

# Consolidated Balance Sheets

MEDIPAL HOLDINGS CORPORATION and its consolidated subsidiaries  
As of March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2021	2020	2021
<b>Current assets:</b>			
Cash and deposits (Notes 5, 6 and 17)	¥ 222,748	¥ 207,545	\$ 2,011,995
Notes and accounts receivable—trade (Note 5)	702,188	689,144	6,342,589
Securities (Note 5)	18,770	18,770	169,542
Merchandise and finished goods	155,593	151,123	1,405,411
Accounts receivable—other (Note 5)	65,077	65,112	587,815
Other	10,147	14,945	91,653
Allowance for doubtful accounts	(409)	(460)	(3,694)
Total current assets	1,174,114	1,146,179	10,605,311
<b>Property, plant and equipment (Note 11):</b>			
Buildings and structures (Notes 9 and 10)	196,282	196,029	1,772,938
Machinery, equipment and vehicles (Notes 10 and 13)	67,635	66,798	610,920
Land (Notes 9, 10 and 12)	121,279	120,596	1,095,466
Construction in progress	5,235	3,510	47,286
Other (Note 9)	26,255	26,201	237,151
Total property, plant and equipment	416,686	413,134	3,763,761
Accumulated depreciation	(155,097)	(147,557)	(1,400,930)
Property, plant and equipment, net	261,589	265,577	2,362,831
<b>Intangible assets:</b>			
Software	7,031	8,167	63,508
Other	3,154	2,877	28,489
Total intangible assets	10,185	11,044	91,997
<b>Investments and other assets:</b>			
Investment securities (Notes 5, 7 and 17):			
Unconsolidated subsidiaries and associates	53,375	50,141	482,115
Other	151,345	145,486	1,367,040
Long-term loans receivable (Note 5)	113	116	1,021
Deferred tax assets (Note 20)	2,451	5,161	22,139
Net defined benefit asset (Note 16)	7,455	4,332	67,338
Other assets:			
Unconsolidated subsidiaries and associates (investment in capital of subsidiaries and associates)	5,933	6,152	53,590
Others	14,243	11,107	128,652
Allowance for doubtful accounts	(868)	(1,016)	(7,840)
Total investments and other assets	234,047	221,479	2,114,055
<b>Total assets</b>	<b>¥1,679,935</b>	<b>¥1,644,279</b>	<b>\$15,174,194</b>

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
<b>Current liabilities:</b>			
Notes and accounts payable–trade (Notes 5 and 17)	¥ 900,015	¥ 883,624	\$ 8,129,482
Current portion of long-term borrowings (Notes 5 and 14)	350	3,558	3,161
Income taxes payable	7,539	13,006	68,097
Provision for bonuses	7,032	8,502	63,517
Provision for sales returns	510	557	4,607
Provision for loss on disaster	363	—	3,279
Other	37,026	36,353	334,442
Total current liabilities	952,835	945,600	8,606,585
<b>Non-current liabilities:</b>			
Convertible bond-type bonds with share acquisition rights (Notes 5 and 15)	30,228	30,378	273,038
Long-term borrowings (Notes 5 and 14)	—	350	—
Deferred tax liabilities (Note 20)	30,668	29,213	277,012
Deferred tax liabilities for land revaluation (Note 12)	983	999	8,879
Provision for loss on guarantees	92	168	831
Net defined benefit liability (Note 16)	16,447	19,220	148,559
Other	9,748	10,927	88,050
Total non-current liabilities	88,166	91,255	796,369
<b>Contingent liabilities (Note 18)</b>			
<b>Net assets (Note 19):</b>			
Shareholders' equity:			
Share capital:			
Authorized—900,000,000 shares in 2021 and 2020			
Issued—244,524,496 shares in 2021 and 2020	22,398	22,398	202,313
Capital surplus	134,362	134,362	1,213,639
Retained earnings	365,291	350,562	3,299,530
Treasury shares—34,561,592 shares in 2021 and 34,560,549 shares in 2020	(58,611)	(58,609)	(529,410)
Total shareholders' equity	463,440	448,713	4,186,072
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities (Note 7)	71,906	66,261	649,499
Deferred gains or losses on hedges	2	4	18
Revaluation reserve for land (Note 12)	(13,648)	(14,028)	(123,277)
Foreign currency translation adjustment	350	245	3,161
Remeasurements of defined benefit plans (Note 16)	965	(876)	8,716
Total accumulated other comprehensive income	59,575	51,606	538,117
<b>Non-controlling interests</b>	115,919	107,105	1,047,051
Total net assets	638,934	607,424	5,771,240
<b>Total liabilities and net assets</b>	¥1,679,935	¥1,644,279	\$15,174,194

The accompanying notes are an integral part of these financial statements.

# Consolidated Statements of Income

MEDIPAL HOLDINGS CORPORATION and its consolidated subsidiaries  
Years ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
<b>Net sales</b>	<b>¥3,211,125</b>	¥3,253,079	<b>\$29,004,833</b>
Cost of sales	<b>2,996,866</b>	3,016,340	<b>27,069,515</b>
Gross profit	<b>214,259</b>	236,739	<b>1,935,318</b>
Selling, general and administrative expenses	<b>175,683</b>	183,629	<b>1,586,876</b>
<b>Operating profit</b>	<b>38,576</b>	53,110	<b>348,442</b>
<b>Other income (expenses):</b>			
Research fee income	<b>7,750</b>	7,856	<b>70,003</b>
Real estate rent, net	<b>402</b>	342	<b>3,631</b>
Interest and dividend income	<b>2,846</b>	2,789	<b>25,707</b>
Interest expenses	<b>(50)</b>	(137)	<b>(452)</b>
Loss on valuation of investment securities	<b>(1,633)</b>	(951)	<b>(14,750)</b>
Gain on sales of investment securities, net	<b>10,451</b>	663	<b>94,400</b>
Share of profit of entities accounted for using equity method	<b>2,440</b>	3,025	<b>22,040</b>
Gain (loss) on sales and retirement of non-current assets, net	<b>572</b>	8,913	<b>5,167</b>
Impairment loss (Note 9)	<b>(1,580)</b>	(886)	<b>(14,272)</b>
Office relocation expenses	<b>(32)</b>	(257)	<b>(289)</b>
Loss on disaster	<b>(137)</b>	—	<b>(1,237)</b>
Provision for loss on disaster	<b>(363)</b>	—	<b>(3,279)</b>
Extra retirement payments	<b>(10,776)</b>	—	<b>(97,335)</b>
Commission for purchase of treasury shares	<b>—</b>	(110)	<b>—</b>
Other, net	<b>771</b>	1,179	<b>6,963</b>
Total other income (expenses)	<b>10,661</b>	22,426	<b>96,297</b>
Profit before income taxes	<b>49,237</b>	75,536	<b>444,739</b>
<b>Income taxes (Note 20):</b>			
Current	<b>15,432</b>	23,170	<b>139,392</b>
Deferred	<b>189</b>	1,137	<b>1,707</b>
Total income taxes	<b>15,621</b>	24,307	<b>141,099</b>
<b>Profit</b>	<b>33,616</b>	51,229	<b>303,640</b>
<b>Profit attributable to non-controlling interests</b>	<b>9,689</b>	13,261	<b>87,517</b>
<b>Profit attributable to owners of parent</b>	<b>¥ 23,927</b>	¥ 37,968	<b>\$ 216,123</b>

	Yen	U.S. dollars (Note 1)
<b>Amounts per share of common stock:</b>		
Basic earnings	<b>¥113.96</b>	<b>\$1.029</b>
Diluted net income	<b>106.80</b>	<b>0.965</b>
Cash dividends applicable to the period	<b>42.00</b>	<b>0.379</b>

The accompanying notes are an integral part of these financial statements.

# Consolidated Statements of Comprehensive Income

MEDIPAL HOLDINGS CORPORATION and its consolidated subsidiaries  
Years ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
<b>Profit</b>	<b>¥33,616</b>	¥51,229	<b>\$303,640</b>
<b>Other comprehensive income (Note 21):</b>			
Valuation difference on available-for-sale securities	<b>6,618</b>	3,011	<b>59,778</b>
Deferred gains or losses on hedges	<b>(3)</b>	3	<b>(27)</b>
Remeasurements of defined benefit plans, net of tax	<b>2,004</b>	(382)	<b>18,101</b>
Share of other comprehensive income of entities accounted for using equity method	<b>345</b>	(308)	<b>3,116</b>
Total other comprehensive income	<b>8,964</b>	2,324	<b>80,968</b>
<b>Comprehensive income</b>	<b>¥42,580</b>	¥53,553	<b>\$384,608</b>
<b>Comprehensive income attributable to:</b>			
Owners of the parent	<b>¥31,516</b>	¥40,229	<b>\$284,671</b>
Non-controlling interests	<b>11,064</b>	13,324	<b>99,937</b>

The accompanying notes are an integral part of these financial statements.

# Consolidated Statements of Changes in Net Assets

MEDIPAL HOLDINGS CORPORATION and its consolidated subsidiaries  
Years ended March 31, 2021 and 2020

Year ended March 31, 2020	Millions of yen				
	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
<b>Balance at beginning of period</b>	¥22,398	¥134,362	¥321,243	¥(30,469)	¥447,534
Changes in items during period					
Dividends of surplus			(8,649)		(8,649)
Profit attributable to owners of parent			37,968		37,968
Purchase of treasury shares				(28,140)	(28,140)
Change in ownership interest of parent due to transactions with non-controlling interests		(0)			(0)
Net changes of items other than shareholders' equity					
Total changes in items during period	—	(0)	29,319	(28,140)	1,179
<b>Balance at end of period</b>	¥22,398	¥134,362	¥350,562	¥(58,609)	¥448,713

Year ended March 31, 2020	Millions of yen							
	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
<b>Balance at beginning of period</b>	¥63,409	¥2	¥(14,028)	¥ 418	¥(455)	¥49,346	¥ 95,968	¥592,848
Changes in items during period								
Dividends of surplus								(8,649)
Profit attributable to owners of parent								37,968
Purchase of treasury shares								(28,140)
Change in ownership interest of parent due to transactions with non-controlling interests								(0)
Net changes of items other than shareholders' equity	2,852	2	—	(173)	(421)	2,260	11,137	13,397
Total changes in items during period	2,852	2	—	(173)	(421)	2,260	11,137	14,576
<b>Balance at end of period</b>	¥66,261	¥4	¥(14,028)	¥ 245	¥(876)	¥51,606	¥107,105	¥607,424

The accompanying notes are an integral part of these financial statements.

Year ended March 31, 2021	Millions of yen				
	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
<b>Balance at beginning of current period</b>	¥22,398	¥134,362	¥350,562	¥(58,609)	¥448,713
Changes in items during period					
Dividends of surplus			(8,818)		(8,818)
Profit attributable to owners of parent			23,927		23,927
Purchase of treasury shares				(2)	(2)
Change in ownership interest of parent due to transactions with non-controlling interests		(0)			(0)
Reversal of revaluation reserve for land			(380)		(380)
Net changes of items other than shareholders' equity					
Total changes in items during period	—	(0)	14,729	(2)	14,727
<b>Balance at end of current period</b>	¥22,398	¥134,362	¥365,291	¥(58,611)	¥463,440

Year ended March 31, 2021	Millions of yen								
	Accumulated other comprehensive income							Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
<b>Balance at beginning of current period</b>	<b>¥66,261</b>	<b>¥ 4</b>	<b>¥(14,028)</b>	<b>¥245</b>	<b>¥ (876)</b>	<b>¥51,606</b>	<b>¥107,105</b>	<b>¥607,424</b>	
Changes in items during period									
Dividends of surplus								(8,818)	
Profit attributable to owners of parent								23,927	
Purchase of treasury shares								(2)	
Change in ownership interest of parent due to transactions with non-controlling interests								(0)	
Reversal of revaluation reserve for land								(380)	
Net changes of items other than shareholders' equity	5,645	(2)	380	105	1,841	7,969	8,814	16,783	
Total changes in items during period	5,645	(2)	380	105	1,841	7,969	8,814	31,510	
<b>Balance at end of current period</b>	<b>¥71,906</b>	<b>¥ 2</b>	<b>¥(13,648)</b>	<b>¥350</b>	<b>¥ 965</b>	<b>¥59,575</b>	<b>¥115,919</b>	<b>¥638,934</b>	

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Year ended March 31, 2021	Thousands of U.S. dollars (Note 1)				
	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
<b>Balance at beginning of current period</b>	<b>\$202,313</b>	<b>\$1,213,639</b>	<b>\$3,166,489</b>	<b>\$(529,392)</b>	<b>\$4,053,049</b>
Changes in items during period					
Dividends of surplus			(79,650)		(79,650)
Profit attributable to owners of parent			216,123		216,123
Purchase of treasury shares				(18)	(18)
Change in ownership interest of parent due to transactions with non-controlling interests		(0)			(0)
Reversal of revaluation reserve for land			(3,432)		(3,432)
Net changes of items other than shareholders' equity					
Total changes in items during period	—	(0)	133,041	(18)	133,023
<b>Balance at end of current period</b>	<b>\$202,313</b>	<b>\$1,213,639</b>	<b>\$3,299,530</b>	<b>\$(529,410)</b>	<b>\$4,186,072</b>

Year ended March 31, 2021	Thousands of U.S. dollars (Note 1)								
	Accumulated other comprehensive income							Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
<b>Balance at beginning of current period</b>	<b>\$598,510</b>	<b>\$ 36</b>	<b>\$(126,709)</b>	<b>\$2,213</b>	<b>\$ (7,913)</b>	<b>\$466,137</b>	<b>\$ 967,437</b>	<b>\$5,486,623</b>	
Changes in items during period									
Dividends of surplus								(79,650)	
Profit attributable to owners of parent								216,123	
Purchase of treasury shares								(18)	
Change in ownership interest of parent due to transactions with non-controlling interests								(0)	
Reversal of revaluation reserve for land								(3,432)	
Net changes of items other than shareholders' equity	50,989	(18)	3,432	949	16,629	71,981	79,613	151,594	
Total changes in items during period	50,989	(18)	3,432	949	16,629	71,981	79,613	284,617	
<b>Balance at end of current period</b>	<b>\$649,499</b>	<b>\$ 18</b>	<b>\$(123,277)</b>	<b>\$3,162</b>	<b>\$ 8,716</b>	<b>\$538,118</b>	<b>\$1,047,050</b>	<b>\$5,771,240</b>	

The accompanying notes are an integral part of these financial statements.

# Consolidated Statements of Cash Flows

MEDIPAL HOLDINGS CORPORATION and its consolidated subsidiaries  
Years ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
<b>Cash flows from operating activities:</b>			
Profit before income taxes	¥ 49,237	¥ 75,536	\$ 444,739
Adjustments to reconcile profit before income taxes to net cash provided by (used in) operating activities:			
Depreciation	14,468	14,233	130,684
Impairment loss	1,580	886	14,272
Amortization of goodwill	324	456	2,927
Increase (decrease) in provision for loss on guarantees	(76)	(2)	(686)
Increase (decrease) in provision for bonuses	(1,470)	56	(13,278)
Increase (decrease) in allowance for doubtful accounts	(199)	(400)	(1,797)
Increase (decrease) in provision for sales returns	(47)	(43)	(425)
Increase (decrease) in provision for loss on disaster	363	—	3,279
Increase (decrease) in net defined benefit liability	(2,773)	(535)	(25,047)
Interest and dividend income	(2,846)	(2,789)	(25,707)
Interest expenses	50	137	452
Share of loss (profit) of entities accounted for using equity method	(2,440)	(3,025)	(22,040)
Loss (gain) on sales and retirement of non-current assets	(572)	(8,913)	(5,167)
Loss (gain) on sales of short-term and long-term investment securities	(10,451)	(663)	(94,400)
Loss (gain) on valuation of short-term and long-term investment securities	1,633	951	14,750
Loss on disaster	137	—	1,237
Extra retirement payments	10,776	—	97,335
Decrease (increase) in notes and accounts receivable–trade	(12,683)	(2,703)	(114,561)
Decrease (increase) in inventories	(4,285)	(5,252)	(38,705)
Decrease (increase) in net defined benefit asset	(3,123)	902	(28,209)
Increase (decrease) in notes and accounts payable–trade	16,391	13,976	148,053
Increase (decrease) in accrued consumption taxes	(341)	179	(3,080)
Other, net	1,477	(260)	13,342
Subtotal	55,130	82,727	497,968
Interest and dividends received	5,107	4,248	46,129
Interest expenses paid	(50)	(138)	(452)
Extra retirement payments	(10,593)	—	(95,682)
Income taxes paid	(15,145)	(29,920)	(136,799)
Net cash provided by (used in) operating activities	34,449	56,917	311,164
<b>Cash flows from investing activities:</b>			
Payments into time deposits	(1,470)	(1,476)	(13,278)
Proceeds from withdrawal of time deposits	1,476	1,476	13,332
Purchase of property, plant and equipment	(12,842)	(24,300)	(115,997)
Proceeds from sales of property, plant and equipment	1,232	14,031	11,128
Purchase of intangible assets	(2,826)	(3,053)	(25,526)
Purchase of investment securities	(2,133)	(977)	(19,267)
Proceeds from sales and redemption of investment securities	14,661	2,075	132,427
Purchase of shares of subsidiaries and associates	(2,123)	(1,809)	(19,176)
Payments of loans receivable	(1)	(108)	(9)
Collection of loans receivable	9	12	81
Net decrease (increase) in loans receivable from subsidiaries and associates	—	(34)	—
Other, net	1,078	844	9,738
Net cash provided by (used in) investing activities	(2,939)	(13,319)	(26,547)
<b>Cash flows from financing activities:</b>			
Net increase (decrease) in short-term borrowings	—	(2,500)	—
Repayments of lease obligations	(1,375)	(1,532)	(12,420)
Repayments of long-term borrowings	(3,558)	(5,950)	(32,138)
Purchase of treasury shares	(2)	(28,250)	(18)
Cash dividends paid	(8,818)	(8,649)	(79,650)
Dividends paid to non-controlling interests	(2,250)	(2,187)	(20,323)
Net cash provided by (used in) financing activities	(16,003)	(49,068)	(144,549)
Effect of exchange rate change on cash and cash equivalents	0	(0)	0
Net increase (decrease) in cash and cash equivalents	15,507	(5,470)	140,068
Cash and cash equivalents at beginning of period	224,541	230,011	2,028,191
Cash and cash equivalents at end of period (Note 5)	¥240,048	¥224,541	\$2,168,259

The accompanying notes are an integral part of these financial statements.

# Notes to Consolidated Financial Statements

MEDIPAL HOLDINGS CORPORATION and its consolidated subsidiaries  
Years ended March 31, 2021 and 2020

## 1. BASIS OF PRESENTING THE CONSOLIDATED FINANCIAL STATEMENTS

MEDIPAL HOLDINGS CORPORATION (the "Company") and its consolidated subsidiaries (the "Companies") maintain their accounts and records in accordance with the provisions set forth in the Japanese Companies Act and the Financial Instruments and Exchange Act and their related accounting regulations and in conformity with accounting principles and practices generally accepted in Japan ("Japanese GAAP"), which are different in certain respects from the accounting and disclosure requirements of International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of the readers, using the prevailing exchange rate at March 31, 2021, which was ¥110.71 to U.S. \$1.00. The convenience translation should not be construed as a representation that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its significant subsidiaries (14 subsidiaries in the year ended March 31, 2021).

All significant intercompany transactions and accounts have been eliminated. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries are recorded using the fair value at the time the Company acquired control of the respective subsidiaries.

### B. EQUITY METHOD

Investments in associates (all those 20% to 50% owned and certain others 15% to 20% owned) are accounted for by the equity method.

Unconsolidated subsidiaries and the other associates are stated at cost since their net income and retained earnings in the aggregate are not material compared to consolidated net income and retained earnings, respectively.

### C. INTANGIBLE ASSETS

Goodwill, which is the difference between the cost of investments and equity in their net assets at the date of acquisition, arising from consolidated subsidiaries is amortized over the estimated useful lives up to 20 years using the straight-line method, or is charged to income in the year incurred if it is immaterial.

Software for its own use is amortized over the estimated useful life (5 years) using the straight-line method.

### D. CASH AND CASH EQUIVALENTS

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

### E. SECURITIES

Available-for-sale securities with available fair market values are stated at fair market value and unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on sales of such securities are computed using moving-average cost.

Available-for-sale securities with no available fair market values are stated at moving-average cost.

### F. DERIVATIVES AND HEDGE ACCOUNTING

Derivatives for which the hedge accounting is not applied are stated at fair value.

The Companies use the following derivatives to hedge the risk of exchange rate fluctuations and to fix cash flows.

Hedging instruments: forward foreign exchange contracts

Hedged items: payables denominated in foreign currencies and forecasted transactions denominated in foreign currencies

As a policy, the Companies do not enter derivatives for speculative transactions.

The Companies apply deferral hedge accounting except for forward foreign exchange contracts which meet the special criteria for allocation method. The Companies evaluate hedge effectiveness of forward foreign exchange contracts by comparing the total changes in values of hedging instruments and hedged items for the periods from the commencement of hedge contracts to the evaluation dates. If major terms and conditions of a hedging instrument are consistent to those of an asset or liability as a hedged item, the Companies consider it is obvious that the hedge is 100% effective and omit the evaluation test.

### G. INVENTORIES

Inventories, as shown as "Merchandise and finished goods" on the balance sheets, are stated at cost, primarily determined by the moving-average method, with book value written down as necessary to reflect any decrease in profitability.

Loss on valuation of inventories is recorded as cost of sales.

### H. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, excluding leased assets, are stated at cost. Depreciation is computed by the straight-line method at rates based on their estimated useful lives.

The estimated useful lives were as follows:

Buildings and structures: 2-50 years

Machinery, equipment and vehicles: 2-12 years

Leased assets related to finance lease transactions that do not transfer ownership are depreciated using the straight-line method with the lease periods as the useful lives. The residual value is to be zero, unless the amount of residual value is agreed upon in the lease contract.

### I. ALLOWANCE FOR DOUBTFUL ACCOUNTS

Allowance for doubtful accounts is provided in amounts sufficient to cover probable losses on collection. It consists of the estimated uncollectible amount with respect to certain identified items and the amount calculated using the actual percentage of collection losses in the past with respect to other items.



#### J. PROVISION FOR BONUSES

Provision for employees' bonuses is provided in the amount expected to be paid in respect of the calculation period ended on the balance sheet date.

#### K. PROVISION FOR SALES RETURNS

Provision for sales returns is provided in the amount estimated by multiplying the balance of notes and accounts receivable-trade as of the end of the fiscal period by the actual sales return ratio and gross margin ratio.

#### L. PROVISION FOR LOSS ON DISASTER

Provision for loss on disaster is provided in the amount estimated as of the end of the fiscal period to cover expenses required to restore assets damaged by disaster.

#### M. PROVISION FOR LOSS ON GUARANTEES

Provision for loss on guarantees is provided in the amount sufficient to cover probable losses on debt guarantees in consideration of the financial condition of the relevant associates.

#### N. ACCOUNTING METHOD FOR EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

##### 1) The method of attributing expected retirement benefits to the fiscal period

In calculating the projected benefit obligations, the method of attributing expected retirement benefits to the fiscal period is based on the benefit formula basis.

##### 2) The method of amortization of actuarial difference and prior service costs

Prior service costs are primarily amortized by the straight-line method over 3 to 5 years, which is not longer than the average remaining service period of the employees when the costs are incurred.

Actuarial difference is primarily amortized by the straight-line method over 3 to 10 years, which is not longer than the average remaining service period of the employees when the costs are incurred.

#### O. INCOME TAXES

The Companies provide for income taxes applicable to all items included in the consolidated statements of income regardless of when such taxes are payable. Income taxes based on temporary differences between tax and financial reporting purposes are reflected as deferred income taxes in the consolidated financial statements using the asset and liability method.

#### P. AMOUNTS PER SHARE OF COMMON STOCK

The computation of earnings per share of common stock is based on the average number of shares outstanding during each fiscal period.

Cash dividends per share represent the actual amounts declared during the respective years.

#### Q. RECLASSIFICATIONS

Certain prior year amounts have been reclassified and restated to conform to the current year presentation. These reclassifications and restatements had no effect on previously reported results of operations or retained earnings.

### 3. SIGNIFICANT ACCOUNTING ESTIMATES

Items for which the amount has been recorded in the consolidated financial statements for the year ended March 31, 2021 based on accounting estimates that may have a significant impact on the consolidated financial statements for the year ending March 31, 2022 are as follows:

Deferred tax assets: ¥19,403 million (\$175,260 thousand)

Deferred tax liabilities: (¥47,620 million (\$430,133 thousand))

Net deferred tax assets (liabilities): (¥28,217 million (\$254,873 thousand))

For deferred tax assets, the Companies consider recoverability to estimate the amount to be recorded. In determining recoverability, the Companies consider the probability of realizing estimated future taxable income based on business plans and the probability that deferred tax assets will be utilized to effectively reduce future taxable income.

Estimated future taxable income based on business plans may be affected by variance in uncertain economic conditions in the future. Variance between the estimated and actual amount of taxable income may have a significant impact on the amount of deferred tax assets in the consolidated financial statements for the following fiscal year.

### 4. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29 (revised 2020), March 31, 2020)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30 (revised 2021), March 26, 2021)
- "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19 (revised 2020), March 31, 2020)

#### (1) Outline of changes

IASB and FASB co-developed a new comprehensive revenue recognition standard and published "Revenue from Contracts with Customers" in May 2014 (IFRS No. 15 in IASB, Topic 606 in FASB). Considering IFRS No. 15 will be applied from the fiscal year starting January 1, 2018 and Topic 606 from the fiscal year starting December 15, 2017, the ASBJ developed comprehensive Accounting Standard for Revenue Recognition and published it together with implementation guidance.

The fundamental policy for developing Accounting Standard for Revenue Recognition by the ASBJ was that the accounting standards would incorporate the fundamental policy of IFRS No. 15 as the starting point from the perspective of comparability of financial statements, which is one of the benefits of achieving consistency with IFRS No. 15. If there are matters to be taken into consideration in Japan in actual practice, etc., alternative handling will be added within a range that would not impair financial statement comparability.

#### (2) Date of adoption

The Companies adopt the accounting standards effective from the beginning of the fiscal year ending March 31, 2022.

### (3) The effect of adopting the accounting standard

The Companies are currently assessing the effects of adopting the Accounting Standard for Revenue Recognition on the consolidated financial statements.

- “Accounting Standard for Fair Value Measurement” (Accounting Standards Board of Japan (ASBJ) Statement No. 30, July 4, 2019)
- “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9 (revised 2019), July 4, 2019)
- “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10 (revised 2019), July 4, 2019)
- “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, July 4, 2019)
- “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19 (revised 2020), March 31, 2020)

#### (1) Outline of changes

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) of the United States have issued congruent and detailed guidance regarding fair value measurement (IFRS 13 “Fair Value Measurement” by IFRS and Accounting Standards Codification Topic 820 “Fair Value Measurement” by FASB as a U.S. accounting standard). The Accounting Standards Board of Japan (ASBJ) considered IFRS and FASB guidance, mainly with regard to fair value of financial instruments and disclosure, in order to improve the comparability with such international accounting standards, and issued the Accounting Standard for Fair Value Measurement, the Implementation Guidance on Accounting Standard for Fair Value Measurement and other standards.

The fundamental policy for developing Accounting Standard for Fair Value Measurement by the ASBJ was that the accounting standard would incorporate the fundamental policy of IFRS 13 in its entirety from the perspective of improving the comparability of financial statements by using a uniform method for calculating fair value. In addition, ASBJ took actual practices, etc. in Japan into consideration by allowing for other treatment for specific items within a range that will not materially impair financial statement comparability.

#### (2) Date of adoption

The Companies adopt the accounting standards effective from the beginning of the fiscal year ending March 31, 2022.

#### (3) The effect of adopting the accounting standards

The companies have not yet determined the effect that adopting Accounting Standard for Fair Value Measurement and the other standards will have on the consolidated financial statements.

## 5. FINANCIAL INSTRUMENTS

### (1) Policy for financial instruments

As a matter of policy, the Companies limit fund management to the use of instruments including short-term deposits and raise money by borrowing from financial institutions. The Companies use derivatives to reduce the risk noted in (2), not for speculative transactions.

### (2) Types of financial instruments and related risk

Notes and accounts receivable and other monetary claims on customers and counterparties expose the Companies to customer credit risk.

Securities and investment securities consist primarily of certificates of deposit

and shares of companies with which the Companies do business. Certificates of deposit expose the Companies to the credit risk of issuers. Investment securities expose the Companies to the risk of changes in market prices.

Long-term loans receivable expose the Companies to the credit risk of the borrowers.

Notes and accounts payable-trade are almost entirely due within one year.

Long-term borrowings are to fund capital expenditures.

Convertible bond-type bonds with share acquisition rights are to mainly fund share purchases.

The Companies use derivatives including forward foreign exchange contracts to hedge the risk of exchange rate fluctuations associated with trade payables denominated in foreign currencies.

### (3) Risk management for financial instruments

#### 1) Credit risk management

Credit risk is the risk of default by customers or counterparties. The Companies have procedures for managing receivable balances and due dates by counterparty and for regularly monitoring the financial condition of significant counterparties. The Companies mitigate the risks associated with certificates of deposits in accordance with internal policies and procedures for investments and fund management. The Companies also mitigate the risk of long-term loans receivable in accordance with internal policies and procedures for loans receivable.

#### 2) Market risk management

As for investment securities, market prices of listed equity securities are monitored on a quarterly basis.

#### 3) Liquidity risk associated with funding

Liquidity risk is the risk of being unable to make scheduled payments. The Companies manage liquidity risk by creating and updating a cash management plan based on reports from each of the Companies.

#### (4) Supplemental information on the fair value of financial instruments

The fair value of financial instruments is based on market prices, or a reasonable estimate of fair value when market prices are not available. Estimates of fair value are subject to fluctuation because they employ variable factors and assumptions.

The following table summarizes the book value and the estimated fair values of financial instruments outstanding at March 31, 2021 and 2020. Financial instruments for which fair value is not readily determinable are not included in the following table. Note 2 provides information on financial instruments that are not included as their fair value is not readily determinable.

Millions of yen			
March 31, 2021	Book value	Fair value	Difference
Cash and deposits	¥ 222,748	¥ 222,748	¥ -
Notes and accounts receivable-trade	702,188	702,188	-
Accounts receivable-other	64,589	64,589	-
Securities and investment securities:			
Investment in subsidiaries and affiliates	30,432	117,952	87,520
Available-for-sale securities	163,960	163,960	-
Long-term loans receivable (including portion due within one year)	114	114	-
Total assets	¥1,184,031	¥1,271,551	¥87,520
Notes and accounts payable-trade	¥ 900,015	¥ 900,015	¥ -
Current portion of long-term borrowings	350	349	(1)
Convertible bond-type bonds with share acquisition rights	30,228	31,755	1,527
Total liabilities	¥ 930,593	¥ 932,119	¥ 1,526
Derivatives*	¥ 7	¥ 7	¥ -

Thousands of U.S. dollars (Note 1)			
March 31, 2021	Book value	Fair value	Difference
Cash and deposits	\$ 2,011,995	\$ 2,011,995	\$ -
Notes and accounts receivable-trade	6,342,589	6,342,589	-
Accounts receivable-other	583,407	583,407	-
Securities and investment securities:			
Investment in subsidiaries and affiliates	274,881	1,065,414	790,533
Available-for-sale securities	1,480,986	1,480,986	-
Long-term loans receivable (including portion due within one year)	1,030	1,030	-
Total assets	\$10,694,888	\$11,485,421	\$790,533
Notes and accounts payable-trade	\$ 8,129,482	\$ 8,129,482	\$ -
Current portion of long-term borrowings	3,161	3,152	(9)
Convertible bond-type bonds with share acquisition rights	273,038	286,831	13,793
Total liabilities	\$ 8,405,681	\$ 8,419,465	\$ 13,784
Derivatives*	\$ 63	\$ 63	\$ -

Millions of yen			
March 31, 2020	Book value	Fair value	Difference
Cash and deposits	¥ 207,545	¥ 207,545	¥ -
Notes and accounts receivable-trade	689,144	689,144	-
Accounts receivable-other	65,112	65,112	-
Securities and investment securities:			
Investment in subsidiaries and affiliates	29,729	80,114	50,385
Available-for-sale securities	156,445	156,445	-
Long-term loans receivable (including portion due within one year)	122	122	0
Total assets	¥1,148,097	¥1,198,482	¥50,385
Notes and accounts payable-trade	¥ 883,624	¥ 883,624	¥ -
Current portion of long-term borrowings	3,558	3,557	(1)
Convertible bond-type bonds with share acquisition rights	30,378	31,425	1,047
Long-term borrowings	350	349	(1)
Total liabilities	¥ 917,910	¥ 918,955	¥ 1,045
Derivatives*	¥ 12	¥ 12	¥ -

\* The value of assets and liabilities arising from derivatives is shown at net value. Amounts in parentheses represent net liability.

Note 1: Methods to determine the estimated fair value of financial instruments and other information for securities and derivatives

##### Assets

a. Cash and deposits, notes and accounts receivable-trade, and accounts receivable-other: Book value approximates fair value because of their short settlement period.

b. Securities and investment securities:

As for certificates of deposits, book value approximates fair value because of their short settlement period. The fair value of equity securities is based on quoted market prices.

c. Long-term loans receivable (including current portion):

The fair value of long-term loans receivable is calculated as discounted present value of total principal and interest using assumed interest rates for equivalent new loans.

##### Liabilities

a. Notes and accounts payable-trade:

Book value approximates fair value because of their short settlement period.

b. Current portion of long-term borrowings and long-term borrowings:

The fair value of long-term borrowings is calculated as discounted present value of total principal and interest using assumed interest rates for equivalent new loans.

c. Convertible bond-type bonds with share acquisition rights:

Market value of convertible bond-type bonds with share acquisition rights depends on the price presented by the correspondent financial institutions.

##### Derivatives

Please refer to Note 8. DERIVATIVE TRANSACTIONS of the notes to the consolidated financial statements.

Note 2: Financial instruments for which fair value is not readily determinable at March 31, 2021 and 2020 consisted of the following:

March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Unlisted equity securities	¥29,098	¥28,223	\$262,830

Note 3: The annual maturities of financial assets and investment securities with contractual maturities subsequent to March 31, 2021 and 2020 were as follows:

March 31, 2021	Millions of yen			
	Within one year	After one year through five years	After five years through ten years	After ten years
Cash and deposits	¥ 222,748	¥-	¥-	¥-
Notes and accounts receivable-trade	702,188	-	-	-
Accounts receivable-other	64,589	-	-	-
Securities and investment securities				
Available-for-sale securities with contractual maturities:				
Equity securities	-	-	-	-
Debt securities	-	-	-	-
Other securities	18,770	-	-	-
Long-term loans receivable (including current portion)	1	3	-	110
<b>Total</b>	<b>¥1,008,296</b>	<b>¥3</b>	<b>¥-</b>	<b>¥110</b>

March 31, 2021	Thousands of U.S. dollars (Note 1)			
	Within one year	After one year through five years	After five years through ten years	After ten years
Cash and deposits	\$2,011,995	\$-	\$-	\$-
Notes and accounts receivable-trade	6,342,589	-	-	-
Accounts receivable-other	583,407	-	-	-
Securities and investment securities				
Available-for-sale securities with contractual maturities:				
Equity securities	-	-	-	-
Debt securities	-	-	-	-
Other securities	169,542	-	-	-
Long-term loans receivable (including current portion)	9	27	-	994
<b>Total</b>	<b>\$9,107,542</b>	<b>\$27</b>	<b>\$-</b>	<b>\$994</b>

March 31, 2020	Millions of yen			
	Within one year	After one year through five years	After five years through ten years	After ten years
Cash and deposits	¥207,545	¥-	¥-	¥-
Notes and accounts receivable-trade	689,144	-	-	-
Accounts receivable-other	65,112	-	-	-
Securities and investment securities				
Equity securities	-	-	-	-
Debt securities	-	-	-	-
Other securities	18,770	-	-	-
Long-term loans receivable (including current portion)	6	6	0	110
<b>Total</b>	<b>¥980,577</b>	<b>¥6</b>	<b>¥0</b>	<b>¥110</b>

## 6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2021 and 2020 consisted of the following:

March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Cash and deposits	¥222,748	¥207,545	\$2,011,995
Securities-certificate of deposits	18,770	18,770	169,542
Time deposits with maturities over three months	(1,470)	(1,476)	(13,278)
Other	-	(298)	-
<b>Cash and cash equivalents</b>	<b>¥240,048</b>	<b>¥224,541</b>	<b>\$2,168,259</b>

## 7. INVESTMENT SECURITIES

### (1) Held-to-maturity debt securities

The book value and fair value of held-to-maturity debt securities as of March 31, 2021 and 2020 are not applicable.

### (2) Available-for-sale securities with a fair value

The following tables summarize the acquisition cost and book value of available-for-sale securities with a fair value as of March 31, 2021 and 2020.

Non-listed equity securities, in the amount of ¥6,154 million (\$55,587 thousand) and ¥7,811 million as of March 31, 2021 and 2020, respectively, are not included in the tables below since no readily determinable market price is available and it is extremely difficult to determine their fair value.

March 31, 2021	Millions of yen		
	Book value	Acquisition cost	Difference
Securities whose book value exceeds their acquisition cost:			
Equity securities	¥141,431	¥29,768	¥111,663
Debt securities:			
Government bonds, municipal bonds	-	-	-
Corporate bonds	-	-	-
Other securities	-	-	-
Other securities	-	-	-
	<b>¥141,431</b>	<b>¥29,768</b>	<b>¥111,663</b>
Securities whose book value does not exceed their acquisition cost:			
Equity securities	¥ 3,759	¥ 3,976	¥ (217)
Debt securities:			
Government bonds, municipal bonds	-	-	-
Corporate bonds	-	-	-
Other securities	-	-	-
Other securities	18,770	18,770	-
	<b>¥ 22,529</b>	<b>¥22,746</b>	<b>¥ (217)</b>
<b>Total</b>	<b>¥163,960</b>	<b>¥52,514</b>	<b>¥111,446</b>

				Thousands of U.S. dollars (Note 1)		
March 31, 2021	Book value	Acquisition cost	Difference			
Securities whose book value exceeds their acquisition cost:						
Equity securities	\$ 1,277,491	\$ 268,882	\$ 1,008,609			
Debt securities:						
Government bonds, municipal bonds	-	-	-			
Corporate bonds	-	-	-			
Other securities	-	-	-			
Other securities	-	-	-			
	\$ 1,277,491	\$ 268,882	\$ 1,008,609			
Securities whose book value does not exceed their acquisition cost:						
Equity securities	\$ 33,953	\$ 35,914	\$ (1,961)			
Debt securities:						
Government bonds, municipal bonds	-	-	-			
Corporate bonds	-	-	-			
Other securities	-	-	-			
Other securities	169,542	169,542	-			
	\$ 203,495	\$ 205,456	\$ (1,961)			
Total	\$ 1,480,986	\$ 474,338	\$ 1,006,648			
				Millions of yen		
March 31, 2020	Book value	Acquisition cost	Difference			
Securities whose book value exceeds their acquisition cost:						
Equity securities	¥ 135,758	¥ 33,307	¥ 102,451			
Debt securities:						
Government bonds, municipal bonds	-	-	-			
Corporate bonds	-	-	-			
Other securities	-	-	-			
Other securities	-	-	-			
	¥ 135,758	¥ 33,307	¥ 102,451			
Securities whose book value does not exceed their acquisition cost:						
Equity securities	¥ 1,917	¥ 2,263	¥ (346)			
Debt securities:						
Government bonds, municipal bonds	-	-	-			
Corporate bonds	-	-	-			
Other securities	-	-	-			
Other securities	18,770	18,770	-			
	¥ 20,687	¥ 21,033	¥ (346)			
Total	¥ 156,445	¥ 54,340	¥ 102,105			

### (3) Available-for-sale securities sold during the year

Total sales of available-for-sale securities sold and the related gains and losses for the years ended March 31, 2021 and 2020 are as follows.

Years ended March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Proceeds from sales	¥ 14,660	¥ 1,449	\$ 132,418
Realized gains on sales	10,529	669	95,104
Realized losses on sales	78	6	704

For the years ended March 31, 2021 and 2020, the Companies recognized ¥1,633 million (\$14,750 thousand) and ¥951 million in loss on valuation of investment securities, respectively, of which ¥1,633 million (\$14,750 thousand) and ¥951 million applied to available-for-sale securities, respectively. The Companies recognize impairment of applicable equities as an unrealized loss on devaluation if the market value at the end of the fiscal period is 30% or more below the acquisition cost. The Companies recognize impairment of equities for which fair value is not readily determinable net of amount deemed recoverable if

the net assets per share of the issuer fall 50% or more below the acquisition cost.

### 8. DERIVATIVE TRANSACTIONS

For the years ended March 31, 2021 and 2020, there was no derivative transaction for which the hedge accounting was not applied.

Currency-related transactions for which the hedge accounting was applied for the years ended March 31, 2021 and 2020 were as follows:

Year ended March 31, 2021					Millions of yen	
Accounting method	Type	Hedged item	Notional amount	Fair value		
Allocation method for foreign exchange forwards	Buy: US\$	Accounts payable	¥ 156	¥ 7		
Total			¥ 156	¥ 7		

Year ended March 31, 2021					Thousands of U.S. dollars (Note 1)	
Accounting method	Type	Hedged item	Notional amount	Fair value		
Allocation method for foreign exchange forwards	Buy: US\$	Accounts payable	\$ 1,409	\$ 63		
Total			\$ 1,409	\$ 63		

Year ended March 31, 2020					Millions of yen	
Accounting method	Type	Hedged item	Notional amount	Fair value		
Allocation method for foreign exchange forwards	Buy: US\$	Accounts payable	¥ 1,766	¥ 12		
Total			¥ 1,766	¥ 12		

Note: Calculation of fair value is based on the prices provided by financial institutions.

### 9. IMPAIRMENT LOSS

Accumulated impairment losses are directly written off against the value of each asset based on the relevant rules for consolidated financial statements.

For business-use assets owned by the Companies that are idle, are not expected to be used in the future and have recoverable values less than book value, the Companies write down the book value to the recoverable value, and accounts for the amount of this write-down as an impairment loss in other income (expenses).

The Prescription Pharmaceutical Wholesale Business Segment has established region-based operating classification and groups its assets by region. Assets of the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business Segment and the Animal Health Products and Food Processing Raw Materials Wholesale Business Segment are also grouped by region.

During the year ended March 31, 2021, the Companies recorded impairment loss of non-current assets for the following asset groups:

Application	Type	Location	Thousands of U.S. dollars (Note 1)	
			Millions of yen	U.S. dollars
Idle assets	Land and	Kanto 3 items	¥ 160	\$ 1,445
	Buildings, etc.	Others	11	100
			171	1,545
Business assets	Buildings, etc.	Hokkaido 5 items	1,366	12,339
		Others	14	126
			1,380	12,465
Rental assets	Buildings, etc.	Chugoku 1 item	23	208
		Others	6	54
			29	262
Total			¥ 1,580	\$ 14,272

For the year ended March 31, 2021, the Companies measured the recoverable value of assets using the net sale value. The net sale value is the amount calculated based on the appraised value determined by a real estate appraiser or the value assessed for property tax purposes. The Companies consider the net sale value of an asset, which is deemed to be very difficult to sale or reuse, to be zero.

During the year ended March 31, 2020, the Companies recorded loss on impairment of fixed assets for the following asset groups:

Application	Type	Location	Millions of yen
Idle assets	Land and Buildings, etc.	Kyusyu 2 items	¥293
		Others	52
Business assets	Buildings, etc.	Hokkaido 7 items	462
		Others	21
			483
Rental assets	Land	Kinki 2 items	58
<b>Total</b>			<b>¥886</b>

For the year ended March 31, 2020, the Companies measured the recoverable value of assets using the net sale value. The net sale value is the amount calculated based on the appraised value determined by a real estate appraiser or the value assessed for property tax purposes. The Companies consider the net sale value of an asset, which is deemed to be very difficult to sale or reuse, to be zero.

For the years ended March 31, 2021 and 2020, impairment loss of noncurrent assets totaled ¥1,580 million (\$14,272 thousand) and ¥886 million, respectively, as presented below.

Item	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Buildings and structures	¥1,131	¥343	\$10,216
Land	92	67	831
Other	357	476	3,225
<b>Total</b>	<b>¥1,580</b>	<b>¥886</b>	<b>\$14,272</b>

## 10. LOSS ON REDUCTION OF NON-CURRENT ASSETS

When a company acquires property, plant and equipment with funds from a national or local government subsidy, the transaction is qualified for deferred gain and reduced basis transactions ("Asshuku Kicho"). The accumulated amount of cost reduction as of March 31, 2021 and 2020 were as follows:

Item	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Buildings and structures	¥ 727	¥ 704	\$ 6,567
Machinery and vehicles	359	359	3,243
Land	828	792	7,479
Other	1	0	8
<b>Total</b>	<b>¥1,915</b>	<b>¥1,855</b>	<b>\$17,297</b>

## 11. INVESTMENT AND RENTAL PROPERTY

The Companies own rental office buildings (including land) and idle land in Tokyo and elsewhere. For the years ended March 31, 2021 and 2020, net rent income totaled ¥241 million (\$2,177 thousand) and ¥342 million, respectively. Rent income is included in other income and rent expense is included in other expenses. For the years ended March 31, 2021 and 2020, the Companies recorded impairment loss of investment and rental property of ¥200 million (\$1,807 thousand) and ¥403 million, respectively.

The book value, net change and fair value of investment and rental property as of March 31, 2021 and 2020 were as follows:

	Book value		Fair value at	
	March 31, 2020	Net change	March 31, 2021	March 31, 2021
<b>March 31, 2021</b>				
Investment and rental property	¥10,714	¥(662)	¥10,052	¥19,853

	Thousands of U.S. dollars (Note 1)		Fair value at	
	March 31, 2020	Net change	March 31, 2021	March 31, 2021
<b>March 31, 2021</b>				
Investment and rental property	\$96,775	\$(5,979)	\$90,796	\$179,324

	Book value		Fair value at	
	March 31, 2019	Net change	March 31, 2020	March 31, 2020
March 31, 2020				
Investment and rental property	¥6,223	¥4,491	¥10,714	¥19,443

- Notes: 1. Book value represents the acquisition cost less accumulated depreciation and impairment loss.
2. Net change for the year ended March 31, 2021 mainly consisted of an increase due to renovation in the amount of ¥727 million (\$6,567 thousand) and decreases due to transfer to leased assets in the amount of ¥825 million (\$7,452 thousand) and reclassification to own-use in the amount of ¥302 million (\$2,728 thousand).
- Net change for the year ended March 31, 2020 mainly consisted of an increase due to transfer to investment and rental properties in the amount of ¥4,203 million and a decrease due to sale in the amount of ¥326 million.
3. Fair value of principal properties at March 31, 2021 and 2020 was mainly based on external appraisal values or real-estate tax appraisal values.

## 12. LAND REVALUATION

Under the "Law on Land Revaluation," passed on March 31, 1998 and revised on March 31, 2001, the Company and some consolidated subsidiaries carried out a one-time revaluation of their own-use land to a value based on real estate appraisal information at March 31, 2002.

The resulting land revaluation differences represent unrealized appreciation of land and are accounted for as land revaluation differences, net of taxes in net assets.

### 13. LEASE

#### Lessee

##### (1) Finance lease transactions

The Companies hold leased assets as a lessee under finance lease transactions that do not transfer ownership. Such leased assets are mainly machinery and equipment.

The annual maturities of finance lease obligations at March 31, 2021 were as follows:

Years ended March 31	Average interest rate (%)	Millions of yen	Thousands of U.S. dollars (Note 1)
2021	1.95%	¥1,757	\$15,870
2022	1.02	1,308	11,815
2023	1.02	5,826	52,624
2024	1.02	93	840
2025	1.02	27	244

##### (2) Operating lease transactions

The Companies also enters into operating lease contracts. Future minimum lease payments of non-cancellable operating lease contracts are as follows:

March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Within one year	¥2,295	¥2,316	\$20,730
Over one year	3,444	3,868	31,108
Total	¥5,739	¥6,184	\$51,838

#### Lessor

##### (1) Finance lease transactions

###### 1) Components of investments in leases

Amounts for the year ended March 31, 2020 are not material and are omitted.

###### a. Current assets

March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2021	2021
Gross lease receivables	¥577		\$5,212
Unearned interest income	(40)		(361)
Total	¥537		\$4,851

###### b. Investments and other assets

March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2021	2021
Gross lease receivables	¥3,988		\$36,022
Unearned interest income	(730)		(6,594)
Total	¥3,258		\$29,428

##### 2) The annual maturities of lease investment assets for finance leases at March 31, 2021

###### a. Current assets

Year ended March 31	Millions of yen	Thousands of U.S. dollars (Note 1)
2021	¥577	\$5,212
2022	-	-
2023	-	-
2024	-	-
2025 and thereafter	-	-

###### b. Investments and other assets

Year ended March 31	Millions of yen	Thousands of U.S. dollars (Note 1)
2021	¥ -	\$ -
2022	216	1,951
2023	216	1,951
2024	216	1,951
2025 and thereafter	3,340	30,169

### 14. SHORT-TERM BORROWINGS AND LONG-TERM BORROWINGS

The Company has overdraft facilities with 17 banks in order to support effective financing. The unexecuted balance of overdraft facilities at March 31, 2021 and 2020 was as below.

March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Total overdraft facilities	¥193,000	¥193,000	\$1,743,293
Less amounts currently executed	-	-	-
Unexecuted balance	¥193,000	¥193,000	\$1,743,293

Short-term borrowings including overdraft facilities at March 31, 2021 and 2020 principally bore annual average interest rates of 0.32% and 0.39% per annum, respectively.

Long-term borrowings at March 31, 2021 and 2020 consisted of the following:

March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Borrowings from banks	¥ 350	¥ 3,908	\$ 3,161
	¥ 350	¥ 3,908	\$ 3,161
Less current portion	(350)	(3,558)	(3,161)
Amount due after one year	¥ -	¥ 350	\$ -

The annual maturities of long-term borrowings at March 31, 2021 were as follows:

Years ended March 31	Average interest rate (%)	Millions of yen	Thousands of U.S. dollars (Note 1)
2021	0.32%	¥350	\$3,161
2022	-	-	-
2023	-	-	-
2024	-	-	-
2025 and thereafter	-	-	-

## 15. BONDS PAYABLE

The Company has issued convertible bond-type bonds with share acquisition rights.

Company	MEDIPAL HOLDINGS CORPORATION	
Description	Euro-yen convertible bond-type bonds with share acquisition rights due 2022	
Date of Issuance	October 10, 2017	
Maturity	October 7, 2022	
	Millions of yen	Thousands of U.S. dollars (Note 1)
Balance at beginning of period	¥30,378	\$274,393
Balance at end of period	30,228	273,038
Interest rate (%)	-	-
Collateral	None	None
Total	¥30,228	\$273,038

### (1) Details of convertible bond-type bonds with share acquisition rights

Type of stock to be issued upon exercise of the share acquisition rights	Common stock	
	Yen	U.S. dollars (Note 1)
Issue price of the share acquisition rights	-	-
Issue price of the shares*2	¥2,290	\$20,685
	Millions of yen	Thousands of U.S. dollars (Note 1)
Total issue price	¥30,750	\$277,753
Upon exercise of the share acquisition rights, total issue price to be issued common stock	-	-
Ratio (%)	100	100
Exercise period of the share acquisition rights	From October 24, 2017 To September 23, 2022	
Substitutive deposits	*1	

\*1 Upon the exercise of the share acquisition rights, the bonds attached with the relevant share acquisition rights are contributed.

\*2 The conversion price has been adjusted to ¥2,279.3 effective April 1, 2021 in accordance with the terms and conditions of the Euro-yen convertible bond-type bonds with share acquisition rights due 2022, with the Board of Directors held on May 13, 2021 approved a plan to pay year-end dividend of ¥21 yen per share, which resulted in an annual dividend of ¥42 per share for the fiscal year ended March 31, 2021.

### (2) Redemption schedule of bonds for 5 years subsequent to March 31, 2021

Years ended March 31	Millions of yen	Thousands of U.S. dollars (Note 1)
2021	-	-
2022	¥30,228	\$273,038
2023	-	-
2024	-	-
2025	-	-

## 16. EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

### (1) Overview of retirement benefit plan

The Companies use a contract-type corporate pension plan and an unfunded lump-sum retirement benefit plan as a defined benefit plan system, and a defined contribution pension plan as a defined contribution plan system. In addition, the Companies may pay a premium severance payment when employees retire. The Companies, except for a few, join in the multiemployer pension fund plans. Of which, the plan, for which the amount of plan assets attributable to the Company's contributions cannot be reasonably determined, is accounted for in the same manner as for a defined contribution pension plan.

Certain consolidated subsidiaries apply the simplified method to calculate net defined benefit liability and retirement benefit expenses. Under the simplified method, the amount of benefits payable to be accrued for the voluntary retirement of all employees at fiscal period end is used as the amount of projected benefit obligations.

### (2) Defined benefit plans

(Excluding the plans accounted for using the simplified method)

#### 1) Movement in projected benefit obligations

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Balance at beginning of period	¥43,889	¥45,121	\$396,432
Service cost	2,658	2,749	24,009
Interest cost	40	41	361
Actuarial difference	(306)	(266)	(2,764)
Benefits paid	(5,978)	(3,756)	(53,997)
Balance at end of period	¥40,303	¥43,889	\$364,041

#### 2) Movement in plan assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Balance at beginning of period	¥29,220	¥30,818	\$263,933
Expected return on plan assets	492	520	4,444
Actuarial difference	2,883	(1,241)	26,041
Contribution paid by the employer	1,135	1,170	10,252
Benefits paid	(2,200)	(2,047)	(19,872)
Balance at end of period	¥31,530	¥29,220	\$284,798

#### 3) Reconciliation from projected benefit obligations and plan assets to net defined benefit liability and asset

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Funded projected benefit obligations	¥24,066	¥24,879	\$217,379
Unfunded projected benefit obligations	16,237	19,010	146,662
Plan assets	(31,530)	(29,220)	(284,798)
Net amount of liability and asset recognized in the consolidated balance sheet	¥ 8,773	¥14,669	\$ 79,243
Net defined benefit liability	¥16,228	¥19,001	\$146,581
Net defined benefit asset	(7,455)	(4,332)	(67,338)
Net amount of liability and asset recognized in the consolidated balance sheet	¥ 8,773	¥14,669	\$ 79,243

#### 4) Retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Service cost	¥2,658	¥2,749	\$24,009
Interest cost	40	41	361
Expected return on plan assets	(492)	(520)	(4,444)
Amortization of actuarial difference	(176)	385	(1,590)
Amortization of prior service costs	-	-	-
Other	202	144	1,825
Retirement benefit expenses	¥2,232	¥2,799	\$20,161

Notes: For the year ended March 31, 2021, in addition to retirement benefit expenses above, the Companies recognized extra retirement payments of ¥10,776 million (\$97,335 thousand) in other expenses.



### 5) Remeasurements of defined benefit plans in other comprehensive income

The components of remeasurements of defined benefit plans (before income tax effect) in other comprehensive income were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Prior service cost	¥ -	¥ -	\$ -
Actuarial difference	3,014	(590)	27,224
<b>Total</b>	<b>¥3,014</b>	<b>¥(590)</b>	<b>\$27,224</b>

### 6) Remeasurements of defined benefit plans in accumulated other comprehensive income

The components of remeasurements of defined benefit plans (before income tax effect) in accumulated other comprehensive income were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Unrecognized prior service costs	¥ -	¥ -	\$ -
Unrecognized actuarial difference	1,549	(1,464)	13,992
<b>Total</b>	<b>¥1,549</b>	<b>¥(1,464)</b>	<b>\$13,992</b>

### 7) Plan assets

#### a. Components of plan assets

Percentage by major category of plan assets was as follows:

	2021	2020
Debt securities	46%	44%
Equity securities	27	21
Alternative investments (Note)	10	18
Life insurance general accounts	11	13
Other	6	4
<b>Total</b>	<b>100%</b>	<b>100%</b>

Note: Alternative investments mainly included investments in hedge funds.

#### b. Calculation of long-term expected rate of return on plan assets

In determining the long-term expected rate of return on plan assets, the current and projected allocations and the long-term rate of returns on various categories of plan assets have been considered.

### 8) Actuarial assumptions

The major actuarial assumptions were as follows:

	2021	2020
Discount rate	0.0 to 0.9%	0.0 to 0.9%
Long-term expected rate of return on plan assets	0.2 to 2.0%	0.2 to 2.0%

### (3) Defined benefit plans accounted for using the simplified method

#### 1) Movement in net defined benefit liability for the plans accounted for using the simplified method

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Balance at beginning of period	¥219	¥217	\$1,978
Retirement benefit expenses	19	21	172
Benefits paid	(19)	(19)	(172)
Contribution to the plans	-	-	-
Increase due to new consolidated subsidiaries	-	-	-
<b>Balance at end of period</b>	<b>¥219</b>	<b>¥219</b>	<b>\$1,978</b>

#### 2) Reconciliation from projected benefit obligations and plan assets to net defined benefit liability and asset

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Funded projected benefit obligations	¥ -	¥ -	\$ -
Unfunded projected benefit obligations	219	219	1,978
Plan assets	-	-	-
Net amount of liability and asset recognized in the consolidated balance sheet	¥219	¥219	\$1,978
Net defined benefit liability	¥219	¥219	\$1,978
Net amount of liability and asset recognized in the consolidated balance sheet	¥219	¥219	\$1,978

#### 3) Retirement benefit expenses

Retirement benefit expenses calculated using the simplified method were ¥19 million (\$172 thousand) and ¥21 million for the years ended March 31, 2021 and 2020, respectively.

#### (4) Defined contribution pension plans

The amount to be paid by the Companies to the defined contribution pension plans was ¥889 million (\$8,030 thousand) and ¥927 million for the years ended March 31, 2021 and 2020, respectively.

**(5) Funded status of the multiemployer employees' pension fund plans**

1) The amount to be paid by the Companies to the multiemployer employees' pension fund plans was ¥977 million (\$8,825 thousand) and ¥975 million for the years ended March 31, 2021 and 2020, respectively.

The funded status of these plans at March 31, 2021 and 2020 was as follows:

2021	Millions of yen	
	Tokyo Pharmaceutical Corporate Pension Fund	Other
Plan assets	¥151,134	¥ 81,211
Total of actuarial obligation and minimum actuarial reserve	150,361	102,699
Funded (unfunded) employees' retirement benefits	¥ 773	¥(21,488)

2021	Thousands of U.S. dollars (Note 1)	
	Tokyo Pharmaceutical Corporate Pension Fund	Other
Plan assets	\$ 1,365,134	\$ 733,547
Total of actuarial obligation and minimum actuarial reserve	1,358,152	927,640
Funded (unfunded) employees' retirement benefits	\$ 6,982	\$(194,093)

2020	Millions of yen	
	Tokyo Pharmaceutical Corporate Pension Fund	Other
Plan assets	¥157,064	¥ 85,616
Total of actuarial obligation and minimum actuarial reserve	151,841	103,743
Funded (unfunded) employees' retirement benefits	¥ 5,223	¥(18,127)

**2) Percentage of plan assets ascribable to contributions by the Companies**

The percentage of the assets of each of these plans ascribable to contributions by the Companies at March 31, 2021 and 2020 was as follows:

	2021	2020
Tokyo Pharmaceutical Corporate Pension Fund	14.0%	12.1%
Other	8.8	9.3

**17. PLEDGED ASSETS**

The following assets were pledged as collateral as of March 31, 2021 and 2020.

Years ended March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Cash and deposits	¥860	¥860	\$7,768

The liabilities associated with the pledged assets as of March 31, 2021 and 2020 were as follows:

March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Notes and accounts payable-trade	¥20,598	¥22,575	\$186,054

**18. CONTINGENT LIABILITIES**

The Companies were contingently liable as guarantors for loans of unconsolidated subsidiaries, associates and others in the amount of ¥1,807 million (\$16,322 thousand) and ¥2,269 million at March 31, 2021 and 2020, respectively.

**19. NET ASSETS**

Under the Japanese Companies Act, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Japanese Companies Act, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and the legal earnings reserve must be set aside as additional paid-in capital or a legal earnings reserve. The legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Japanese Companies Act, the legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit, or could be capitalized by a resolution of the shareholders' meeting.

Additional paid-in capital and the legal earnings reserve may not be distributed as dividends. Under the Japanese Companies Act, however, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Japanese Companies Act.

At the Board of Directors meeting held on May 13, 2021, cash dividends amounting to ¥4,409 million (\$39,825 thousand) were approved. Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2021.

**20. INCOME TAXES**

Income taxes in the accompanying consolidated statements of income comprise corporation, enterprise and inhabitants' taxes. The aggregated statutory tax rates was approximately 30.6% for the years ended March 31, 2020.

The reconciliation for the year ended March 31, 2021 is not presented because the difference between the statutory tax rate and the effective tax rate was less than or equal to 5%.

The reconciliation between the statutory tax rate and the effective tax rate of the Companies for financial statement purposes for the years ended March 31, 2020 was as follows:

Year ended March 31	2020
Statutory tax rate	30.6%
Permanent differences (Non-deductible expenses and non-taxable income)	(22.6)
Per capita inhabitant taxes	0.5
Valuation allowance	(0.2)
Effects of consolidated eliminations	22.6
Equity in earnings of affiliates	(1.2)
Other, net	2.5
Effective tax rate	32.2%

Significant components of the deferred tax assets and liabilities of the Companies at March 31, 2021 and 2020 were as follows:

March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
<b>Deferred tax assets:</b>			
Allowance for doubtful accounts	¥ 411	¥ 477	\$ 3,712
Impairment loss	1,932	1,492	17,451
Loss on valuation of investment securities	2,122	1,738	19,167
Accrued enterprise taxes	651	1,045	5,880
Provision for bonuses	2,318	2,819	20,938
Net defined benefit liability	5,479	6,398	49,490
Tax loss carry forward	1,163	554	10,505
Business investments	3,176	2,448	28,688
Other	6,597	6,787	59,588
Subtotal	23,849	23,758	215,419
Valuation allowance	(4,446)	(4,120)	(40,159)
<b>Total deferred tax assets</b>	<b>¥ 19,403</b>	<b>¥ 19,638</b>	<b>\$ 175,260</b>
<b>Deferred tax liabilities:</b>			
Reserve for advanced depreciation of non-current assets	(5,289)	(5,349)	(47,773)
Valuation difference on available-for-sale securities	(34,713)	(32,035)	(313,549)
Other	(7,618)	(6,306)	(68,811)
<b>Total deferred tax liabilities</b>	<b>¥(47,620)</b>	<b>¥(43,690)</b>	<b>\$ (430,133)</b>
<b>Net deferred tax liabilities</b>	<b>¥(28,217)</b>	<b>¥(24,052)</b>	<b>\$ (254,873)</b>

## 21. OTHER COMPREHENSIVE INCOME

Amounts reclassified to net income (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and tax effects for each component of other comprehensive income were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
<b>Valuation difference on available-for-sale securities:</b>			
Increase during the year	¥ 20,073	¥ 4,788	\$ 181,312
Reclassification adjustments	(10,504)	(359)	(94,879)
Amount before income tax effect	9,569	4,429	86,433
Tax effect	(2,951)	(1,418)	(26,655)
Sub-total, net of tax	6,618	3,011	59,778
<b>Deferred gains or losses on hedges:</b>			
Increase (decrease) during the year	7	12	63
Adjustments of acquisition cost of assets	(12)	(7)	(108)
Amount before income tax effect	(5)	5	(45)
Tax effect	2	(2)	18
Sub-total, net of tax	(3)	3	(27)
<b>Remeasurements of defined benefit plans:</b>			
Increase (decrease) during the year	3,190	(975)	28,814
Reclassification adjustments	(176)	385	(1,590)
Amount before income tax effect	3,014	(590)	27,224
Tax effect	(1,010)	208	(9,123)
Sub-total, net of tax	2,004	(382)	18,101
<b>Share of other comprehensive income of entities accounted for using equity method</b>			
Increase (decrease) during the year	345	(308)	3,116
<b>Total other comprehensive income</b>	<b>¥ 8,964</b>	<b>¥ 2,324</b>	<b>\$ 80,968</b>

## 22. SEGMENT INFORMATION

### (1) General information about reportable segments

The Company's reportable segments are components of the Company for which separate financial information is available, and whose operating results are reviewed regularly by the Board of Directors in order to determine allocation of resources to segments and assess segment performance.

The Company is aiming to create a new, customer-oriented business model, and therefore has three reportable segments by customer: the Prescription Pharmaceutical Wholesale Business; the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business; and the Animal Health Products and Food Processing Raw Materials Wholesale Business.

The Prescription Pharmaceutical Wholesale Business conducts wholesale business for hospitals, clinics, dispensing pharmacies and other customers.

The Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business conducts wholesale business for drugstores, home centers, convenience stores, supermarkets and other customers. The Animal Health Products and Food Processing Raw Materials Wholesale Business conduct wholesale business for animal hospitals, livestock or fisheries vendors, food processing manufactures and other customers.

### (2) Basis of measurement for reported segment profit or loss, segment assets, segment liabilities and other material items

The accounting methods for the reported business segments are generally the same as those in 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

Segment profit corresponds to the operating profit of the consolidated statements of income. Intersegment sales and transfer prices are based on market prices.

### (3) Information about reported segment profit or loss, segment assets, segment liabilities and other material items

Segment information as of and for the fiscal year ended March 31, 2021 was as follows:

Year ended March 31 2021	Millions of yen					
	Prescription Pharmaceutical Wholesale Business	Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business	Animal Health Products and Food Processing Raw Materials Wholesale Business	Total	Adjustments (Note 1)	Consolidated (Note 2)
<b>Net sales:</b>						
(1) Sales to outside customers	¥2,109,055	¥1,032,927	¥69,143	¥3,211,125	¥ -	¥3,211,125
(2) Intersegment sales and transfers	3,400	349	3	3,752	(3,752)	-
<b>Total sales</b>	<b>2,112,455</b>	<b>1,033,276</b>	<b>69,146</b>	<b>3,214,877</b>	<b>(3,752)</b>	<b>3,211,125</b>
<b>Segment profit (Operating profit) ¥</b>	<b>10,523</b>	<b>¥ 25,475</b>	<b>¥ 2,309</b>	<b>¥ 38,307</b>	<b>¥ 269</b>	<b>¥ 38,576</b>
<b>Segment assets</b>	<b>¥1,143,993</b>	<b>¥ 431,466</b>	<b>¥26,338</b>	<b>¥1,601,797</b>	<b>¥78,138</b>	<b>¥1,679,935</b>
<b>Other</b>						
Depreciation	¥ 8,326	¥ 5,640	¥ 244	¥ 14,210	¥ 94	¥ 14,304
Amortization of goodwill	255	69	-	324	-	324
Investment in affiliates accounted for using the equity method	56,925	-	-	56,925	-	56,925
Capital expenditures	10,699	5,353	89	16,141	1	16,142

Thousands of U.S. dollars (Note 1)						
Year ended	Prescription Pharmaceutical Wholesale Business	Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business	Animal Health Products and Food Processing Raw Materials Wholesale Business	Total	Adjustments (Note 1)	Consolidated (Note 2)
March 31 2021						
Net sales:						
(1) Sales to outside customers	\$ 19,050,266	\$ 9,330,025	\$ 624,542	\$ 29,004,833	\$ -	\$ 29,004,833
(2) Intersegment sales and transfers	30,711	3,152	27	33,890	(33,890)	-
Total sales	19,080,977	9,333,177	624,569	29,038,723	(33,890)	29,004,833
Segment profit (Operating profit)	\$ 95,050	\$ 230,106	\$ 20,856	\$ 346,012	\$ 2,430	\$ 348,442
Segment assets	\$ 10,333,240	\$ 3,897,263	\$ 237,901	\$ 14,468,404	\$ 705,790	\$ 15,174,194
Other						
Depreciation	\$ 75,205	\$ 50,944	\$ 2,204	\$ 128,353	\$ 849	\$ 129,202
Amortization of goodwill	2,304	623	-	2,927	-	2,927
Investment in affiliates accounted for using the equity method	514,181	-	-	514,181	-	514,181
Capital expenditures	96,640	48,351	804	145,795	9	145,804

## Notes:

## 1. Adjustments were as follows:

- (1) The ¥3,752 million (\$3,890 thousand) adjustment of net sales represents elimination of intersegment transactions.
- (2) The ¥269 million (\$2,430 thousand) adjustment of segment profit represents elimination of intersegment transactions of ¥2,736 million (\$24,713 thousand), minus corporate expenses of ¥2,467 million (\$22,283 thousand) that are not allocated to reportable segments.
- (3) The ¥78,138 million (\$705,790 thousand) adjustment of segment assets represents corporate assets of ¥80,706 million (\$728,986 thousand) that are not allocated to reportable segments, minus elimination of intersegment transactions of ¥2,568 million (\$23,196 thousand).
- (4) The ¥94 million (\$849 thousand) adjustment of depreciation represents corporate depreciation expenses that are not allocated to reportable segments.
- (5) The ¥1 million (\$9 thousand) adjustment of capital expenditures represents corporate assets that are not allocated to reportable segments.

## 2. Segment profit is adjusted to operating profit as reported in the consolidated statements of income.

Segment information as of and for the fiscal year ended March 31, 2020 was as follows:

Millions of yen						
Year ended	Prescription Pharmaceutical Wholesale Business	Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business	Animal Health Products and Food Processing Raw Materials Wholesale Business	Total	Adjustments (Note 1)	Consolidated (Note 2)
March 31 2020						
Net sales:						
(1) Sales to outside customers	¥2,138,687	¥1,045,991	¥68,401	¥3,253,079	¥ -	¥3,253,079
(2) Intersegment sales and transfers	3,141	422	4	3,567	(3,567)	-
Total sales	2,141,828	1,046,413	68,405	3,256,646	(3,567)	3,253,079
Segment profit (Operating profit)	¥ 26,055	¥ 24,681	¥ 1,979	¥ 52,715	¥ 395	¥ 53,110
Segment assets	¥1,143,160	¥ 413,817	¥25,211	¥1,582,188	¥62,091	¥1,644,279
Other						
Depreciation	¥ 8,642	¥ 5,058	¥ 247	¥ 13,947	¥ 149	¥ 14,096
Amortization of goodwill	255	138	63	456	-	456
Investment in affiliates accounted for using the equity method	53,909	-	-	53,909	-	53,909
Capital expenditures	10,333	18,792	168	29,293	29	29,322

## Notes:

## 1. Adjustments were as follows:

- (1) The ¥3,567 million adjustment of net sales represents elimination of intersegment transactions.
- (2) The ¥395 million adjustment of segment profit represents elimination of intersegment transactions of ¥2,704 million, minus corporate expenses of ¥2,309 million that are not allocated to reportable segments.
- (3) The ¥62,091 million adjustment of segment assets represents corporate assets of ¥66,247 million that are not allocated to reportable segments, minus elimination of intersegment transactions of ¥4,156 million.
- (4) The ¥149 million adjustment of depreciation represents corporate depreciation expenses that are not allocated to reportable segments.
- (5) The ¥29 million adjustment of capital expenditures represents corporate assets that are not allocated to reportable segments.

## 2. Segment profit is adjusted to operating profit as reported in the consolidated statements of income.

**(4) Information related to reportable segments****1) Information about products and services**

The information about products and services is included in (3) Information about reported segment profit or loss, segment assets, segment liabilities and other material items.

**2) Information about geographic areas****a. Net sales**

Information about net sales was not shown since sales to outside customers in Japan were more than 90% of net sales presented in the consolidated statements of income.

**b. Property, plant and equipment**

Information about property, plant and equipment was not shown since there are no property, plant and equipment outside Japan.

**3) Information about major customers**

Information about major customers was not shown since net sales to any single customer were less than 10% of the amount of net sales presented in the consolidated statements of income.

**(5) Information on impairment loss of non-current assets  
by reportable segment**

Millions of yen					
Year ended March 31, 2021	Prescription Pharmaceutical Wholesale Business	Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business	Animal Health Products and Food Processing Raw Materials Wholesale Business	Eliminations and Corporate	Total
Impairment loss of non-current assets	¥1,580	¥-	¥-	¥-	¥1,580

Thousands of U.S. Dollars (Note 1)					
Year ended March 31, 2021	Prescription Pharmaceutical Wholesale Business	Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business	Animal Health Products and Food Processing Raw Materials Wholesale Business	Eliminations and Corporate	Total
Impairment loss of non-current assets	\$14,272	\$-	\$-	\$-	\$14,272

Millions of yen					
Year ended March 31, 2020	Prescription Pharmaceutical Wholesale Business	Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business	Animal Health Products and Food Processing Raw Materials Wholesale Business	Eliminations and Corporate	Total
Impairment loss of non-current assets	¥856	¥18	¥12	¥-	¥886

**(6) Information on amortization of goodwill and unamortized balance by  
reportable segment**

Millions of yen					
Year ended March 31, 2021	Prescription Pharmaceutical Wholesale Business	Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business	Animal Health Products and Food Processing Raw Materials Wholesale Business	Eliminations and Corporate	Total
Amortization of goodwill	¥255	¥69	¥-	¥-	¥324
Unamortized balance	860	-	-	-	860

Thousands of U.S. dollars (Note 1)					
Year ended March 31, 2021	Prescription Pharmaceutical Wholesale Business	Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business	Animal Health Products and Food Processing Raw Materials Wholesale Business	Eliminations and Corporate	Total
Amortization of goodwill	\$2,304	\$623	\$-	\$-	\$2,927
Unamortized balance	7,768	-	-	-	7,768

Millions of yen					
Year ended March 31, 2020	Prescription Pharmaceutical Wholesale Business	Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business	Animal Health Products and Food Processing Raw Materials Wholesale Business	Eliminations and Corporate	Total
Amortization of goodwill	¥ 255	¥138	¥63	¥-	¥ 456
Unamortized balance	1,115	69	-	-	1,184

**23. TRANSACTIONS WITH RELATED PARTIES**

Transactions between the Companies and a principal shareholder of the Company which owned more than a 10% interest for the years ended March 31, 2021 and 2020 are not applicable.

**24. SUBSEQUENT EVENTS**

**CASH DIVIDENDS**

On May 13, 2021 the Board of Directors approved the payment of a cash dividend of ¥21.00 (\$0.190) per share to shareholders of record at March 31, 2021, for a total payment of ¥4,409 million (\$39,825 thousand).

# Independent Auditor's Report

## Independent auditor's report

**To the Board of Directors of MEDIPAL HOLDINGS CORPORATION:**

### Opinion

We have audited the accompanying consolidated financial statements of MEDIPAL HOLDINGS CORPORATION (“the Company”) and its consolidated subsidiaries (collectively referred to as “the Group”), which comprise the consolidated balance sheets as at March 31, 2021 and 2020, the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years 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 our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Appropriateness of the amount of allowances recognized in the Prescription Pharmaceutical Wholesale Business

The key audit matter	How the matter was addressed in our audit
<p>Allowances were deducted from cost of sales of ¥1,988,921 million related to the Prescription Pharmaceutical Wholesale Business recognized in the consolidated statements of income of the Company and its consolidated subsidiaries. Also, outstanding allowances of ¥19,675 million were deducted from notes and accounts payable – trade of ¥900,014 million recognized in the consolidated balance sheets.</p> <p>There is a transaction practice to substantially reduce the purchase price when trading with pharmaceutical companies that supply prescription pharmaceuticals (“vendors”). Allowances are recognized as a deduction from cost of sales upon agreement with vendors.</p> <p>Allowances are recognized upon agreement with vendors based on various contract terms and the number of transactions is huge. Accordingly, incorrect amounts of allowances may have been recognized, which were not agreed by both parties. Particularly, there is a relatively high risk that incorrect amounts could be recognized for some transactions since outstanding allowances at the end of the current fiscal year were not conclusively examined through settlements. In addition, as the gross margin ratio in the prescription pharmaceutical wholesaling transactions are low due to the effects of the social security system and medical policies, allowances have a significant effect on the performance and financial condition of the Prescription Pharmaceutical Wholesale Business.</p> <p>We, therefore, determined that our assessment of the appropriateness of the amount of allowances recognized in the Prescription Pharmaceutical Wholesale Business was of the most significance in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.</p>	<p>The primary procedures we performed to assess the appropriateness of the amount of allowances recognized in the Prescription Pharmaceutical Wholesale Business included the following:</p> <p>(1) Internal control testing</p> <p>We tested the design and operating effectiveness of certain of the Company’s internal controls to recognize allowances. In the assessment, we focused particularly on the controls to detect recognition of allowances inadequately agreed with vendors or those not agreed with vendors.</p> <p>(2) Assessment of the appropriateness of the amount of allowances recognized by the Company</p> <p>The primary procedures we performed to assess the appropriateness of the amount of allowances recognized by the Company with a particular focus on outstanding allowances at the end of the consolidated fiscal year included the following:</p> <ul style="list-style-type: none"> <li>● obtained accounts receivable confirmations related to outstanding allowances directly from vendors that meet the following conditions as of the end of the fiscal year and compared them with the book balances: <ul style="list-style-type: none"> <li>▪ vendors of which outstanding allowances accounted for a large portion of the total outstanding balances considering materiality; and</li> <li>▪ vendors of which allowance turnover days varied from the past results over a certain level (excluding balances of which amounts are immaterial);</li> </ul> </li> <li>● compared outstanding balances of vendors other than the above that varied from those at the end of the previous fiscal year over a certain threshold with the letter of agreement (excluding balances of which amounts are immaterial).</li> </ul>

## Responsibilities of Management and Corporate Auditors and the Board of Corporate Auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Corporate auditors and the board of corporate auditors are responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. 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 our 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. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express 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 whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, 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.
- 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 corporate auditors and the board of corporate auditors regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide corporate auditors and the board of corporate auditors with a statement that we have complied with relevant ethical requirements regarding independence, and 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 corporate auditors and the board of corporate auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

## Interest required to be disclosed by the Certified Public Accountants Act of Japan

We 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.

Katsunori Tsukahara

Designated Engagement Partner

Certified Public Accountant

Mikuriya Kentaro

Designated Engagement Partner

Certified Public Accountant

Junichi Kimura

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Tokyo Office, Japan

July 29, 2021

### **Notes to the Reader of Independent Auditor's Report:**

This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.