Consolidated Financial Statements

FANCL CORPORATION
and Consolidated Subsidiaries

Year ended March 31, 2023
with Independent Auditor's Report

FANCL CORPORATION and Consolidated Subsidiaries

Consolidated Balance Sheet

	March 31, 2023	March 31, 2022	March 31, 2023
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 6)*
Assets			
Current assets:			
Cash and bank deposits *(Notes 7 and 17)*	¥37,039	¥30,108	$277,388
Notes receivable *(Note 7)*	6	6	50
Accounts receivable *(Note 7)*	11,673	11,910	87,422
Merchandise and products	5,999	5,518	44,929
Raw materials and supplies	5,532	5,610	41,432
Others	1,801	2,553	13,492
Less: Allowance for doubtful accounts *(Note 7)*	(91)	(101)	(686)
Total current assets	61,962	55,605	464,030
Fixed assets:			
Tangible fixed assets *(Notes 13, 14 and 18)*:			
Buildings and structures	34,216	34,715	256,243
Less: Accumulated depreciation and accumulated impairment loss	(19,695)	(19,103)	(147,501)
Buildings and structures (net)	14,520	15,611	108,742
Machinery, transport equipment, tools, furniture and fixtures	26,817	26,765	200,837
Less: Accumulated depreciation and accumulated impairment loss	(20,492)	(18,762)	(153,469)
Machinery, transport equipment, tools, furniture and fixtures (net)	6,325	8,002	47,368
Land	13,914	14,214	104,205
Leased assets	317	205	2,374
Less: Accumulated depreciation and accumulated impairment loss	(173)	(127)	(1,295)
Leased assets (net)	144	78	1,078
Others	124	–	933
Less: Accumulated depreciation and accumulated impairment loss	(34)	–	(261)
Others (net)	89	–	672
Construction in progress	219	34	1,645
Total tangible fixed assets, net	35,213	37,941	263,713
Intangible fixed assets:			
Others	2,485	2,587	18,616
Total intangible fixed assets	2,485	2,587	18,616
Investments and other assets:			
Investment securities *(Notes 7 and 8)*	125	125	939
Long-term loans	100	50	748
Deferred tax assets *(Note 10)*	2,642	2,634	19,789
Others *(Note 8)*	1,466	1,201	10,984
Less: Allowance for doubtful accounts	(51)	(24)	(384)
Total investments and other assets	4,283	3,986	32,077
Total fixed assets	41,982	44,516	314,407
Total assets	¥103,944	¥100,121	$778,438

	March 31,		
	2023	2022	2023
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 6)*
Liabilities and net assets			
Current liabilities:			
Accounts payable *(Note 7)*	¥3,378	¥3,431	$25,303
Accrued liabilities *(Note 7)*	4,127	4,589	30,907
Accrued income taxes	1,918	1,271	14,369
Contract liability *(Note 19)*	3,002	2,461	22,483
Provision for bonuses	1,223	1,234	9,159
Others *(Notes 7 and 18)*	2,442	1,384	18,294
Total current liabilities	16,092	14,373	120,517
Long-term liabilities:			
Convertible bonds with stock acquisition rights *(Note 7)*	10,050	10,100	75,263
Lease obligations *(Note 7)*	135	35	1,014
Provision for share awards for directors	259	108	1,944
Retirement benefit liabilities *(Note 11)*	1,223	880	9,160
Asset retirement obligations *(Note 18)*	448	496	3,356
Others	72	54	546
Total long-term liabilities	12,189	11,675	91,285
Total liabilities	28,282	26,048	211,803
Net assets *(Notes 9 and 16)*:			
Shareholders' equity *(Note 9)*:			
Common stock:			
Authorized – 467,676,000 shares in 2023 and 2022, respectively			
Issued – 130,353,200 shares in 2023 and 2022, respectively	10,795	10,795	80,844
Capital reserve	12,189	12,003	91,289
Retained earnings	71,623	70,766	536,382
Less: Treasury stock 9,430,462 shares in 2023 and 9,677,463 shares in 2022	(19,479)	(20,003)	(145,879)
Total shareholders' equity	75,128	73,561	562,637
Accumulated other comprehensive income *(Note 22)*:			
Foreign currency translation adjustment	242	100	1,812
Retirement benefit liability adjustments *(Note 11)*	(312)	(228)	(2,337)
Total accumulated other comprehensive income	(70)	(128)	(524)
Stock acquisition rights	603	640	4,521
Total net assets	75,662	74,073	566,634
Total liabilities and net assets	¥103,944	¥100,121	$778,438

See notes to consolidated financial statements.

FANCL CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Income

	Year ended March 31,		
	2023	**2022**	**2023**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 6)*
Net sales *(Notes 19 and 20)*	¥103,595	¥103,992	$775,825
Cost of sales	34,382	34,876	257,489
Gross profit	69,213	69,116	518,335
Selling, general and administrative expenses *(Note 12)*	61,370	59,345	459,599
Operating income	7,843	9,771	58,736
Other income (expenses):			
Interest and dividend income	51	51	388
Rent income	119	130	895
Gain on foreign exchange	509	283	3,813
Compensation payments received	17	17	134
Gain on sale of fixed assets	0	0	4
Gain on sale of investment securities	–	31	–
Loss on sale of fixed assets	–	(0)	–
Loss on retirement of fixed assets	(70)	(25)	(529)
Impairment loss *(Note 14)*	(204)	(680)	(1,535)
Loss on store closings	(74)	(43)	(557)
Others, net	22	37	168
Profit before income taxes	8,214	9,575	61,520
Income taxes *(Note 10)*:			
Current	3,186	2,643	23,863
Deferred	57	(489)	430
	3,244	2,153	24,294
Profit	4,970	7,421	37,225
Profit attributable to owners of parent	¥4,970	¥7,421	$37,225

See notes to consolidated financial statements.

FANCL CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income

	Year ended March 31,		
	2023	**2022**	**2023**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 6)*
Profit	¥4,970	¥7,421	$ 37,225
Other comprehensive income *(Note 22)*			
Foreign currency translation adjustment	141	119	1,061
Retirement benefit liability adjustments	(83)	22	(624)
Total other comprehensive income	58	142	436
Comprehensive income	¥5,029	¥7,563	$ 37,662
(Breakdown)			
Comprehensive income attributable to owners of parent	¥5,029	¥7,563	$ 37,662
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						Accumulated 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 accumulated other comprehensive income	Stock acquisition rights	Total net assets
	(Thousands)					*(Millions of yen)*					
April 1, 2021	130,353	¥10,795	¥11,706	¥68,050	¥(19,726)	¥70,825	¥(19)	¥(251)	¥(270)	¥660	¥71,215
Cumulative effects of changes in accounting policies (Note 3)	–	–	–	(602)	–	(602)	–	–	–	–	(602)
Restated Balance	130,353	10,795	11,706	67,448	(19,726)	70,223	(19)	(251)	(270)	660	70,613
Dividends of surplus	–	–	–	(4,102)	–	(4,102)	–	–	–	–	(4,102)
Profit	–	–	–	7,421	–	7,421	–	–	–	–	7,421
Purchase of treasury stock	–	–	–	–	(734)	(734)	–	–	–	–	(734)
Disposal of treasury stock	–	–	296	–	457	754	–	–	–	–	754
Net changes of items other than shareholders' equity	–	–	–	–	–	–	119	22	142	(20)	121
Total changes during the year	–	–	296	3,318	(277)	3,337	119	22	142	(20)	3,459
April 1, 2022	130,353	¥10,795	¥12,003	¥70,766	¥(20,003)	¥73,561	¥100	¥(228)	¥(128)	¥640	¥74,073
Dividends of surplus	–	–	–	(4,114)	–	(4,114)	–	–	–	–	(4,114)
Profit	–	–	–	4,970	–	4,970	–	–	–	–	4,970
Purchase of treasury stock	–	–	–	–	(0)	(0)	–	–	–	–	(0)
Disposal of treasury stock	–	–	186	–	525	712	–	–	–	–	712
Net changes of items other than shareholders' equity	–	–	–	–	–	–	141	(83)	58	(36)	21
Total changes during the year	–	–	186	856	524	1,567	141	(83)	58	(36)	1,589
March 31, 2023	130,353	¥10,795	¥12,189	¥71,623	¥(19,479)	¥75,128	¥242	¥(312)	¥(70)	¥603	¥75,662

	Shareholders' equity						Accumulated 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 accumulated other comprehensive income	Stock acquisition rights	Total net assets
	(Thousands)					*(Thousands of US dollars) (Note 6)*					
April 1, 2022	130,353	$80,844	$89,890	$529,968	$(149,808)	$550,895	$751	$(1,712)	$(961)	$4,796	$554,730
Dividends of surplus	–	–	–	(30,812)	–	(30,812)	–	–	–	–	(30,812)
Profit	–	–	–	37,225	–	37,225	–	–	–	–	37,225
Purchase of treasury stock	–	–	–	–	(6)	(6)	–	–	–	–	(6)
Disposal of treasury stock	–	–	1,399	–	3,935	5,334	–	–	–	–	5,334
Net changes of items other than shareholders' equity	–	–	–	–	–	–	1,061	(624)	436	(274)	162
Total changes during the year	–	–	1,399	6,413	3,929	11,741	1,061	(624)	436	(274)	11,903
March 31, 2023	130,353	$80,844	$91,289	$536,382	$(145,879)	$562,637	$1,812	$(2,337)	$(524)	$4,521	$566,634

See notes to consolidated financial statements.

FANCL CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Cash Flows

	Year ended March 31,		
	2023	2022	2023
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 6)*
Cash flows from operating activities:			
Profit before income taxes	¥8,214	¥ 9,575	$ 61,520
Depreciation	4,377	4,563	32,782
Impairment loss	204	680	1,535
Increase (decrease) in allowance for doubtful accounts	(10)	(114)	(77)
Increase (decrease) in provision for bonuses	(11)	(59)	(84)
Increase (decrease) in provision for share awards for directors	156	108	1,174
Increase (decrease) in retirement benefit liabilities	222	129	1,666
Interest and dividend income	(51)	(51)	(388)
Interest expenses on borrowings and bonds	0	0	0
Loss (gain) on foreign exchange	(25)	(319)	(193)
Loss (gain) on sale of investment securities	–	(31)	–
Loss (gain) on sale of fixed assets	(0)	(0)	(4)
Loss on retirement of fixed assets	70	25	529
Loss on store closings	74	43	557
Subsidy income	–	(109)	–
Decrease (increase) in accounts receivable	303	1,779	2,269
Decrease (increase) in inventories	(354)	560	(2,656)
Decrease (increase) in other current assets	1,360	(964)	10,190
Decrease (increase) in other fixed assets	(415)	(4)	(3,108)
Increase (decrease) in accounts payable	(91)	639	(688)
Increase (decrease) in contract liability	540	27	4,049
Increase (decrease) in other current liabilities	457	3	3,423
Increase (decrease) in other fixed liabilities	18	(40)	138
Others	438	(150)	3,282
Sub-total	15,478	16,291	115,918
Interest and dividends received	1	1	13
Interest expenses	(0)	(0)	(0)
Income taxes paid	(2,527)	(3,304)	(18,931)
Subsidies received	–	109	–
Net cash provided by (used in) operating activities	12,952	13,097	97,001
Cash flows from investing activities:			
Payment for acquisition of tangible fixed assets	(1,143)	(4,007)	(8,562)
Proceeds from sale of tangible fixed assets	0	1	4
Payment for acquisition of intangible fixed assets	(882)	(1,081)	(6,610)
Proceeds on sale of investment securities	–	103	–
Other payments	(131)	(86)	(983)
Other proceeds	288	398	2,164
Net cash provided by (used in) investing activities	(1,867)	(4,673)	(13,987)

FANCL CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Cash Flows (continued)

	Year ended March 31,		
	2023	**2022**	**2023**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 6)*
Cash flows from financing activities:			
Proceeds from disposal of treasury stock	0	733	2
Purchase of treasury stock	(0)	(734)	(6)
Cash dividends paid	(4,109)	(4,097)	(30,778)
Others	(137)	(56)	(1,026)
Net cash provided by (used in) financing activities	(4,247)	(4,155)	(31,807)
Effect of exchange rate changes on cash and cash equivalents	93	351	703
Net increase (decrease) in cash and cash equivalents	6,931	4,620	51,909
Cash and cash equivalents at beginning of period	30,108	25,487	225,479
Cash and cash equivalents at end of period *(Note 17)*	¥37,039	¥30,108	$277,388

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 eight consolidated subsidiaries, namely ATTENIR CORPORATION, NEOF 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 17.

(e) Revenue and expenses

(1) Performance obligations in the main business
The Group manufactures and sells cosmetics and nutritional supplements. In the sale of these products, the performance obligation is mainly to supply the finished product to customers. Some sales promotion expenses and sales commissions, which are considerations paid to customers, are deducted from net sales. In addition, the transaction price in the case of sales with a right of return is the amount after deducting the estimated sales deduction due to return. Estimated sales deductions due to return are calculated using the most frequent method based on historical records of return. Also, the Group has introduced a customer loyalty program that gives individual customers points according to the purchase of products. Points granted to customers can be used to pay for purchases of products, etc. of the Group. Among the points granted in contracts with customers, if those points provide important rights to customers, the points that are expected to be exercised by customers in the future are recorded as contract liabilities on the consolidated balance sheet as performance obligations. The transaction price is allocated based on the stand-alone selling price ratio between the performance obligations related to these points and the performance obligations related to the products, etc. for which points are granted. The transaction price allocated to performance obligations of points and recorded in contract liabilities is recognized as revenue according to the use of points.

(2) Timing to satisfy the performance obligation
Applying the alternative treatment stipulated in Paragraph 98 of the “Implementation Guidance on Accounting Standard for Revenue Recognition”, for domestic sales, revenue is recognized upon shipment if the period from the time of shipment to the time when control of the product is transferred to customers is a normal period.

1. Summary of Significant Accounting Policies (continued)

(f) 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.

Securities other than shares that do not have a market value 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. Shares that do not have a market value are stated at cost by the average method.

(g) 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.

(h) 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.

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.

1. Summary of Significant Accounting Policies (continued)

(i) 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.

(j) Research and development expenses

Research and development expenses are charged to income when incurred.

(k) 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.

(l) Provision for bonuses

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

(m) Provision for share awards for directors

The provision for share awards for directors represents a provision for grant of shares of the Company held by the BIP trust for Directors. Based on the Stock Grant Regulations, the provision is recorded at the estimated value of shares to be awarded corresponding to the number of points allocated to Directors.

1. Summary of Significant Accounting Policies (continued)

(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 of *FANCL CORPORATION*

(1) Carrying amounts in the consolidated financial statements

	2023	2022	2023
	(Millions of yen)		*(Thousands of U.S. dollars)*
Fixed assets related to individual stores of FANCL CORPORATION	¥622	¥1,191	$4,660
Impairment loss	139	578	1,042

(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 have been based on the business plan for the next fiscal year approved by the Board of Directors, and the business plan assumes future performance recovery due to an increase in the number of domestic customers visiting stores as a result of the recovery in human flow after the pandemic and an increase in customers from overseas following the easing of immigration restrictions and so on. In the previous fiscal year, we had expected an increase in the number of store visitors and customers from overseas countries due to recovery from COVID-19. However, some stores were not able to achieve the expected recovery in performance. There was a delay in recovery of the number of store visitors resulting from changes in purchasing behavior. Amid an environment after the pandemic, some customers shifted from the direct store channel to the online and catalogue channel. Accordingly, we revised the store strategy and the business plan. As a result, for some stores, we recognized an impairment loss for store equipment whose recoverable value fell below book value.

ii) Key assumptions used in making the accounting estimates

The key assumptions in estimating future cash flows for each store are the sales forecast to domestic customers and the recovery in inbound demand. In formulating the plan, the sales forecasts are determined based on the understanding that a certain degree of business recovery is expected due to an increase in the number of domestic customers visiting stores as a result of the recovery in human flow after the pandemic and an increase in customers from overseas following the easing of immigration restrictions and so on.

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 resurgence 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 of FANCL CORPORATION in the following fiscal year.

3. Changes in Accounting Policies

Adoption of Accounting Standards Codification (ASC) 842, Leases

From the beginning of the fiscal year under review, foreign consolidated subsidiaries that use U.S. accounting standards have adopted ASC 842, Leases. As a result, with regard to lease transactions of such foreign consolidated subsidiaries as lessees, the Company has decided, in principle, to record all leases as assets and liabilities on the balance sheet. In applying this accounting standard, the cumulative effect of adopting this accounting standard is recognized at the date of adoption, as permitted by transitional measures.

As a result, at the beginning of the fiscal year under review, right-of-use assets are included in “Others” under tangible fixed assets, and lease obligations are included in “Others” under current liabilities and in “Lease obligations” under long-term liabilities. The effect of the application of this accounting standard on the consolidated statement of income is immaterial.

Accounting standards and guidance not yet adopted

The Accounting Standards Board of Japan (ASBJ) issued “Accounting Standard for Current Income Taxes” (ASBJ Statement No. 27), “Accounting Standard for Presentation of Comprehensive Income” (ASBJ Statement No. 25), and “Guidance on Accounting Standard for Tax Effect Accounting” (ASBJ Guidance No. 28) on October 28, 2022.

(1) Overview
These accounting standards and guidance set forth how to classify income tax and other taxes when other comprehensive income is taxable.

(2) Scheduled date of adoption
The Company expects to adopt the accounting standards and guidance from the beginning of the fiscal year ending March 31, 2025.

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

4. Changes in Presentation Method

Consolidated Statement of Income

“Subsidy income” which was presented as a separate item under “Other income (expenses)” in the previous fiscal year, is included in “Others, net” in the fiscal year under review due to its amount becoming immaterial. To reflect this change in presentation, the consolidated financial statements for the previous fiscal year have been retrospectively restated. As a result, “Subsidy income” of ¥109 million and “Others, net” of ¥(71) million presented in “Other income (expenses)” in the consolidated statement of income for the previous fiscal year have been restated as “Others, net” of ¥37 million.

5. Additional Information

Performance-linked stock-based compensation plan

At the 41st Ordinary General Meeting of Shareholders held on June 26, 2021, the Company resolved to introduce a performance-linked stock compensation plan (hereafter “Plan”) for FANCL Corporation Directors and Executive Officers (excluding Outside Directors and non-residents of Japan; hereafter “Company Directors, etc.”) and subsidiary Directors (excluding Outside Directors and non-residents of Japan; hereafter “applicable Directors, etc.” when combined with Company Directors, etc.), with the goal of enhancing the link between the remuneration of applicable Directors, etc. and the Company’s business performance and shareholder value, to raise awareness of the contribution to increasing long-term business performance and increasing shareholder value, in the pursuit of achieving the Group’s Medium-Term Management Plan and enhancing corporate value.

(1) Summary of the transaction

The Plan uses a system known as an officer compensation BIP (Board Incentive Plan) trust (hereafter the “Trust”). In the Plan, Company shares and money equivalent to the conversion of Company shares into cash (hereafter “Company Shares, etc.”) in proportion to the job positions of the applicable Directors, etc. and the degree to which they have achieved their targets, will be granted and paid (hereafter “Granted, etc.”) to the applicable Directors, etc.

(2) Company shares remaining in the Trust

The Company’s shares remaining in the Trust are recorded at their book value in the Trust (excluding the amount of incidental expenses) as treasury stock under net assets. The book value and number of such treasury stock were ¥728 million ($5,454 thousand) and 209,915 shares, respectively, at the end of the fiscal year under review, and ¥733 million and 211,500 shares, respectively, at the end of the previous fiscal year.

5. Additional Information (continued)

Disposal of treasury stock as restricted stock compensation

Based on the program to grant restricted stock to employees of the Company and its subsidiaries through the FANCL Employee Stock Ownership Plan (hereinafter the "Program"), the Company has disposed of treasury stock as restricted stock (the "Disposal of Treasury Stock") with the Program as the allottee, as described below.

(1) Summary of the Disposal of Treasury Stock

i)	Disposal date	April 28, 2022
ii)	Class and number of shares subject to disposal	246,340 shares of common stock of the Company
iii)	Disposal price	¥2,748 ($20) per share
iv)	Total value of disposal	¥676,942,320 ($5,069,589)
v)	Allotment method	Third-party allotment
vi)	Other	The Company has submitted a securities registration statement in accordance with the Financial Instruments and Exchange Act.

(2) Purpose and reason for disposal
The Company provides the employees of the Company and its subsidiaries who are members of the Program and who agree to the Plan (the "Eligible Employees") with the opportunity to acquire the Restricted Stock (common stock of the Company) issued or disposed of by the Company through the Program as a measure to promote the welfare of the Eligible Employees, thereby helping them to build their wealth and providing them with an incentive to continuously improve the corporate value of the Company and to promote further value sharing between Eligible Employees and the Company's shareholders. At a meeting of the Board of Directors held on January 28, 2022, the Company resolved to conduct a Disposal of Treasury Stock, and the payment was completed on April 28, 2022.

6. U.S. Dollar Amounts

For the convenience of the reader, the accompanying consolidated financial statements with respect to the year ended March 31, 2023 have been presented in U.S. dollars by translating all yen amounts at ¥133.53 = U.S.$1.00, the exchange rate prevailing on March 31, 2023. 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.

7. 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.

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. Stocks with no market price are not included (refer to "Note ii" below). Cash has been omitted. Due to short-term settlement, the fair value for bank deposits, notes receivable, accounts receivable, accounts payable and accrued liabilities is almost the same as their book value, and they have been omitted.

As of March 31, 2023

	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
	(Millions of yen)			*(Thousands of U.S. dollars)*		
Convertible bonds with stock acquisition rights	¥(10,050)	¥(9,982)	¥67	$(75,263)	$(74,758)	$505

Note i: Liabilities are shown with ( ).

As of March 31, 2022

	Carrying value	Fair value	Difference
	(Millions of yen)		
Convertible bonds with stock acquisition rights	¥(10,100)	¥(10,175)	¥(75)

Note i: Liabilities are shown with ( ).

7. Financial Instruments (continued)

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

Note ii: Other securities without quoted market prices

Category	March 31, 2023	March 31, 2022	2023
	Carrying value		
	(Millions of yen)		*(Thousands of U.S. dollars)*
Unlisted equity securities	¥125	¥125	$939

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

As of March 31, 2023

	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	¥37,022	¥ –	¥ –	¥ –	$277,262	$ –	$ –	$ –
Notes receivable	6	–	–	–	50	–	–	–
Accounts receivable	11,581	–	–	–	86,736	–	–	–
Total	¥48,611	¥ –	¥ –	¥ –	$364,049	$ –	$ –	$ –

As of March 31, 2022

	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	¥30,088	¥ –	¥ –	¥ –
Notes receivable	6			
Accounts receivable	11,808	–	–	–
Total	¥41,903	¥ –	¥ –	¥ –

7. Financial Instruments (continued)

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

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

As of March 31, 2023

	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	¥ –	¥ –	$ –	$ 74,889	$ –	$ –
Lease obligations	116	135	–	–	871	1,014	–	–
Total	¥ 116	¥ 10,135	¥ –	¥ –	$ 871	$ 75,904	$ –	$ –

As of March 31, 2022

	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	50	35	–	–
Total	¥ 50	¥ 10,035	¥ –	¥ –

3. Matters regarding the breakdown of financial instruments by each fair value level

The fair values of financial instruments are categorized into the following three levels, in accordance with the observability and importance of the inputs used in the fair value calculation.

Level 1 fair value:
Fair value calculated using the (unadjusted) market price in an active market for an identical asset or liability.
Level 2 fair value:
Fair value calculated using inputs that are directly or indirectly observable, other than the Level 1 inputs.
Level 3 fair value:
Fair value calculated using important inputs that cannot be observed.

In cases where multiple inputs which have a material effect on the calculation of the fair value are used, among the levels to which the respective inputs belong, the fair value is categorized at the level with the lowest priority in the fair value calculation.

(1) Financial assets and financial liabilities with the carrying amount recorded using the fair value
Not applicable

7. Financial Instruments (continued)

3. Matters regarding the breakdown of financial instruments by each fair value level (continued)

(2) Financial assets and financial liabilities with the carrying amount not recorded using the fair value

As of March 31, 2023

	Level 1	*Level 2*	*Level 3*	*Total*
		(Millions of yen)		
Convertible bonds with stock acquisition rights	¥ –	¥9,982	¥ –	¥9,982

	Level 1	*Level 2*	*Level 3*	*Total*
		(Thousands of U.S. dollars)		
Convertible bonds with stock acquisition rights	$ –	$74,758	$ –	$74,758

As of March 31, 2022

	Level 1	*Level 2*	*Level 3*	*Total*
		(Millions of yen)		
Convertible bonds with stock acquisition rights	¥ –	¥10,175	¥ –	¥10,175

Note: Explanation of the valuation methods and inputs used in calculating fair values
Convertible bonds with stock acquisition rights
Bonds issued by the Company have a market price but are not traded on active markets. The bonds are, therefore, categorized as a level 2 fair value.

8. Securities

Investments in unconsolidated subsidiaries and affiliates included in “investment securities” as of March 31, 2023 and 2022 amounted to ¥55 million ($415 thousand) and ¥55 million, respectively. Investments in unconsolidated subsidiaries and affiliates included in “others” in investments and other assets as of March 31, 2023 and 2022 included investments in stock of jointly controlled companies in the amounts of ¥44 million ($330 thousand) and ¥44 million, respectively.

9. 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.

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, 2023 and 2022, were as follows:

	2023	**2022**	**2023**
	(Yen)		*(U.S. dollars)*
Year-end	¥17.00	¥17.00	$0.12
Half-year	17.00	17.00	0.12

The effective dates of the distribution for year-end and half-year cash dividends, which were paid during the year ended March 31, 2023, were June 27, 2022 and December 5, 2022, respectively.

The cash dividends of retained earnings of the Company for the year ended March 31, 2023 approved at a meeting of the Board of Directors, which was held on May 9, 2023, were as follows:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Cash dividends	¥2,059	$15,421
	(Yen)	*(U.S. dollars)*
Cash dividends per share	¥17.00	$0.12

Note: Total amounts of cash dividends approved at a meeting of the Board of Directors, which was held on May 9, 2023, include cash dividends of ¥3 million ($26 thousand) to the shares of the Company held by the BIP trust for Directors.

10. Income Taxes

The significant components of deferred tax assets and liabilities at March 31, 2023 and 2022 were as follows:

	2023	2022	2023
	(Millions of yen)		*(Thousands of U.S. dollars)*
Deferred tax assets:			
Accrued enterprise taxes	¥ 120	¥ 90	$ 901
Provision for bonuses	377	383	2,829
Contract liability	906	742	6,791
Tax loss carried forward	717	398	5,377
Retirement benefit liabilities	280	235	2,099
Retirement benefit trust	245	235	1,841
Asset retirement obligations	133	150	997
Stock acquisition rights	162	171	1,217
Impairment loss	405	572	3,037
Others	910	709	6,816
Subtotal	4,260	3,689	31,909
Valuation allowance for tax loss carried forward	(717)	(84)	(5,377)
Valuation allowance for deductible temporary differences	(523)	(546)	(3,923)
Subtotal	(1,241)	(631)	(9,300)
Total deferred tax assets	3,019	3,058	22,609
Deferred tax liabilities:			
Unrealized intercompany profit on land	(232)	(232)	(1,737)
Others	(144)	(191)	(1,082)
Total deferred tax liabilities	(376)	(423)	(2,820)
Net deferred tax assets	¥ 2,642	¥ 2,634	$ 19,789

Note: Valuation allowance increased by ¥610 million ($4,572 thousand). The primary factor contributing to the increase was that some consolidated subsidiaries additionally recognized valuation allowance for their tax loss carried forward.

10. Income Taxes (continued)

The expiry schedule on tax loss carried forward and the related deferred tax assets subsequent to March 31, 2023 and 2022 were as follows:

As of March 31, 2023

	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	717	(717)	—
Total	¥717	¥(717)	¥ —

As of March 31, 2022

	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	0	—	0
Due after four years through five years	135	—	135
Due after five years	262	(84)	177
Total	¥398	¥ (84)	¥313

As of March 31, 2023

	Thousands of U.S. Dollars		
	Tax loss carried forward (a)	Valuation allowance	Deferred tax assets
Due in one year	$ —	$ —	$ —
Due after one year through two years	—	—	—
Due after two years through three years	—	—	—
Due after three years through four years	—	—	—
Due after four years through five years	—	—	—
Due after five years	5,377	(5,377)	—
Total	$5,377	$(5,377)	$ —

Note:

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

10. 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, 2023 and 2022 were as follows:

	March 31,	
	2023	**2022**
Statutory tax rate	30.58%	30.58%
Entertainment and other permanently non-deductible expenses	0.64%	0.61%
Per capita inhabitants tax	1.64%	1.42%
Tax credit for research and development expenses	(2.51)%	(2.67)%
Valuation allowance	9.11%	(5.24)%
Difference between the effective tax rates of consolidated subsidiaries and parent	(1.35)%	(1.11)%
Other	1.38%	(1.10)%
Effective tax rate	39.49%	22.49%

11. 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, 2023 and 2022 are as follows (excluding plans for which the simplified method is applied):

	March 31,		
	2023	**2022**	**2023**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Retirement benefit obligation at the beginning of fiscal year	¥4,439	¥4,158	$33,245
Service cost	457	453	3,429
Interest cost	5	5	44
Actuarial loss (gain)	(15)	(0)	(118)
Retirement benefit paid	(121)	(181)	(912)
Other	14	4	107
Retirement benefit obligation at the end of fiscal year	¥4,779	¥4,439	$35,795

The changes in plan assets during the years ended March 31, 2023 and 2022 are as follows (excluding plans for which the simplified method is applied):

	March 31,		
	2023	**2022**	**2023**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Plan assets at the beginning of fiscal year	¥3,966	¥3,787	$29,707
Expected return on plan assets	119	110	891
Actuarial gain (loss)	(252)	(72)	(1,889)
Contributions by the Company	271	270	2,029
Retirement benefit paid	(89)	(128)	(670)
Plan assets at the end of fiscal year	¥4,014	¥3,966	$30,068

11. 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, 2023 and 2022 are as follows:

	March 31,		
	2023	2022	2023
	(Millions of yen)		(Thousands of U.S. dollars)
Retirement benefit obligation at the beginning of fiscal year	¥407	¥412	$3,055
Retirement benefit expense	143	101	1,074
Retirement benefit paid	(11)	(33)	(82)
Contribution to the plans	(80)	(77)	(600)
Other	(1)	4	(14)
Retirement benefit obligation at the end of fiscal year	¥458	¥407	$3,432

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2023 and 2022 for the Company's and the consolidated subsidiaries' defined benefit plans:

	March 31,		
	2023	2022	2023
	(Millions of yen)		(Thousands of U.S. dollars)
Funded retirement benefit obligation	¥ 6,329	¥ 5,907	$ 47,401
Plan assets at fair value	(5,106)	(5,027)	(38,241)
Net liability for retirement benefits in the balance sheet	1,223	880	9,160
Retirement benefit liabilities	1,223	880	9,160
Net liability for retirement benefits in the balance sheet	¥ 1,223	¥ 880	$ 9,160

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

11. 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, 2023 and 2022 are as follows:

	March 31,		
	2023	**2022**	**2023**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Service cost	¥457	¥453	$3,429
Interest cost	5	5	44
Expected return on plan assets	(119)	(110)	(891)
Amortization of actuarial loss	116	104	872
Retirement benefit expense calculated by the simplified method	143	101	1,074
Retirement benefit expense	¥604	¥554	$4,529

The components of retirement benefits liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2023 and 2022 are as follows:

	March 31,		
	2023	**2022**	**2023**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Actuarial loss (gain)	¥(120)	¥32	$(899)
Total	¥(120)	¥32	$(899)

Unrecognized actuarial loss included in accumulated other comprehensive income (before tax effect) as of March 31, 2023 and 2022 are as follows:

	March 31,		
	2023	**2022**	**2023**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Unrecognized actuarial loss	¥449	¥329	$3,366
Total	¥449	¥329	$3,366

11. 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, 2023 and 2022 are as follows:

	March 31,	
	2023	**2022**
General accounts at life insurance companies	29%	27%
Bonds	30%	26%
Stocks	9%	9%
Short-term deposits	4%	4%
Other	28%	34%
Total	100%	100%

Note: The total amounts of plan assets include 15% and 16% of the employee pension trust set up for the corporate pension plan for the years ended March 31, 2023 and 2022, respectively.

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, 2023 and 2022 were as follows:

	March 31,	
	2023	**2022**
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.

12. Research and Development Expenses

Research and development expenses charged to income for the years ended March 31, 2023 and 2022 were as follows:

	2023	**2022**	**2023**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Research and development expenses	¥3,408	¥3,492	$25,529

13. 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, 2023 and 2022 were as follows:

(As lessee)	March 31,		
	2023	**2022**	**2023**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Future minimum lease payments as lessee:			
Due within one year	¥ 345	¥ 345	$ 2,590
Due after one year	4,006	4,352	30,001
Total	¥ 4,352	¥ 4,697	$ 32,592

Right-of-use assets

The principal right-of-use assets are related to office rent. From the beginning of the fiscal year under review, foreign consolidated subsidiaries in the U.S. that use U.S. accounting standards have adopted ASC 842, Leases. As a result, operating lease transactions are accounted for as right-of-use assets based on the present value of the lease payments over the lease term, and lease expenses are recognized on a fixed amount over the lease term.

14. Impairment Loss

Impairment loss for the years ended March 31, 2023 and 2022 consisted of the following:

For the year ended March 31, 2023

Used for	Type of assets	Amount		Place
		(Millions of yen)	*(Thousands of U.S. dollars)*	
Store equipment, etc.	Building and structures	¥ 127	$ 954	Kanto and Kinki Areas
	Tools, furniture, fixtures and other	77	580	
Total		¥ 204	$ 1,535	

Outline of impairment loss recognition:

For store equipment and other assets, the Company wrote down the book values of such equipment to the recoverable value of these assets as expected profits are no longer expected. This is due to the Company's decision to close or renew some stores, as well as a delay in recovery of the number of store visitors resulting from changes in purchasing behavior. Amid an environment after the pandemic, some customers shifted from the direct store channel to the online and catalogue channel. This reduction in value of ¥204 million ($1,535 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 and other assets 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, 2022

Used for	Type of assets	Amount	Place
		(Millions of yen)	
Store equipment	Building and structures	¥ 558	Kanto and Kinki Areas
	Tools, furniture, fixtures and other	121	
Total		¥ 680	

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 it decided to close or renew some stores, and the expected profits are no longer expected due to the resurgence of COVID-19. This reduction in value of ¥680 million 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.

15. Stock Option Plans

Stock Option-related Expenses:

There were no stock option expenses for the year ended March 31, 2023 and 2022.

Gain associated with the expiration of stock options due to non-exercise of the rights were ¥7 million ($54 thousand) for the year ended March 31, 2023 and nil for the year ended March 31, 2022.

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

During the year ended March 31, 2023, 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 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 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

15. Stock Option Plans (continued)

Date of approval by 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

16. Amounts per Share

Basic profit attributable to owners of parent per share is computed based on the profit 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 attributable to owners of parent per share is computed based on the profit 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).

	2023	2022	2023
	(Yen)		*(U.S. dollars)*
Profit attributable to owners of parent per share:			
- Basic	¥ 41.11	¥ 61.50	$ 0.30
- Diluted	40.95	61.25	0.30
Net assets per share	620.72	608.51	4.64

*1 For the purpose of calculating net assets per share, the Company’s shares held by the BIP Trust for Directors are included in treasury shares as a deduction in the calculation of number of shares outstanding. For the purpose of calculating basic profit attributable to owners of parent per share and diluted profit attributable to owners of parent per share, the Company’s shares held by the BIP Trust for Directors are included in treasury shares as a deduction in the calculation of average number of shares outstanding during the fiscal year. The number of such treasury stock deducted as of each year-end was 209,915 shares in the fiscal year under review and 211,500 shares in the previous fiscal year, and the average number of such treasury stock deducted was 210,895 shares in the fiscal year under review, and 211,500 shares in the previous fiscal year.

16. Amounts per Share (continued)

*2 The following represents the basis of computation of profit attributable to owners of parent per share and diluted profit attributable to owners of parent per share:

	2023	2022	2023
	(Millions of yen, except per share data)		(Thousands of U.S. dollars, except per share data)
Profit attributable to owners of parent per share			
Profit attributable to owners of parent	¥ 4,970	¥ 7,421	$ 37,225
Amount not attributable to common shareholders	–	–	–
Net profit attributable to owners of parent on common stock	4,970	7,421	37,225
Average number of shares of common stock outstanding during the period	120,905,689	120,673,202	120,905,689
Diluted profit attributable to owners of parent per share			
Adjustment for profit attributable to owners of parent	–	–	–
Increase in shares of common stock mainly consists of:			
Stock acquisition rights	481,144	488,740	481,144
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 $74,889 thousand)

17. 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, 2023 and 2022:

	2023	2022	2023
	(Millions of yen)		(Thousands of U.S. dollars)
Cash and bank deposits	¥37,039	¥30,108	$277,388
Cash and cash equivalents	¥37,039	¥30,108	$277,388

18. 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, stores and logistics centers 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, 2023 and 2022

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 offices and manufacturing facilities, and, calculates the amounts of asset retirement obligations using the discount rates of 0.80 – 1.50%.

18. Asset Retirement Obligations (continued)

Information on asset retirement obligations (continued)

(3) Total changes in applicable asset retirement obligations during the years ended March 31, 2023 and 2022

	2023	**2022**	**2023**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Balance at beginning of year	¥499	¥434	$3,737
Liabilities incurred due to the acquisition of tangible fixed assets	7	102	52
Accretion expense	0	0	4
Decrease due to extinguishment of obligation to restore	(58)	(38)	(438)
Balance at end of year	¥448	¥499	$3,356

19. Revenue Recognition

(1) Information on breakdown of revenue

The Group is comprised of Cosmetics-related Business, Nutritional Supplements-related Business and Other Businesses. Its reportable segments are subject of periodical reviews by the Board of Directors for the purpose of making decisions on the allocation of business resources and evaluating business performance. Also, the Company recognizes its sales channel strategy as an important business strategy. Information on breakdown of revenue is as follows.

19. Revenue Recognition (continued)

(1) Information on breakdown of revenue (continued)

As of March 31, 2023

	Reportable segments			
	Cosmetics-related business	Nutritional Supplements-related business	Other businesses*	Total
	(Millions of yen)			
Online and catalogue sales	¥31,404	¥18,176	¥ 4,736	¥54,318
Direct store sales	11,825	5,828	389	18,043
Wholesales sales	8,800	11,541	1,138	21,480
Overseas sales	5,417	4,325	11	9,753
Revenue from contracts with customers	57,448	39,871	6,276	103,595
Other revenue	–	–	–	–
Sales to external customers	¥57,448	¥39,871	¥ 6,276	¥ 103,595

	Reportable segments			
	Cosmetics-related business	Nutritional Supplements-related business	Other businesses*	Total
	(Thousands of U.S. dollars)			
Online and catalogue sales	$235,188	$136,124	$35,474	$406,787
Direct store sales	88,559	43,650	2,917	135,128
Wholesales sales	65,907	86,430	8,525	160,864
Overseas sales	40,571	32,390	83	73,045
Revenue from contracts with customers	430,227	298,596	47,001	775,825
Other revenue	–	–	–	–
Sales to external customers	$430,227	$298,596	$47,001	$775,825

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

As of March 31, 2022

	Reportable segments			
	Cosmetics-related business	Nutritional Supplements-related business	Other businesses*	Total
	(Millions of yen)			
Online and catalogue sales	¥30,459	¥17,330	¥ 5,112	¥52,902
Direct store sales	13,213	6,586	378	20,179
Wholesales sales	8,339	9,898	1,207	19,444
Overseas sales	6,797	4,655	12	11,465
Revenue from contracts with customers	58,809	38,471	6,710	103,992
Other revenue	–	–	–	–
Sales to external customers	¥58,809	¥38,471	¥ 6,710	¥ 103,992

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

(2) Basic information to understand revenue

The information is as disclosed in the significant accounting policies in Note 1 (e).

19. Revenue Recognition (continued)

(3) Information to understand the amounts of revenue in the current and subsequent fiscal years

① Balance of Contract liability

	April 1, 2022	March 31, 2023
	(Millions of yen)	
Contract liability	¥2,461	¥3,002

	April 1, 2022	March 31, 2023
	(Thousands of U.S. dollars)	
Contract liability	$18,433	$22,483

Of the revenue recognized in the current fiscal year, the amount included in the balance of contract liability at the beginning of the current fiscal year amounted to ¥2,461 million ($18,433 thousand). The balance of Contract liability increased by ¥540 million ($4,049 thousand) during the current fiscal year mainly due to the point program.

Points expected to be exercised by customers in the future are recorded in contract liability as performance obligations if the points provide customers with a significant right. Points are recognized as revenue when the points are used.

	April 1, 2021	March 31, 2022
	(Millions of yen)	
Contract liability	¥2,433	¥2,461

Of the revenue recognized in the previous fiscal year, the amount included in the balance of contract liability at the beginning of the previous fiscal year amounted to ¥2,433 million. The balance of Contract liability increased by ¥27 million during the previous fiscal year mainly due to the point program.

Points expected to be exercised by customers in the future are recorded in contract liability as performance obligations if the points provide customers with a significant right. Points are recognized as revenue when the points are used.

② Transaction prices allocated to residual performance obligations

Applying the practical expedient, information related to residual performance obligations is omitted because there are no significant contracts with an initial expected contract period of more than one year.

20. 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 the Board of Directors 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.

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 Supplements-related Business and Other Businesses.

Cosmetics-related Business consists of the manufacture and sale of cosmetics and supply for OEMs. Nutritional Supplements-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 net sales, profit (loss), assets, liabilities, 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.

20. Segment Information (continued)

(c) Information by reportable segment

	Year ended March 31, 2023					
	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	¥57,448	¥39,871	¥ 6,276	¥103,595	¥ –	¥103,595
Intersegment sales or transfers	–	–	–	–	–	–
Total sales	57,448	39,871	6,276	103,595	–	103,595
Segment profits	5,905	3,429	92	9,427	(1,584)	7,843
Segment assets	¥38,168	¥28,923	¥ 4,445	¥ 71,536	¥32,407	¥ 103,944
II. Other items						
Depreciation and amortization	¥ 2,098	¥ 1,960	¥ 247	¥ 4,306	¥ 68	¥ 4,377
Increase in tangible and intangible fixed assets	1,099	888	153	2,141	51	2,192

*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 ¥(1,584) million and consisted of operating expenses incurred in the Administration Department of the Company. Corporate assets included under "Adjustments and eliminations" amounted to ¥32,407 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.

20. Segment Information (continued)

(c) Information by reportable segment (continued)

	Year ended March 31, 2022					
	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	¥58,809	¥38,471	¥ 6,710	¥103,992	¥ –	¥103,992
Intersegment sales or transfers	–	–	–	–	–	–
Total sales	58,809	38,471	6,710	103,992	–	103,992
Segment profits (losses)	7,581	3,902	(25)	11,458	(1,687)	9,771
Segment assets	¥36,689	¥27,226	¥ 3,944	¥ 67,860	¥32,260	¥ 100,121
II. Other items						
Depreciation and amortization	¥ 2,084	¥ 1,853	¥ 220	¥ 4,158	¥ 405	¥ 4,563
Increase in tangible and intangible fixed assets	1,353	2,320	209	3,882	518	4,401

*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 ¥(1,687) million and consisted of operating expenses incurred in the Administration Department of the Company. Corporate assets included under “Adjustments and eliminations” amounted to ¥32,260 million and consisted principally of cash and cash equivalents, land, and buildings of the Company.

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

20. Segment Information (continued)

(c) Information by reportable segment (continued)

	Year ended March 31, 2023					
	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	$430,227	$298,596	$ 47,001	$775,825	$ –	$775,825
Intersegment sales or transfers	–	–	–	–	–	–
Total sales	430,227	298,596	47,001	775,825	–	775,825
Segment profits	44,229	25,680	692	70,601	(11,864)	58,736
Segment assets	$285,839	$216,606	$ 33,290	$ 535,737	$242,700	$ 778,438
II. Others						
Depreciation and amortization	$ 15,711	$ 14,685	$ 1,851	$ 32,249	$ 513	$ 32,782
Increase in tangible and intangible fixed assets	8,232	6,652	1,152	16,037	385	16,422

*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 $(11,864) thousand and consisted of operating expenses incurred in the Administration Department of the Company. Corporate assets included under “Adjustments and eliminations” amounted to $242,700 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.

20. 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

Year ended March 31, 2023

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

Year ended March 31, 2022

	(Millions of yen)
Japan	¥92,526
Asia	10,336
Others	1,129
Total	¥103,992

*1 Net sales are based on locations of customers and classified by country or region.

(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.

20. Segment Information (continued)

(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, 2023	¥ 152	¥ 49	¥ 3	¥ 204	¥ –	¥ 204
Impairment loss for the year ended March 31, 2022	¥ 457	¥ 208	¥ 15	¥ 680	¥ –	¥ 680

	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, 2023	$ 1,140	$ 368	$ 26	$ 1,535	$ –	$ 1,535

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

21. Related Party Transactions

The Company’s transactions with the directors of Company and related parties for the years ended March 31, 2023 and 2022 are principally summarized as follows:

		Year ended March 31,		
Name of related party	Detail of transaction	**2023**	**2022**	**2023**
		(Millions of yen)		*(Thousands of U.S. dollars)*
Toru Tsurusaki	Compensation for advisor*1	¥11	¥11	$83

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

*1 Compensation for advisor is determined by the Company rule.

22. Other Comprehensive Income

Reclassification adjustment and tax effect on components of other comprehensive income

	March 31, 2023	March 31, 2022	March 31, 2023
	(Millions of yen)		*(Thousands of U.S. dollars)*
Foreign currency translation adjustment			
Amount arising during the year	¥ 141	¥ 119	$ 1,061
Retirement benefits liability adjustments			
Amount arising during the year	(236)	(72)	(1,771)
Reclassification adjustment	116	104	872
Total before tax effect	(120)	32	(899)
Tax effect	36	(9)	275
Net retirement benefits liability adjustments	(83)	22	(624)
Total other comprehensive income (loss)	¥ 58	¥ 142	$ 436

23. Material Subsequent Events

Not applicable.

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 (the Company) and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2023, 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, 2023, 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.

Estimation of future cash flows in determining the recognition of impairment loss on fixed assets related to individual stores of FANCL CORPORATION	
Description of Key Audit Matter	**Auditor's Response**
The Company recognized ¥622 million of fixed assets related to individual stores of FANCL CORPORATION on its Consolidated Balance Sheet as of March 31, 2023. As described in the Note 2.	We performed the following audit procedures with respect to the estimation of the future cash flows in determining whether an impairment loss on fixed assets related to each store of FANCL

"Impairment loss on fixed assets related to individual stores of FANCL CORPORATION" under "Significant Accounting Estimates" and Note 14. Impairment Loss, at the time of formulating the business plan in the previous fiscal year, the Company had expected an increase in the number of domestic customers visiting stores and customers from overseas countries due to recovery from COVID-19. However, some stores were not able to achieve the expected recovery in performance. There was a delay in recovery of the number of store visitors resulting from changes in purchasing behavior. Amid an environment after the pandemic, some customers shifted from the direct store channel to the online and catalogue channel. Accordingly, the Company revised the store strategy and the business plan. As a result, the Company has determined that the profitability of some individual stores has declined in the current fiscal year and recorded an impairment loss of ¥139 million on fixed assets related to the individual stores of FANCL CORPORATION. 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 assesses whether an impairment loss should be recognized for stores for which there is an indication of impairment. If the total amount of 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. As described in the Note 2. "Impairment loss on fixed assets related to individual stores of FANCL CORPORATION" under "Significant Accounting Estimates" and Note 14. Impairment Loss, estimates of future cash flows for each store have been based on the business plan for the next fiscal year approved by the Board of Directors.	CORPORATION should be recognized in the current fiscal year. ➢ We inquired with management regarding the business plan, which is the basis for estimating the future cash flows for each store after the pandemic. ➢ We compared the profit plan for each store with the business plan approved by the Board of Directors to evaluate consistency. ➢ We compared the estimated future cash flows for each store with the profit plan for each store to evaluate consistency. ➢ We compared business plans for previous years with the actual results in subsequent years in order to evaluate the effectiveness of management's estimation process for formulating the business plan. ➢ We performed a trend analysis from previous years and made inquiries and inspected related documents about the sales measures for the fiscal year ending March 31, 2024 and beyond, concerning the sales forecast for domestic customers. In addition, we compared the sales forecast with forecasting consumption trends by external organizations. ➢ We compared the forecasting the recovery in inbound demand with the expected number of visitors to Japan prepared by external organizations. ➢ We compared the estimated periods of future cash flows with the remaining economic useful lives of major assets.

The key assumptions in estimating future cash flows for each store are the sales forecast to domestic customers and the recovery in inbound demand. In formulating the plan, the sales forecasts are determined based on the understanding that a certain degree of business recovery is expected due to an increase in the number of domestic customers visiting stores as a result of the recovery in human flow after the pandemic and an increase in customers from overseas following the easing of immigration restrictions and so on. Since the estimating future cash flows in determining the recognition of impairment of fixed assets related to individual stores of FANCL CORPORATION as described above are based on the future projections and therefore are subject to uncertainty and require judgment by management, we determined this to be a key audit matter.	

Other Information

The other information comprises the information included in the disclosure document that contains audited consolidated financial statements but does not include the consolidated financial statements and our auditor's report thereon.

We have concluded that the other information does not exist. Accordingly, we have not performed any work related to the other information.

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 consolidated 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.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2023 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 6 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan

September 29, 2023

Yonako Emura
Designated Engagement Partner
Certified Public Accountant

Masatoshi Komiya
Designated Engagement Partner
Certified Public Accountant