Consolidated Financial Statements

FANCL CORPORATION
and Consolidated Subsidiaries

Year ended March 31, 2020
with Independent Auditor's Report

FANCL CORPORATION and Consolidated Subsidiaries

Consolidated Balance Sheet

	March 31,		
	2020	**2019**	**2020**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Assets			
Current assets:			
Cash and bank deposits *(Notes 5 and 15)*	¥27,991	¥18,635	$257,201
Notes and accounts receivable *(Note 5)*	12,114	15,580	111,319
Merchandise and products	5,602	5,244	51,478
Work in progress	–	26	–
Raw materials and supplies	6,579	6,185	60,453
Others	1,274	1,189	11,708
Less: Allowance for doubtful accounts *(Note 5)*	(264)	(171)	(2,433)
Total current assets	53,296	46,689	489,726
Fixed assets:			
Tangible fixed assets *(Notes 11, 12 and 16)*:			
Buildings and structures	30,380	28,082	279,154
Less: Accumulated depreciation and accumulated impairment loss	(16,983)	(16,321)	(156,059)
Buildings and structures (net)	13,396	11,760	123,095
Machinery, vehicles, tools, furniture and fixtures	20,389	18,268	187,356
Less: Accumulated depreciation and accumulated impairment loss	(15,373)	(14,806)	(141,257)
Machinery and transport equipment (net)	5,016	3,461	46,098
Land	14,143	11,839	129,957
Leased assets	294	256	2,703
Less: Accumulated depreciation and accumulated impairment loss	(141)	(106)	(1,303)
Leased assets (net)	152	150	1,399
Construction in progress	2,616	314	24,037
Total tangible fixed assets, net	35,324	27,526	324,588
Intangible fixed assets:			
Others	2,246	2,229	20,644
Total intangible fixed assets	2,246	2,229	20,644
Investments and other assets:			
Investment securities *(Notes 5 and 6)*	226	176	2,082
Long-term loans	–	100	–
Lease and guarantee deposits	1,157	1,051	10,631
Long-term prepaid expense	121	136	1,113
Deferred tax assets *(Note 8)*	1,965	2,263	18,056
Others *(Note 6)*	165	158	1,522
Less: Allowance for doubtful accounts	(26)	(24)	(239)
Total investments and other assets	3,609	3,862	33,167
Total fixed assets	41,181	33,617	378,400
Total assets	¥94,478	¥80,307	$ 868,127

	March 31,		
	2020	2019	2020
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Liabilities and net assets			
Current liabilities:			
Notes and accounts payable *(Note 5)*	¥2,918	¥3,253	$26,812
Accrued liabilities *(Note 5)*	5,476	6,470	50,322
Accrued income taxes	2,387	3,600	21,940
Provision for bonuses	1,306	1,512	12,004
Provision for points	1,918	1,676	17,623
Provision for directors' bonuses	116	–	1,066
Others *(Note 5)*	1,612	1,439	14,817
Total current liabilities	15,735	17,951	144,588
Long-term liabilities:			
Convertible bonds with stock acquisition rights *(Note 5)*	10,200	–	93,724
Lease obligations *(Note 5)*	101	98	936
Retirement benefit liabilities *(Note 9)*	777	738	7,140
Asset retirement obligations *(Note 16)*	434	412	3,991
Provision for directors' bonuses	–	64	–
Others	90	123	832
Total long-term liabilities	11,604	1,438	106,625
Total liabilities	27,339	19,390	251,214
Net assets *(Notes 7 and 14)*:			
Shareholders' equity *(Note 7)*:			
Common stock:			
Authorized – 467,676,000 shares in 2020 and 2019, respectively			
Issued – 130,353,200 shares in 2020 and 2019, respectively	10,795	10,795	99,192
Capital reserve	11,706	11,706	107,564
Retained earnings	64,260	58,902	590,469
Less: Treasury stock 9,794,956 shares in 2020 and 10,395,292 shares in 2019	(19,938)	(21,160)	(183,207)
Total shareholders' equity	66,823	60,243	614,019
Accumulated other comprehensive income *(Note 19)*:			
Foreign currency translation adjustment	52	67	478
Retirement benefit liability adjustments	(329)	(261)	(3,023)
Total accumulated other comprehensive income	(277)	(193)	(2,545)
Stock acquisition rights	592	866	5,440
Total net assets	67,138	60,916	616,913
Total liabilities and net assets	¥94,478	¥80,307	$868,127

See notes to consolidated financial statements.

FANCL CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Income

	Year ended March 31,		
	2020	**2019**	**2020**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Net sales *(Note 17)*	¥126,810	¥122,496	$1,165,212
Cost of sales	36,266	35,118	333,239
Gross profit	90,543	87,378	831,972
Selling, general and administrative expenses *(Note 10)*	76,417	74,990	702,175
Operating income	14,125	12,387	129,797
Other income (expenses):			
Interest and dividend income	52	4	482
Rent income	57	80	523
Foreign exchange gain (loss)	(0)	4	(3)
Compensation payments received	16	16	149
Gain on sale of fixed assets	0	299	0
Insurance proceeds	46	–	427
Loss on sale of fixed assets	(1)	–	(15)
Interest expenses	–	(0)	–
Compensation expenses	–	(166)	–
Loss on retirement of fixed assets	(16)	(201)	(147)
Impairment loss *(Note 12)*	(40)	(12)	(368)
Loss on store closures	(100)	(93)	(921)
Bond issue expenses	(44)	–	(405)
Others, net	92	29	845
Profit (loss) before income taxes	14,187	12,349	130,364
Income taxes *(Note 8)*:			
Current	3,874	3,878	35,596
Deferred	328	(178)	3,016
	4,202	3,700	38,613
Profit (loss)	9,985	8,649	91,751
Profit (loss) attributable to owners of parent	¥9,985	¥8,649	$ 91,751

See notes to consolidated financial statements.

FANCL CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income

	Year ended March 31,		
	2020	**2019**	**2020**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Profit (loss)	¥9,985	¥8,649	$ 91,751
Other comprehensive income *(Note 19)*			
Foreign currency translation adjustment	(15)	(21)	(143)
Retirement benefit liability adjustments	(67)	(17)	(623)
Total other comprehensive income (loss)	(83)	(39)	(766)
Comprehensive income	¥9,901	¥8,610	$ 90,984
(Breakdown)			
Comprehensive income attributable to owners of parent	¥9,901	¥8,610	$ 90,984
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, 2020 and 2019

	Shareholders' equity						Other comprehensive income				
	Common stock										
	Number of shares	Amount	Capital reserve	Retained earnings	Treasury stock	Total shareholders' equity	Foreign currency translation adjustment	Retirement benefit liability adjustments	Total other comprehensive income	Share acquisition rights	Total net assets
	(Thousands)					*(Millions of yen)*					
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
Net changes of items other than shareholders' equity	–	–	–	–	–	–	(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)
April 1, 2019	130,353	¥10,795	¥11,706	¥58,902	¥(21,160)	¥60,243	¥67	¥(261)	¥(193)	¥866	¥60,916
Dividends of surplus	–	–	–	(3,840)	–	(3,840)	–	–	–	–	(3,840)
Profit (loss)	–	–	–	9,985	–	9,985	–	–	–	–	9,985
Purchase of treasury stock	–	–	–	–	(1)	(1)	–	–	–	–	(1)
Disposal of treasury stock	–	–	–	(786)	1,223	437	–	–	–	–	437
Net changes of items other than shareholders' equity	–	–	–	–	–	–	(15)	(67)	(83)	(274)	(358)
Total changes during the year	–	–	–	5,358	1,221	6,580	(15)	(67)	(83)	(274)	6,221
March 31, 2020	130,353	¥10,795	¥11,706	¥64,260	¥(19,938)	¥66,823	¥52	¥(329)	¥(277)	¥592	¥67,138

	Shareholders' equity						Other comprehensive income				
	Common stock										
	Number of shares	Amount	Capital reserve	Retained earnings	Treasury stock	Total shareholders' equity	Foreign currency translation adjustment	Retirement benefit liability adjustments	Total other comprehensive income	Share acquisition rights	Total net assets
	(Thousands)					*(Thousands of US dollars) (Note 3)*					
April 1, 2019	130,353	$99,192	$107,564	$541,232	$(194,431)	$553,557	$621	$(2,400)	$(1,779)	$7,964	$559,743
Dividends of surplus	–	–	–	(35,290)	–	(35,290)	–	–	–	–	(35,290)
Profit (loss)	–	–	–	91,751	–	91,751	–	–	–	–	91,751
Purchase of treasury stock	–	–	–	–	(15)	(15)	–	–	–	–	(15)
Disposal of treasury stock	–	–	–	(7,223)	11,239	4,015	–	–	–	–	4,015
Net changes of items other than shareholders' equity	–	–	–	–	–	–	(143)	(623)	(766)	(2,524)	(3,291)
Total changes during the year	–	–	–	49,237	11,224	60,461	(143)	(623)	(766)	(2,524)	57,169
March 31, 2020	130,353	$99,192	$107,564	$590,469	$(183,207)	$614,019	$478	$(3,023)	$(2,545)	$5,440	$616,913

See notes to consolidated financial statements.

FANCL CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Cash Flows

	Year ended March 31,		
	2020	2019	2020
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Cash flows from operating activities:			
Profit (loss)	¥ 14,187	¥ 12,349	$ 130,364
Depreciation and amortization	3,307	3,057	30,387
Impairment loss	40	12	368
Stock compensation expense	161	207	1,485
Increase (decrease) in allowance for doubtful accounts	93	15	858
Increase (decrease) in provision for bonuses	(206)	169	(1,893)
Increase (decrease) in provision for directors' bonuses	51	64	475
Increase (decrease) in provision for points	242	100	2,223
Increase (decrease) in retirement benefit liabilities	(59)	9	(546)
Interest and dividend income	(52)	(4)	(482)
Loss (gain) on foreign exchange	2	9	19
Loss (gain) on sale of fixed assets	1	(299)	14
Loss on retirement of fixed assets	16	201	147
Loss on store closures	100	93	921
Bond issue expenses	44	–	405
Insurance proceeds	(46)	–	(427)
Gain on reversal of stock acquisition rights	–	(17)	–
Decrease (increase) in accounts receivable	3,462	(1,793)	31,819
Decrease (increase) in inventories	(732)	(3,165)	(6,733)
Decrease (increase) in other current assets	(121)	(173)	(1,113)
Decrease (increase) in other fixed assets	5	(51)	46
Increase (decrease) in accounts payable	(335)	230	(3,082)
Increase (decrease) in other current liabilities	(708)	(603)	(6,506)
Increase (decrease) in other fixed liabilities	(33)	(61)	(303)
Others	(11)	141	(104)
Sub-total	19,409	10,492	178,344
Interest and dividends received	2	4	22
Income taxes paid	(5,077)	(1,598)	(46,654)
Others	46	(166)	427
Net cash provided by (used in) operating activities	14,380	8,731	132,140
Cash flows from investing activities			
Payment for acquisition of tangible fixed assets	(10,533)	(2,916)	(96,787)
Proceeds from sale of tangible fixed assets	1	0	17
Payment for acquisition of intangible fixed assets	(699)	(766)	(6,431)
Proceeds from sale of intangible fixed assets	–	300	–
Payment for acquisition of investment securities	(49)	(49)	(459)
Collection of loans receivable	100	100	918
Other payments	(209)	(42)	(1,924)
Other proceeds	81	215	749
Net cash provided by (used in) investing activities	(11,309)	(3,160)	(103,916)

FANCL CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Cash Flows (continued)

	Year ended March 31,		
	2020	2019	2020
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Cash flows from financing activities			
Proceeds from issuance of convertible bonds with stock acquisition rights	10,205	–	93,778
Proceeds from disposal of treasury stock	0	277	5
Payment for acquisition of treasury stock	(1)	(20,004)	(15)
Cash dividends paid	(3,834)	(3,749)	(35,235)
Others	(77)	(83)	(710)
Net cash provided by (used in) financing activities	6,292	(23,559)	57,822
Effect of exchange rate changes on cash and cash equivalents	(8)	(17)	(77)
Net increase (decrease) in cash and cash equivalents	9,355	(18,006)	85,968
Cash and cash equivalents at beginning of the year	18,635	36,641	171,232
Cash and cash equivalents at end of the year *(Note 15)*	¥27,991	¥18,635	$257,201

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

FANCL CORPORATION and Consolidated Subsidiaries

For the years ended March 31, 2020 and 2019

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 seven consolidated subsidiaries, namely ATTENIR CORPORATION, FANCL ASIA (PTE) LTD, FANCL B&H CORPORATION, NICOSTAR BEAUTECH Co., Ltd., FANCL LAB Co., Ltd., FANCL INTERNATIONAL, INC. and boscia, LLC.

FANCL LAB Co., Ltd. was newly included in the scope of consolidation due to establishment in the fiscal year ended March 31, 2020.

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 – 16 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) Provision for bonuses

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

(l) Provision for directors' bonuses

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

1. Summary of Significant Accounting Policies (continued)

(m) Provision for points

The provision for points 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) Retirement benefit liabilities

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 31, 2020, 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.

Accounting Standard for Fair Value Measurement, etc.

On July 4, 2019, the ASBJ issued “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30), “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31), “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9), “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10), and on March 31, 2020 issued “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19)

(1) Overview
In order to enhance the comparability of Japanese accounting standards and international accounting standards, “Accounting Standard for Fair Value Measurement” and “Implementation Guidance on Accounting Standard for Fair Value Measurement” (together, hereinafter “Accounting Standards for Fair Value Measurement, etc.”) were developed and guidance in relation to fair value measurement were issued. The Accounting Standards for Fair Value Measurement, etc. are applied to the following items:
- Financial instruments defined in “Accounting Standard for Financial Instruments”
- Inventories held for trading purposes defined in “Accounting Standard for Measurement of Inventories”

In addition, “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” was revised to include notes regarding the breakdown by level of fair values of financial instruments.

2. Accounting standard and guidance not yet adopted (continued)

(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.

Accounting Standard for Disclosure of Accounting Estimates

On March 31, 2020, the ASBJ issued "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31)

(1) Overview
This accounting standard requires the disclosure of information useful for the users of the financial statements regarding items of accounting estimates recorded in the financial statements for the current fiscal year that have the risk of significantly impacting the financial statements for the following fiscal year.

(2) Scheduled date of adoption
The Company expects to adopt the accounting standard from the end of the fiscal year ending March 31, 2021.

Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections

On March 31, 2020, the ASBJ issued "Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections" (ASBJ Statement No.24)

(1) Overview
This accounting standard requires the clarification of the overview of the principles and procedures of the accounting treatments adopted, in cases where the provisions of relevant accounting standards, etc. are unclear.

(2) Scheduled date of adoption
The Company expects to adopt the accounting standard from the end of the fiscal year ending March 31, 2021.

2. Accounting standard and guidance not yet adopted (continued)

3. U.S. Dollar Amounts

For the convenience of the reader, the accompanying consolidated financial statements with respect to the year ended March 31, 2020 have been presented in U.S. dollars by translating all yen amounts at ¥108.83 = U.S.$1.00, the exchange rate prevailing on March 31, 2020. 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. Additional Information

(Impact of the Novel Coronavirus Pandemic)
Difficult conditions are expected to continue for the Japanese economy as the spread of the novel coronavirus disease (COVID-19) is predicted to cause prolonged stagnation of economic activities, with no certainty regarding when the pandemic will be brought under control.

In such a business environment, the Group made accounting estimates in relation to the recoverability of deferred tax assets and other items based on the assumption that the impact of COVID-19 will continue in Japan through to August 2020, and inbound demand will begin to gradually recover from October 2020.

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, 2020

	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
	(Millions of yen)			*(Thousands of U.S. dollars)*		
(1) Cash and bank deposits	¥27,991	¥27,991	¥ –	$257,201	$257,201	$ –
(2) Notes and accounts receivable	11,849	11,849	–	108,885	108,885	–
Total assets	39,841	39,841	–	366,086	366,086	–
(1) Notes and accounts payable	2,918	2,918	–	26,812	26,812	–
(2) Accrued liabilities	5,476	5,476	–	50,322	50,322	–
Total liabilities	¥ 8,394	¥ 8,394	¥ –	$ 77,135	$ 77,135	$ –

As of March 31, 2019

	Carrying value	Fair value	Difference
	(Millions of yen)		
(1) Cash and bank deposits	¥18,635	¥18,635	¥ –
(2) Notes and accounts receivable	15,408	15,408	–
Total assets	34,043	34,043	–
(1) Notes and accounts payable	3,253	3,253	–
(2) Accrued liabilities	6,470	6,470	–
Total liabilities	¥ 9,723	¥ 9,723	¥ –

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, 2020	March 31, 2019	March 31, 2020
	Carrying value		
	(Millions of yen)		(Thousands of U.S. dollars)
Unlisted equity securities *	¥226	¥176	$2,082
Convertible bonds with stock acquisition rights *	¥10,200	–	$93,724

* The fair values are not disclosed because their market prices are not available and their fair values are deemed extremely difficult to assess.

An impairment of ¥0 million ($2 thousand) on unlisted equity securities was recognized in the year ended March 31, 2020.

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

As of March 31, 2020

	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	¥27,967	¥ –	¥ –	¥ –	$256,980	$ –	$ –	$ –
Notes and accounts receivable	11,849	–	–	–	108,885	–	–	–
Total	¥39,817	¥ –	¥ –	¥ –	$365,866	$ –	$ –	$ –

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
	(Millions of yen)			
Cash and bank deposits	¥18,605	¥ –	¥ –	¥ –
Notes and accounts receivable	15,408	–	–	–
Total	¥34,013	¥ –	¥ –	¥ –

5. Financial Instruments (continued)

Note iv: Projected redemption amounts for bonds and lease obligations with maturities after the account closing date

As of March 31, 2020

	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)*			
Convertible bonds with stock acquisition rights	¥ –	¥ 10,000	¥ –	¥ –	$ –	$ 91,886	$ –	$ –
Lease obligations	62	101	–	–	575	936	–	–
Total	¥ 62	¥ 10,101	¥ –	¥ –	$ 575	$ 92,822	$ –	$ –

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
	(Millions of yen)			
Lease obligations	¥63	¥ 98	¥ –	¥ –
Total	¥63	¥ 98	¥ –	¥ –

6. Securities

Investments in unconsolidated subsidiaries and affiliates included in “investment securities” as of March 31, 2020 and 2019 amounted to ¥56 million ($520 thousand) and ¥56 million, respectively. Investments in unconsolidated subsidiaries and affiliates as of March 31, 2020 and 2019 also included investments in stock of jointly controlled companies in the amounts of ¥44 million ($405 thousand) and ¥44 million, respectively.

7. Shareholders’ Equity

The Companies Act provides that amounts from capital reserve 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 reserve available for distribution. The Companies Act further provides that amounts equal to 10% of such distributions need to be transferred to the legal capital reserve included in capital reserve or the legal retained earnings included in retained earnings until the sum of the legal capital reserve 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.

7. Shareholders' Equity (continued)

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, 2020 and 2019, were as follows:

	2020	2019	2020
	(Yen)		*(U.S. dollars)*
Year-end	¥15.00	¥29.00	$0.13
Half-year	17.00	30.00	0.15

The effective dates of the distribution for year-end and half-year cash dividends, which were paid during the year ended March 31, 2020, were June 24, 2019 and December 5, 2019, respectively.

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

The cash dividends of retained earnings of the Company for the year ended March 31, 2020 approved at a meeting of the Board of Directors, which was held on May 7, 2020, were as follows:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Cash dividends	¥2,049	$18,832
	(Yen)	*(U.S. dollars)*
Cash dividends per share	¥17.00	$0.15

8. Income Taxes

The significant components of deferred tax assets and liabilities at March 31, 2020 and 2019 were as follows:

	2020	2019	2020
	(Millions of yen)		(Thousands of U.S. dollars)
Deferred tax assets:			
Accrued enterprise taxes	¥ 153	¥ 212	$ 1,411
Provision for bonuses	405	511	3,722
Provision for points	586	512	5,389
Tax loss carried forward	408	500	3,751
Retirement benefit liabilities (Note 9)	279	254	2,566
Retirement benefit trust	235	235	2,163
Asset retirement obligations	127	121	1,174
Stock acquisition rights	153	240	1,413
Impairment loss	402	407	3,695
Others	689	698	6,338
Subtotal	3,441	3,695	31,626
Valuation allowance for tax loss carried forward	(408)	(500)	(3,751)
Valuation allowance for deductible temporary differences	(665)	(559)	(6,112)
Subtotal	(1,073)	(1,060)	(9,863)
Total deferred tax assets	2,368	2,635	21,763
Deferred tax liabilities:			
Unrealized intercompany profit on land	(232)	(232)	(2,132)
Others	(171)	(139)	(1,574)
Total deferred tax liabilities	(403)	(371)	(3,706)
Net deferred tax assets	¥ 1,965	¥ 2,263	$ 18,056

8. Income Taxes (continued)

The expiry schedule on tax loss carried forward and the related deferred tax assets subsequent to March 31, 2020 and 2019 was as follows:

As of March 31, 2020

	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	171	(171)	—
Due after five years	236	(236)	—
Total	¥408	¥(408)	¥—

As of March 31, 2019

	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)	¥—

As of March 31, 2020

	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	1,573	(1,573)	—
Due after five years	2,177	(2,177)	—
Total	$3,751	$(3,751)	$ —

Note:

(a) 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 years ended March 31, 2020 and 2019 has been omitted because it is less than 5% of the statutory tax rate.

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, 2020 and 2019 are as follows (excluding plans for which the simplified method is applied):

	March 31,		
	2020	**2019**	**2020**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Retirement benefit obligation at the beginning of fiscal year	¥3,632	¥3,412	$33,379
Service cost	354	341	3,261
Interest cost	4	4	45
Actuarial gain	(6)	(0)	(58)
Retirement benefit paid	(159)	(120)	(1,461)
Other	10	(4)	92
Retirement benefit obligation at the end of fiscal year	¥3,837	¥3,632	$35,259

The changes in plan assets during the years ended March 31, 2020 and 2019 are as follows (excluding plans for which the simplified method is applied):

	March 31,		
	2020	**2019**	**2020**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Plan assets at the beginning of fiscal year	¥3,313	¥3,087	$30,447
Expected return on plan assets	99	92	913
Actuarial loss	(106)	(40)	(978)
Contributions by the Company	273	259	2,510
Retirement benefit paid	(112)	(85)	(1,032)
Plan assets at the end of fiscal year	¥3,467	¥3,313	$31,860

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, 2020 and 2019 are as follows:

	March 31,		
	2020	**2019**	**2020**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Retirement benefit obligation at the beginning of fiscal year	¥419	¥378	$3,856
Retirement benefit expense	94	126	870
Retirement benefit paid	(19)	(15)	(180)
Contribution to the plans	(84)	(81)	(776)
Other	(3)	11	(29)
Retirement benefit obligation at the end of fiscal year	¥407	¥419	$3,741

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2020 and 2019 for the Company's and the consolidated subsidiaries' defined benefit plans:

	March 31,		
	2020	**2019**	**2020**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Funded retirement benefit obligation	¥ 5,179	¥ 4,936	$ 47,595
Plan assets at fair value	(4,402)	(4,197)	(40,455)
Net liability for retirement benefits in the balance sheet	777	738	7,140
Retirement benefit liabilities	777	738	7,140
Net liability for retirement benefits in the balance sheet	¥ 777	¥ 738	$ 7,140

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, 2020 and 2019 are as follows:

	March 31,		
	2020	**2019**	**2020**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Service cost	¥354	¥341	$3,261
Interest cost	4	4	45
Expected return on plan assets	(99)	(92)	(913)
Amortization of actuarial loss	2	14	22
Retirement benefit expense calculated by the simplified method	94	126	870
Retirement benefit expense	¥357	¥393	$3,287

The components of retirement benefits liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2020 and 2019 are as follows:

	March 31,		
	2020	**2019**	**2020**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Actuarial loss	¥97	¥25	$897
Total	¥97	¥25	$897

Unrecognized prior service cost and unrecognized actuarial loss included in accumulated other comprehensive income (before tax effect) as of March 31, 2020 and 2019 are as follows:

	March 31,		
	2020	**2019**	**2020**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Unrecognized actuarial loss	¥474	¥376	$4,355
Total	¥474	¥376	$4,355

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, 2020 and 2019 are as follows:

	March 31,	
	2020	**2019**
General accounts at life insurance companies	23%	23%
Bonds	33%	36%
Stocks	4%	9%
Short-term deposits	4%	4%
Other	36%	28%
Total	100%	100%

Note: The total amounts of plan assets include 18% of the employee pension trust set up for the corporate pension plan for the year ended March 31, 2020.

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, 2020 and 2019 were as follows:

	March 31,	
	2020	**2019**
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, 2020 and 2019 were as follows:

	2020	**2019**	**2020**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Research and development expenses	¥3,440	¥3,464	$31,617

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. Impairment Loss

Impairment loss for the years ended March 31, 2020 and 2019 consisted of the following:

For the year ended March 31, 2020

Used for	Type of assets	Amount		Place
		(Millions of yen)	*(Thousands of U.S. dollars)*	
Store equipment	Building and structures	¥ 31	$ 285	Kanto and Kinki Areas
	Tools and equipment	9	83	
Total		¥ 40	$ 368	

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 mainly to close stores or renovate stores and dispose of unnecessary assets. This reduction in value of ¥40 million ($368 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. Impairment Loss (continued)

For the year ended March 31, 2019

Used for	Type of assets	Amount (Millions of yen)	Place
Store equipment	Building and structures Tools and equipment	¥ 12 0	Kanto Area
Total		¥ 12	

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 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 ¥161 million ($1,485 thousand) and ¥207 million were recorded in selling, general and administrative expenses for the years ended March 31, 2020 and 2019, respectively.

Gain on reversal of stock acquisition rights of ¥17 million was recorded as a gain associated with the expiration of stock options due to non-exercise of the rights for the year ended March 31, 2019.

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

During the fiscal year ended March 31, 2020, 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	October 30, 2014	October 29, 2015	October 28, 2016	October 30, 2017
Grantees	7 directors and 5 executive officers	10 directors and 10 executive officers	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	10 directors and 11 executive officers of the Company, and 4 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	156,800 shares	169,600 shares	182,400 shares	106,600 shares
Option price per warrant	¥1	¥1	¥1	¥1	¥1	¥1
Exercise period	December 4, 2012 – December 3, 2042	December 3, 2013 – December 2, 2043	December 2, 2014 – December 1, 2044	December 2, 2015 – December 1, 2045	December 2, 2016– December 1, 2046	December 2, 2017– December 1, 2047

13. Stock Option Plans (continued)

Date of approval by shareholders or the Board of Directors	October 30, 2018	October 30, 2019
Grantees	10 directors and 9 executive officers of the Company, and 7 directors of subsidiaries	6 directors and 13 executive officers of the Company, and 8 directors of subsidiaries
Type of shares with warrants granted	Common stock	Common stock
Number of shares with warrants granted	69,400 shares	59,200 shares
Option price per warrant	¥1	¥1
Exercise period	December 4, 2018– December 3, 2048	December 3, 2019– December 2, 2049

Fair value as of the grant date for the twentieth stock options, approved at the meeting of the Board of Directors held on October 30, 2019, during the year ended March 31, 2020 was estimated using the Black-Scholes model with the following assumptions.

	Twentieth stock options, 2019
Expected volatility (*1)	34.76%
Expected life (*2)	7 years
Expected dividend (*3)	30.00 yen per share
Risk-free rate (*4)	(0.196)%

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 seven years from December 2012 to December 2019 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, 2019.

*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 acquisition 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).

	2020	**2019**	**2020**
	(Yen)		*(U.S. dollars)*
Profit (loss) attributable to owners of parent per share:			
- Basic	¥ 83.11	¥ 68.82	$ 0.76
- Diluted	82.47	68.02	0.75
Net assets per share	551.99	500.59	5.07

Notes:

1. The two-for-one stock split of the Company's common stock was executed effective December 1, 2018. Amounts per share are adjusted accordingly assuming that the stock split had been effective from April 1, 2018.
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:

	2020	2019	2020
	(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	¥ 9,985	¥ 8,649	$ 91,751
Amount not attributable to common shareholders	–	–	–
Net profit (loss) attributable to owners of parent on common stock	9,985	8,649	91,751
Average number of shares of common stock outstanding during the period	120,139,699	125,685,258	120,139,699
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:			
Stock acquisition rights	943,817	1,478,190	943,817
Residual securities not included in the calculation of diluted profit (loss) attributable to owners of parent due to their anti-dilutive effects	Euro-yen convertible bonds with stock acquisition rights, due 2024 (1,000 stock acquisition rights with a face value of ¥10,000 million)	–	Euro-yen convertible bonds with stock acquisition rights, due 2024 (1,000 stock acquisition rights with a face value of ¥10,000 million ($91,886 thousand))

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, 2020 and 2019:

	2020	2019	2020
	(Millions of yen)		*(Thousands of U.S. dollars)*
Cash and bank deposits	¥27,991	¥18,635	$257,201
Cash and cash equivalents	¥27,991	¥18,635	$257,201

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, 2020

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, 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%.

(3) Total changes in applicable asset retirement obligations during the years ended March 31, 2020 and 2019

	2020	2019	2020
	(Millions of yen)		*(Thousands of U.S. dollars)*
Balance at beginning of year	¥412	¥409	$3,793
Liabilities incurred due to the acquisition of tangible fixed assets	36	10	335
Accretion expense	0	3	5
Decrease due to extinguishment of obligation to restore	(10)	(14)	(95)
Others, net	(0)	4	(6)
Balance at end of year	¥438	¥412	$4,032

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 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, 2020					
	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	¥75,891	¥44,006	¥ 6,911	¥126,810	¥ –	¥126,810
Intersegment sales or transfers	–	–	–	–	–	–
Total sales	75,891	44,006	6,911	126,810	–	126,810
Segment profits	11,768	4,095	90	15,955	(1,829)	14,125
Segment assets	¥36,369	¥21,127	¥2,745	¥60,242	¥34,235	¥94,478
II. Other items						
Depreciation and amortization	¥ 1,744	¥ 1,006	¥ 150	¥ 2,900	¥ 407	¥ 3,307
Increase in tangible and intangible fixed assets	5,664	5,098	214	10,977	231	11,208

*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 ¥1,829 million and consisted of operating expenses incurred in the Administration Department of the Company. Corporate assets included under "Adjustments and eliminations" amounted to ¥34,235 million and consisted principally of cash and cash equivalents, land, and buildings of the Company.

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

17. Segment Information (continued)

(c) Information by reportable segment (continued)

	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, 2020					
	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	$697,341	$404,360	$ 63,510	$1,165,212	$ –	$1,165,212
Intersegment sales or transfers	–	–	–	–	–	–
Total sales	697,341	404,360	63,510	1,165,212	–	1,165,212
Segment profits	108,137	37,631	835	146,605	(16,807)	129,797
Segment assets	$334,186	$194,136	$ 25,223	$553,545	$314,581	$868,127
II. Others						
Depreciation and amortization	$ 16,026	$ 9,246	$ 1,378	$ 26,651	$ 3,741	$ 30,392
Increase in tangible and intangible fixed assets	52,050	46,849	1,969	100,869	2,122	102,991

*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 $16,807 thousand and consisted of operating expenses incurred in the Administration Department of the Company. Corporate assets included under “Adjustments and eliminations” amounted to $314,581 thousand and consisted principally of cash and cash equivalents, land, and buildings of the Company.

*3 Segment profits are adjusted for operating income 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, 2020	¥ 27	¥ 12	¥ 0	¥ 40	¥–	¥ 40
Impairment loss for the year ended March 31, 2019	¥ 8	¥ 4	¥ 0	¥ 12	¥–	¥ 12

	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, 2020	$ 249	$ 114	$ 4	$ 368	$–	$ 368

*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, 2020 and 2019 were principally summarized as follows:

Name of related party	Detail of transaction	Year ended March 31, 2020	2019	2020
		(Millions of yen)		*(Thousands of U.S. dollars)*
Yukio Ikemori	Payments of advisor remuneration *2	¥–	¥12	$–
Kenji Ikemori	Exercise of stock acquisition rights*3	¥279	¥–	$2,569
Kazuyoshi Miyajima	Exercise of stock acquisition rights*3	¥704	¥–	$6,477
Kenichi Sugama	Exercise of stock acquisition rights*3	¥150	¥–	$1,384
Kohji Yamaguchi	Exercise of stock acquisition rights*3	¥43	¥–	$404
Shoko Matsukuma	Exercise of stock acquisition rights*3	¥43	¥–	$404
Keiai Corporation *1	Purchase of treasury stock*4	¥–	¥19,997	$–
	Payments of rents *5	¥33	44	$304

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 For the year ended March 31, 2020

Mr. Kenji Ikemori, the former director and major shareholder of the Company, holds all the voting rights of this company. Mr. Kenji Ikemori resigned from the position of chairman and representative director, and executive officer founder of the Company on December 31, 2019.

For the year ended March 31, 2019

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

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

*3 Stock acquisition rights were granted in accordance with Article 236, 238 and 240(i) of the Companies Act. The amounts are calculated by multiplying the exercised number of share by the unit price of treasury stock at exercise.

*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.

18. Related Party Transactions (continued)

(2) Transactions between the consolidated subsidiaries of the Company and the related parties for the years ended March 31, 2020 and 2019 were principally summarized as follows:

Name of related party	Detail of transaction	Year ended March 31, 2020	2019	2020
		(Millions of yen)		*(Thousands of U.S. dollars)*
I'foret Co., Ltd *1	Sale of products *2	¥20	¥86	$185

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 For the year ended March 31, 2020

Mr. Kenji Ikemori, the former director and major shareholder of the Company, holds a majority of the voting rights of this company. Mr. Kenji Ikemori resigned from the position of chairman and representative director, and executive officer founder of the Company on December 31, 2019.

For the year ended March 31, 2019

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

*2 Prices and other terms of these transactions are determined by periodic price negotiation.

19. Other Comprehensive Income

Reclassification adjustment and tax effect on components of other comprehensive income

	March 31, 2020	2019	2020
	(Millions of yen)		*(Thousands of U.S. dollars)*
Foreign currency translation adjustment			
Amount arising during the year	¥ (15)	¥ (21)	$ (143)
Retirement benefits liability adjustments			
Amount arising during the year	(39)	(39)	(366)
Reclassification adjustment	(57)	14	(530)
Total before tax effect	(97)	(25)	(897)
Tax effect	(29)	(7)	(274)
Net retirement benefits liability adjustments	(67)	(17)	(623)
Total other comprehensive income (loss)	¥(83)	¥(39)	$(766)

20. Material Subsequent Events

Not applicable.

Report of the Independent Auditor

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Building a better working world

Independent Auditor's Report

The Board of Directors
FANCL CORPORATION

Opinion

We have audited the accompanying consolidated financial statements of FANCL CORPORATION and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2020, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors 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 such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditor and the Board of Corporate Auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Corporate Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report of the Independent Auditor (continued)

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan

[June 19, 2020]

渡辺伸啓

Nobuhiro Watanabe
Designated Engagement Partner
Certified Public Accountant

根本知香

Tomoka Nemoto
Designated Engagement Partner
Certified Public Accountant

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.