	**2019**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Foreign currency translation adjustment			
Amount arising during the year	¥ (21)	¥ (30)	$ (194)
Retirement benefits liability adjustments			
Amount arising during the year	(39)	(191)	(359)
Reclassification adjustment	14	69	128
Total before tax effect	(25)	(121)	(231)
Tax effect	7	37	70
Net retirement benefits liability adjustments	(17)	(84)	(160)
Total other comprehensive income (loss)	¥(39)	¥(115)	$(355)

20. Material Subsequent Events

Issuance of EUR/JPN Convertible Bond Type Corporate Bonds with Share Subscription Rights

At a board meeting held on April 2, 2019, the directors resolved to issue a EUR/JPN convertible bond type corporate bonds with share subscription rights due 2024 (hereinafter "Corporate Bonds with Share Subscription Rights"), and the payments were completed on April 18, 2019 (London time; the same applies hereinafter unless otherwise stated). The overview of the issuance is as follows:

1. Total amount issued
   The total sum of ¥10,000 million ($90,098 thousand) and the total par value of the Corporate Bonds related to alternative corporate bonds with share subscription rights.

2. Total issue price
   102.5% of the par value of the Corporate Bonds (the par value of each Corporate Bond is ¥10 million ($90 thousand))

3. Issue price (offering price): 105.0% of the par value of the Corporate Bonds

4. Payment date: April 18, 2019

5. Redemption date: Redeem 100% of the par value of the Corporate Bonds on April 18, 2024

6. Coupon rate: No coupon

7. Type and number of shares subject to the Share Subscription Rights
   (1) Type: Common stock of the Company
   (2) Number:
      The number of shares newly issued by the Company or instead transferred from treasury stock of the Company by the of exercise of the Share Subscription Rights is the number produced by dividing the total issue price of the Corporate Bonds related to the request for exercise by the conversion price described in 9. below.

8. Total number of the Share Subscription Rights
   The total sum of 1,000 units and the number of units produced by dividing the total par value of the Corporate Bonds related to alternative corporate bonds with share subscription rights by ¥10 million ($90 thousand).

9. Amounts to be paid in to exercise the Share Subscription Rights
   When exercising a Share Subscription Right, the Corporate Bond attached with the Share Subscription Right shall be contributed, and the price of such Corporate Bond shall be the same as the par value. The conversion price shall be ¥3,908 ($35.21).

10. Exercise period of the Share Subscription Rights
   May 7, 2019 to April 4, 2024 (local time at the place where the exercise is requested). However, certain terms and conditions apply as stated in the issuance requirements.

11. Conditions for exercising the Share Subscription Rights
   The Share Subscription Rights may not be exercised in part.

12. Use of funds
   (1) Approximately ¥2,000 million ($18,019 thousand) by March 2020 as a part of capital expenditure for building a new plant in a subsidiary to produce FANCL “Mild Cleansing Oil,” one of the main products in the cosmetics-related business.
   (2) Approximately ¥4,000 million ($36,039 thousand) by March 2021 as a part of capital expenditure for building a new plant in a subsidiary in the nutritional supplements-related business.
   (3) Approximately ¥4,000 million ($36,039 thousand) by March 2021 as a part of capital expenditure for building the Kansai Logistics Center.

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, 2019, 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, 2019, 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 3.

Ernst & Young ShinNihon LLC

June 21, 2019
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.