# Consolidated Financial Statements

# FANCL CORPORATION
# and Consolidated Subsidiaries

*Year ended March 31, 2021*
*with Independent Auditor's Report*

FANCL CORPORATION and Consolidated Subsidiaries

## Consolidated Balance Sheet

| | March 31, 2021 | March 31, 2020 | 2021 |
|---|---|---|---|
| | *(Millions of yen)* | | *(Thousands of U.S. dollars) (Note 5)* |
| **Assets** | | | |
| Current assets: | | | |
| Cash and bank deposits *(Notes 6 and 16)* | ¥25,487 | ¥27,991 | $230,220 |
| Notes and accounts receivable *(Note 6)* | 13,590 | 12,114 | 122,760 |
| Merchandise and products | 5,805 | 5,602 | 52,438 |
| Raw materials and supplies | 5,848 | 6,579 | 52,827 |
| Others | 1,506 | 1,274 | 13,608 |
| Less: Allowance for doubtful accounts *(Note 6)* | (216) | (264) | (1,953) |
| Total current assets | 52,022 | 53,296 | 469,900 |
| Fixed assets: | | | |
| Tangible fixed assets *(Notes 12, 13 and 17)*: | | | |
| Buildings and structures | 31,670 | 30,380 | 286,068 |
| Less: Accumulated depreciation and accumulated impairment loss | (17,768) | (16,983) | (160,500) |
| Buildings and structures (net) | 13,901 | 13,396 | 125,568 |
| Machinery, transport equipment, tools, furniture and fixtures | 20,999 | 20,389 | 189,677 |
| Less: Accumulated depreciation and accumulated impairment loss | (16,762) | (15,373) | (151,408) |
| Machinery, transport equipment, tools, furniture and fixtures (net) | 4,236 | 5,016 | 38,268 |
| Land | 14,214 | 14,143 | 128,394 |
| Leased assets | 258 | 294 | 2,339 |
| Less: Accumulated depreciation and accumulated impairment loss | (150) | (141) | (1,356) |
| Leased assets (net) | 108 | 152 | 982 |
| Construction in progress | 7,180 | 2,616 | 64,857 |
| Total tangible fixed assets, net | 39,642 | 35,324 | 358,071 |
| Intangible fixed assets: | | | |
| Others | 2,253 | 2,246 | 20,354 |
| Total intangible fixed assets | 2,253 | 2,246 | 20,354 |
| Investments and other assets: | | | |
| Investment securities *(Notes 6 and 7)* | 199 | 226 | 1,799 |
| Long-term loans | 100 | – | 903 |
| Deferred tax assets *(Note 9)* | 1,885 | 1,965 | 17,029 |
| Others *(Note 7)* | 1,456 | 1,443 | 13,154 |
| Less: Allowance for doubtful accounts | (25) | (26) | (229) |
| Total investments and other assets | 3,615 | 3,609 | 32,657 |
| Total fixed assets | 45,511 | 41,181 | 411,083 |
| Total assets | ¥97,533 | ¥94,478 | $880,984 |

| | March 31, | | |
|---|---|---|---|
| | 2021 | 2020 | 2021 |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars) (Note 5)* |
| **Liabilities and net assets** | | | |
| Current liabilities: | | | |
| Accounts payable *(Note 6)* | ¥2,770 | ¥2,918 | $25,021 |
| Accrued liabilities *(Note 6)* | 5,392 | 5,476 | 48,710 |
| Accrued income taxes | 1,943 | 2,387 | 17,558 |
| Provision for bonuses | 1,293 | 1,306 | 11,686 |
| Provision for points | 2,014 | 1,918 | 18,191 |
| Provision for directors' bonuses | – | 116 | – |
| Others *(Note 6)* | 1,383 | 1,612 | 12,500 |
| Total current liabilities | 14,798 | 15,735 | 133,669 |
| Long-term liabilities: | | | |
| Convertible bonds with stock acquisition rights *(Note 6)* | 10,150 | 10,200 | 91,680 |
| Lease obligations *(Note 6)* | 63 | 101 | 576 |
| Retirement benefit liabilities *(Note 10)* | 783 | 777 | 7,078 |
| Asset retirement obligations *(Note 17)* | 427 | 434 | 3,856 |
| Others | 94 | 90 | 857 |
| Total long-term liabilities | 11,519 | 11,604 | 104,051 |
| Total liabilities | 26,318 | 27,339 | 237,720 |
| | | | |
| Net assets *(Notes 8 and 15)*: | | | |
| Shareholders' equity *(Note 8)*: | | | |
| Common stock: | | | |
| Authorized – 467,676,000 shares in 2021 and 2020, respectively | | | |
| Issued – 130,353,200 shares in 2021 and 2020, respectively | 10,795 | 10,795 | 97,508 |
| Capital reserve | 11,706 | 11,706 | 105,737 |
| Retained earnings | 68,050 | 64,260 | 614,671 |
| Less: Treasury stock 9,690,356 shares in 2021 and 9,794,956 shares in 2020 | (19,726) | (19,938) | (178,179) |
| Total shareholders' equity | 70,825 | 66,823 | 639,737 |
| Accumulated other comprehensive income *(Note 20)*: | | | |
| Foreign currency translation adjustment | (19) | 52 | (173) |
| Retirement benefit liability adjustments | (251) | (329) | (2,269) |
| Total accumulated other comprehensive income | (270) | (277) | (2,442) |
| Stock acquisition rights | 660 | 592 | 5,968 |
| Total net assets | 71,215 | 67,138 | 643,263 |
| | | | |
| Total liabilities and net assets | ¥97,533 | ¥94,478 | $880,984 |

*See notes to consolidated financial statements.*

FANCL CORPORATION and Consolidated Subsidiaries

# Consolidated Statement of Income

| | Year ended March 31, | | |
|---|---|---|---|
| | **2021** | **2020** | **2021** |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars) (Note 5)* |
| Net sales *(Note 18)* | ¥114,909 | ¥126,810 | $1,037,934 |
| Cost of sales | 33,798 | 36,266 | 305,291 |
| Gross profit | 81,110 | 90,543 | 732,642 |
| Selling, general and administrative expenses *(Note 11)* | 69,534 | 76,417 | 628,075 |
| Operating income | 11,576 | 14,125 | 104,567 |
| Other income (expenses): | | | |
| Interest and dividend income | 51 | 52 | 468 |
| Rent income | 152 | 57 | 1,373 |
| Loss on foreign exchange | (118) | (0) | (1,070) |
| Compensation payments received | 14 | 16 | 129 |
| Gain on sale of fixed assets | 1 | 0 | 13 |
| Insurance proceeds | 14 | 46 | 127 |
| Subsidy income | 524 | – | 4,740 |
| Loss on sale of fixed assets | – | (1) | – |
| Loss on retirement of fixed assets | (54) | (16) | (490) |
| Impairment loss *(Note 13)* | (246) | (40) | (2,225) |
| Loss on store closings | (66) | (100) | (604) |
| Bond issue expenses | – | (44) | – |
| COVID-19 related loss | (617) | – | (5,578) |
| Others, net | 3 | 92 | 30 |
| Profit (loss) before income taxes | 11,235 | 14,187 | 101,483 |
| Income taxes *(Note 9)*: | | | |
| Current | 3,175 | 3,874 | 28,687 |
| Deferred | 42 | 328 | 383 |
| | 3,218 | 4,202 | 29,071 |
| Profit (loss) | 8,016 | 9,985 | 72,412 |
| Profit (loss) attributable to owners of parent | ¥8,016 | ¥9,985 | $72,412 |

*See notes to consolidated financial statements.*

FANCL CORPORATION and Consolidated Subsidiaries

## Consolidated Statement of Comprehensive Income

| | Year ended March 31, | | |
|---|---|---|---|
| | **2021** | **2020** | **2021** |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars) (Note 5)* |
| Profit (loss) | ¥8,016 | ¥9,985 | $ 72,412 |
| Other comprehensive income *(Note 20)* | | | |
| Foreign currency translation adjustment | (71) | (15) | (643) |
| Retirement benefit liability adjustments | 77 | (67) | 702 |
| Total other comprehensive income (loss) | 6 | (83) | 59 |
| Comprehensive income | ¥8,023 | ¥9,901 | $ 72,471 |
| (Breakdown) | | | |
| Comprehensive income attributable to owners of parent | ¥8,023 | ¥9,901 | $ 72,471 |
| 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

| | 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 | Stock acquisition rights | Total net assets |
| | *(Thousands)* | *(Millions of yen)* | | | | | | | | | |
| **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 |
| **April 1, 2020** | 130,353 | ¥10,795 | ¥11,706 | ¥64,260 | ¥(19,938) | ¥66,823 | ¥52 | ¥(329) | ¥(277) | ¥592 | ¥67,138 |
| Dividends of surplus | – | – | – | (4,100) | – | (4,100) | – | – | – | – | (4,100) |
| Profit (loss) | – | – | – | 8,016 | – | 8,016 | – | – | – | – | 8,016 |
| Purchase of treasury stock | – | – | – | – | (1) | (1) | – | – | – | – | (1) |
| Disposal of treasury stock | – | – | – | (126) | 213 | 87 | – | – | – | – | 87 |
| Net changes of items other than shareholders' equity | – | – | – | – | – | – | (71) | 77 | 6 | 68 | 75 |
| Total changes during the year | – | – | – | 3,789 | 212 | 4,001 | (71) | 77 | 6 | 68 | 4,076 |
| **March 31, 2021** | 130,353 | ¥10,795 | ¥11,706 | ¥68,050 | ¥(19,726) | ¥70,825 | ¥(19) | ¥(251) | ¥(270) | ¥660 | ¥71,215 |

| | 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 | Stock acquisition rights | Total net assets |
| | *(Thousands)* | *(Thousands of US dollars) (Note 5)* | | | | | | | | | |
| **April 1, 2020** | 130,353 | $97,508 | $105,737 | $580,442 | $(180,096) | $603,592 | $469 | $(2,972) | $(2,502) | $5,347 | $606,437 |
| Dividends of surplus | – | – | – | (37,040) | – | (37,040) | – | – | – | – | (37,040) |
| Profit (loss) | – | – | – | 72,412 | – | 72,412 | – | – | – | – | 72,412 |
| Purchase of treasury stock | – | – | – | – | (16) | (16) | – | – | – | – | (16) |
| Disposal of treasury stock | – | – | – | (1,142) | 1,932 | 789 | – | – | – | – | 789 |
| Net changes of items other than shareholders' equity | – | – | – | – | – | – | (643) | 702 | 59 | 620 | 680 |
| Total changes during the year | – | – | – | 34,228 | 1,916 | 36,145 | (643) | 702 | 59 | 620 | 36,825 |
| **March 31, 2021** | 130,353 | $97,508 | $105,737 | $614,671 | $(178,179) | $639,737 | $(173) | $(2,269) | $(2,442) | $5,968 | $643,263 |

*See notes to consolidated financial statements.*

FANCL CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Cash Flows

| | Year ended March 31, | | |
|---|---|---|---|
| | 2021 | 2020 | 2021 |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars) (Note 5)* |
| **Cash flows from operating activities:** | | | |
| Profit (loss) | ¥ 11,235 | ¥ 14,187 | $ 101,483 |
| Depreciation and amortization | 3,665 | 3,307 | 33,109 |
| Impairment loss | 246 | 40 | 2,225 |
| Stock compensation expense | 156 | 161 | 1,409 |
| Increase (decrease) in allowance for doubtful accounts | (43) | 93 | (390) |
| Increase (decrease) in provision for bonuses | (12) | (206) | (114) |
| Increase (decrease) in provision for directors' bonuses | (116) | 51 | (1,048) |
| Increase (decrease) in provision for points | 96 | 242 | 867 |
| Increase (decrease) in retirement benefit liabilities | 118 | (59) | 1,071 |
| Interest and dividend income | (51) | (52) | (468) |
| Loss (gain) on foreign exchange | 191 | 2 | 1,730 |
| Loss (gain) on sale of fixed assets | (1) | 1 | (13) |
| Loss on retirement of fixed assets | 54 | 16 | 490 |
| Loss on store closings | 66 | 100 | 604 |
| Bond issue expenses | – | 44 | – |
| Insurance proceeds | (14) | (46) | (127) |
| Subsidy income | (524) | – | (4,740) |
| COVID-19 related loss | 617 | – | 5,578 |
| Decrease (increase) in accounts receivable | (1,526) | 3,462 | (13,792) |
| Decrease (increase) in inventories | 500 | (732) | 4,525 |
| Decrease (increase) in other current assets | (335) | (121) | (3,034) |
| Decrease (increase) in other fixed assets | 50 | 5 | 459 |
| Increase (decrease) in accounts payable | (135) | (335) | (1,223) |
| Increase (decrease) in other current liabilities | (347) | (708) | (3,137) |
| Increase (decrease) in other fixed liabilities | (10) | (33) | (91) |
| Others | (227) | (11) | (2,053) |
| Sub-total | 13,652 | 19,409 | 123,317 |
| Interest and dividends received | 1 | 2 | 17 |
| Income taxes paid | (3,564) | (5,077) | (32,198) |
| Subsidies received | 524 | – | 4,740 |
| Payment for COVID-19 related loss | (617) | – | (5,578) |
| Others | 14 | 46 | 127 |
| Net cash provided by (used in) operating activities | 10,011 | 14,380 | 90,426 |
| **Cash flows from investing activities:** | | | |
| Payment for acquisition of tangible fixed assets | (7,395) | (10,533) | (66,796) |
| Proceeds from sale of tangible fixed assets | 2 | 1 | 25 |
| Payment for acquisition of intangible fixed assets | (812) | (699) | (7,339) |
| Payment for acquisition of investment securities | – | (49) | – |
| Collection of loans receivable | – | 100 | – |
| Other payments | (210) | (209) | (1,899) |
| Other proceeds | 279 | 81 | 2,521 |
| Net cash provided by (used in) investing activities | (8,135) | (11,309) | (73,487) |

FANCL CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Cash Flows (continued)

| | Year ended March 31, | | |
|---|---|---|---|
| | **2021** | **2020** | **2021** |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars) (Note 5)* |
| **Cash flows from financing activities:** | | | |
| Proceeds from issuance of convertible bonds with stock acquisition rights | – | 10,205 | – |
| Proceeds from disposal of treasury stock | 0 | 0 | 0 |
| Payment for acquisition of treasury stock | (1) | (1) | (16) |
| Cash dividends paid | (4,096) | (3,834) | (37,002) |
| Others | (72) | (77) | (653) |
| Net cash provided by (used in) financing activities | (4,170) | 6,292 | (37,671) |
| Effect of exchange rate changes on cash and cash equivalents | (208) | (8) | (1,882) |
| Net increase (decrease) in cash and cash equivalents | (2,503) | 9,355 | (22,613) |
| Cash and cash equivalents at beginning of the year | 27,991 | 18,635 | 252,833 |
| Cash and cash equivalents at end of the year *(Note 16)* | ¥25,487 | ¥27,991 | $230,220 |

*See notes to consolidated financial statements.*

# Notes to Consolidated Financial Statements

## FANCL CORPORATION and Consolidated Subsidiaries

### 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 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 16.

(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 and transport equipment | 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. Significant Accounting Estimates

*Impairment loss on fixed assets related to individual stores*

(1) Carrying amounts in the current year's consolidated financial statements

| | |
|---|---|
| Fixed assets related to individual stores | ¥1,575 million ($14,234 thousand) |
| Impairment loss | ¥246 million ($2,225 thousand) |

(2) Information on the nature of significant accounting estimates for identified items

i) Method in making the accounting estimates

In assessing whether there is any indication that individual stores may be impaired, the Company considers each store to be the smallest unit that generates independent cash flows and assesses whether an impairment loss should be recognized for stores for which there is an indication of impairment. If the total undiscounted future cash flows of each store are less than the carrying amount, the carrying amount is reduced to the recoverable amount and an impairment loss is recognized. Estimates of future cash flows are based on profit plan by store based on the medium-term management plan approved by the Board of Directors.

ii) Key assumptions used in making the accounting estimates

The main assumption used in the calculation of future cash flows is the sales forecast by customer segment, which is the basis for the medium-term management plan. In formulating the medium-term management plan, we made sales forecasts by customer segment (including inbound sales) based on the assumption that the impact of the novel coronavirus (COVID-19) infection on our business performance will continue at least through the fiscal year ending March 31, 2022, but that the economy will recover to a certain degree due to vaccinations and other factors.

iii) The effect on the next year's financial statements

If the assumptions used in the estimates for the current fiscal year change due to the spread or cessation of COVID-19, future changes in the market environment, or other factors, this could have a significant impact on the valuation of tangible fixed assets related to individual stores in the following fiscal year.

## 3. Accounting Standard and Guidance Not Yet Adopted

*Accounting Standard and Implementation Guidance on Revenue Recognition*

The ASBJ issued "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29) on March 31, 2020, and issued "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30) on March 26, 2021.

(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

## 3. 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 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) 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.

## 4. Change in Presentation Method

*Consolidated Balance Sheet*

"Lease and guarantee deposits" and "Long-term prepaid expense" under "Investments and other assets" which were presented as separate items in the previous fiscal year, are included in "Others" in the fiscal year under review due to their amounts becoming immaterial.

The consolidated financial statements for the previous fiscal year have also been retrospectively restated to reflect this change in presentation.

As a result, in the consolidated balance sheet for the previous fiscal year, ¥1,157 million of "Lease and guarantee deposits," ¥121 million of "Long-term prepaid expenses," and ¥165 million of "Others," which were presented under "Investments and other assets," have been reclassified as ¥1,443 million of "Others."

*Adoption of "Accounting Standard for Disclosure of Accounting Estimates"*

The Company and its subsidiaries adopted ASBJ Statement No. 31 "Accounting Standard for Disclosure of Accounting Estimates" (March 31, 2020) to the consolidated financial statements for the current fiscal year, and therefore significant accounting estimates are disclosed in the note to the consolidated financial statements.

The note does not include information for the prior fiscal year in accordance with the transitional provision prescribed in the proviso of paragraph 11 of the Accounting Standard.

## 5. U.S. Dollar Amounts

For the convenience of the reader, the accompanying consolidated financial statements with respect to the year ended March 31, 2021 have been presented in U.S. dollars by translating all yen amounts at ¥110.71 = U.S.$1.00, the exchange rate prevailing on March 31, 2021. 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.

## 6. 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.

**6. 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, 2021**

| | Carrying value | Fair value | Difference | Carrying value | Fair value | Difference |
|---|---|---|---|---|---|---|
| | *(Millions of yen)* | | | *(Thousands of U.S. dollars)* | | |
| (1) Cash and bank deposits | ¥25,487 | ¥25,487 | ¥ – | $230,220 | $230,220 | $ – |
| (2) Notes and accounts receivable | 13,374 | 13,374 | – | 120,806 | 120,806 | – |
| Total assets | 38,862 | 38,862 | – | 351,026 | 351,026 | – |
| (1) Accounts payable | 2,770 | 2,770 | – | 25,021 | 25,021 | – |
| (2) Accrued liabilities | 5,392 | 5,392 | – | 48,710 | 48,710 | – |
| Total liabilities | ¥ 8,162 | ¥ 8,162 | ¥ – | $ 73,731 | $ 73,731 | $ – |

**As of March 31, 2020**

| | Carrying value | Fair value | Difference |
|---|---|---|---|
| | *(Millions of yen)* | | |
| (1) Cash and bank deposits | ¥27,991 | ¥27,991 | ¥ – |
| (2) Notes and accounts receivable | 11,849 | 11,849 | – |
| Total assets | 39,841 | 39,841 | – |
| (1) Accounts payable | 2,918 | 2,918 | – |
| (2) Accrued liabilities | 5,476 | 5,476 | – |
| Total liabilities | ¥ 8,394 | ¥ 8,394 | ¥ – |

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) 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.

## 6. 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, 2021 | March 31, 2020 | March 31, 2021 |
|---|---|---|---|
| | Carrying value | | |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Unlisted equity securities * | ¥176 | ¥226 | $1,595 |
| Convertible bonds with stock acquisition rights * | ¥10,150 | ¥10,200 | $91,680 |

* 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 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, 2021

| | 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 | ¥25,466 | ¥ – | ¥ – | ¥ – | $230,027 | $ – | $ – | $ – |
| Notes and accounts receivable | 13,374 | – | – | – | 120,806 | – | – | – |
| Total | ¥38,840 | ¥ – | ¥ – | ¥ – | $350,834 | $ – | $ – | $ – |

### 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 |
|---|---|---|---|---|
| | *(Millions of yen)* | | | |
| Cash and bank deposits | ¥27,967 | ¥ – | ¥ – | ¥ – |
| Notes and accounts receivable | 11,849 | – | – | – |
| Total | ¥39,817 | ¥ – | ¥ – | ¥ – |

## 6. Financial Instruments (continued)

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

**As of March 31, 2021**

| | 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 | ¥ – | ¥ – | $ – | $ 90,326 | $ – | $ – |
| Lease obligations | 53 | 63 | – | – | 486 | 576 | – | – |
| Total | ¥ 53 | ¥ 10,063 | ¥ – | ¥ – | $ 486 | $ 90,902 | $ – | $ – |

**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 |
|---|---|---|---|---|
| | (Millions of yen) | | | |
| Convertible bonds with stock acquisition rights | ¥ – | ¥ 10,000 | ¥ – | ¥ – |
| Lease obligations | 62 | 101 | – | – |
| Total | ¥ 62 | ¥ 10,101 | ¥ – | ¥ – |

## 7. Securities

Investments in unconsolidated subsidiaries and affiliates included in "investment securities" as of March 31, 2021 and 2020 amounted to ¥56 million ($511 thousand) and ¥56 million, respectively. Investments in unconsolidated subsidiaries and affiliates as of March 31, 2021 and 2020 also included investments in stock of jointly controlled companies in the amounts of ¥44 million ($398 thousand) and ¥44 million, respectively.

## 8. 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.

## 8. 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, 2021 and 2020, were as follows:

| | 2021 | 2020 | 2021 |
|---|---|---|---|
| | *(Yen)* | | *(U.S. dollars)* |
| Year-end | ¥17.00 | ¥15.00 | $0.15 |
| Half-year | 17.00 | 17.00 | 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, 2021, were June 22, 2020 and December 4, 2020, 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, 2021 approved at a meeting of the Board of Directors, which was held on May 10, 2021, were as follows:

| | *(Millions of yen)* | *(Thousands of U.S. dollars)* |
|---|---|---|
| Cash dividends | ¥2,051 | $18,528 |
| | *(Yen)* | *(U.S. dollars)* |
| Cash dividends per share | ¥17.00 | $0.15 |

## 9. Income Taxes

The significant components of deferred tax assets and liabilities at March 31, 2021 and 2020 were as follows:

| | 2021 | 2020 | 2021 |
|---|---|---|---|
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Deferred tax assets: | | | |
| Accrued enterprise taxes | ¥ 117 | ¥ 153 | $ 1,060 |
| Provision for bonuses | 401 | 405 | 3,625 |
| Provision for points | 615 | 586 | 5,563 |
| Tax loss carried forward | 319 | 408 | 2,884 |
| Retirement benefit liabilities (Note 10) | 253 | 279 | 2,287 |
| Retirement benefit trust | 235 | 235 | 2,126 |
| Asset retirement obligations | 130 | 127 | 1,177 |
| Stock acquisition rights | 205 | 153 | 1,854 |
| Impairment loss | 450 | 402 | 4,073 |
| Others | 676 | 689 | 6,110 |
| Subtotal | 3,405 | 3,441 | 30,764 |
| Valuation allowance for tax loss carried forward | (319) | (408) | (2,884) |
| Valuation allowance for deductible temporary differences | (813) | (665) | (7,352) |
| Subtotal | (1,133) | (1,073) | (10,236) |
| Total deferred tax assets | 2,272 | 2,368 | 20,528 |
| Deferred tax liabilities: | | | |
| Unrealized intercompany profit on land | (232) | (232) | (2,096) |
| Others | (155) | (171) | (1,402) |
| Total deferred tax liabilities | (387) | (403) | (3,498) |
| Net deferred tax assets | ¥ 1,885 | ¥ 1,965 | $ 17,029 |

## 9. Income Taxes (continued)

The expiry schedule on tax loss carried forward and the related deferred tax assets subsequent to March 31, 2021 and 2020 was as follows:

As of March 31, 2021

| | 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 | 73 | (73) | — |
| Due after four years through five years | 101 | (101) | — |
| Due after five years | 144 | (144) | — |
| Total | ¥319 | ¥(319) | ¥— |

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, 2021

| | 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 | 664 | (664) | — |
| Due after four years through five years | 918 | (918) | — |
| Due after five years | 1,301 | (1,301) | — |
| Total | $2,884 | $(2,884) | $ — |

Note:

(a) Tax loss carried forward is the amount multiplied by the statutory tax rate.

## 9. Income Taxes (continued)

Reconciliation between the statutory tax rate and the effective tax rate reflected in the accompanying consolidated statement of income for the years ended March 31, 2021 and 2020 were as follows:

| | March 31, 2021 | March 31, 2020 |
|---|---|---|
| Statutory tax rate | 30.58% | — |
| Entertainment and other permanently non-deductible expenses | 0.52% | — |
| Per capita inhabitants tax | 1.22% | — |
| Tax credit for research and development expenses | (1.48)% | — |
| Valuation allowance | 0.48% | — |
| Income taxes for prior periods | (1.80)% | — |
| Other | (0.87)% | — |
| Effective tax rate | 28.65% | — |

Note: The difference between the statutory tax rate and the effective tax rate for the year ended March 31, 2020 has been omitted because it was less than 5% of the statutory tax rate.

## 10. 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, 2021 and 2020 are as follows (excluding plans for which the simplified method is applied):

| | March 31, | | |
|---|---|---|---|
| | **2021** | **2020** | **2021** |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Retirement benefit obligation at the beginning of fiscal year | ¥3,837 | ¥3,632 | $34,661 |
| Service cost | 407 | 354 | 3,681 |
| Interest cost | 5 | 4 | 46 |
| Actuarial loss (gain) | 14 | (6) | 127 |
| Retirement benefit paid | (118) | (159) | (1,070) |
| Other | 12 | 10 | 113 |
| Retirement benefit obligation at the end of fiscal year | ¥4,158 | ¥3,837 | $37,559 |

The changes in plan assets during the years ended March 31, 2021 and 2020 are as follows (excluding plans for which the simplified method is applied):

| | March 31, | | |
|---|---|---|---|
| | **2021** | **2020** | **2021** |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Plan assets at the beginning of fiscal year | ¥3,467 | ¥3,313 | $31,319 |
| Expected return on plan assets | 104 | 99 | 939 |
| Actuarial gain (loss) | 4 | (106) | 42 |
| Contributions by the Company | 298 | 273 | 2,695 |
| Retirement benefit paid | (87) | (112) | (788) |
| Plan assets at the end of fiscal year | ¥3,787 | ¥3,467 | $34,208 |

## 10. 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, 2021 and 2020 are as follows:

| | March 31, 2021 | March 31, 2020 | 2021 |
|---|---|---|---|
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Retirement benefit obligation at the beginning of fiscal year | ¥407 | ¥419 | $3,677 |
| Retirement benefit expense | 105 | 94 | 952 |
| Retirement benefit paid | (4) | (19) | (43) |
| Contribution to the plans | (89) | (84) | (810) |
| Other | (5) | (3) | (48) |
| Retirement benefit obligation at the end of fiscal year | ¥412 | ¥407 | $3,727 |

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2021 and 2020 for the Company's and the consolidated subsidiaries' defined benefit plans:

| | March 31, 2021 | March 31, 2020 | 2021 |
|---|---|---|---|
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Funded retirement benefit obligation | ¥ 5,589 | ¥ 5,179 | $ 50,489 |
| Plan assets at fair value | (4,806) | (4,402) | (43,410) |
| Net liability for retirement benefits in the balance sheet | 783 | 777 | 7,078 |
| Retirement benefit liabilities | 783 | 777 | 7,078 |
| Net liability for retirement benefits in the balance sheet | ¥ 783 | ¥ 777 | $ 7,078 |

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

## 10. 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, 2021 and 2020 are as follows:

| | March 31, | | |
|---|---|---|---|
| | 2021 | 2020 | 2021 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Service cost | ¥407 | ¥354 | $3,681 |
| Interest cost | 5 | 4 | 46 |
| Expected return on plan assets | (104) | (99) | (939) |
| Amortization of actuarial loss | 121 | 2 | 1,097 |
| Retirement benefit expense calculated by the simplified method | 105 | 94 | 952 |
| Retirement benefit expense | ¥535 | ¥357 | $4,838 |

The components of retirement benefits liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2021 and 2020 are as follows:

| | March 31, | | |
|---|---|---|---|
| | 2021 | 2020 | 2021 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Actuarial loss (gain) | ¥(112) | ¥97 | $(1,012) |
| Total | ¥(112) | ¥97 | $(1,012) |

Unrecognized prior service cost and unrecognized actuarial loss included in accumulated other comprehensive income (before tax effect) as of March 31, 2021 and 2020 are as follows:

| | March 31, | | |
|---|---|---|---|
| | 2021 | 2020 | 2021 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Unrecognized actuarial loss | ¥361 | ¥474 | $3,269 |
| Total | ¥361 | ¥474 | $3,269 |

## 10. 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, 2021 and 2020 are as follows:

| | March 31, | |
|---|---|---|
| | **2021** | **2020** |
| General accounts at life insurance companies | 25% | 23% |
| Bonds | 31% | 33% |
| Stocks | 12% | 4% |
| Short-term deposits | 1% | 4% |
| Other | 31% | 36% |
| Total | 100% | 100% |

Note: The total amounts of plan assets include 17% of the employee pension trust set up for the corporate pension plan for the year ended March 31, 2021.

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, 2021 and 2020 were as follows:

| | March 31, | |
|---|---|---|
| | **2021** | **2020** |
| 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.

## 11. Research and Development Expenses

Research and development expenses charged to income for the years ended March 31, 2021 and 2020 were as follows:

| | **2021** | **2020** | **2021** |
|---|---|---|---|
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Research and development expenses | ¥3,145 | ¥3,440 | $28,412 |

## 12. 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

Future minimum lease payments related to noncancellable operating leases as of March 31, 2021 and 2020 were as follows:

| (As lessee) | March 31, | | |
|---|---|---|---|
| | **2021** | **2020** | **2021** |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Future minimum lease payments as lessee: | | | |
| Due within one year | ¥ 345 | ¥— | $ 3,124 |
| Due after one year | 4,697 | — | 42,434 |
| Total | ¥ 5,043 | ¥— | $ 45,559 |

## 13. Impairment Loss

Impairment loss for the years ended March 31, 2021 and 2020 consisted of the following:

***For the year ended March 31, 2021***

| Used for | Type of assets | Amount (Millions of yen) | Amount (Thousands of U.S. dollars) | Place |
|---|---|---|---|---|
| Store equipment | Building and structures | ¥ 211 | $ 1,912 | Kanto and Kinki Areas |
| | Tools, furniture, fixtures and other | 34 | 313 | |
| Total | | ¥ 246 | $ 2,225 | |

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 because of the decision to close or renew stores and the decline in profitability due to changes in the business environment caused by the spread of COVID-19. This reduction in value of ¥246 million ($2,225 thousand) was booked as an impairment loss in other expenses.

Grouping method:

The Group primarily groups assets by type of operation, however, store assets are grouped with each store as the basic unit. 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.

***For the year ended March 31, 2020***

| Used for | Type of assets | Amount (Millions of yen) | Place |
|---|---|---|---|
| Store equipment | Building and structures | ¥ 31 | Kanto and Kinki Areas |
| | Tools, furniture and fixtures | 9 | |
| Total | | ¥ 40 | |

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 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.

## 14. Stock Option Plans

Stock Option-related Expenses:

Stock option expenses of ¥156 million ($1,409 thousand) and ¥161 million were recorded in selling, general and administrative expenses for the years ended March 31, 2021 and 2020, respectively.

Gain associated with the expiration of stock options due to non-exercise of the rights were nil for the years ended March 31, 2021 and 2020.

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, 2021, the Company had the following stock option plans, which were approved by the Board of Directors.

| Date of approval by shareholders or the Board of Directors | November 12, 2007 | November 14, 2008 | November 12, 2009 | November 15, 2010 | November 14, 2011 | November 12, 2012 |
|---|---|---|---|---|---|---|
| Grantees | 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 | 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 | 181,400 shares | 156,400 shares | 89,800 shares | 146,600 shares | 181,000 shares | 232,600 shares |
| Option price per warrant | ¥1 | ¥1 | ¥1 | ¥1 | ¥1 | ¥1 |
| Exercise period | 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 | December 4, 2012 – December 3, 2042 |

| Date of approval by shareholders or the Board of Directors | November 14, 2013 | October 30, 2014 | October 29, 2015 | October 28, 2016 | October 30, 2017 | October 30, 2018 |
|---|---|---|---|---|---|---|
| Grantees | 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 | 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 | 240,200 shares | 156,800 shares | 169,600 shares | 182,400 shares | 106,600 shares | 69,400 shares |
| Option price per warrant | ¥1 | ¥1 | ¥1 | ¥1 | ¥1 | ¥1 |
| Exercise period | 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 | December 4, 2018– December 3, 2048 |

## 14. Stock Option Plans (continued)

| | | |
|---|---|---|
| Date of approval by shareholders or the Board of Directors | October 30, 2019 | November 4, 2020 |
| Grantees | 6 directors and 13 executive officers of the Company, and 8 directors of subsidiaries | 4 directors and 12 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 | 59,200 shares | 39,600 shares |
| Option price per warrant | ¥1 | ¥1 |
| Exercise period | December 3, 2019–December 2, 2049 | December 2, 2020–December 1, 2050 |

Fair value as of the grant date for the twenty first stock options, approved at the meeting of the Board of Directors held on November 4, 2020, during the year ended March 31, 2021 was estimated using the Black-Scholes model with the following assumptions.

| | Twenty first stock options, 2020 |
|---|---|
| Expected volatility (*1) | 36.30% |
| Expected life (*2) | 8 years |
| Expected dividend (*3) | 34.00 yen per share |
| Risk-free rate (*4) | (0.059)% |

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 eight years from December 2012 to December 2020 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, 2020.

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

## 15. 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).

| | 2021 | 2020 | 2021 |
|---|---|---|---|
| | (Yen) | | (U.S. dollars) |
| Profit (loss) attributable to owners of parent per share: | | | |
| - Basic | ¥ 66.45 | ¥ 83.11 | $ 0.60 |
| - Diluted | 66.18 | 82.47 | 0.59 |
| Net assets per share | 584.73 | 551.99 | 5.28 |

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

## 15. Amounts per Share (continued)

| | 2021 | 2020 | 2021 |
|---|---|---|---|
| | *(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 | ¥ 8,016 | ¥ 9,985 | $ 72,412 |
| Amount not attributable to common shareholders | – | – | – |
| Net profit (loss) attributable to owners of parent on common stock | 8,016 | 9,985 | 72,412 |
| Average number of shares of common stock outstanding during the period | 120,639,516 | 120,139,699 | 120,639,516 |
| Diluted profit 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 | 496,263 | 943,817 | 496,263 |
| Residual securities not included in the calculation of diluted profit 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) | Euro-yen convertible bonds with stock acquisition rights, due 2024 (1,000 stock acquisition rights with a face value of $90,326 thousand) |

## 16. 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, 2021 and 2020:

| | 2021 | 2020 | 2021 |
|---|---|---|---|
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Cash and bank deposits | ¥25,487 | ¥27,991 | $230,220 |
| Cash and cash equivalents | ¥25,487 | ¥27,991 | $230,220 |

## 17. 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, 2021**

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 3 to 16 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%.

## 17. Asset Retirement Obligations (continued)

Information on asset retirement obligations (continued)

**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%.

(3) Total changes in applicable asset retirement obligations during the years ended March 31, 2021 and 2020

| | **2021** | **2020** | **2021** |
|---|---|---|---|
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Balance at beginning of year | ¥438 | ¥412 | $3,963 |
| Liabilities incurred due to the acquisition of tangible fixed assets | 48 | 36 | 441 |
| Accretion expense | 0 | 0 | 4 |
| Decrease due to extinguishment of obligation to restore | (39) | (10) | (358) |
| Others, net | (14) | (0) | (127) |
| Balance at end of year | ¥434 | ¥438 | $3,923 |

## 18. 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.

## 18. 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, 2021 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | ¥65,140 | ¥41,191 | ¥ 8,578 | ¥114,909 | ¥ – | ¥114,909 |
| Intersegment sales or transfers | – | – | – | – | – | – |
| Total sales | 65,140 | 41,191 | 8,578 | 114,909 | – | 114,909 |
| Segment profits | 7,954 | 5,042 | 224 | 13,221 | (1,644) | 11,576 |
| Segment assets | ¥36,763 | ¥26,940 | ¥ 4,040 | ¥ 67,744 | ¥29,789 | ¥ 97,533 |
| II. Other items | | | | | | |
| Depreciation and amortization | ¥ 2,098 | ¥ 1,028 | ¥ 151 | ¥ 3,279 | ¥ 386 | ¥ 3,665 |
| Increase in tangible and intangible fixed assets | 2,023 | 5,883 | 246 | 8,153 | 212 | 8,365 |

*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 ¥(1,644) million and consisted of operating expenses incurred in the Administration Department of the Company. Corporate assets included under "Adjustments and eliminations" amounted to ¥29,789 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.

## 18. 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) |
| | *(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.

## 18. Segment Information (continued)

(c) Information by reportable segment (continued)

| | Year ended March 31, 2021 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $588,384 | $372,064 | $ 77,485 | $1,037,934 | $ – | $1,037,934 |
| Intersegment sales or transfers | – | – | – | – | – | – |
| Total sales | 588,384 | 372,064 | 77,485 | 1,037,934 | – | 1,037,934 |
| Segment profits | 71,846 | 45,546 | 2,028 | 119,420 | (14,852) | 104,567 |
| Segment assets | $332,074 | $243,338 | $ 36,497 | $ 611,911 | $269,073 | $ 880,984 |
| II. Others | | | | | | |
| Depreciation and amortization | $ 18,958 | $ 9,290 | $ 1,372 | $ 29,621 | $ 3,487 | $ 33,109 |
| Increase in tangible and intangible fixed assets | 18,277 | 53,139 | 2,227 | 73,644 | 1,919 | 75,564 |

*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 $(14,852) thousand and consisted of operating expenses incurred in the Administration Department of the Company. Corporate assets included under "Adjustments and eliminations" amounted to $269,073 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.

## 18. 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, 2021 | ¥ 162 | ¥ 78 | ¥ 4 | ¥ 246 | ¥– | ¥ 246 |
| Impairment loss for the year ended March 31, 2020 | ¥ 27 | ¥ 12 | ¥ 0 | ¥ 40 | ¥– | ¥ 40 |

| | 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, 2021 | $ 1,470 | $ 712 | $ 43 | $ 2,225 | $– | $ 2,225 |

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

## 19. Related Party Transactions

(1) The Company's transactions with the directors of Company and related parties for the years ended March 31, 2021 and 2020 were principally summarized as follows:

| | | Year ended March 31, | | |
|---|---|---|---|---|
| Name of related party | Detail of transaction | 2021 | 2020 | 2021 |
| | | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Toru Tsurusaki | Exercise of stock acquisition rights *2 | ¥162 | ¥– | $1,469 |
| Yukihiro Ishigami | Exercise of stock acquisition rights *2 | ¥51 | ¥– | $463 |
| Kenji Ikemori | Exercise of stock acquisition rights *2 | ¥– | ¥279 | $– |
| Kazuyoshi Miyajima | Exercise of stock acquisition rights *2 | ¥– | ¥704 | $– |
| Kenichi Sugama | Exercise of stock acquisition rights *2 | ¥– | ¥150 | $– |
| Kohji Yamaguchi | Exercise of stock acquisition rights *2 | ¥– | ¥43 | $– |
| Shoko Matsukuma | Exercise of stock acquisition rights *2 | ¥– | ¥43 | $– |
| Keiai Corporation *1 | Payments of rents *3 | ¥– | ¥33 | $– |

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, 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.

*2 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.

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

## 19. Related Party Transactions (continued)

(2) Transactions between the consolidated subsidiaries of the Company and the related parties for the years ended March 31, 2021 and 2020 were principally summarized as follows:

| | | Year ended March 31, | | |
|---|---|---|---|---|
| Name of related party | Detail of transaction | 2021 | 2020 | 2021 |
| | | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| I'foret Co., Ltd *1 | Sale of products *2 | ¥– | ¥20 | $– |

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

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

*1 Mr. Kenji Ikemori, 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.

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

## 20. Other Comprehensive Income

Reclassification adjustment and tax effect on components of other comprehensive income

| | March 31, | | |
|---|---|---|---|
| | 2021 | 2020 | 2021 |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Foreign currency translation adjustment | | | |
| Amount arising during the year | ¥ (71) | ¥ (15) | $ (643) |
| Retirement benefits liability adjustments | | | |
| Amount arising during the year | (9) | (39) | (85) |
| Reclassification adjustment | 121 | (57) | 1,097 |
| Total before tax effect | 112 | (97) | 1,012 |
| Tax effect | (34) | (29) | (309) |
| Net retirement benefits liability adjustments | 77 | (67) | 702 |
| Total other comprehensive income (loss) | ¥ 6 | ¥ (83) | $ 59 |

## 21. Material Subsequent Events

Not applicable.

## Report of the Independent Auditor

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### 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, 2021, 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, 2021, 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.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

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## Report of the Independent Auditor (continued)

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| Impairment loss on tangible fixed assets related to individual stores | |
|---|---|
| Description of Key Audit Matter | Auditor's Response |
| The Company recognized ¥1,575 million of tangible fixed assets related to individual stores on its Consolidated Balance Sheet as of March 31, 2021. As described in the Note 2. "Impairment loss on fixed assets related to individual stores" under "Significant Accounting Estimates" and Note 13. Impairment Loss, in the current fiscal year, the Company recorded an impairment loss of ¥246 million on tangible fixed assets related to individual stores due to decisions on store closures or renewals and a decline in profitability resulting from changes in the business environment caused by the COVID-19 pandemic.<br>In assessing whether or not there is any indication of impairment for individual stores, the Company considers each store to be the smallest unit that generates independent cash flows, and if the total amount of undiscounted future cash flows for each store is less than the carrying amount, the carrying amount is reduced to the recoverable amount and an impairment loss is recognized.<br>As described in the Note 2. "Impairment loss on fixed assets related to individual stores" under "Significant Accounting Estimates" and Note 13. Impairment Loss, estimates of future cash flows for each store are calculated using the profit plan for each store based on the medium-term management plan approved by the Board of Directors.<br>The key assumption in estimating future cash flows for each store is the sales forecast by customer classification that forms the basis of the medium-term management plan. In formulating the medium-term management plan, sales forecasts by customer classification (including inbound sales demand) are determined based on the understanding that a certain degree of economic recovery is expected due to | We performed the following audit procedures with respect to the estimation of the total amount of undiscounted future cash flows in determining whether an impairment loss on tangible fixed assets related to each store should be recognized in the current fiscal year.<br>➢ We inquired with management regarding the medium-term management plan, which is the basis for estimating the future cash flows for each store, including the impact on business performance due to the COVID-19 pandemic and the prospects for economic recovery.<br>➢ We reviewed the consistency of the profit plan for each store with the medium-term management plan approved by the Board of Directors.<br>➢ We reviewed the consistency of the estimated future cash flows for each store with the profit plan for each store.<br>➢ We compared the medium-term management plan of previous years with the actual results in subsequent years in order to evaluate the effectiveness of management's estimation process for formulating the medium-term management plan.<br>➢ We conducted a trend analysis based on past results and made inquiries about the sales measures reflected in the sales forecast by customer classification, which is the basis of the medium-term management plan.<br>➢ We reviewed and compared reports on forecasts about the expected number of visitors to Japan prepared by external organizations with regard to inbound demand forecasts.<br>➢ We compared the estimated periods of future cash flows with the remaining economic useful lives of major assets. |

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| | |
|---|---|
| widespread vaccinations and so on, although the impact on business performance due to the COVID-19 pandemic will continue at least until the fiscal year ending March 31, 2022.<br>Since the above key assumptions in estimating future cash flows are subject to uncertainty and require judgment by management, we determined this to be a key audit matter. | |

**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.

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- 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.

From the matters communicated with the Corporate Auditor and the Board of Corporate Auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### 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.

## Report of the Independent Auditor (continued)

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**Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 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 5 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan

June 25, 2021

渡 辺 伸 啓

Nobuhiro Watanabe
Designated Engagement Partner
Certified Public Accountant

根 本 知 香

Tomoka Nemoto
Designated Engagement Partner
Certified Public Accountant

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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.