S.T.CORPORATION

# S.T. Corporation and Subsidiaries

Consolidated Financial Statements
for the Year Ended March 31, 2022,
and Independent Auditor's Report

# Consolidated Balance Sheets

S.T.CORPORATION and Consolidated Subsidiaries
March 31, 2022 and 2021

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| **Assets** | **2022** | 2021 | **2022** |
| **Current assets:** | | | |
| Cash and time deposits (Notes 8, 12 and 18) | **¥ 11,888** | ¥ 11,864 | **$ 97,129** |
| Trade notes and accounts receivable (Note 8) | **—** | 5,790 | **—** |
| Notes receivable - trade | **82** | — | **673** |
| Accounts receivable - trade | **5,721** | — | **46,741** |
| Marketable securities (Note 8) | **—** | 74 | **—** |
| Merchandise and finished goods | **6,617** | 7,072 | **54,064** |
| Work in process | **187** | 206 | **1,530** |
| Raw materials and supplies | **989** | 991 | **8,082** |
| Other current assets | **657** | 521 | **5,364** |
| Less - allowance for doubtful accounts | **(34)** | (35) | **(282)** |
| Total current assets | **26,106** | 26,483 | **213,301** |
| **Property, plant and equipment, at cost:** | | | |
| Land (Notes 3 and 11) | **3,594** | 3,582 | **29,361** |
| Buildings and structures (Note 3) | **8,886** | 8,871 | **72,602** |
| Machinery, equipment and vehicles (Note 3) | **8,079** | 8,554 | **66,007** |
| Tools, furniture and fixtures (Note 3) | **2,734** | 2,691 | **22,336** |
| Construction in progress | **157** | 76 | **1,281** |
| Leased assets (Note 19) | **744** | 778 | **6,080** |
| Less - accumulated depreciation | **(14,072)** | (14,093) | **(114,979)** |
| Property, plant and equipment, net | **10,120** | 10,458 | **82,689** |
| **Intangible assets, net of accumulated amortization** | | | |
| Goodwill (Note 3) | **—** | 1,264 | **—** |
| Other intangible assets (Note 3) | **1,445** | 644 | **11,804** |
| Total intangible assets | **1,445** | 1,907 | **11,804** |
| **Investments and other assets:** | | | |
| Investments in non-consolidated subsidiaries and affiliates | **277** | 442 | **2,262** |
| Investment securities (Notes 8 and 10) | **5,377** | 6,828 | **43,932** |
| Long-term loans | **5** | 5 | **41** |
| Net defined benefit asset (Notes 1 and 14) | **7** | 8 | **61** |
| Deferred tax assets other than unrealized revaluation loss on land (Note 13) | **452** | 84 | **3,696** |
| Other assets | **613** | 600 | **5,009** |
| Total investments and other assets | **6,732** | 7,967 | **55,001** |
| Total assets | **¥ 44,402** | ¥ 46,817 | **$ 362,795** |

| Liabilities and net assets | Millions of yen 2022 | Millions of yen 2021 | Thousands of U.S. dollars (Note 2) 2022 |
|---|---|---|---|
| **Current liabilities:** | | | |
| Trade payables (Note 8) | **¥ 2,195** | ¥ 2,934 | **$ $17,938** |
| Electronically recorded obligations-operating (Note 8) | **2,835** | 3,187 | **23,166** |
| Short-term borrowings | **413** | 464 | **3,377** |
| Lease liabilities | **50** | 55 | **407** |
| Other payables (Note 8) | **1,802** | 2,866 | **14,727** |
| Accrued expenses | **685** | 789 | **5,600** |
| Electronically recorded obligations-non-operating | **179** | 83 | **1,463** |
| Income taxes payable | **423** | 779 | **3,457** |
| Consumption taxes payable | **93** | 398 | **762** |
| Allowance for sales returns | **—** | 119 | **—** |
| Other current liabilities | **2,024** | 87 | **16,537** |
| Total current liabilities | **10,701** | 11,761 | **87,433** |
| **Long-term liabilities:** | | | |
| Lease liabilities | **94** | 91 | **770** |
| Provision for directors' retirement and severance benefits | **108** | 108 | **879** |
| Provision for executive officers' incentive plan (Note 6) | **82** | 69 | **670** |
| Net defined benefit liability (Notes 1 and 14) | **1,301** | 1,337 | **10,632** |
| Deferred tax liabilities (Note 13) | **—** | 553 | **—** |
| Deferred tax liabilities - unrealized revaluation gain on land (Note 11) | **262** | 262 | **2,142** |
| Other non-current liabilities | **7** | 2 | **55** |
| Total long-term liabilities | **1,854** | 2,422 | **15,148** |
| **Net assets (Note 15):** | | | |
| **Shareholders' equity:** | | | |
| Common stock: | | | |
| Authorized - 96,817,000 shares in 2022 and 2021 | | | |
| Issued and outstanding - 23,000,000 shares in 2022 and 2021 | **7,066** | 7,066 | **57,729** |
| Capital surplus | **7,047** | 7,036 | **57,580** |
| Retained earnings | **16,978** | 16,982 | **138,721** |
| Treasury stock, at cost | **(1,021)** | (1,040) | **(8,339)** |
| Total shareholders' equity | **30,070** | 30,044 | **245,691** |
| **Accumulated other comprehensive income (loss):** | | | |
| Unrealized holding gain on other securities, net of taxes | **1,867** | 2,886 | **15,253** |
| Unrealized revaluation loss on land, net of taxes (Note 11) | **(537)** | (537) | **(4,389)** |
| Translation adjustments | **(178)** | (314) | **(1,451)** |
| Remeasurements of defined benefit plans | **52** | 11 | **426** |
| Total accumulated other comprehensive income (loss) | **1,204** | 2,046 | **9,838** |
| **Subscription rights** | **—** | 2 | **—** |
| **Non-controlling interests** | **573** | 541 | **4,685** |
| Total net assets | **31,848** | 32,633 | **260,214** |
| Total liabilities and net assets | **¥ 44,402** | ¥ 46,817 | **$ 362,795** |

See notes to consolidated financial statements.

# Consolidated Statements of Income

S.T.CORPORATION and Consolidated Subsidiaries
For the Years Ended March 31, 2022 and 2021

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | **2022** | 2021 | **2022** |
| **Net sales (Note 20)** | **¥ 45,470** | ¥ 49,674 | **$ 371,514** |
| **Cost of sales (Notes 17 and 23)** | **27,665** | 28,358 | **226,037** |
| Gross profit before reversal of allowance for sales returns | **17,805** | 21,316 | **145,478** |
| Allowance for sales returns | **—** | 119 | **—** |
| Reversal of allowance for sales returns | **—** | 118 | **—** |
| Gross profit | **17,805** | 21,315 | **145,478** |
| **Selling, general and administrative expenses (Note 17)** | **14,554** | 17,370 | **118,916** |
| Operating income | **3,251** | 3,945 | **26,562** |
| **Non-operating income (expenses):** | | | |
| Interest income | **6** | 6 | **46** |
| Dividend income | **113** | 103 | **924** |
| Interest expense | **(5)** | (9) | **(38)** |
| Purchase discounts | **126** | 149 | **1,033** |
| Sales discounts | **—** | (510) | **—** |
| Share of loss of entities accounted for using equity method | **(69)** | (19) | **(564)** |
| Other, net | **59** | 72 | **483** |
| Total non-operating income (expenses) | **231** | (208) | **1,884** |
| Ordinary income | **3,481** | 3,737 | **28,446** |
| **Special gains (losses), net:** | | | |
| Gain on sale of non-current assets | **0** | — | **0** |
| Loss on disposition of property, plant and equipment, net | **(27)** | (4) | **(218)** |
| Impairment loss (Note 24) | **(1,665)** | — | **(13,606)** |
| Gain on sales of investment securities, net | **44** | 69 | **357** |
| Gain on redemption of investment securities | **12** | — | **94** |
| Loss on valuation of investment securities | **—** | (31) | **—** |
| Loss on sale of shares of subsidiaries and associates | **(144)** | — | **(1,181)** |
| Loss on sales of investments in capital of subsidiaries | **—** | (90) | **—** |
| Gain on reversal of subscription rights to shares | **0** | 4 | **2** |
| Total special gains (losses), net | **(1,781)** | (51) | **(14,552)** |
| Profit before income taxes | **1,700** | 3,686 | **13,893** |
| **Income taxes (Note 13):** | | | |
| Current | **837** | 1,106 | **6,841** |
| Deferred | **(347)** | (28) | **(2,836)** |
| Total income taxes | **490** | 1,078 | **4,006** |
| **Profit** | **1,210** | 2,608 | **9,888** |
| **Profit attributable to non-controlling interests** | **101** | 82 | **825** |
| **Profit attributable to owners of parent** | **¥ 1,109** | ¥ 2,526 | **$ 9,063** |

See notes to consolidated financial statements.

# Consolidated Statements of Comprehensive Income

S.T.CORPORATION and Consolidated Subsidiaries
For the Years Ended March 31, 2022 and 2021

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | **2022** | 2021 | **2022** |
| **Profit** | **¥ 1,210** | ¥ 2,608 | **$ 9,888** |
| **Other comprehensive income (Note 7)** | | | |
| Unrealized holding gain on other securities, net of taxes | **(1,019)** | 658 | **(8,330)** |
| Translation adjustments | **130** | 36 | **1,059** |
| Remeasurements of defined benefit plans, net of tax | **41** | 29 | **333** |
| Share of other comprehensive income (loss) of entities accounted for using equity method | **70** | 1 | **574** |
| Total other comprehensive income | **(779)** | 725 | **(6,364)** |
| **Comprehensive income** | **¥ 431** | ¥ 3,332 | **$ 3,523** |
| Total comprehensive income attributable to: | | | |
| Owners of parent | **267** | 3,240 | **2,182** |
| Non-controlling interests | **164** | 92 | **1,341** |

See notes to consolidated financial statements.

# Consolidated Statements of Changes in Net Assets

S.T.CORPORATION and Consolidated Subsidiaries
For the Years Ended March 31, 2022 and 2021

| | | Millions of yen | | | | |
|---|---|---|---|---|---|---|
| | Number of shares of common stock (Thousands) | Common stock | Capital surplus | Retained earnings | Treasury stock, at cost | Total shareholders' equity |
| **Balance at April 1, 2021** | 23,000 | ¥ 7,066 | ¥ 7,036 | ¥ 16,982 | ¥ (1,040) | ¥ 30,044 |
| Cumulative effects of changes in accounting policies | | | | (256) | | (256) |
| **Restated balance** | 23,000 | 7,066 | 7,036 | 16,726 | (1,040) | 29,787 |
| Cash dividends paid by distribution of retained earnings | | | | (852) | | (852) |
| Profit attributable to owners of parent | | | | 1,109 | | 1,109 |
| Purchases of treasury stock | | | | | (0) | (0) |
| Disposal of treasury stock | | | 11 | (5) | 20 | 25 |
| Net changes in items other than those in shareholders' equity | | | | | | |
| **Balance at March 31, 2022** | 23,000 | ¥ 7,066 | ¥ 7,047 | ¥ 16,982 | ¥ (1,021) | ¥30,070 |

| | Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Unrealized holding gain on other securities, net of taxes | Unrealized revaluation loss on land, net of taxes (Note 11) | Translation adjustments | Remeasurements of defined benefit plans | Total accumulated other comprehensive income | Subscription rights | Non-controlling interests | Total net assets |
| **Balance at April 1, 2021** | ¥ 2,886 | ¥ (537) | ¥ (314) | ¥ 11 | ¥ 2,046 | ¥ 2 | ¥ 541 | ¥ 32,633 |
| Cumulative effects of changes in accounting policies | | | | | | | | (256) |
| **Restated balance** | ¥ 2,886 | (537) | (314) | 11 | 2,046 | 2 | 541 | 32,376 |
| Cash dividends paid by distribution of retained earnings | | | | | | | | (852) |
| Profit attributable to owners of parent | | | | | | | | 1,109 |
| Purchases of treasury stock | | | | | | | | (0) |
| Disposal of treasury stock | | | | | | | | 25 |
| Net changes in items other than those in shareholders' equity | (1,020) | — | 137 | 41 | (842) | (2) | 33 | (812) |
| **Balance at March 31, 2022** | ¥ 1,867 | ¥ (537) | ¥ (178) | ¥ 52 | ¥ 1,204 | ¥ — | ¥ 573 | ¥ 31,848 |

| | | Millions of yen | | | | |
|---|---|---|---|---|---|---|
| | Number of shares of common stock (Thousands) | Common stock | Capital surplus | Retained earnings | Treasury stock, at cost | Total shareholders' equity |
| **Balance at April 1, 2020** | 23,000 | ¥ 7,066 | ¥ 7,068 | ¥15,270 | ¥ (1,108) | ¥ 28,295 |
| Cash dividends paid by distribution of retained earnings | | | | (805) | | (805) |
| Profit attributable to owners of parent | | | | 2,526 | | 2,526 |
| Purchases of treasury stock | | | | | (1) | (1) |
| Disposal of treasury stock | | | | (8) | 68 | 60 |
| Change in scope of consolidation | | | (32) | | | (32) |
| Net changes in items other than those in shareholders' equity | | | | | | |
| **Balance at March 31, 2021** | 23,000 | ¥ 7,066 | ¥ 7,036 | ¥ 16,982 | ¥ (1,040) | ¥ 30,044 |

| | Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Unrealized holding gain on other securities, net of taxes | Unrealized revaluation loss on land, net of taxes (Note 11) | Translation adjustments | Remeasurements of defined benefit plans | Total accumulated other comprehensive income | Subscription rights | Non-controlling interests | Total net assets |
| **Balance at April 1, 2020** | ¥ 2,228 | ¥ (537) | ¥ (342) | ¥ (18) | ¥ 1,332 | ¥ 10 | ¥ 499 | ¥ 30,136 |
| Cash dividends paid by distribution of retained earnings | | | | | | | | (805) |
| Profit attributable to owners of parent | | | | | | | | 2,526 |
| Purchases of treasury stock | | | | | | | | (1) |
| Disposal of treasury stock | | | | | | | | 60 |
| Change in scope of consolidation | | | | | | | | (32) |
| Net changes in items other than those in shareholders' equity | 658 | — | 27 | 29 | 714 | (8) | 41 | 748 |
| **Balance at March 31, 2021** | ¥ 2,886 | ¥ (537) | ¥ (314) | ¥ 11 | ¥ 2,046 | ¥ 2 | ¥ 541 | ¥32,633 |

| | | Thousands of U.S. dollars (Note 2) | | | | |
|---|---|---|---|---|---|---|
| | Number of shares of common stock (Thousands) | Common stock | Capital surplus | Retained earnings | Treasury stock, at cost | Total shareholders' equity |
| **Balance at April 1, 2021** | 23,000 | $ 57,729 | $ 57,491 | $ 138,754 | $(8,498) | $245,476 |
| Cumulative effects of changes in accounting policies | | | | (2,095) | | (2,095) |
| Restated balance | 23,000 | 57,729 | 57,491 | 136,659 | (8,498) | 243,381 |
| Cash dividends paid by distribution of retained earnings | | | | (6,958) | | (6,958) |
| Profit attributable to owners of parent | | | | 9,063 | | 9,063 |
| Purchases of treasury stock | | | | | (3) | (3) |
| Disposal of treasury stock | | | 89 | (43) | 161 | 208 |
| Net changes in items other than those in shareholders' equity | | | | | | |
| **Balance at March 31, 2022** | 23,000 | $ 57,729 | $57,580 | $ 138,721 | ($ 8,339) | $ 245,691 |

| | Thousands of U.S. dollars (Note 2) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Unrealized holding gain on other securities, net of taxes | Unrealized revaluation loss on land, net of taxes (Note 11) | Translation adjustments | Remeasurements of defined benefit plans | Total accumulated other comprehensive income | Subscription rights | Non-controlling interests | Total net assets |
| **Balance at April 1, 2021** | $ 23,584 | ($ 4,389) | ($ 2,569) | $ 93 | $ 16,719 | $ 19 | $ 4,417 | $ 266,630 |
| Cumulative effects of changes in accounting policies | | | | | | | | (2,095) |
| Restated balance | 23,584 | (4,389) | (2,569) | 93 | 16,719 | 19 | 4,417 | 264,535 |
| Cash dividends paid by distribution of retained earnings | | | | | | | | (6,958) |
| Profit attributable to owners of parent | | | | | | | | 9,063 |
| Purchases of treasury stock | | | | | | | | (3) |
| Disposal of treasury stock | | | | | | | | 208 |
| Net changes in items other than those in shareholders' equity | (8,331) | — | 1,118 | 333 | (6,880) | (19) | 269 | (6,631) |
| **Balance at March 31, 2022** | $ 15,253 | ($ 4,389) | ($ 1,451) | $ 426 | $ 9,838 | $ — | $ 4,685 | $ 260,214 |

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

S.T.CORPORATION and Consolidated Subsidiaries
For the Years Ended March 31, 2022 and 2021

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | **2022** | 2021 | **2022** |
| **Cash flows from operating activities:** | | | |
| Profit before income taxes | **¥ 1,700** | ¥ 3,686 | **$ 13,893** |
| Adjustments to reconcile profit before income taxes to net cash provided by operating activities: | | | |
| Depreciation and amortization | **1,197** | 1,350 | **9,778** |
| Amortization of goodwill | **97** | 97 | **794** |
| Impairment loss | **1,665** | — | **13,606** |
| Gain on reversal of subscription rights to shares | **(0)** | (4) | **(2)** |
| Loss on sales of property, plant and equipment | **27** | 4 | **218** |
| Loss (gain) on sales and valuation of investment securities | **(44)** | (38) | **(357)** |
| Loss (gain) on redemption of investment securities | **(12)** | — | **(94)** |
| Loss (gain) on sale of shares of subsidiaries and associates | **144** | — | **1,181** |
| Loss (gain) on sale of investments in capital of subsidiaries | **—** | 90 | **—** |
| Increase (decrease) in allowance for doubtful receivables | **(0)** | 30 | **(1)** |
| Increase (decrease) in net defined benefit asset and liability | **(44)** | 22 | **(358)** |
| Increase (decrease) in provision for directors' retirement and severance benefits | **—** | (7) | **—** |
| Increase (decrease) in provision for executive officers' incentive plan | **13** | (7) | **105** |
| Increase (decrease) in allowance for sales returns | **—** | 1 | **—** |
| Interest and dividends received | **(119)** | (109) | **(970)** |
| Interest expenses | **5** | 9 | **38** |
| Foreign exchange losses (gains) | **10** | (16) | **83** |
| Share of (profit) loss of entities accounted for using equity method | **69** | 19 | **564** |
| Changes in operating assets and liabilities: | | | |
| Receivables | **(312)** | (8) | **(2,553)** |
| Inventories | **640** | (1,107) | **5,230** |
| Payables and accrued expenses | **(1,100)** | 922 | **(8,988)** |
| Accrued consumption taxes | **(305)** | 121 | **(2,491)** |
| Increase (decrease) in lease and guarantee deposits | **5** | (5) | **38** |
| Other, net | **99** | 276 | **808** |
| Subtotal | **3,736** | 5,325 | **30,523** |
| Interest and dividends received | **119** | 113 | **970** |
| Interest paid | **(5)** | (10) | **(38)** |
| Income taxes paid | **(1,184)** | (1,004) | **(9,671)** |
| Net cash provided by operating activities | **2,666** | 4,423 | **21,784** |
| **Cash flows from investing activities:** | | | |
| Payments into deposits (more than three months) | **(0)** | (0) | **(0)** |
| Purchases of property, plant and equipment | **(864)** | (1,155) | **(7,062)** |
| Proceeds from sales of property, plant and equipment | **0** | 1 | **2** |
| Purchase of intangible assets | **(895)** | (418) | **(7,311)** |
| Purchases of investment securities | **(54)** | (111) | **(440)** |
| Proceeds from sales of investment securities | **62** | 87 | **506** |
| Proceeds from redemption of investment securities | **78** | — | **634** |
| Proceeds from sale of shares of subsidiaries and associates | **3** | — | **22** |
| Purchase of investments in capital of subsidiaries | **—** | (24) | **—** |
| Other investments, net | **1** | 55 | **7** |
| Net cash used in investing activities | **(1,670)** | (1,564) | **(13,641)** |
| **Cash flows from financing activities:** | | | |
| Net increase (decrease) in short-term borrowings | **(50)** | (232) | **(412)** |
| Proceeds from share issuance to non-controlling shareholders | **—** | 10 | **—** |
| Purchases of treasury stock | **(0)** | (1) | **(3)** |
| Proceeds from disposal of treasury stock | **23** | 56 | **190** |
| Payments of dividends | **(852)** | (805) | **(6,958)** |
| Payments of dividends to non-controlling interests | **(131)** | (95) | **(1,072)** |
| Other finance, net | **(65)** | (86) | **(534)** |
| Net cash used in financing activities | **(1,076)** | (1,152) | **(8,789)** |
| Effect of exchange rate changes on cash and cash equivalents | **90** | 2 | **739** |
| Net increase (decrease) in cash and cash equivalents | **11** | 1,709 | **93** |
| Cash and cash equivalents at beginning of year | **11,832** | 10,122 | **96,673** |
| Cash and cash equivalents at end of year (Note 18) | **¥ 11,843** | ¥ 11,832 | **$ 96,765** |

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

S.T.CORPORATION and Consolidated Subsidiaries
March 31, 2022

## 1 Summary of Significant Accounting Policies

**(a) Basis of presentation**

S.T. CORPORATION (the "Company") and its domestic subsidiaries maintain their books of account in conformity with accounting principles generally accepted in Japan, and its overseas subsidiaries maintain their books of account in conformity with those of their countries of domicile. Effective April 1, 2008, the Company adopted the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (PITF No. 18, issued by the Accounting Standards Board of Japan (ASBJ) on May 17, 2006).
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 IFRS, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.
In preparing the accompanying consolidated financial statements, certain reclassifications have been made to the consolidated financial statements issued domestically for readers outside Japan. The notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information. Furthermore, certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.
As permitted by the Financial Instruments and Exchange Act, amounts are rounded to the nearest million. Consequently, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

**(b) Scope of consolidation**

(1) Number of consolidated subsidiaries:
7 companies

(2) Names of consolidated subsidiaries:
S.T. PRO Co., Ltd., S.T. Business Support Co., Ltd., S.T. MYCOAL CO., LTD., S.T. (Thailand) Co., Ltd., Family Glove Co., Ltd. (Taiwan), S.T. Korea Corporation (South Korea), and Shaldan (Thailand) Co., Ltd.

(3) Name of major non-consolidated subsidiary:
JAPAN AROMA LABORATORY CO., LTD.

(Reasons for exclusion from scope of consolidation)
The non-consolidated subsidiary has been excluded from the scope of consolidation because the total amounts of its assets, net sales, profit or loss (amount equivalent to equity interests), retained earnings (amount equivalent to equity interests) and other amounts are limited, and the effect on the consolidated financial statements as a whole is not significant.

**(c) Scope of application of equity-method accounting**

(1) Number of affiliated companies accounted for by the equity method:
2 companies

(2) Names of major companies accounted for by the equity method:
Aekyung S.T. Co., Ltd., and NS FaFa Japan Co., Ltd.
We sold all the shares we owned for Shaldan (Philippines), Inc., which was the affiliated company accounted for by the equity method, as of March 31, 2022 and therefore it is excluded from the scope of consolidation.

(3) Name of non-consolidated subsidiary for which equity method is not applied
The non-consolidated subsidiary to which the equity method does not apply (JAPAN AROMA LABORATORY CO., LTD) is accounted for using the cost method rather than the equity method because the total amounts of its profit or loss (amount equivalent to equity interests), retained earnings (amount equivalent to equity interests) and other amounts are limited, and the effect on the consolidated financial statements as a whole is not significant.

**(d) Accounting period**

The accounting period of the Company begins on April 1 and ends on March 31 of the following year. The four overseas subsidiaries have fiscal years ending on December 31. The necessary adjustments for significant transactions, if any, during the intervening period are made on consolidation.

**(e) Translation of foreign currency transactions and financial statements**

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date and the accounts of the overseas consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date. Foreign exchange gains and losses are credited or charged to income and translation adjustments are included in net assets.

**(f) Securities**

Other securities having market value available are recorded at market value with fluctuations in unrealized gains and losses after deducting the associated deferred tax assets or liabilities contained in net assets. Other securities having no market value available are stated at cost determined by the moving average method, and the cost of other securities sold is calculated based on the moving average method. During the years ended March 31, 2022 and 2021, the Company and its consolidated subsidiaries did not have any trading securities.

**(g) Inventories**

Inventories are stated at the lower of cost or net selling value, cost being determined by the average method.

**(h) Property, plant and equipment, except for leased assets, and depreciation**

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its domestic subsidiaries, except for buildings (excluding structures attached to the buildings) acquired on or after April 1, 1998, and facilities attached to the buildings and structures acquired on or after April 1, 2016, is computed by the declining-balance method in conformity with the Corporation Tax Law of Japan. Depreciation of property and equipment of overseas subsidiaries and buildings (excluding structures attached to the buildings) acquired on or after April 1, 1998 and facilities attached to the buildings and structures acquired on or after April 1, 2016 of the Company and domestic subsidiaries is computed by the straight-line method.

The estimated useful lives of the major depreciable assets are as follows:

| | |
|---|---|
| Buildings and structures | 3 to 50 years |
| Machinery, equipment and vehicles | 2 to 17 years |
| Tools, furniture and fixtures | 2 to 20 years |

**(i) Intangible assets, except for leased assets, and amortization**

Intangible assets, except for leased assets, are amortized by the straight-line method. Cost of software purchased for internal use is amortized by the straight-line method over a period of mainly 5 years, the useful life applicable to commercially available software.

**(j) Leases**

Non-cancelable lease transactions that transfer substantially all the risks and rewards associated with the ownership of the leased assets are accounted for as finance leases. All other lease transactions are accounted for as operating leases and related payments are charged to income as incurred.
Depreciation is computed by the straight-line method over the respective lease terms assuming a nil residual value.

**(k) Allowance for doubtful receivables**

The allowance for doubtful receivables is provided based on past experience for normal receivables and on an estimate of the collectability of receivables from companies in financial difficulty.

**(l) Provision for directors' retirement and severance benefits**
The Company has accrued provision for directors' retirement and severance benefits at the amount which would be required to be paid if all directors resigned from their positions and left the Company as of the balance sheet date in accordance with its internal regulations.

**(m) Provision for executive officers' incentive plan**
The Company has established an executive officers' incentive plan trust and a provision is made at the amount required for stock awards based on the Company's internal regulations for awarding stock.

**(n) Employees' retirement and severance benefits**

(1) Method of attributing expected benefit payments to the period
In calculating the retirement benefit obligation, the method of attributing expected benefit payments to periods is based on the benefit formula.

(2) Amortization method of actuarial gains/losses
Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized by the straight-line method over a period of a certain number of years (5 years) which is shorter than the average remaining years of service of the employees.

(3) Adoption of a simplified method in some consolidated subsidiaries
Some consolidated subsidiaries adopt the simplified method which assumes retirement benefit obligation to be equal to the benefits payable if all eligible employees voluntarily terminated their employment at the end of fiscal year for the calculation of net defined benefit liability and retirement benefit expenses.

**(o) Standards for recording important income and expenses**
The Company and domestic consolidated subsidiaries have applied "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and "Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 26, 2021) and have recognized revenue at the time the control of promised goods or services is transferred to the customer at the amount expected to be received upon exchange of said goods or services. The time when the customer gains control of the product is determined to be the time when the product arrives at the customer in domestic sales and the time when the product arrives at the point agreed with the customer in export sales. These revenues are measured by deducting rebates and returns from the consideration promised in the contract with the customer.
The promised consideration is collected within approximately two months from the time the performance obligation is fulfilled. The amount of consideration does not include important financial factors.

**(p) Accounting for significant hedges**

(1) Hedge accounting
The Company mainly applies the deferred hedged accounting method. Foreign exchange contracts have applied the appropriation process.

(2) Hedging instrument and risk hedged
Hedging instrument: Forward exchange contracts
Risk hedged: Foreign currency-denominated forecasted transactions

(3) Hedging policy
The Company mainly applies forward exchange contracts to avoid the risk of short-term exchange fluctuations on foreign currency-denominated forecasted transactions.

**(q) Amortization of goodwill**
Goodwill is amortized on a straight-line basis over periods not exceeding 20 years.

**(r) Cash and cash equivalents**
Cash and cash equivalents in the accompanying consolidated statements of cash flows consist of cash on hand, demand deposits and liquid short-term investments with a maturity of three months or less from their respective dates of acquisition.

## 2 Basis of Translation

The consolidated financial statements presented herein are expressed in yen and, solely for the convenience of the reader, have been translated into U.S. dollars at ¥122.39 = U.S.$1.00, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2022. This translation should not be construed as a representation that all amounts shown could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

## 3 Significant Accounting Estimates

(Years ended March 31, 2022)
Not applicable

(Years ended March 31, 2021)
(Goodwill)

**(a) Amount recorded in the consolidated financial statements for the fiscal year ended March 31, 2021**

Millions of yen

| | 2021 |
|---|---|
| Goodwill | ¥ 1,264 |
| Impairment loss | — |

**(b) Information about the content of significant accounting estimates related to the identified item**

(1) Calculation method of amount recorded in the consolidated financial statements for the fiscal year ended March 31, 2021
The Company determines an asset group with considering the way of managing accounting and regards corporate assets such as the head office as the entire business unit. If there are indications of impairment, the Company makes measurements based on future cash flow estimates. Goodwill has an estimated future cash flow with a payback period based on the business plan approved by the board of executive officers. The business plan is formulated with the idea that the excess earning power expected at the time of the transfer in the disposable warmer business from MYCOAL CO., LTD will be realized in the future.

(2) Significant assumptions used in significant accounting estimates
Significant assumptions in estimating future cash flow based on the business plan include the sales growth rate by goods and the gross profit margin.

(3) Impact of significant accounting estimates on the consolidated financial statements for the following year
Sales growth rate and the gross profit margin includes uncertainties. Changes in the significant assumptions due to unpredictable changes in business assumptions in the future may have an impact on the consolidated financial statements for the following year.

(Tangible and intangible fixed assets in the disposable warmer business (Exclude Goodwill))

**(a) Amount recorded in the consolidated financial statements for the fiscal year ended March 31, 2021**

Millions of yen

| | 2021 |
|---|---|
| Tangible and intangible fixed assets | ¥ 2,580 |
| Impairment loss | — |

**(b) Information about the content of significant accounting estimates related to the identified item**

(1) Calculation method of amount recorded in the consolidated financial statements for the fiscal year ended March 31, 2021
The Company determines an asset group with considering the way of managing accounting and regards corporate assets such as the head office as the entire business unit. If there are indications of impairment, the Company makes measurements based on future cash flow estimates. For tangible and intangible fixed assets related to the disposable warmer business, future cash flows are estimated based on the business plan as well as goodwill, which is excess earning power.

(2) Significant assumptions used in significant accounting estimates
Significant assumptions in estimating future cash flow based on the business plan include the sales growth rate by goods and the gross profit margin.

(3) Impact of significant accounting estimates on the consolidated financial statements for the following year
Sales growth rate by goods and the gross profit margin includes uncertainties. Changes in the significant assumptions due to unpredictable changes in business assumptions in the future may have an impact on the consolidated financial statements for the following year.

## 4 Change in Accounting Policies (Application of Accounting Standard for Revenue Recognition)

The Company and domestic consolidated subsidiaries have applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ guidance from the beginning of the current consolidated fiscal year, and have recognized revenue at the time the control of promised goods or services is transferred to the customer at the amount expected to be received upon exchange of the said goods or services. As a result, some of the sales promotion expenses and promotion expenses previously recorded in selling, general and administrative expenses, and sales discounts previously recorded in non-operating expenses, have been deducted from sales. Moreover, the Company had been handling projected merchandise returns by recording respective gross profit amounts in the provision for sales returns, but has changed to an approach that involves not recognizing revenue at the time of sale in accordance with provisions regarding variable consideration with respect to projected merchandise returns.
In applying “Accounting Standard for Revenue Recognition” and relevant ASBJ guidance, the Company has applied the transitional treatment provided for in the provision of paragraph 84 of “Accounting Standard for Revenue Recognition”. Accordingly, the new accounting standard is applied from the beginning balance of the current fiscal year, such that cumulative effects of retroactively applying the new accounting standard with respect to the periods prior to the beginning of the current fiscal year are to be added to or subtracted from retained earnings at the beginning of the current fiscal year.
For the current consolidated fiscal year, as a result of this change, net sales decreased by ¥3,411 million (U.S.$27,869 thousand), cost of sales increased by ¥7 million (U.S.$59 thousand), selling, general and administrative expenses decreased by ¥3,089 million (U.S.$25,238 thousand) and operating profit decreased by ¥329 million (U.S.$2,690 thousand), while ordinary profit and profit before income taxes each increased by ¥159 million (U.S.$1,302 thousand). In addition, retained earnings at the beginning of the current fiscal year decreased by ¥256 million (U.S.$2,095 thousand).
The impact on the amounts per share is described in the relevant section.
Whereas the provision for sales returns had been presented under current liabilities in the consolidated balance sheet for the previous fiscal year, as a result of having applied “Accounting Standard for Revenue Recognition” and relevant ASBJ guidance, the provision for sales returns is to be presented such that returns assets are to be included in other under current assets and refund liabilities are to be included in other under current liabilities, beginning with the current fiscal year. In accordance with the transitional treatment provided for in paragraph 89-2 of “Accounting Standard for Revenue Recognition”, figures for the previous fiscal year have not been restated in accordance with the new approach to presentation.
In accordance with the transitional treatment provided for in paragraph 89-3 of “Accounting Standard for Revenue Recognition”, the notes on “Revenue Recognition” related to the previous consolidated fiscal year are not described.

**(Application of Accounting Standard for Fair Value Measurement, etc.)**

The Company has applied “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019) and relevant ASBJ guidance from the beginning of the current fiscal year, and decided to apply new accounting standards set forth in “Accounting Standard for Fair Value Measurement” and relevant ASBJ guidance prospectively in accordance with the transitional treatment provided for in paragraph 19 of “Accounting Standard for Fair Value Measurement” and in paragraph 44-2 of “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019). The application of the above standards and regulations does not have any impact on the consolidated financial statements.
In addition, in the " Financial Instruments " note, we will make a note of matters related to the breakdown of financial instruments by market value level. However, in accordance with the transitional treatment provided for in paragraph 7-4 of "Application Guidelines for Disclosure of Market Values of Financial Instruments" (ASBJ Guideline No. 19, July 4, 2019), the previous consolidated accounting of the notes. It does not describe the items related to the fiscal year.

## 5 Changes in Presentation (Consolidated Statements of Cash Flows)

“Purchase of intangible assets”, which had been included in “Other, net” of “Net cash provided by investing activities” for the previous fiscal year were presented separately for the fiscal year ended March 31, 2021 due to an increase in materiality. In order to reflect this change in presentation, the consolidated financial statements for the previous fiscal year have been reclassified.
As a result of this change, “Other, net” of ¥(363) million (U.S.$(2,964) thousand) under “Net cash provided by investing activities” has been reclassified as “Purchase of intangible assets” of ¥(418) million (U.S.$(3,411) thousand) and “Other, net” of ¥55 million (U.S.$447 thousand) under “Net cash provided by investing activities” in the consolidated statement of cash flows for the previous fiscal year.

## 6 Additional Information

(Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts)

**(a) Board Benefit Trust (BBT)**

The Company introduced a "Board Benefit Trust" with the goal of increasing awareness of the importance of contributing to further enhancing the Company's corporate value and performance over the medium-to-long-term.

(1) Summary

The Company awards the Company's stock to the executive officers who satisfy certain requirements based on predetermined regulations for awarding stocks. Executive officers are granted a certain number of points depending on the financial results, and upon their retirement, the officers will receive stock depending on the number of points they have accumulated.

The Company has established the Trust by contributing funds to be used for the acquisition of the Company's stock on behalf of executive officers. The Trust will acquire the Company's stock to be awarded to the executive officers in the future, and the shares are managed as trust assets.

(2) The Company's stock in the Trust

The Company's own stock in the Trust is recorded in treasury shares under net assets based on the book value of the shares in the Trust (excluding ancillary expenses). The book value and the number of these treasury shares in the Trust as of March 31, 2022 were ¥214 million (U.S. $1,748 thousand) and 164,100 shares, respectively.

**(b) Employee Stock Ownership Plan (ESOP) Trust**

The Company introduced an Employee Stock Ownership Plan (ESOP) Trust as an employee incentive plan with the aim of raising awareness of the Company's share price and strengthening financial performance.

(1) Summary

The Company awards the Company's stock to the employees who satisfy certain requirements based on predetermined regulations for awarding stocks.

If the Company's profit is higher than a pre-determined standard, the Company awards a certain number points to employees. Upon their retirement, employees will receive the Company's stock depending on the number of points they have accumulated.

The Company has established the Trust by contributing funds to be used for the acquisition of the Company's stock on behalf of participating employees. The Trust will acquire the Company's stock to be awarded to employees in the future, and the shares are managed as trust assets.

(2) The Company's stock in the Trust

The Company's own stock in the Trust is recorded in treasury shares under net assets based on the book value of the shares in the Trust (excluding ancillary expenses). The book value and the number of these treasury shares in the Trust as of March 31, 2022 were ¥126 million (U.S. $1,027 thousand) and 120,000 shares, respectively.

(Impact of COVID-19)

The impact of COVID-19 on the consolidated financial statements for the current fiscal year is limited because there are no major impacts such as on the procurement of raw materials in terms of production, or on sales as refraining from going out is not relevant due to the fact that the Group's manufactured goods are largely consumed within the household.

The impact on the consolidated financial statements for the next fiscal year will be minor as a result of incorporating information known by the Group regarding COVID-19 disease at the end of the current fiscal year.

However, if further situations occur and are not resolved or become serious for a long period of time, the consolidated financial statements for the next fiscal year may be affected by delays or suspensions of raw material procurement, production activities, and declines in sales activities.

## 7 Consolidated Statements of Comprehensive Income

The amount of recycling and amount of income tax effect associated with other comprehensive income for the years ended March 31, 2022 and 2021 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2022** | 2021 | **2022** |
| Unrealized holding gain (loss) on other securities, net of taxes | | | |
| Amount recognized in the year | **¥ (1,440)** | ¥ 1,014 | **$ (11,764)** |
| Reclassification adjustments included in the statement of income | **(55)** | (69) | **(451)** |
| Before income tax effect adjustment | **(1,495)** | 945 | **(12,214)** |
| Amount of income tax effect | **475** | (287) | **3,885** |
| Unrealized holding gain (loss) on other securities, net of taxes | **(1,019)** | 658 | **(8,330)** |
| Translation adjustments | | | |
| Amount recognized in the year | **130** | 36 | **1,059** |
| Remeasurements of defined benefit plans, net of tax | | | |
| Amount recognized in the year | **59** | 34 | **479** |
| Reclassification adjustments included in the statement of income | **0** | 8 | **4** |
| Before income tax effect adjustment | **59** | 42 | **483** |
| Amount of income tax effect | **(18)** | (13) | **(150)** |
| Remeasurements of defined benefit plans, net of tax | **41** | 29 | **333** |
| Other comprehensive income (loss) on equity method companies | | | |
| Amount recognized in the year | **5** | 1 | **42** |
| Reclassification adjustments included in the statement of income | **65** | — | **531** |
| Other comprehensive income (loss) on equity method companies | **70** | 1 | **574** |
| Total other comprehensive income | **¥ (779)** | ¥ 725 | **$ (6,364)** |

## 8 Financial Instruments

**(1) Current status of financial instruments**

(a) Policy in relation to financial instruments

The Company and its consolidated subsidiaries (collectively, the "Group" ) raise necessary funds following capital investment plans for undertaking the manufacturing-and-selling businesses. Surplus funds of the Group are only invested in highly secure financial assets.

(b) Details of financial instruments and related risk

Trade receivables—trade notes and accounts receivable,—are exposed to credit risk in relation to customers. In addition, receivables denominated in foreign currencies are exposed to foreign currency exchange risk.
Marketable securities and investment securities, most of which are stocks of other companies with which the Group has business relationships, are exposed to market price fluctuation risk.
Substantially all trade payables—notes and accounts payable-trade, electronically recorded obligations-operating and other payables,—have payment due dates within one year. In addition, payables denominated in foreign currencies are exposed to foreign currency exchange risk.

(c) Risk management system for financial instruments

(Credit risk management—the risk that customers or counterparties may default)
The Company has established a management policy whereby the Company evaluates the financial conditions of its customers and monitors due dates and outstanding balances regularly to identify and mitigate risks of bad debts from customers who are having financial difficulties.
The consolidated subsidiaries perform equivalent management procedures as the Company.

(Market risk management—the risk arising from fluctuations in exchange rates and interest rates)
The Company uses forward exchange contract transactions with the aim of avoiding risk related to fluctuation in future foreign exchange. For marketable securities and investment securities, the Company periodically confirms the market value of such financial instruments and reports to the director in charge. The Company reviews the status of these investments on a continuing basis.

(Liquidity risk management—the risk that the Group may not able to meet its payment obligations on the scheduled dates)
The Company manages liquidity risk by means of preparing monthly financial plans.

(d) Supplementary explanation of items relating to the fair value of financial instruments

Because estimation of fair values incorporates variable factors, adopting different assumptions can change the value.

**(2) Estimated fair value of financial instruments**

The carrying value of financial instruments recognized on the consolidated balance sheets as of March 31, 2022 and 2021, the estimated fair value of such items and the differences between them are shown below.

| | Millions of yen | | |
|---|---|---|---|
| **Year ended March 31, 2022** | Carrying value | Fair value | Difference |
| Investment securities | | | |
| Other securities | **¥ 5,252** | **¥ 5,252** | **—** |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| **Year ended March 31, 2022** | Carrying value | Fair value | Difference |
| Investment securities | | | |
| Other securities | **$ 42,911** | **$ 42,911** | **—** |

(*1) "Cash and time deposits", "Notes receivable - trade", "Accounts receivable - trade", "Trade payables", "Electronically recorded obligations – operating", and "Other payables" have been omitted because these are settled within a short period of time and their fair values approximate book values.
(*2) Unlisted equity securities with no market price of ¥125 million (U.S. $1,021 thousand) are not included in "Investment securities".

| | Millions of yen | | |
|---|---|---|---|
| Year ended March 31, 2021 | Carrying value | Fair value | Difference |
| a Cash and time deposits | ¥ 11,864 | ¥ 11,864 | — |
| b Trade notes and accounts receivable | 5,790 | 5,790 | — |
| c Investment securities | 6,777 | 6,777 | — |
| Assets | ¥ 24,431 | ¥ 24,431 | — |
| | | | |
| a Trade payables | ¥ 2,934 | ¥ 2,934 | — |
| b Electronically recorded obligations-operating | 3,187 | 3,187 | — |
| c Other payables | 2,866 | 2,866 | — |
| Liabilities | ¥ 8,986 | ¥ 8,986 | — |

(*1) Method of estimating the fair value of financial instruments and other matters relating to investment securities
Assets
a. Cash and time deposits and b. Trade notes and accounts receivable
Because these items are settled over the short term, the fair value and carrying value are nearly equivalent. Therefore, the relevant carrying value is used.
c. Investment securities
Stocks are valued at the exchange trading price. Bonds are valued at the exchange trading price or at the price provided by the financial institutions offering these securities. For information on securities classified by purpose of holding, please refer to the "Investment securities" section of the notes to the financial statements.
Liabilities
a. Trade payables, b. Electronically recorded obligations-operating and c. Other payables
Because these items are settled over the short term, the fair value and carrying value are nearly equivalent. Therefore, the relevant carrying value is used.
(*2) Financial instruments for which fair value is extremely difficult to determine

| | Carrying value |
|---|---|
| | Millions of yen |
| | **2021** |
| Unlisted equity securities | **¥ 125** |

Because these instruments have no quoted market price and the fair value is extremely difficult to determine, they are not included in the above table.

Notes. Redemption schedule for receivables and other securities with maturity dates at March 31, 2022 and 2021 are summarized as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| Year ended March 31, 2022 | One year or less | More than 1 year and within 5 years | More than 5 years and within 10 years | More than 10 years |
| Time deposits | ¥ 11,886 | — | — | — |
| Notes receivable - trade | 82 | — | — | — |
| Accounts receivable – trade | 5,721 | — | — | — |
| Total | ¥ 17,689 | — | — | — |

| | Millions of yen | | | |
|---|---|---|---|---|
| Year ended March 31, 2021 | One year or less | More than 1 year and within 5 years | More than 5 years and within 10 years | More than 10 years |
| Time deposits | ¥ 11,863 | — | — | — |
| Trade notes and accounts receivable | 5,790 | — | — | — |
| Investment securities | | | | |
| Other | 100 | — | — | — |
| Total | ¥ 17,752 | — | — | — |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| Year ended March 31, 2022 | One year or less | More than 1 year and within 5 years | More than 5 years and within 10 years | More than 10 years |
| Time deposits | $ 97,117 | — | — | — |
| Notes receivable - trade | 673 | — | — | — |
| Accounts receivable - trade | 46,741 | — | — | — |
| Total | $ 144,530 | — | — | — |

**(3) The details related to each level of fair value of financial instruments**

There are three levels to the fair value hierarchy (Level 1 is the highest priority and Level 3 is the lowest priority) based on the observability and materiality.
Level 1: Of the inputs related to the observable market value calculation, the market price calculated based on the market price of the asset or liability for which the market value is calculated, which is formed in an active market.
Level 2: Of the inputs related to the calculation of the observable market value, the market value calculated using the inputs related to the calculation of the market value other than the inputs categorized within Level 1.
Level 3: Market value calculated using inputs related to the calculation of unobservable market value.
When multiple inputs that have a significant influence on the market value calculation are used, the market value is classified into the lowest priority level in the market value calculation among the levels to which those inputs belong.

(a) Financial instruments recorded on the consolidated balance sheet at market value.

| | Fair value<br>Millions of yen | | | |
|---|---|---|---|---|
| Year ended March 31, 2022 | Level 1 | Level 2 | Level 3 | Total |
| Investment securities | | | | |
| Other securities | | | | |
| Stock | ¥ 5,150 | — | — | ¥ 5,150 |

| | Fair value<br>Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| Year ended March 31, 2022 | Level 1 | Level 2 | Level 3 | Total |
| Investment securities | | | | |
| Other securities | | | | |
| Stock | $ 42,079 | — | — | $ 42,079 |

(*) In accordance with the transitional treatment provided for in paragraph 26 of "Application Guidelines for Fair Value Measurement" (ASBJ Guideline No. 31, July 4, 2019), investment trusts are not included in the above table.
The amount of the investment trust on the consolidated balance sheet is ¥102 million (U.S. $831 thousand).

(b) Financial instruments other than those listed on the consolidated balance sheet at market value
(Years ended March 31, 2022)
It is omitted because it is not important.

Notes. Explanation of the valuation technique used to calculate the market value and the inputs related to the calculation of the market value
Investment securities
Listed stocks are valued using market prices. Listed stocks are traded in active markets, so their market value is classified into Level 1.

## 9 Derivatives

The Company and its consolidated subsidiaries had no derivative instruments outstanding at March 31, 2022 and 2021.

## 10 Investment Securities

**(1) Other securities**

The acquisition cost and related carrying value of other securities with a determinable market value at March 31, 2022 and 2021 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2022** | 2021 | **2022** |
| Acquisition cost | **¥ 2,586** | ¥ 2,616 | **$ 21,128** |
| Carrying value | **5,252** | 6,777 | **42,911** |
| Total unrealized gain | **2,680** | 4,164 | **21,897** |
| Total unrealized loss | **(14)** | (3) | **(114)** |

At March 31, 2022 and 2021, unlisted stocks (whose carrying value was ¥125 million (U.S.$1,021 thousand) and ¥125 million, respectively) are not included in the above table because they have no quoted market price.

**(2) Sales of other securities**

(Year ended March 31, 2022)

| | Millions of yen | | |
|---|---|---|---|
| | Proceeds from sales | Gain on sales | Loss on sales |
| (1) Stocks | **¥ 62** | **¥ 44** | **—** |
| (2) Bonds | | | |
| a Government bonds | **—** | **—** | **—** |
| b Corporate bonds | **—** | **—** | **—** |
| c Others | **—** | **—** | **—** |
| (3) Other securities | **—** | **—** | **—** |
| Total | **¥ 62** | **¥ 44** | **—** |

(Year ended March 31, 2021)

| | Millions of yen | | |
|---|---|---|---|
| | Proceeds from sales | Gain on sales | Loss on sales |
| (1) Stocks | ¥ 87 | ¥ 69 | — |
| (2) Bonds | | | |
| a Government bonds | — | — | — |
| b Corporate bonds | — | — | — |
| c Others | — | — | — |
| (3) Other securities | — | — | — |
| Total | ¥ 87 | ¥ 69 | — |

(Year ended March 31, 2022)

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | Proceeds from sales | Gain on sales | Loss on sales |
| (1) Stocks | **$ 506** | **$ 357** | **—** |
| (2) Bonds | | | |
| a Government bonds | **—** | **—** | **—** |
| b Corporate bonds | **—** | **—** | **—** |
| c Others | **—** | **—** | **—** |
| (3) Other securities | **—** | **—** | **—** |
| Total | **$ 506** | **$ 357** | **—** |

**(3) Impairment of investment securities**

There were no significant impairment losses on investment securities for the years ended March 31, 2022.
The Company recognized impairment loss on investment securities of ¥31 million for the year ended March 31, 2021.

## 11 Land Revaluation

In accordance with the Land Revaluation Law (Proclamation No. 34 dated March 31, 1998), land used for business activities was revalued at March 31, 2002. The revaluation difference, net of taxes, is stated as "Unrealized revaluation loss on land, net of taxes" in net assets. Deferred tax liabilities arising from this revaluation difference are presented separately from deferred tax liabilities for other temporary differences in the accompanying consolidated balance sheets. The market value of the land as of March 31, 2022 and 2021 decreased by ¥197 million (U.S.$1,612 thousand) and ¥168 million, respectively, after the revaluation.

## 12 Pledged Assets

Pledged assets at March 31, 2022 and 2021 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2022 | 2021 | 2022 |
| Time deposits | ¥ 5 | ¥ 5 | $ 37 |

Time deposits were pledged as collateral mainly for leased office space at March 31, 2022 and 2021.

## 13 Income Taxes

At March 31, 2022 and 2021, the tax effect of the temporary differences which gave rise to a significant portion of the deferred tax assets (excluding deferred taxes on unrealized revaluation loss on land) was as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2022 | 2021 | 2022 |
| Deferred tax assets: | | | |
| Accrued business taxes | ¥ 41 | ¥ 52 | $ 332 |
| Accrued employees' bonuses | 139 | 169 | 1,139 |
| Refund liabilities | 145 | — | 1,186 |
| Allowance for sales returns | — | 37 | — |
| Loss on valuation of inventories | 8 | 14 | 67 |
| Tax loss carryforwards | 92 | 90 | 752 |
| Net defined benefit liability | 374 | 398 | 3,054 |
| Provision for directors' retirement and severance benefits | 33 | 33 | 273 |
| Provision for executive officers' incentive plan | 25 | 21 | 208 |
| Impairment losses | 499 | — | 4,077 |
| Write-downs of securities | 53 | 64 | 437 |
| Other | 195 | 238 | 1,591 |
| Gross deferred tax assets | 1,605 | 1,117 | 13,117 |
| Valuation allowance for tax loss carryforwards | (92) | (89) | (752) |
| Valuation allowance for the total of future deductible temporary differences etc. | (115) | (117) | (943) |
| Valuation allowance | (208) | (206) | (1,695) |
| Total deferred tax assets | 1,398 | 911 | 11,422 |
| Deferred tax liabilities: | | | |
| Deferred gain on sales of property | (10) | (11) | (83) |
| Net defined benefit asset | (2) | (15) | (19) |
| Returns assets | (87) | — | (709) |
| Undistributed earnings of controlled foreign companies | (42) | (70) | (339) |
| Unrealized holding gain on other securities, net of taxes | (797) | (1,272) | (6,512) |
| Other | (8) | (12) | (63) |
| Total deferred tax liabilities | (946) | (1,380) | (7,725) |
| Net deferred tax assets | ¥ 452 | — | $ 3,696 |
| Net deferred tax liabilities | — | ¥ (469) | — |

At March 31, 2022 and 2021, net deferred tax assets and net deferred tax liabilities were included in the following items in the consolidated balance sheets.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2022 | 2021 | 2022 |
| Non-current assets - deferred tax assets | ¥ 452 | ¥ 84 | $ 3,696 |
| Non-current liabilities - deferred tax liabilities | — | (553) | — |

Amounts of tax loss carryforward and related deferred tax assets by tax loss carryforward for the years ended March 31, 2022 and 2021, were as follows:

| | Millions of yen | | | | | | |
|---|---|---|---|---|---|---|---|
| Year ended March 31, 2022 | Due in one year or less | 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 | After five years | Total |
| Tax loss carryforwards | — | ¥ 15 | ¥ 46 | ¥ 16 | ¥ 14 | — | ¥ 92 |
| Valuation allowance | — | (15) | (46) | (16) | (14) | — | (92) |
| Deferred tax assets | — | — | — | — | — | — | — |

| | Millions of yen | | | | | | |
|---|---|---|---|---|---|---|---|
| Year ended March 31, 2021 | Due in one year or less | 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 | After five years | Total |
| Tax loss carryforwards | ¥ 1 | — | ¥ 26 | ¥ 46 | ¥ 16 | — | ¥ 90 |
| Valuation allowance | — | — | (26) | (46) | (16) | — | (89) |
| Deferred tax assets | 1 | — | — | — | — | — | — |

| | Thousands of U.S. dollars | | | | | | |
|---|---|---|---|---|---|---|---|
| Year ended March 31, 2022 | Due in one year or less | 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 | After five years | Total |
| Tax loss carryforwards | — | $ 124 | $ 378 | $ 134 | $ 117 | — | ¥ 752 |
| Valuation allowance | — | (124) | (378) | (134) | (117) | — | (752) |
| Deferred tax assets | — | — | — | — | — | — | — |

Note: Figures for tax loss carryforward were the amounts multiplied by effective statutory tax rate.

A reconciliation of the statutory tax rates to the Company's effective tax rates for the years ended March 31, 2022 and 2021 is summarized as follows:

| | 2022 | 2021 |
|---|---|---|
| Japanese statutory tax rate | 31.00% | 31.00% |
| Permanent differences, such as entertainment expenses, etc. | 0.55 | 0.16 |
| Permanent differences, such as dividend income | (0.52) | (0.27) |
| Tax credit | (7.68) | (1.77) |
| Undistributed earnings of controlled foreign companies | (0.97) | 0.02 |
| Equity in loss of affiliates | (1.26) | 0.16 |
| Increase in valuation allowance | 1.64 | 0.03 |
| Other | 6.07 | (0.08) |
| Effective tax rate | 28.83% | 29.25% |

## 14 Employees' Retirement and Severance Benefits

The Company and its consolidated subsidiaries have defined benefit plans for payments of employees' retirement (either funded or unfunded), and the Company and some consolidated subsidiaries have a defined contribution pension plan.
The Group pays a pension or lump sum based on length of service and salary in the defined benefit corporate pension plan.
In unfunded retirement benefit plans, the Company pays a lump sum based on length of service and salary as a retirement benefit.
Some consolidated subsidiaries adopt the simplified method which assumes retirement benefit obligation to be equal to the benefits payable if all eligible employees voluntarily terminated their employment at fiscal year end for the calculation of net defined benefit liability and retirement benefit expenses.

**(1) Defined benefit plans**

Adjustments of beginning and ending balance of retirement benefit obligations

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2022 | 2021 | 2022 |
| Balance at the beginning of the year | ¥ 1,386 | ¥ 1,381 | $ 11,325 |
| Service cost | 66 | 67 | 542 |
| Interest cost | 10 | 10 | 81 |
| Actuarial gain or loss | (59) | (35) | (485) |
| Payment of retirement benefits | (73) | (34) | (600) |
| Other | 8 | (3) | 67 |
| Balance at the end of the year | ¥ 1,338 | ¥ 1,386 | $ 10,930 |

Adjustments of beginning and ending balance of plan assets

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2022 | 2021 | 2022 |
| Balance at the beginning of the year | ¥ 57 | ¥ 70 | $ 463 |
| Expected return on plan assets | 1 | 1 | 6 |
| Actuarial loss | (1) | (1) | (6) |
| Payment of retirement benefits | (13) | (13) | (103) |
| Balance at the end of the year | ¥ 44 | ¥ 57 | $ 360 |

Adjustments of ending balance of retirement benefit obligations and plan assets, and net defined benefit asset and liability on consolidated balance sheet

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2022 | 2021 | 2022 |
| Funded retirement benefit obligations | ¥ 37 | ¥ 49 | $ 299 |
| Plan assets | (44) | (57) | (360) |
| | (7) | (8) | (61) |
| Unfunded retirement benefit obligations | 1,301 | 1,337 | 10,632 |
| Net defined benefit asset and liability on consolidated balance sheet | 1,294 | 1,329 | 10,571 |
| Net defined benefit liability | 1,301 | 1,337 | 10,632 |
| Net defined benefit asset | (7) | (8) | (61) |
| Net defined benefit asset and liability on consolidated balance sheet | ¥ 1,294 | ¥ 1,329 | $ 10,571 |

The following table summarizes the components of net retirement benefit expenses:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2022 | 2021 | 2022 |
| Service cost | ¥ 66 | ¥ 67 | $ 542 |
| Interest cost on benefit obligation | 10 | 10 | 81 |
| Expected return on plan assets | (1) | (1) | (6) |
| Amortization of actuarial loss | 0 | 8 | 4 |
| Extraordinary additional retirement payments | 12 | 11 | 100 |
| Net retirement benefit expenses | ¥ 88 | ¥ 95 | $ 721 |

Remeasurements of defined benefit plans, before tax, in the consolidated statements of comprehensive income

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2022 | 2021 | 2022 |
| Actuarial gain (loss) | ¥ 59 | ¥ 42 | $ 483 |

Remeasurements of defined benefit plans, before tax, in the consolidated balance sheets

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2022 | 2021 | 2022 |
| Unrecognized actuarial gain (loss) | ¥ (76) | ¥ (17) | $ (617) |

Plan assets
(a) Plan assets
The fair value of plan assets, by major category, as a percentage of total plan assets is as follows:

| | 2022 | 2021 |
|---|---|---|
| General accounts | 100.0% | 100.0% |
| Total | 100.0 | 100.0 |

(b) Calculation method of expected long-term rate of return on plan assets
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 the actuarial calculation
The main assumptions used in the actuarial calculation (presented as a weighted average) are as follows:

| | 2022 | 2021 |
|---|---|---|
| Discount rate | 0.8% | 0.8% |
| Expected rate of return on plan assets | 1.3% | 1.3% |

**(2) Other retirement benefits**
Contributions to the defined contribution pension plans of the Company and its consolidated subsidiaries for the years ended March 31, 2022 and 2021 amounted to ¥129 million (U.S. $1,051 thousand) and ¥131 million, respectively.

## 15 Net Assets

The Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Commercial Code of Japan, went into effect on May 1, 2006. The Law provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders or by the Board of Directors if certain conditions are met.

Capital surplus and the legal reserve are not available for the distribution of dividends but may be used to reduce or eliminate a deficit or may be transferred to stated capital. At March 31, 2022, the legal reserve of the Company included in retained earnings amounted to ¥550 million (U.S.$4,492 thousand).

The maximum amount which the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company and in accordance with the Corporation Law of Japan.

## 16 Amounts per Share

Net assets per share as of March 31, 2022 and 2021 were ¥1,407.03 (U.S.$11.50) and ¥1,445.14, respectively. Basic earnings per share for the years ended March 31, 2022 and 2021 were ¥49.91 (U.S.$0.41) and ¥113.90, respectively.
Diluted earnings per share for the years ended March 31, 2022 and 2021 were ¥49.91 (U.S.$0.41) and ¥113.78, respectively.

The basis for the calculation of basic earnings per share and diluted earnings per share for the years ended March 31, 2022 and 2021 was as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2022 | 2021 | 2022 |
| Basic earnings per share: | | | |
| Profit attributable to owners of parent | ¥ 1,109 | ¥ 2,526 | $ 9,063 |
| Amount not attributable to shareholders of common stock | — | — | — |
| Amount attributable to shareholders of common stock | 1,109 | 2,526 | 9,063 |
| Weighted-average number of shares outstanding (millions of shares) | 22 | 22 | — |
| Diluted earnings per share: | | | |
| Adjustments to profit attributable to owners of parent | — | — | — |
| Increase in number of shares outstanding (millions of shares) | 0 | 0 | — |
| (Subscription rights to shares) | (0) | (0) | — |
| Shares having an anti-dilutive effect (millions of shares) | — | — | — |

The basis for calculation of total net assets per share as of March 31, 2022 and 2021 was as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2022 | 2021 | 2022 |
| Total net assets per share: | | | |
| Total net assets | ¥ 31,848 | ¥ 32,633 | $ 260,214 |
| Deductions: | 573 | 543 | 4,685 |
| Subscription rights | — | 2 | — |
| Non-controlling interests | 573 | 541 | 4,685 |
| Amounts attributable to shareholders of common stock | 31,274 | 32,090 | 255,529 |
| Number of shares outstanding at year end (millions of shares) | 22 | 22 | — |

## 17 Major Expenses

Major expenses included in selling, general and administrative expenses for the years ended March 31, 2022 and 2021 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2022 | 2021 | 2022 |
| Sales promotion expenses | ¥ 555 | ¥ 3,658 | $ 4,535 |
| Advertising costs | 2,606 | 2,560 | 21,289 |
| Salaries | 2,487 | 2,448 | 20,320 |
| Shipment and storage expenses | 1,657 | 1,711 | 13,536 |
| Provision for employees' retirement and severance benefits | 158 | 167 | 1,288 |
| Provision for executive officers' incentive plan | 13 | 11 | 105 |
| Provision of allowance for doubtful accounts | - | 30 | — |

Research and development expenses included in general and administrative expenses and cost of sales for the years ended March 31, 2022 and 2021 amounted to ¥851 million (U.S.$6,955 thousand) and ¥790 million, respectively.

## 18 Cash and Time Deposits

A reconciliation of cash and cash equivalents in the accompanying consolidated statements of cash flows to cash and time deposits in the accompanying consolidated balance sheets at March 31, 2022 and 2021 is as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2022 | 2021 | 2022 |
| Cash and time deposits | ¥ 11,888 | ¥ 11,864 | $ 97,129 |
| Time deposits with a maturity in excess of three months | (68) | (60) | (552) |
| Other current assets (*) | 23 | 28 | 188 |
| Cash and cash equivalents | ¥ 11,843 | ¥ 11,832 | $ 96,765 |

(*) These represent the Company's contributions of funds to a bank in order to establish the "Board Benefit Trust (BBT)" and "Employee Stock Ownership Plan (ESOP) Trust."

## 19 Leases

(Finance leases)
Leased assets included in property, plant and equipment are buildings and structures, machinery, equipment and vehicles, tools, furniture and fixtures in the daily necessities segment. Leased assets included in intangible assets are software.

(Operating leases)
The Company and its consolidated subsidiaries had no significant operating leases at March 31, 2022 and 2021.

## 20 Revenue recognition

**(1) The disaggregation of revenue recognized from contracts with customers**

a. Breakdown by type of goods or services

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | 2022 | 2022 |
| Air Care | ¥19,984 | $ 163,279 |
| Cloth Care | 8,213 | 67,106 |
| Thermal Care | 4,364 | 35,656 |
| Hand Care | 5,834 | 47,669 |
| Dehumidify Care | 2,846 | 23,253 |
| Home Care | 4,229 | 34,551 |
| Total of revenue from contracts with customers | ¥ 45,470 | $371,514 |

b. Breakdown by revenue recognition period

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | 2022 | 2022 |
| Goods or services to be transferred at one time | ¥ 45,470 | $ 371,514 |
| Goods or services that are transferred over a period of time | — | — |
| Total of revenue from contracts with customers | ¥ 45,470 | $371,514 |

**(2) Information that is the basis for understanding the revenue generated from contracts with customers**

Recognized revenue at the time the control of promised goods or services is transferred to the customer at the amount expected to be received upon exchange of said goods or services. The time when the customer gains control of the product is determined to be the time when the product arrives at the customer in domestic sales and the time when the product arrives at the point agreed with the customer in export sales.

These revenues are measured by deducting rebates and returns from the consideration promised in the contract with the customer.

The promised consideration is collected within approximately two months from the time the performance obligation is fulfilled. The amount of consideration does not include important financial factors.

**(3) Information regarding the relationship between the fulfillment of performance obligations under the contract with the customer and the cash flows arising from this contract, and the amount and timing of revenue expected to be recognized from the contract with the customer existing at the end of the current consolidated fiscal year after the next consolidated year.**

(Balance of receivables and contract liabilities arising from contracts with customers)

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | Balance at March 31, 2022 | Balance at April 1, 2021 | Balance at March 31, 2022 |
| Receivables arising from contracts with customers | | | |
| Notes receivable – trade | ¥ 82 | ¥ 98 | $ 673 |
| Accounts receivable – trade | ¥ 5,721 | ¥ 5,691 | $ 46,741 |

## 21 Segment Information

**(1) Summary of Reporting Segments**

Segment information for the years ended March 31, 2022 and 2021 is omitted as the Group operates the daily necessities segment as a single segment.

**(2) Calculation method of sales, profits or losses, and other items by reportable segment**

Information on the calculation method is omitted as the Group operates as a single segment.

**(3) Information on the amounts of sales, income, and other items by reportable segment**

Information on the amounts of sales and other items for the years ended March 31, 2022 and 2021 is omitted as the Group operates as a single segment.

**(4) Related Information**

(a) Information by products and service

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| **Year ended March 31, 2022** | Air Care | Cloth Care | Thermal Care | Hand Care | Others | Total |
| Sales to third parties | **¥ 19,984** | **¥ 8,213** | **¥ 4,364** | **¥ 5,834** | **¥ 7,075** | **¥ 45,470** |

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| Year ended March 31, 2021 | Air Care | Cloth Care | Thermal Care | Hand Care | Others | Total |
| Sales to third parties | ¥ 21,355 | ¥ 9,424 | ¥ 4,490 | ¥ 6,923 | ¥ 7,482 | ¥ 49,674 |

| | Thousands of U.S. dollars | | | | | |
|---|---|---|---|---|---|---|
| **Year ended March 31, 2022** | Air Care | Cloth Care | Thermal Care | Hand Care | Others | Total |
| Sales to third parties | **$ 163,279** | **$ 67,106** | **$ 35,656** | **$ 47,669** | **$ 57,804** | **$ 371,514** |

(b) Information by geographical segment

(Sales)

Geographical segment information is not presented as overseas sales were less than 10% of consolidated net sales for the years ended March 31, 2022 and 2021.

(Property, plant and equipment)

Geographical segment information is not presented as the amount of property, plant and equipment in Japan exceeded 90% of the total of property, plant and equipment at March 31, 2022 and 2021.

(c) Information by major customers

| Customers | Sales | | | Related segment |
|---|---|---|---|---|
| | Millions of yen | | Thousands of U.S. dollars | |
| | **2022** | 2021 | **2022** | |
| PALTAC CORPORATION | **¥ 17,158** | ¥ 17,612 | **$ 140,199** | Daily necessities |
| ARATA CORPORATION | **¥ 10,688** | ¥ 12,250 | **$ 87,331** | Daily necessities |

## 22 Related Party Transactions

(Years ended March 31, 2022 and 2021)
Not applicable

## 23 Inventory Valuation Loss Included in Cost of Sales

Inventory valuation loss write-downs below cost to net selling value are included in cost of sales and amounted to ¥478 million (U.S.$3,904 thousand) and ¥308 million for the years ended March 31, 2022 and 2021, respectively.

## 24 Impairment Loss

The Company recognized impairment losses for the year ended March 31, 2022 as follows:

| Location | Purpose of use | Type of assets | millions of yen | thousands of U.S. dollars |
|---|---|---|---|---|
| Tokyo | Other | Goodwill | ¥ 1,166 | $ 9,530 |
| Tochigi City, Tochigi Prefecture | Business assets | Buildings and structures, machinery, equipment and vehicles, tools, furniture and fixtures, etc. | 407 | 3,327 |
| Tochigi City, Tochigi Prefecture | Idle assets | Land | 4 | 36 |
| Chon Buri Province, Thailand | Business assets | Buildings and structures, machinery, equipment and vehicles, tools, furniture and fixtures | 87 | 712 |

For business assets, the Group determines the asset group in consideration of the management accounting classification, and for shared assets such as the head office, the entire business is the asset group. In addition, idle assets that are not used for business are grouped by individual property.
As a result of reviewing the business plan of the disposable warmers business due to the decline in profitability, the excess profitability initially expected could no longer be expected. Therefore, the entire amount of the undepreciated balance of goodwill relating to the disposable warmers business and the carrying amount of business assets held by the Company and its subsidiary, S.T. MYCOAL Co., Ltd., was reduced to the recoverable amount, and the reduced amount was recorded as an extraordinary loss with an impairment loss of ¥1,574 million (U.S.$12,858 thousand).

For these assets, net realizable value used by the Company is based on appraisal values (for property and real estate) obtained from external valuation firms engaged by the Company to provide valuation services. The key assumptions underlying appraisal value are the expected selling price of machinery, the replacement cost of buildings, and the price of land when it is vacant.
Since the profitability of the business assets held by the consolidated subsidiary Shaldan (Thailand) has declined, the carrying amount was reduced to the recoverable amount and the reduced amount was recorded as an impairment loss under extraordinary loss.
The recoverable amount is measured by the value in use and is calculated assuming that the value in use is zero.
For idle assets, the carrying amount was reduced to the recoverable amount because the intended use was not currently determined, and the reduced amount was recorded as an impairment loss under extraordinary loss. For idle assets, the recoverable amount is measured by the net realizable value, and the net realizable value is calculated by real estate appraisal by a real estate appraiser.

## 25 Note to Consolidated Statements of Changes in Net Assets

Shares in issue and outstanding and treasury stock at March 31, 2022 and 2021 were as follows:

(Year ended March 31, 2022)
Number of shares in issue and outstanding:
Common stock 23,000 thousand
Number of shares held in treasury:
Common stock 772 thousand

Note: Details of the change in the number of shares of treasury stock are as follows:
Increase due to purchase of shares less than standard unit: 0 thousand
Increase due to acquired by Japan Custody Bank, Ltd. (Trust E Account): 90 thousand
Decrease due to the exercise of stock options: 22 thousand
Decrease due to consists of disposal of treasury stock by third party allotment (third party allotment to Japan Custody Bank, Ltd. (Trust E Account)): 90 thousand
The common stock owned by the Trust (284 thousand shares) is included in the number of shares held in treasury stock.

Subscription rights at March 31, 2022 were as follows:
Subscription rights for stock options ¥- million (U.S. $- thousand)

Dividends paid from retained earnings for the year ended March 31, 2022 were as follows:

| Resolution | Total amount of dividends: Millions of yen | Total amount of dividends: Thousands of U.S. dollars | Dividends per share: Yen | Dividends per share: U.S. dollars | Record date | Effective date |
|---|---|---|---|---|---|---|
| Board of directors' meeting held on May 17, 2021 | ¥ 426 | $ 3,477 | ¥ 19 | $ 0.16 | March 31, 2021 | June 1, 2021 |
| Board of directors' meeting held on October 27, 2021 | 426 | 3,481 | 19 | 0.16 | September 30, 2021 | December 3, 2021 |

Dividends for which the record date was in the year ended March 31, 2022 and the effective date is in the year ending March 31, 2023 were as follows:

| Resolution | Total amount of dividends: Millions of yen | Total amount of dividends: Thousands of U.S. dollars | Source of dividends | Dividends per share: Yen | Dividends per share: U.S. dollars | Record date | Effective date |
|---|---|---|---|---|---|---|---|
| Board of directors' meeting held on May 20, 2022 | ¥ 428 | $ 3,495 | Retained earnings | ¥ 19 | $ 0.16 | March 31, 2022 | June 6, 2022 |

(Year ended March 31, 2021)
Number of shares in issue and outstanding:
Common stock 23,000 thousand
Number of shares held in treasury:
Common stock 795 thousand

Note: Details of the change in the number of shares of treasury stock are as follows:
Increase due to purchase of shares less than standard unit: 0 thousand
Decrease due to the exercise of stock options: 36 thousand
Decrease due to issuance of treasury shares by the stock benefit trust (BBT): 17 thousand
The common stock owned by the Trust (194 thousand shares) is included in the number of shares held in treasury stock.

Subscription rights at March 31, 2021 were as follows:
Subscription rights for stock options ¥2 million

Dividends paid from retained earnings for the year ended March 31, 2021 were as follows:

| Resolution | Total amount of dividends (Millions of yen) | Dividends per share (Yen) | Record date | Effective date |
|---|---|---|---|---|
| Board of directors' meeting held on May 18, 2020 | ¥ 403 | ¥ 18 | March 31, 2020 | June 2, 2020 |
| Board of directors' meeting held on October 27, 2020 | 403 | 18 | September 30, 2020 | December 4, 2020 |

Dividends for which the record date was in the year ended March 31, 2021 and the effective date was in the year ended March 31, 2022 were as follows:

| Resolution | Total amount of dividends (Millions of yen) | Source of dividends | Dividends per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|
| Board of directors' meeting held on May 17, 2021 | ¥ 426 | Retained earnings | ¥ 19 | March 31, 2021 | June 1, 2021 |

## 26 Stock Option Plans

At March 31, 2022, the Company had stock option plans, which were approved at the annual general meetings of the shareholders and by the Board of Directors. Details of these stock option plans are summarized as follows:

| Date of approval | Number of shares granted | Eligible participants | Exercisable period |
|---|---|---|---|
| June 17, 2014 | 175,000 | 6 officers and 11 employees | Aug 2, 2016 – Aug 1, 2021 |

The option price per share was determined on the date the options were granted based on an established formula for determining option prices.
The options are exercisable during the above periods provided that the recipients are still directors, officers or employees of the Company or its subsidiaries.

Description of stock options

| | 2015 |
|---|---|
| Grantees | 6 officers and 11 employees |
| Type of stock | Common stock |
| Number of stock options granted (*) | 175,000 |
| Grant date | August 1, 2014 |
| Condition for exercise | Working from August 1, 2014 to August 1, 2016 |
| Working period | August 1, 2014 to August 1, 2016 |
| Exercisable period | Within 5 years after the vesting date (those retiring after the vesting date cannot exercise their stock options) |

(*) Number of stock options in the column "Number of stock options granted" has been converted into the equivalent numbers of shares.

Stock option activity during the year ended March 31, 2021 was as follows:

Number of shares

| | 2015 |
|---|---|
| Non-vested outstanding at beginning of year | — |
| Granted during the year | — |
| Forfeited during the year | — |
| Vested during the year | — |
| Outstanding at end of year | — |
| Vested outstanding at beginning of year | 24,000 |
| Vested during the year | — |
| Exercised during the year | 22,000 |
| Forfeited during the year | 2,000 |
| Outstanding at end of year | — |

Price of stock options

| | Yen |
|---|---|
| | 2015 |
| Exercise price | ¥ 1,059 |
| Weighted-average market price | 1,775 |
| Fair value per option on grant date | ¥ 97 |

The fair value of each stock option grant was estimated at the grant date using the Black-Scholes option pricing model.

Method of estimating exercised stock options
The Company estimated the number of exercised stock options based on the actual number of forfeitures because it is difficult to estimate the number of stock options which will be forfeited in the future.

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# Independent Auditor's Report

The Board of Directors
S.T.CORPORATION

## Opinion

We have audited the accompanying consolidated financial statements of S.T.CORPORATION and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2022, 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, 2022, 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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<table>
<tr><td colspan="2">Assessment of impairment loss on tangible and intangible fixed assets and goodwill in the disposable warmer business</td></tr>
<tr><th>Description of Key Audit Matter</th><th>Auditor’s Response</th></tr>
<tr><td>As described in “Note 24. Impairment Loss”, the Group recognized impairment loss of ¥1,574 million on tangible and intangible fixed assets and goodwill in the disposable warmer business due to the decline in profitability caused by changes in the business environment.<br>The Group determines whether to recognize impairment loss on assets and asset groups whenever there are indications of impairment. When the Group determines that impairment loss should be recognized, the Group reduces the carrying amount of the assets or asset groups to the recoverable amount and recognizes an impairment loss. In assessing the amount of the impairment loss on tangible and intangible fixed assets and goodwill in the disposable warmer business, the Group uses their net realizable value since the net realizable value exceeds their value in use. The net realizable value is calculated based on the appraisal values (for property and real estate) by external appraisal specialists engaged by the Group. Significant assumptions in calculating the appraisal values are the estimated selling price of machinery, the replacement cost of buildings, and the price of vacant lot.<br>Given that specialized skills and knowledge related to the appraisals of property and real estate are required in assessing the amount of impairment loss and that the results of such appraisals have a significant impact on the assessment of impairment loss, we determined it to be a key audit matter.</td><td>The audit procedures we performed to evaluate the assessment of impairment loss on tangible and intangible fixed assets and goodwill in the disposable warmer business include the following, among others:<br>・We evaluated the competence, capabilities and objectivity of the external appraisal specialists engaged by management.<br>・We discussed with management about their assessment approaches and inspected the appraisals made by the external appraisal specialists.<br>・With the involvement of the valuation specialists of our network firm, we discussed with the external appraisal specialists engaged by management to obtain an understanding of their preconditions for the appraisal values, the valuation methods used, and their process for determining valuations, and evaluated the key technical items such as the estimated selling price of machinery, the replacement cost of buildings, and the price of vacant lot.</td></tr>
</table>

**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 Audit and Supervisory Committee 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 Audit and Supervisory Committee is 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 Audit and Supervisory Committee 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 Audit and Supervisory Committee 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 Audit and Supervisory Committee, 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, 2022 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 2 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan

August 10, 2022

植村文雄

Fumio Uemura

Designated Engagement Partner
Certified Public Accountant

玉木祐一朗

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Printed in Japan, October 2022