The Mentholatum Company Limited

Annual report and financial statements

Registered number 00197071

29 February 2020

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Directors and advisers

Directors	S Hossenlopp RWO Yateman M A Misztak C M Brown L McColgan M Saito
Secretary	L McColgan
Auditor	Ernst & Young LLP G1 Building 5 George Square Glasgow G2 1DY
Registered office	Tricor Suite 4th Floor 50 Mark Lane London EC3R 7QR
Bankers	Barclays Bank PLC Aurora 1st Floor 120 Bothwell Street Glasgow G2 7JT

Strategic report

The directors present their Strategic report for the year ended 29 February 2020.

Principal activities

The company's core activities during the year continued to be the manufacture and supply of pharmaceutical and other consumer healthcare products. Mentholatum specialises in family healthcare, producing the UK's No. 1 selling pain relief heat and freeze brands, helping people manage muscular and joint pain.

Review of business and future prospects

Situated in East Kilbride, Scotland, The Mentholatum Company Ltd specialises in the manufacture and supply of high quality healthcare products. From this site it manufactures and markets its products for sale in the UK, Europe, Africa and the Middle East. It is an acknowledged leader in the sale of topical pain relief products, in particular the iconic Deep Heat and Deep Freeze brands. In addition, it produces Deep Relief, and non-medicinal products such as Muscle Rescue and Regenovex.

Innovation is at the heart of what it does. As an industry leader which truly understands the everyday needs of its consumers, Mentholatum continually improves its products to fulfil its regulatory obligations and achieve the highest standards of quality. The company's research and development team of health scientists constantly investigates new ingredients and formulations to enhance performance, helping to keep people healthy and active throughout all stages of life. It continues to invest in R&D and the directors regard such investment as necessary for the continued success of the business, in both the medium and long term.

The company has achieved another satisfactory result for the year to 29 February 2020, against increasingly challenging competitive and trading environments. Turnover increased by £2.9 million from £32.3 million in 2019 to £35.2 million in the year to 29 February 2020. This 8.8% growth against the prior year is especially pleasing to report as it is spread across multiple regions and arises at a time of uncertainty due to Brexit and other regulatory changes.

The company's key measurement of effectiveness of its operations are Gross Margin and Operating Income. Gross Profit increased from £16.0 million in 2019 to £17.5 million in 2020 whilst Gross Margin increased from 49.4% to 49.6% in the same period. The main contributors to this performance were improved factory efficiencies and less raw material price volatility. Operating profit increased from £2.6 million (8.1%) in the previous year to £3.0 million (8.4%).

The business remains strong and a significant capital investment programme, to expand capabilities and improve efficiencies, was undertaken during the financial year. The benefits of this are evident in the improved financial performance but are also essential for continued regulatory compliance.

Other financial performance indicators:

	2020	2019	Measure
Financial			
Return on capital	**13%**	13%	Profit before tax/net assets
Current ratio	**3.17**	3.09	Current assets: current liabilities
Stock turnover	**2.80**	2.55	Cost of sales/average stock
Sales per employee (£000)	**342**	320	Turnover/average number of employees
Operating profit per employee (£000)	**29**	26	Operating profit/average number of employees

Key non-financial performance indicators include the monitoring of our employees' health and safety in addition to the company's environmental impact and energy consumption.

Non-financial			
Lost time accidents	**nil**	1	Reportable accidents

Strategic report *(continued)*

Principal risks and uncertainties

The principal risks and uncertainties affecting the business include the following:

- Covid-19 pandemic: As a result of Covid-19, a period of disruption and uncertainty is being experienced and the Company is focused on mitigating the impact that the pandemic is likely to have over the coming months. We entered this period of disruption with an established and diversified customer and product base, a cash generative model and a strong balance sheet following a successful 2019-20. Mitigating the unfavourable impacts caused by Covid-19 will require the business to adapt to new ways of working in order to keep our employees safe whilst managing to ensure continuity of supply to our customers. We will focus on operating efficiently within the constraints placed upon us, whilst taking all necessary measures to protect our colleagues and the sustainability of our products through this unprecedented event.
- Brexit: the result of the UK's decision to leave the European Union will have an impact on the business. During this transition period, the Company continues to monitor and assess the impact of various scenarios in relation to Brexit. We have sufficient coverage in our supply chain and inventory arrangements to withstand significant delays and honour any outstanding customer commitments and are working closely with our distributors to ensure continuity of supply into the EU, including in event of there being no trade deal with the EU by the end of the transition period. We have reviewed our critical suppliers, where goods are sourced from outside the UK, to ensure that arrangements are in place in the event of adverse changes to trade arrangements. We have analysed the number of EU employees within the business and consider the potential impact to be minimal.
- Raw material availability and prices: the company monitors raw material sources on a global basis and negotiates forward purchase contracts, where appropriate, with key suppliers. Continuity of supply is essential to the continuous operations of the business and the company seeks to second-source all of its key raw material and packaging components.
- The effect of legislation or other regulatory activities: the company monitors forthcoming and current legislation regularly. All appropriate measures are taken to protect the company's intellectual property rights and to minimise the risk of infringement of third party rights.
- Debtors: the company is exposed to the risk of default by its trade debtors. The directors manage this risk through maintaining strong relationships with each of its key customers, establishing rigorous credit control processes and ongoing monitoring of trade debtors to identify any bad debt exposure. Appropriate credit terms are agreed with all customers and these are closely managed. In addition, the company maintains credit insurance for its export businesses in Europe, Africa and the Middle East, whereby the majority of outstanding debts are insured.
- Major disruption/disaster: business continuity planning is reviewed regularly.
- Competitive risk: the company operates in highly competitive markets. Product innovations or technical advances by competitors could adversely affect the company. The diversity of operations reduces the magnitude of any negative effect on Mentholatum arising from action by any single competitor.

On behalf of the board

Linda McColgan

L McColgan
Director

1 Redwood Avenue
Peel Park Campus
East Kilbride
Glasgow
G74 5PE

30 June 2020

Directors' report

The directors present their annual report and audited financial statements of The Mentholatum Company Ltd for the year ended 29 February 2020.

Results and dividends

The profit for the year after taxation amounted to £2,249,000 *(2019: £1,965,000)*. A dividend of £nil was paid during the year *(2019: £nil)*. The directors do not recommend the payment of a final dividend.

Directors

The directors who held office during the year, and up to the date of this report, are as follows:

RWO Yateman
S Hossenlopp
MA Misztak
CM Brown
L McColgan
M Saito

During the year, the company maintained liability insurance for its directors.

The directors retiring by rotation are L McColgan and S Hossenlopp who, being eligible, offer themselves for re-election.

Financial instruments

The company's policy is to minimise the use of complex financial instruments.

Research and development

The company has a commitment to organic growth necessitating a focused development programme of new products and commercial claims. Resources will continue to be enhanced and systems improved to facilitate this strategy. The primary sector for these products is Over-the-Counter (OTC) medicines and other healthcare products in defined categories, intended for sale in the UK, Europe, the Middle East and South Africa.

Future developments

The directors aim to maintain and evolve the management policies that have resulted in the company's sustained growth in recent years. Although 2020 will be challenging due to the Covid-19 pandemic, the directors consider that there remain opportunities for growth in sales, driven by expansion into new products and new markets, including opportunities in e-commerce, particularly as the in-store retail sector is badly impacted by the pandemic. In the UK the TV advertising campaign for Deep Relief helps to drive growth in this product, whilst the increased emphasis on digital media and greater focus on digital marketing, will also fuel sales growth across the portfolio.

Going concern

The company's business activities and current financial position are contained within this report and the notes to the accounts.

Whilst working capital requirements can fluctuate over the course of a year, cash flow requirements are managed closely. Cash flow forecasts are prepared and reviewed regularly. The day-to-day working capital requirements are met through existing cash resources. At 29 February 2020, the company has cash resources of £11.1 million *(2019: £8.3 million)*.

In light of the unique and wide-ranging impact of the Covid-19 pandemic, the company has carried out a careful and detailed assessment of going concern. At this time, it is not possible to guide with any accuracy what the impact will be, however appropriate financial modelling, including various downside scenarios, has been undertaken to support the assessment of the business as a going concern. We have also given consideration to the following factors:

- The majority of the company's sales are generated in retail and pharmaceutical outlets which are permitted to stay open by government on the basis that they provide essential services such as food and medicines. We have based our assumptions that social distancing measures will remain in place to some extent in the medium term but that there will be a gradual opening of other trade outlets after several months in the strictest lockdown period.
- Mitigating actions have been taken to curtail discretionary spending and to access relevant government schemes including the Coronavirus Job Retention Scheme.
- In the downside scenarios we have assumed 25% - 50% reduction in revenues and a significant increase in working capital days, whilst further actions are available to conserve cash if required.

Directors' report *(continued)*

Our stress testing of the financial model demonstrate that, due to the strength of the balance sheet and the stability of the core business, the company would be able to withstand the impact of these scenarios by making adjustments to its operating plans within the normal course of business. Due to the significant cash resources within the business, and its ability to control marketing and overhead spending to a certain degree, we have been unable to demonstrate any significant threat to the liquidity of the business within the next 12 months, despite the uncertainty of Covid-19.

The directors, having made their own assessment of the company's financial position have a reasonable expectation that the company has adequate financial resources to continue to operate for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Non adjusting Subsequent events

The global crisis resulting from the spread of coronavirus has had an adverse impact on our operations. We cannot accurately estimate the duration or financial impact of the coronavirus pandemic on our business, however, depending on the duration and scope, we expect it could be significant. On the grounds of Government advice and for the safety of our employees, the company took the decision to temporarily pause manufacturing on the 24th March 2020. On 20th April 2020, the factory reopened on a limited basis enabling the company to satisfy customer demand whilst observing government guidance on social distancing and safe working arrangements. The company continues to serve its customers through the coronavirus crisis, despite the impact of the virus on our operations and supply chain.

In response to the crisis, we have taken significant proactive measures to protect the health of our employees, mitigate the impact of reductions in sales volumes and preserve liquidity. Our health and safety measures include prohibiting non-essential visitors and non-production employees from accessing the manufacturing areas, staggering meal and break times, enhancing employee and facility hygiene, suspending all large gatherings, and requiring that all office employees work from home. Some employees have been furloughed and discretionary spending on marketing and overheads has been restricted. We have also increased focus on managing working capital.

As of the signing date of these financial statements, remote work and other work arrangements have not adversely affected our financial reporting systems, internal control over financial reporting or disclosure controls and procedures. In addition, our capital and financial resources, and overall liquidity position, have not been adversely affected by the Covid-19 pandemic. While it is premature to accurately predict the ultimate impact of Covid-19, we anticipate that our 2020 results will be adversely impacted.

Existence of branches outside the UK

The company has a branch, as defined in section 1046(3) of the Companies Act 2006, outside of the UK in Poland. The business activity of the branch is the supply of pharmaceutical and other consumer healthcare products.

Political and charitable donations

The company made no political donations during the year *(2019: nil)* and charitable contributions totalling £2,247 *(2019: £849)*.

Disclosure of information to the auditor

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Re-appointment of auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and Ernst & Young LLP will therefore continue in office.

On behalf of the board

Linda McColgan

L McColgan
Director

1 Redwood Avenue
Peel Park Campus
East Kilbride
Glasgow
G74 5PE

30 June 2020

Statement of directors' responsibilities in respect of the Strategic report, the Directors' report and the financial statements

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of The Mentholatum Company Limited

Opinion

We have audited the financial statements of The Mentholatum Company Limited for the year ended 29 February 2020 which comprise the Statement of Profit and Loss and Other Comprehensive Income, the Balance Sheet, the Statement of changes in equity and the related notes 1 to 22, including a summary of significant accounting policies The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 29 February 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, 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.

Emphasis of matter – effects of COVID-19

We draw attention to Note 1.2 (Going Concern) and Note 22 (Non-adjusting Subsequent Events) in the financial statements, which describes the economic and social disruption the Company is facing as a result of the coronavirus pandemic. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Independent auditor's report to the members of The Mentholatum Company Limited *(continued)*

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in their statement set out on page 6, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 ISAs (UK) 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 financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities . This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Janie McMinn

Janie McMinn (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Glasgow
30 June 2020

Statement of Profit and Loss and Other Comprehensive Income

for the year ended 29 February 2020

	Note	**2020**	2019
		£000	£000
Turnover	*2*	**35,196**	32,346
Cost of sales		**(17,739)**	(16,364)
Gross profit		**17,457**	15,982
Distribution costs		**(10,098)**	(9,405)
Administrative expenses		**(4,408)**	(3,965)
Operating profit		**2,951**	2,612
Income from shares in group undertakings		**-**	-
Other interest receivable and similar income	*6*	**54**	32
Interest payable and similar expenses	*7*	**(200)**	(108)
Profit before taxation		**2,805**	2,536
Tax on profit	*8*	**(556)**	(571)
Profit for the financial year		**2,249**	1,965
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurement of the net defined benefit liability		**(633)**	4
Income tax on defined benefit liability remeasurement		**108**	(1)
Total other comprehensive income/(expense) for the year		**(525)**	3
Profit for the year		**2,249**	1,965
Total comprehensive income for the year		**1,724**	1,968

All operations in the current and preceding year are continuing.

Balance Sheet
at 29 February 2020

	Note	**2020**		2019	
		£000	**£000**	£000	£000
Fixed assets					
Tangible assets	*9*	**5,312**		5,129	
Investments	*10*	**11**		11	
			5,323		5,140
Current assets					
Stocks	*11*	**5,896**		6,780	
Debtors	*12*	**8,144**		7,528	
Cash at bank and in hand		**11,114**		8,326	
			25,154		22,634
Creditors: amounts falling due within one year	*13*		**(7,938)**		(7,317)
Net current assets			**17,216**		15,317
Total assets less current liabilities			**22,539**		20,457
Provisions for liabilities					
Deferred tax liability	*14*	**(474)**		(443)	
Defined benefit pension liability	*15*	**(454)**		(127)	
			(928)		(570)
Net assets			**21,611**		19,887
Capital and reserves					
Called up share capital	*16*		**1,900**		1,900
Profit and loss account			**19,711**		17,987
Equity shareholder's funds			**21,611**		19,887

These financial statements were approved by the board of directors on 30 June 2020 and were signed on its behalf by:

Linda McColgan

L McColgan
Director

Company registered number: 00197071

Statement of Changes in Equity

	Called up share capital £000	Profit and loss account £000	Total equity £000
Balance at 1 March 2018	1,900	16,019	17,919
Total comprehensive income for the period			
Profit or loss	-	1,965	1,965
Other comprehensive income			
Remeasurement of the net pension scheme liability	-	4	4
Tax on remeasurement of the net pension scheme liability	-	(1)	(1)
Total comprehensive income for the period	-	1,968	1,968
Balance at 28 February 2019	**1,900**	**17,987**	**19,887**

	Called up share capital £000	Profit and loss account £000	Total equity £000
Balance at 1 March 2019	1,900	17,987	19,887
Total comprehensive income for the period			
Profit or loss	-	2,249	2,249
Other comprehensive income			
Remeasurement of the net pension scheme liability	-	(633)	(633)
Tax on remeasurement the net of pension scheme liability	-	108	108
Total comprehensive income for the period	-	1,724	1,724
Balance at 29 February 2020	**1,900**	**19,711**	**21,611**

Notes
(forming part of the financial statements)

1 Accounting policies

The Mentholatum Company Limited (the "Company") is a private company incorporated, domiciled and registered in the UK.

The Company is exempt by virtue of s401 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

These financial statements were prepared in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"). The functional and presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The Company's ultimate parent undertaking, Rohto Pharmaceutical Company Limited includes the Company in its consolidated financial statements. The consolidated financial statements of Rohto Pharmaceutical Company Limited are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from 29F Grand Front Osaka Tower B, 3-1 Ofuka-cho, Kita-ku, Osaka 530-0011, Japan. In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

As the consolidated financial statements of Rohto Pharmaceutical Company Limited include the disclosures equivalent to those required by FRS 102, the Company has also taken the exemptions available in respect of the following disclosures:

- Certain disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 21.

1.1 Measurement convention

The financial statements are prepared on the historical cost basis.

1.2 Going concern

Whilst working capital requirements can fluctuate over the course of a year, cash flow requirements are managed closely. Cash flow forecasts are prepared and reviewed regularly. The day-to-day working capital requirements are met through existing cash resources. At 29 February 2020, the company has cash resources of £11.1 million *(2019: £8.3 million)*.

In light of the unique and wide-ranging impact of the Covid-19 pandemic, the company has carried out a careful and detailed assessment of going concern. At this time, it is not possible to guide with any accuracy what the impact will be, however appropriate financial modelling, including various downside scenarios, has been undertaken to support the assessment of the business as a going concern. We have also given consideration to the following factors:

- The majority of the company's sales are generated in retail and pharmaceutical outlets which are permitted to stay open by government on the basis that they provide essential services such as food and medicines. We have based our assumptions that social distancing measures will remain in place to some extent in the medium term but that there will be a gradual opening of other trade outlets after several months in the strictest lockdown period.

Notes *(continued)*

1 Accounting policies *(continued)*

1.2 Going concern (continued)

- Mitigating actions have been taken to curtail discretionary spending and to access relevant government schemes including the Coronavirus Job Retention Scheme.
- In the downside scenarios we have assumed 25% - 50% reduction in revenues and a significant increase in working capital days, whilst further actions are available to conserve cash if required.

Our stress testing of the financial model demonstrate that, due to the strength of the balance sheet and the stability of the core business, the company would be able to withstand the impact of these scenarios by making adjustments to its operating plans within the normal course of business. Due to the significant cash resources within the business, and its ability to control marketing and overhead spending to a certain degree, we have been unable to demonstrate any significant threat to the liquidity of the business within the next 12 months, despite the uncertainty of Covid-19.

The directors, having made their own assessment of the company's financial position have a reasonable expectation that the company has adequate financial resources to continue to operate for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

1.3 Foreign currency

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

The assets and liabilities of the Polish branch, which does not have sterling as its functional currency, are translated into sterling at the exchange rate at the reporting date. The income and expenses of the branch are translated into sterling at average exchange rates for the year.

1.4 Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Investments in subsidiaries

These are separate financial statements of the company. Investments in subsidiaries are carried at cost less impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents.

Notes *(continued)*

1 Accounting policies *(continued)*

1.5 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease. Lease payments are accounted for as described at 1.11 below.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. The estimated useful lives are as follows:

- buildings over 25 years
- vehicles, plant and machinery 3 – 10 years

No depreciation is provided on freehold land or on assets in the course of construction.

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

1.6 Government grants

Amounts received under government grants relating to capital expenditure are credited to deferred income and are released to the profit and loss account over the useful lives of the related assets.

1.7 Stocks

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used. For work in progress and finished goods cost is taken as production cost, which includes an appropriate proportion of attributable overheads based on normal operating capacity.

1.8 Impairment excluding stocks and deferred tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than stocks and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

Notes *(continued)*

1 Accounting policies *(continued)*

1.9 Employee benefits

Defined contribution plans and other long term employee benefits

The Company operates a defined contribution pension scheme which is available to all staff.

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Defined benefit plans

The Company operates a defined benefit scheme which has been closed to new members since 1994.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate as determined at the beginning of the annual period to the net defined benefit liability (asset) taking account of changes arising as a result of contributions and benefit payments.

The discount rate is the yield at the balance sheet date on AA credit rated bonds denominated in the currency of, and having maturity dates approximating to the terms of the Company's obligations. A valuation is performed annually by a qualified actuary using the projected unit credit method. The Company recognises net defined benefit plan assets to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

Changes in the net defined benefit liability arising from employee service rendered during the period, net interest on net defined benefit liability, and the cost of plan introductions, benefit changes, curtailments and settlements during the period are recognised in profit or loss.

Remeasurement of the net defined benefit liability/asset is recognised in other comprehensive income in the period in which it occurs.

Where assets have no quoted market price, the fair value is obtained by direct confirmation with the counterparty or asset custodian, which may be based on information such as policy surrender valuations.

1.10 Turnover

Revenue is the net invoiced sales value, after deducting relevant promotional costs and exclusive of value added tax of goods supplied to external customers during the year. Sales are recorded based on the price specified in the sales invoices, net of any agreed discounts and rebates.

Revenue is recognised upon the transfer of title of the product to the buyer, when the amount can be measured reliably, and when it is probable that future economic benefits will flow to the entity. Transfer of title occurs depending upon the shipment terms agreed with the customer. Sales related discounts and rebates are calculated based on the expected amounts necessary to meet the claims of the company's customers in respect of these discounts and rebates, based on historical experience.

Notes *(continued)*

1 Accounting policies *(continued)*

1.11 Expenses

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred.

Interest receivable and Interest payable

Interest payable and similar expenses include interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy).

Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the company's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

1.12 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

1.13 Research and development

Expenditure on research and development is written off to the profit and loss account in the year in which it is incurred.

Notes *(continued)*

1 Accounting policies *(continued)*

1.14 Dividends of shares presented within shareholder's funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

1.15 Interest capitalisation

For assets under construction, interest is capitalised in fixed assets up until the date of practical completion. From that date interest is charged to the profit and loss account.

2 Turnover

Turnover which is attributable to one continuing activity, the manufacture and supply of pharmaceutical products, is based on the invoiced value of sales to customers and is exclusive of value added tax.

	2020 £000	2019 £000
By geographical market		
United Kingdom	**18,689**	16,895
Africa	**2,573**	2,603
Europe	**9,865**	9,005
Middle East	**3,967**	3,664
Other	**102**	179
Total turnover	**35,196**	32,346

3 Expenses and auditor's remuneration

Included in profit/loss are the following:

	2020 £000	2019 £000
Operating profit is stated after charging/(crediting):		
Depreciation of tangible fixed assets	**722**	917
Research and development expenditure	**1,374**	1,174
Foreign exchange loss	**199**	82
(Gain)/loss on sale of fixed assets	**-**	(8)
Rental under operating leases – land and buildings	**307**	234
– motor vehicles	**70**	96
Release of government grants	**(100)**	(100)

Auditor's remuneration:

	2020 £000	2019 £000
Audit of these financial statements	**45**	54
Amounts receivable by the company's auditor in respect of:		
Assurance services on behalf of the parent undertaking	**18**	21
Other services relating to taxation	**-**	80
All other services	**11**	39

Notes *(continued)*

4 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2020	2019
Full-time directors and other executives	**26**	27
Administration	**48**	44
Production personnel	**29**	30
	103	101

The aggregate payroll costs of these persons were as follows:

	2020	2019
	£000	£000
Wages and salaries	**4,609**	4,059
Social security costs	**476**	420
Pension costs (see note 15)	**425**	487
	5,510	4,966

5 Directors' remuneration

	2020	2019
	£000	£000
Directors' remuneration	**569**	460
Company contributions to a defined contribution pension scheme	**21**	24

The aggregate of remuneration of the highest paid director was £293,000 *(2019: £269,000)*, and company pension contributions of £nil *(2019: £9,000)* were made to a defined contribution scheme on his behalf.

The aggregate of remuneration for 3 non-UK Directors who are remunerated through other Rohto Group companies in relation to services rendered to The Mentholatum Company limited was £10,000 *(2019: £27,000)*.

	Number of directors	
	2020	2019
Retirement benefits are accruing to the following number of directors under:		
Defined contribution scheme	**2**	2

6 Other interest receivable and similar income

	2020	2019
	£000	£000
Bank interest	**54**	32

Notes *(continued)*

7 Interest payable and similar expenses

	2020 £000	2019 £000
Foreign exchange loss	199	82
Other interest payable	1	26
Total interest payable and similar charges	200	108

8 Taxation

Total tax expense recognised in the profit and loss account, other comprehensive income and equity

	2020 £000	£000	2019 £000	£000
Current tax				
UK corporation tax on income for the period	418		531	
Adjustments in respect of prior periods	(1)		60	
Total current tax		417		591
Deferred tax (see note 15)				
Origination and reversal of timing differences	81		(28)	
Adjustments in respect of prior periods	6		(23)	
Deferred tax change in relation to pensions	(56)		32	
Total deferred tax		31		(19)
Total tax		448		572

	2020 Current tax £000	Deferred tax £000	Total tax £000	2019 Current tax £000	Deferred tax £000	Total tax £000
Recognised in Profit and loss account	417	139	556	591	(20)	571
Recognised in other comprehensive income	-	(108)	(108)	-	1	1
Total tax	417	31	448	591	(19)	572

Analysis of current tax recognised in profit and loss	2020 £000	2019 £000
UK corporation tax	400	518
Double taxation relief	18	13
Adjustments in respect of prior periods	(1)	60
Total current tax recognised in profit and loss	417	591

Notes *(continued)*

8 Taxation *(continued)*

Reconciliation of effective tax rate in the profit and loss account

	2020 **£000**	2019 £000
Profit for the year	**2,249**	1,965
Total tax expense	**556**	571
Profit excluding taxation	**2,805**	2,536
Tax using the UK corporation tax rate of 19% (2019: 19.08%)	**533**	482
Non-deductible expenses	**34**	67
Tax exempt revenues	**-**	-
Pension contributions in excess of profit and loss charge	**(6)**	(16)
Under/(over) provided in prior years	**5**	37
Other	**(10)**	1
Total tax expense included in profit or loss	**556**	571

The main UK corporation tax rate reduced from 20% to the current rate of 19% on 1 April 2017. The Finance Act 2016 included legislation that would reduce the tax rate further to 17% from 1 April 2020. This rate was enacted when The Finance Act 2016 received Royal Assent on 15 September 2016. In his Budget speech on 11 March 2020, the Chancellor announced the cancellation of the reduction in the main UK corporation tax rate to 17%. As such, the main UK corporation tax rate will remain at 19% from 1 April 2020. As the cancellation of the reduction in the rate to 17% was not substantively enacted at the balance sheet date, UK deferred tax assets and liabilities continue to be recognised at 17%.

9 Tangible fixed assets

	Freehold land and buildings £000	**Vehicles, plant and machinery £000**	**Total £000**
Cost			
Balance at 1 March 2019	6,692	8,591	15,283
Additions	27	879	906
Disposals	-	(130)	(130)
Balance at 29 February 2020	6,719	9,340	16,059
Depreciation and impairment			
Balance at 1 March 2019	3,396	6,758	10,154
Depreciation charge for the year	212	510	722
Disposals	-	(129)	(129)
Balance at 29 February 2020	3,608	7,139	10,747
Net book value			
At 1 March 2019	3,296	1,833	5,129
At 29 February 2020	**3,111**	**2,201**	**5,312**

Notes *(continued)*

9 Tangible fixed assets *(continued)*

Tangible assets includes £64,000 *(2019: £68,000)* in respect of capitalised interest of which £nil was capitalised in the year.

Land and Buildings

The net book value of land and buildings includes £178,000 *(2019: £178,000)* in respect of freehold land on which no depreciation is charged.

10 Fixed asset investments

	£000
Cost	
At the beginning and end of the year	**11**

The investments in which the company holds more than 10% of the nominal value of any class of share capital are as follows:

Name of company	**Registered address**	**Nature of business**	**Country of registration, incorporation and operation**	**Proportion of allotted ordinary shares held**
Mentholatum (Overseas) Limited	Tricor Suite, 4th Floor, 50 Mark Lane, London, EC3R 7QR	Holding company	England	100%
Mentholatum South Africa (Pty) Limited	1st Floor Silverberg Terrace, Steenberg Office Park, Silverwood Close, Tokai, 7945, South Africa	OTC Pharmaceuticals	South Africa	100%*
Farmacas BV	Herikerbergweg 88, 1101 CM Amsterdam, The Netherlands	Holding company	Netherlands	100%

*Held by a subsidiary undertaking

In addition to the above subsidiary companies, Mentholatum (Overseas) Limited hold 2% of the issued ordinary share capital of Mentholatum (Nigeria) Limited, a company incorporated and operating in Nigeria. Distribution of undistributed profits of Mentholatum (Nigeria) Limited would require approval by the Central Bank of Nigeria.

11 Stocks

	2020	2019
	£000	£000
Raw materials and consumables	**1,743**	1,948
Work in progress	**17**	15
Finished goods	**4,136**	4,817
	5,896	6,780

The difference between purchase price and production cost of stocks and their replacement cost is not material. The amount of inventories recognised as an expense during the period was £16,537,000 *(2019: £16,751,000)*.

Notes *(continued)*

12 Debtors

	2020 £000	2019 £000
Trade debtors	**7,006**	6,638
Amounts owed by group companies	**724**	437
Prepayments and accrued income	**414**	453
	8,144	7,528

13 Creditors: amounts falling due within one year

	2020 £000	2019 £000
Trade creditors	**3,068**	3,188
Amounts owed to group companies	**416**	82
Other taxation and social security	**422**	479
Corporation tax	**191**	127
Accruals and deferred income	**3,841**	3,441
	7,938	7,317

14 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2020 £000	2019 £000	Liabilities 2020 £000	2019 £000	Net 2020 £000	2019 £000
Accelerated capital allowances	**-**	-	**600**	518	**600**	518
Employee benefits	**(77)**	(22)	**-**	-	**(77)**	(22)
Other timing differences	**(49)**	(53)	**-**	-	**(49)**	(53)
Tax (assets)/liabilities	**(126)**	(75)	**600**	518	**474**	443
Net of tax liabilities/(assets)	**126**	75	**(126)**	(75)	**-**	-
Net tax (assets)/liabilities	**-**	-	**474**	443	**474**	443

No significant net reversal of deferred tax assets and liabilities is expected to occur in the next reporting period, aside from balances associated with the defined benefit pension scheme which is dependent on movements in actuarial assumptions.

Notes *(continued)*

15 Employee benefits

The company operates both a defined contribution and a defined benefit pension and life assurance scheme.

Defined benefit pension scheme

The information disclosed below is in respect of the whole of the plans for which the Company is the sponsoring employer.

Net pension liability

	2020 £000	2019 £000
Defined benefit obligation	**(5,746)**	(5,320)
Plan assets	**5,292**	5,193
Net pension liability	**(454)**	(127)

Movements in present value of defined benefit obligation

	2020 £000	2019 £000
At beginning of year	**(5,320)**	(5,271)
Past service cost	**-**	(65)
Interest expense	**(143)**	(138)
Remeasurement actuarial gains/(losses)	**(367)**	53
Benefits paid	**84**	101
At end of year	**(5,746)**	(5,320)

Movements in fair value of plan assets

	2020 £000	2019 £000
At beginning of year	**5,193**	4,958
Expected return on plan assets	**57**	148
Contributions by employer	**306**	270
Actuarial (losses)/gains	**(180)**	(65)
Expenses paid by scheme	**-**	(17)
Benefits paid	**(84)**	(101)
At end of year	**5,292**	5,193

Expense recognised in the profit and loss account

	2020 £000	2019 £000
Past service cost	-	65
Interest on defined benefit pension plan obligation	-	5
Total expense recognised in profit or loss	-	70

Notes *(continued)*

15 Employee benefits *(continued)*

The fair value of the plan assets and the return on those assets were as follows:

	2020 Fair value £000		2019 Fair value £000	%
Cash	**243**	**5%**	243	5%
Administration contract	**3,435**	**65%**	3,295	63%
Annuities	**1,614**	**30%**	1,655	32%
	5,292	**100%**	5,193	100%
Actual return on plan assets	**(37)**		(68)	

The expected rates of return on plan assets are determined by reference to relevant indices. The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plan's investment portfolio.

Principal actuarial assumptions (expressed as weighted averages) at the year-end were as follows:

	2020 %	2019 %
Discount rate	**1.70%**	2.70%
Retail price inflation	**2.85%**	3.15%
Pension in payment increases	**3.50%**	3.60%

The last full actuarial valuation was published on 31 July 2017 and measured the defined benefit obligations of the scheme as at 1 May 2016. The valuation detailed the company's obligation to the remaining 24 deferred scheme members and defined the required annual contributions from the company. These were agreed by the company on 31 July 2017.

In valuing the liabilities of the pension fund at 29 February 2020, mortality assumptions have been made as indicated below.

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 62-year old to live for a number of years as follows:

- Current pensioner aged 62: 24.9 years (male), 26.9 years (female).
- Future retiree upon reaching 62: 26.3 years (male), 28.5 years (female).

The actuarial valuation of the scheme as at 1 May 2016 showed a funding shortfall (technical provisions minus value of assets) of £999,000. To eliminate this funding shortfall, the Trustees and the Employer have agreed that additional contributions will be paid to the scheme of £25,000 per month until November 2019.

Defined contribution plans

The pension cost charge for the period represents contributions payable by the company to the scheme and amounted to £425,000 *(2019: £405,000)*. Contributions from employees and the company amounting to £35,000 *(2019: £39,000)* were payable to the scheme and are included in creditors.

Notes *(continued)*

16 Capital and reserves

Share capital

	2020	2019
	£000	£000
Allotted, called up and fully paid		
1,900,000 ordinary shares of £1 each	**1,900**	1,900

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Dividends

The aggregate amount of dividends comprises:

	2020	2019
	£000	£000
Interim dividends paid in respect of the current year	**-**	-

17 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2020	2019
	£000	£000
Less than one year	**404**	373
Between one and five years	**1,107**	1,132
More than five years	**1,870**	2,227
	3,381	3,732

18 Commitments

Capital commitments

The Company had no capital commitments at year end.

19 Related parties and related undertakings

Identity of related parties with which the Company has transacted

Related parties comprise wholly owned Group companies. Transactions with related parties were carried out at arm's length agreed terms, conditions and prices. The Company has taken advantage of the exemption with FRS 102 Section 33 paragraph 33.1A from the requirement to disclose transactions with other wholly owned companies in the same group.

Transactions with key management personnel

The directors are considered to be key management personnel. Their total remuneration is disclosed in note 5.

The Company's related undertakings are the parent undertakings disclosed in note 20 and subsidiary undertakings disclosed in note 10.

Notes *(continued)*

20 Ultimate parent company and parent company of larger group of which the company is a member

The ultimate holding company and controlling party is Rohto Pharmaceutical Company Limited, a company incorporated in Japan.

The company's immediate parent undertaking is The Mentholatum Company Inc, a company which is incorporated in the United States of America.

The smallest and largest group in which the results of the company are consolidated is that headed by Rohto Pharmaceutical Company Limited. The consolidated financial statements are available from 29F Grand Front Osaka Tower B, 3-1 Ofuka-cho, Kita-ku, Osaka 530-0011, Japan.

21 Accounting Estimates and Judgements

In the application of the Company's accounting policies, the directors have considered the company's critical accounting policies, key sources of uncertainty and areas where critical accounting judgements were required in applying the company's accounting policies.

Critical accounting policies

The directors are satisfied that the critical accounting policies are appropriate to the company.

Key sources of uncertainty and critical judgements in applying the company's accounting policies

Estimates, judgements and assumptions are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from these estimates. The company makes estimates, judgements and assumptions concerning the future. Those that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year are discussed below:

Trade receivables

Management identifies impairment of trade receivables on an ongoing basis. Impairment adjustments are raised against trade receivables when their collectability is considered doubtful. In determining whether particular receivable could be doubtful, the following factors are taken into consideration:

- Age of receivable,
- Customer's current financial status; and
- Disputes with customers

Inventory

Management identifies impairment of inventory on an ongoing basis. Impairment and adjustments are raised against inventory when their ability to sell is considered doubtful. In determining whether a particular item of inventory should be impaired, the following factors are taken into consideration:

- Expiry date;
- Year on year sales analysis; and
- Order history

Pensions

The company operates a Defined Contribution pension scheme for its current employees with both employee and employer contribution invested within a Group Personal Pension Plan operated by Legal & General.

The company also has obligations with regard to a Defined Benefit pension scheme that has been closed to new members since October 1994. These obligations relate wholly to members with deferred benefits. The cost of these benefits and present value of the obligations depend on a number of factors including life expectancy, asset valuations and the discount rate on corporate bonds. Relevant estimates on these factors are included within the net pension obligation detailed in the balance sheet.

Notes *(continued)*

22 Non adjusting Subsequent Events

Covid-19

The global crisis resulting from the spread of coronavirus has had an adverse impact on our operations. We cannot accurately estimate the duration or financial impact of the coronavirus pandemic on our business, however, depending on the duration and scope, we expect it could be significant. On the grounds of Government advice and for the safety of our employees, the company took the decision to temporarily pause manufacturing on the 24th March 2020. On 20th April 2020, the factory reopened on a limited basis enabling the company to satisfy customer demand whilst observing government guidance on social distancing and safe working arrangements. The company continues to serve its customers through the coronavirus crisis, despite the impact of the virus on our operations and supply chain.

In response to the crisis, we have taken significant proactive measures to protect the health of our employees, mitigate the impact of reductions in sales volumes and preserve liquidity. Our health and safety measures include prohibiting non-essential visitors and non-production employees from accessing the manufacturing areas, staggering meal and break times, enhancing employee and facility hygiene, suspending all large gatherings, and requiring that all office employees work from home. Some employees have been furloughed and discretionary spending on marketing and overheads has been restricted. We have also increased focus on managing working capital.

As of the signing date of these financial statements, remote work and other work arrangements have not adversely affected our financial reporting systems, internal control over financial reporting or disclosure controls and procedures. In addition, our capital and financial resources, and overall liquidity position, have not been adversely affected by the Covid-19 pandemic. While it is premature to accurately predict the ultimate impact of Covid-19, we anticipate that our 2020 results will be adversely impacted.

Acquisition of RCL Investments Proprietary Limited

Subsequent to year end, on 01 April 2020, Mentholatum South Africa Proprietary Limited acquired a 100% interest in RCL Investments Proprietary Limited valued at R26 688 000 (£1,200,000 GBP equivalent). The purchase price was R19 043 000 (£856,000 GBP equivalent). This amount is to be financed out of existing cash resources.

Indirectly the company also acquired a 100% interest in AJ North Proprietary Limited, given that RCL Investments Proprietary Limited already owned 100% of the issued share capital of AJ North Proprietary Limited.

NEVER SAY NEVER

ROHTO

May 12, 2020

Consolidated Financial Results for the Fiscal Year Ended March 31, 2020

[Japanese GAAP]

Company name: ROHTO Pharmaceutical Co., Ltd.
Stock code: 4527
Representative: Masashi Sugimoto, President and COO
Contact: Masaya Saito, Vice President and Director
Telephone: 81-(0) 6-6758-8223

Stock Exchange listing: TSE, First Section
URL: https://www.rohto.co.jp/

Scheduled date of Annual General Meeting of Shareholders: June 26, 2020
Scheduled date of filing of Annual Securities Report: June 29, 2020
Scheduled date of dividend payment: June 12, 2020
Supplementary materials for financial results: Yes
Financial results meeting: Yes (for institutional investors and analysts)

(All amounts are rounded down to the nearest million yen.)

1. Consolidated Financial Results for the Fiscal Year Ended March 31, 2020 (April 1, 2019 – March 31, 2020)

(1) Consolidated results of operations (Percentages represent year-on-year changes.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year ended Mar. 31, 2020	188,327	2.6	23,085	10.9	22,735	19.8	15,410	57.3
Fiscal year ended Mar. 31, 2019	183,582	6.9	20,812	9.0	18,970	0.6	9,799	5.5

Note: Comprehensive income (Millions of yen): Fiscal year ended Mar. 31, 2020: 11,275 83.7%
Fiscal year ended Mar. 31, 2019: 6,138 (49.6%)

	Basic net income per share	Diluted net income per share	ROE	Ordinary income on total assets	Operating income to net sales
	Yen	Yen	%	%	%
Fiscal year ended Mar. 31, 2020	135.13	134.71	11.4	10.9	12.3
Fiscal year ended Mar. 31, 2019	86.00	85.66	7.6	9.5	11.3

Reference: Equity in earnings of affiliates (Millions of yen): Fiscal year ended Mar. 31, 2020: (1,192)
Fiscal year ended Mar. 31, 2019: (2,404)

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of Mar. 31, 2020	215,301	140,032	64.5	1,217.67
As of Mar. 31, 2019	200,953	132,189	65.1	1,147.42

Reference: Shareholders' equity (Millions of yen): As of Mar. 31, 2020: 138,899 As of Mar. 31, 2019: 130,773

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Fiscal year ended Mar. 31, 2020	19,040	(9,405)	(1,603)	44,665
Fiscal year ended Mar. 31, 2019	21,745	(10,245)	(3,386)	37,345

2. Dividends

	Dividend per share					Total dividends	Payout ratio (consolidated)	Dividends on Equity (consolidated)
	1Q-end	2Q-end	3Q-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Fiscal year ended Mar. 31, 2019	-	11.00	-	14.00	25.00	2,849	29.1	2.2
Fiscal year ended Mar. 31, 2020	-	13.00	-	13.00	26.00	2,965	19.2	2.2
Fiscal year ending Mar. 31, 2021 (forecast)	-	13.00	-	14.00	27.00	[redacted]	22.0	[redacted]

Note: Breakdown of the year-end dividend for the fiscal year ended March 31, 2019:

Ordinary dividend: 12.00 yen Commemorative dividend: 2.00 yen

3. Consolidated Earnings Forecast for the Fiscal Year Ending March 31, 2021 (April 1, 2020 – March 31, 2021)

(Percentages represent year-on-year changes.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	183,000	(2.8)	21,800	(5.6)	22,100	(2.8)	14,000	(9.2)	122.73

Note: From the viewpoint of promoting constructive dialogue for medium-to long-term corporate value enhancement, we will disclose the earnings forecast for the full year only.

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specific subsidiaries resulting in change in scope of consolidation): Yes

Newly added: None

Excluded: 1(Rohto Do Brasil Planejamento e Desenvolvimento-Eireli)

Note: Rohto Do Brasil Planejamento e Desenvolvimento-Eireli was excluded from the scope of consolidation because it was merged with Rohto Brasil Holding e Participacoes LTDA., which is a consolidated subsidiary.

(2) Changes in accounting policies and accounting estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards: Yes
2) Changes in accounting policies other than 1) above: None
3) Changes in accounting estimates: None
4) Restatements: None

(3) Number of common shares issued

1) Number of shares outstanding at the end of the period (including treasury shares):

As of Mar. 31, 2020:	118,089,155 shares	As of Mar. 31, 2019:	117,989,908 shares

2) Number of shares of treasury shares at the end of the period:

As of Mar. 31, 2020:	4,018,988 shares	As of Mar. 31, 2019:	4,018,825 shares

3) Average number of shares outstanding during the period:

Fiscal year ended Mar. 31, 2020:	114,039,721 shares	Fiscal year ended Mar. 31, 2019:	113,955,858 shares

Reference: Summary of Non-consolidated Financial Results

1. Non-consolidated Financial Results for the Fiscal Year Ended March 31, 2020 (April 1, 2019 – March 31, 2020)

(1) Non-consolidated results of operations (Percentages represent year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year ended Mar. 31, 2020	106,477	2.0	13,264	1.9	14,374	(5.4)	6,978	44.9
Fiscal year ended Mar. 31, 2019	104,381	7.7	13,014	1.2	15,188	2.3	4,815	(36.9)

	Basic net income per share	Diluted net income per share
	Yen	Yen
Fiscal year ended Mar. 31, 2020	61.19	61.00
Fiscal year ended Mar. 31, 2019	42.26	42.10

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of Mar. 31, 2020	146,375	106,337	72.4	928.85
As of Mar. 31, 2019	137,979	104,525	75.4	912.76

Reference: Shareholders' equity (Millions of yen): As of Mar. 31, 2020: 105,954 As of Mar. 31, 2019: 104,027

Note 1: This summary report is not subject to the audit conducted by certified public accountants or audit firms.

Note 2: Cautionary statement with respect to forward-looking statements and other special items

Forecasts regarding future performance in these materials are based on assumptions judged to be valid and information available to the Company at the time the materials were created. These materials are not promises by the Company regarding future performance. Actual results of operations may differ significantly from the forecasts depending on various factors. For discussion of the assumptions and other factors considered by the Company in preparing the above projections, please refer to page 2 of the attachments "1. Overview of Results of Operations and Other Information, (1) Overview of Results of Operations."

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1. Overview of Results of Operations and Other Information

(1) Overview of Results of Operations

(Millions of yen)

	Net sales	Operating income	Ordinary income	Profit attributable to owners of parent
Fiscal year ended Mar. 31, 2020	**188,327**	**23,085**	**22,735**	**15,410**
Fiscal year ended Mar. 31, 2019	183,582	20,812	18,970	9,799
Year-on-year change (%)	2.6	10.9	19.8	57.3

In the fiscal year ended March 31, 2020, the Japanese economy continued its recovery at a moderate pace supported by the improved employment situation and corporate profits. However, an economic slowdown increasingly took hold due to such factors as a consumption tax hike and concerns over intensifying US-China trade friction. Furthermore, the global spread of the Covid-19 pandemic has had serious effects including the divided supply chain in China, a decline in consumer activity, and turmoil in the financial markets, and the situation shows no sign of convergence.

The Rohto Group has moved into new fields with customer-oriented product development and marketing activities. In its existing categories, the Group has developed high value-added products in response to changing consumer needs and endeavored to reinvigorate markets.

In total, net sales increased 2.6% year-on-year to 188,327 million yen.

In Japan, with the absence of a one-off contract payment from Shionogi & Co., Ltd., which contributed to the sales in previous fiscal year, high value-added products demonstrated strong sales in the current fiscal year while the pharmaceutical development and manufacturing outsourcing subsidiary also contributed to higher sales. Overseas, Vietnam and other ASEAN countries performed strongly to compensate for losses from the impact of the Coronavirus pandemic spread and demonstrations in Hong Kong.

Profits benefited from strong sales growth and an efficient use of selling, general and administrative expenses. As a result, operating income increased by 10.9% year-on-year to 23,085 million yen, ordinary income increased by 19.8% to 22,735 million yen, and profit attributable to owners of parent increased 57.3% to 15,410 million yen.

Results by reportable segment are as follows.

(Millions of yen)

		Net sales (Sales to customers)			
		Fiscal year ended Mar. 31, 2019	**Fiscal year ended Mar. 31, 2020**	Year-on-year change (Amount)	Year-on-year change (%)
Reportable segment	Japan	112,166	**115,767**	3,601	3.2
	America	9,293	**9,121**	(171)	(1.8)
	Europe	8,555	**8,740**	185	2.2
	Asia	51,664	**52,971**	1,306	2.5
	Subtotal	181,679	**186,601**	4,922	2.7
Others		1,903	**1,726**	(177)	(9.3)
Total		183,582	**188,327**	4,745	2.6

Japan

Sales to customers increased 3.2% year-on-year to 115,767 million yen.

Among the core eye care products, high value-added products such as the high-performance ophthalmic remedy "V Rohto Active Premium" performed well. In addition, the new hay fever product "Rohto Alguard Clinical Shot" also sold well. However, eye care sales turned out to be sluggish as a whole, if compared with strong sales of "Rohto Lycée" series in collaboration with Pretty Guardian Sailor Moon seen in the previous fiscal year. Concerning skincare products, the beauty serum "Obagi C25 Serum Neo," the new hand cream product "AURA the HAND," and "Deoco," which has been trending on social media, performed well. Sunscreen products contributed to an increase in sales in the clement weather. Sales of moisturizing products struggled to grow as the warm winter trend continued, and sales of "Melano CC medicated intensive spot correcting serum" decreased as demand slowed from foreign tourists visiting Japan. As for internal medicines, "Rohto V5 Grain," a nutritional supplement for eyes, sold well.

Segment profit (operating income) increased 12.7% year-on-year to 14,852 million yen. In order to strengthen our core business in Japan, which is a primary profit base, we are working on structural reforms. Sales were strong although there were up-front costs associated with these measures.

America

Sales to customers decreased 1.8% year-on-year to 9,121 million yen.

Although the U.S. economy experienced a mild recovery trend due to a steady rise in personal consumption, sales struggled to grow due to intense competition for eye drops.

Segment profit (operating income) decreased 0.8% year-on-year to 283 million yen due to sluggish sales.

Europe

Sales to customers increased 2.2% year-on-year to 8,740 million yen.

The leading anti-inflammatory analgesic "Deep Heat" series and "Deep Relief," which was backed by heightened promotion activities, performed well, and Dax Cosmetics contributed to an increase in sales.

Segment profit (operating income) decreased 38.3% year-on-year to 217 million yen due to an increase in sales promotion and advertising expenses despite strong sales.

Asia

Sales to customers increased 2.5% year-on-year to 52,971 million yen.

Sales were negatively affected by demonstrations in Hong Kong and the boycott of Japanese products in South Korea. Furthermore, the Covid-19 pandemic spread that hit strongly China starting from January 2020 led to a sharp fall in demand around the Chinese New Year. However, revenue rose over prior year because the Covid-19 impact on mainstay subsidiaries in China and Vietnam were limited as their fiscal year ends in December. Also the favorable performance of subsidiaries in ASEAN countries such as Malaysia helped grow the overall sales. In the core market of China, the distribution network for "Rohto Lycée" and contact lens care solution expanded and online sales performed well to increase revenue, despite the "Hada Labo" series struggling and the impact of the yen rising against the Chinese yuan.

Segment profit (operating income) increased 11.1% year-on-year to 7,220 million yen due to an effective use of sales promotion expenses as well as strong sales.

Others

In "Others," excluded from reportable segments, sales to customers decreased 9.3% year-on-year to 1,726 million yen.

Segment profit (operating income) decreased 13.0% year-on-year to 142 million yen.

Note: The above amounts do not include consumption taxes.

Outlook for the fiscal year ending Mar. 31, 2021

(Millions of yen)

	Net sales	Operating income	Ordinary income	Profit attributable to owners of parent
Fiscal year ending Mar. 31, 2021 (forecast)	183,000	21,800	22,100	14,000
Fiscal year ended Mar. 31, 2020 (results)	188,327	23,085	22,735	15,410
Year-on-year change (%)	(2.8)	(5.6)	(2.8)	(9.2)

Regarding the outlook for the future, the forecast remains extremely uncertain as it is impossible to predict the full impact of the pandemic as well as when the situation will return to normal, with the Covid-19 pandemic still actively contagious.

Under such conditions, the Rohto Group will adapt to the changes in the business environment, aiming to expand business further and improve earnings by creating new products and brands that respond appropriately to changing customer needs. The Group is also taking on the challenge of various innovations including alliances with a wide range of companies.

Based on this outlook, in the fiscal year ending March 31, 2021, we anticipate that net sales will fall 2.8% year-on-year to 183 billion yen, operating income to fall 5.6% to 21.8 billion yen, and ordinary income to fall 2.8% to 22.1 billion yen. We expect profit attributable to owners of parent to fall 9.2% to 14.0 billion yen.

These forecasts are based on an exchange rate of 107 yen to the U.S. dollar.

(2) Overview of Financial Position

Total assets at the end of the current fiscal year increased 14,347 million yen from the end of the previous fiscal year to 215,301 million yen. This was mainly due to increases of 7,451 million yen in cash and deposits, 5,353 million yen in electronically recorded monetary claims-operating, 2,289 million yen in goodwill and 2,072 million yen in deferred tax assets, while there were decreases of 4,650 million yen in investment securities,1,332 million yen in land and 991 million yen in merchandise and finished goods.

Total liabilities increased 6,504 million yen from the end of the previous fiscal year to 75,269 million yen. This was mainly due to increases of 3,765 million yen in long-term loans payable, 1,663 million yen in other current liabilities such as accounts payable-other and 1,007 million yen in income taxes payable, while there were decreases of 1,639 million yen in short-term loans payable and 415 million yen in provision for sales rebates.

Net assets increased 7,843 million yen from the end of the previous fiscal year to 140,032 million yen. This was mainly due to an increase of 11,995 million yen in retained earnings, while there were decreases of 2,135 million yen in valuation difference on available-for-sale securities and 1,455 million yen in foreign currency translation adjustment.

(3) Overview of Cash Flows

(Millions of yen)

Item	Fiscal year ended Mar. 31, 2019	**Fiscal year ended Mar. 31, 2020**	Year-on-year change (Amount)
Cash and cash equivalents at the beginning of the period	30,063	**37,345**	7,281
Cash flows from operating activities	21,745	**19,040**	(2,705)
Cash flows from investing activities	(10,245)	**(9,405)**	839
Cash flows from financing activities	(3,386)	**(1,603)**	1,782
Effect of exchange rate changes on cash and cash equivalents	(832)	**(781)**	51
Increase (decrease) in cash and cash equivalents	7,281	**7,250**	(31)
Increase in cash and cash equivalents from newly consolidated subsidiaries	-	**69**	69
Cash and cash equivalents at the end of the period	37,345	**44,665**	7,320

During the current fiscal year, there was a net increase of 7,320 million yen in cash and cash equivalents to 44,665 million yen.

Operating activities

Net cash provided by operating activities decreased 2,705 million yen year-on-year to 19,040 million yen. Profit before income taxes was 21,730 million yen, and there were inflow factors of depreciation of 6,058 million yen, loss on valuation of investment securities of 1,263 million yen, impairment loss of 1,052 million yen, share of loss of entities accounted for using equity method of 1,192 million yen and interest and dividend income received of 1,018 million yen, while there were outflow factors of income tax paid of 6,644 million yen, an increase of 4,304 million yen in notes and accounts receivable - trade and gain on sales of investment securities of 1,973 million yen.

Investing activities

Net cash used in investing activities decreased 839 million yen year-on-year to 9,405 million yen. This was mainly due to the proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation of 5,755 million yen and purchase of property, plant and equipment of 5,586 million yen, while there were proceeds from sales of investment securities of 3,615 million yen and sales of property, plant and equipment of 2,128 million yen.

Financing activities

Net cash used in financing activities decreased 1,782 million yen year-on-year to 1,603 million yen. This was mainly due to proceeds from long term loans payable of 5,032 million yen, while there were cash dividends paid of 3,078 million yen, net decrease in short-term loans payable of 2,649 million yen and repayments of long-term loans payable of 714 million yen.

(4) Basic Policy of Profit Distribution and Dividends for the Current and Next Fiscal Years

Constantly and consistently returning to shareholders the profits earned through business activities is one of our highest priorities. The fundamental policy is to pay a dividend based on results of operations. Retained earnings will be used effectively for development of new products, investments in manufacturing equipment, entering into new businesses and other attempts to respond appropriately to changes in the operating environment. We believe that these investments will contribute to future earnings, thereby enabling the Company to pay a large and stable dividend to shareholders.

Regarding dividends, following the resolution by the Board of Directors, the Company plans to distribute a year-end dividend of 13 yen per share for the fiscal year ended on March 31, 2020. Added to the interim dividend of 13 yen, which has been distributed already, this will bring the annual dividend to 26 yen per share.

For the fiscal year ending on March 31, 2021, with our gratitude to all the shareholders who support us on a regular basis, we plan to pay interim dividends of 13 yen per share, year-end dividends of 14 yen per share bringing the annual total to 27 yen per share.

2. Basic Approach to the Selection of Accounting Standards

The Rohto Group will continue to prepare consolidated financial statements using the generally accepted accounting principles in Japan for the time being to permit comparisons with prior years and with the financial data of other companies.

We will take suitable actions with regard to the application of International Financial Reporting Standards by taking into account associated factors in Japan and other countries.

3. Consolidated Financial Statements and Major Notes

(1) Consolidated Balance Sheets

(Millions of yen)

	Prior Fiscal Year End (As of Mar. 31, 2019)	Current Fiscal Year End (As of Mar. 31, 2020)
Assets		
Current assets		
Cash and deposits	37,856	45,307
Notes and accounts receivable-trade	32,217	32,900
Electronically recorded monetary claims-operating	12,540	17,893
Merchandise and finished goods	17,495	16,504
Work in process	2,638	3,218
Raw materials and supplies	10,127	10,903
Other	3,918	3,757
Allowance for doubtful accounts	(393)	(377)
Total current assets	116,402	130,108
Non-current assets		
Property, plant and equipment		
Buildings and structures	46,504	48,983
Accumulated depreciation	(26,597)	(28,935)
Buildings and structures, net	19,907	20,048
Machinery, equipment and vehicles	48,180	51,497
Accumulated depreciation	(39,142)	(42,313)
Machinery, equipment and vehicles, net	9,038	9,184
Tools, furniture and fixtures	13,858	15,055
Accumulated depreciation	(11,822)	(12,841)
Tools, furniture and fixtures, net	2,035	2,213
Land	14,858	13,526
Construction in progress	1,423	2,652
Other	240	1,368
Accumulated depreciation	(82)	(533)
Other, net	158	835
Total property, plant and equipment	47,421	48,460
Intangible assets		
Goodwill	1,083	3,373
Other	2,481	1,945
Total intangible assets	3,565	5,318
Investments and other assets		
Investment securities	28,530	23,880
Long-term loans receivable	2,837	3,097
Deferred tax assets	2,220	4,292
Other	2,529	2,869
Allowance for doubtful accounts	(2,553)	(2,725)
Total investments and other assets	33,563	31,413
Total non-current assets	84,550	85,192
Total assets	200,953	215,301

(Millions of yen)

	Prior Fiscal Year End (As of Mar. 31, 2019)	Current Fiscal Year End (As of Mar. 31, 2020)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	11,005	11,324
Electronically recorded obligations-operating	3,063	2,919
Short-term loans payable	3,745	2,105
Accrued expenses	25,954	25,629
Income taxes payable	3,548	4,555
Accrued consumption taxes	603	1,173
Provision for bonuses	2,274	2,643
Provision for directors' bonuses	40	40
Provision for sales returns	606	557
Provision for sales rebates	2,594	2,178
Other	7,324	8,987
Total current liabilities	60,760	62,117
Non-current liabilities		
Long-term loans payable	1,424	5,190
Deferred tax liabilities	255	373
Net defined benefit liability	3,584	4,317
Provision for loss on guarantees	1,742	1,957
Other	997	1,312
Total non-current liabilities	8,004	13,151
Total liabilities	68,764	75,269
Net assets		
Shareholders' equity		
Capital stock	6,446	6,504
Capital surplus	5,603	5,661
Retained earnings	119,989	131,985
Treasury shares	(4,935)	(4,935)
Total shareholders' equity	127,105	139,215
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	6,279	4,144
Foreign currency translation adjustment	(1,161)	(2,617)
Remeasurements of defined benefit plans	(1,449)	(1,843)
Total accumulated other comprehensive income	3,667	(316)
Subscription rights to shares	498	382
Non-controlling interests	917	749
Total net assets	132,189	140,032
Total liabilities and net assets	200,953	215,301

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Millions of yen)

	Prior Fiscal Year (Apr. 1, 2018 – Mar. 31, 2019)	Current Fiscal Year (Apr. 1, 2019 – Mar. 31, 2020)
Net sales	183,582	188,327
Cost of sales	74,048	74,135
Gross profit	109,533	114,192
Reversal of provision for sales returns	90	48
Gross profit-net	109,624	114,240
Selling, general and administrative expenses		
Promotion expenses	23,086	23,533
Advertising expenses	24,593	24,394
Salaries and bonuses	13,136	13,100
Provision for bonuses	1,048	1,195
Provision for directors' bonuses	40	40
Retirement benefit expenses	478	662
Depreciation	1,134	1,226
Amortization of goodwill	245	349
Research and development expenses	6,831	7,050
Provision for doubtful accounts	81	(2)
Other	18,135	19,603
Total selling, general and administrative expenses	88,812	91,154
Operating income	20,812	23,085
Non-operating income		
Interest income	377	484
Dividend income	374	510
Gain on investments in investment partnerships	41	209
Other	406	403
Total non-operating income	1,200	1,607
Non-operating expenses		
Interest expenses	148	125
Share of loss of entities accounted for using equity method	2,404	1,192
Provision for doubtful accounts	-	204
Other	488	436
Total non-operating expenses	3,042	1,958
Ordinary income	18,970	22,735

	Prior Fiscal Year (Apr. 1, 2018 – Mar. 31, 2019)	Current Fiscal Year (Apr. 1, 2019 – Mar. 31, 2020)
Extraordinary income		
Gain on sales of non-current assets	-	153
Gain on sales of investment securities	-	1,973
National subsidies	-	110
Total extraordinary income	-	2,237
Extraordinary losses		
Loss on disposal of fixed assets	151	-
Loss on tax purpose reduction entry of non-current assets	-	110
Impairment loss	-	1,052
Amortization of goodwill	-	529
Loss on valuation of investment securities	1,179	1,263
Loss on valuation of shares of subsidiaries and associates	456	285
Provision for doubtful accounts	250	-
Provision for doubtful accounts for subsidiaries and associates	11	-
Provision for loss on guarantees	251	-
Special severance pay	370	-
Total extraordinary losses	2,669	3,241
Profit before income taxes	16,300	21,730
Income taxes-current	6,506	7,492
Income taxes-deferred	(24)	(1,044)
Total income taxes	6,481	6,448
Profit	9,818	15,282
Profit attributable to non-controlling interests	18	(127)
Profit attributable to owners of parent	9,799	15,410

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Prior Fiscal Year (Apr. 1, 2018 – Mar. 31, 2019)	Current Fiscal Year (Apr. 1, 2019 – Mar. 31, 2020)
Profit	9,818	15,282
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,926)	(2,087)
Foreign currency translation adjustment	(1,749)	(1,271)
Remeasurements of defined benefit plans, net of tax	24	(393)
Share of other comprehensive income of entities accounted for using equity method	(28)	(253)
Total other comprehensive income	(3,680)	(4,007)
Comprehensive income	6,138	11,275
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	6,257	11,426
Comprehensive income attributable to non-controlling interests	(119)	(150)

(3) Consolidated Statements of Change in Shareholders' Equity

Prior Fiscal Year (Apr. 1, 2018 – Mar. 31, 2019)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	6,415	5,737	112,696	(4,935)	119,915
Cumulative effects of changes in accounting policies					-
Restated balance	6,415	5,737	112,696	(4,935)	119,915
Changes of items during period					
Issuance of new shares	31	31			62
Dividends of surplus			(2,506)		(2,506)
Profit attributable to owners of parent			9,799		9,799
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares		0		0	0
Change in scope of consolidation					-
Change in ownership interest of parent due to transactions with non-controlling interests		(165)			(165)
Net changes of items other than shareholders' equity					
Total changes of items during period	31	(134)	7,292	(0)	7,190
Balance at end of current period	6,446	5,603	119,989	(4,935)	127,105

	Accumulated other comprehensive income			
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income
Balance at beginning of current period	8,220	463	(1,474)	7,209
Cumulative effects of changes in accounting policies				
Restated balance	8,220	463	(1,474)	7,209
Changes of items during period				
Issuance of new shares				
Dividends of surplus				
Profit attributable to owners of parent				
Purchase of treasury shares				
Disposal of treasury shares				
Change in scope of consolidation				
Change in ownership interest of parent due to transactions with non-controlling interests				
Net changes of items other than shareholders' equity	(1,940)	(1,625)	24	(3,541)
Total changes of items during period	(1,940)	(1,625)	24	(3,541)
Balance at end of current period	6,279	(1,161)	(1,449)	3,667

	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at beginning of current period	560	755	128,440
Cumulative effects of changes in accounting policies			-
Restated balance	560	755	128,440
Changes of items during period			
Issuance of new shares			62
Dividends of surplus			(2,506)
Profit attributable to owners of parent			9,799
Purchase of treasury shares			(0)
Disposal of treasury shares			0
Change in scope of consolidation			-
Change in ownership interest of parent due to transactions with non-controlling interests			(165)
Net changes of items other than shareholders' equity	(62)	162	(3,441)
Total changes of items during period	(62)	162	3,748
Balance at end of current period	498	917	132,189

Current Fiscal Year (Apr. 1, 2019 – Mar. 31, 2020)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	6,446	5,603	119,989	(4,935)	127,105
Cumulative effects of changes in accounting policies			(349)		(349)
Restated balance	6,446	5,603	119,639	(4,935)	126,755
Changes of items during period					
Issuance of new shares	57	57			115
Dividends of surplus			(3,078)		(3,078)
Profit attributable to owners of parent			15,410		15,410
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares					-
Change in scope of consolidation			13		13
Change in ownership interest of parent due to transactions with non-controlling interests					-
Net changes of items other than shareholders' equity					
Total changes of items during period	57	57	12,345	(0)	12,460
Balance at end of current period	6,504	5,661	131,985	(4,935)	139,215

	Accumulated other comprehensive income			
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income
Balance at beginning of current period	6,279	(1,161)	(1,449)	3,667
Cumulative effects of changes in accounting policies				
Restated balance	6,279	(1,161)	(1,449)	3,667
Changes of items during period				
Issuance of new shares				
Dividends of surplus				
Profit attributable to owners of parent				
Purchase of treasury shares				
Disposal of treasury shares				
Change in scope of consolidation				
Change in ownership interest of parent due to transactions with non-controlling interests				
Net changes of items other than shareholders' equity	(2,135)	(1,455)	(393)	(3,984)
Total changes of items during period	(2,135)	(1,455)	(393)	(3,984)
Balance at end of current period	4,144	(2,617)	(1,843)	(316)

	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at beginning of current period	498	917	132,189
Cumulative effects of changes in accounting policies			(349)
Restated balance	498	917	131,839
Changes of items during period			
Issuance of new shares			115
Dividends of surplus			(3,078)
Profit attributable to owners of parent			15,410
Purchase of treasury shares			(0)
Disposal of treasury shares			-
Change in scope of consolidation			13
Change in ownership interest of parent due to transactions with non-controlling interests			-
Net changes of items other than shareholders' equity	(115)	(168)	(4,267)
Total changes of items during period	(115)	(168)	8,193
Balance at end of current period	382	749	140,032

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	Prior Fiscal Year (Apr. 1, 2018 – Mar. 31, 2019)	Current Fiscal Year (Apr. 1, 2019 – Mar. 31, 2020)
Cash flows from operating activities		
Income before income taxes and non-controlling interests	16,300	21,730
Depreciation	6,159	6,058
Impairment loss	-	1,052
Amortization of goodwill	245	879
Increase (decrease) in allowance for doubtful accounts	64	(63)
Increase (decrease) in provision for bonuses	(8)	234
Increase (decrease) in net defined benefit liability	(382)	(66)
Increase (decrease) in provision for sales returns	(90)	(48)
Increase (decrease) in provision for sales rebates	(148)	(415)
Increase (decrease) in provision for loss on guarantees	251	215
Provision for doubtful accounts	250	204
Provision for doubtful accounts for subsidiaries and associates	11	-
Loss on disposal of fixed assets	151	-
Loss (gain) on sales of investment securities	-	(1,973)
Loss (gain) on valuation of investment securities	1,179	1,263
Loss on valuation of shares of subsidiaries and associates	456	285
National Subsidies	-	(110)
Loss on tax purpose reduction entry of non-current assets	-	110
Loss (gain) on sales of property, plant and equipment	-	(153)
Interest and dividend income	(752)	(994)
Interest expenses	148	125
Share of (profit) loss of entities accounted for using equity method	2,404	1,192
Special severance pay	370	-
Decrease (increase) in notes and accounts receivable - trade	5,342	(4,304)
Decrease (increase) in inventories	(4,359)	892
Increase (decrease) in notes and accounts payable - trade	(984)	(900)
Other, net	853	(444)
Subtotal	27,464	24,769
Interest and dividend income received	754	1,018
Interest expenses paid	(150)	(130)
Income taxes paid	(5,984)	(6,644)
Income taxes refund	33	27
Special severance payments	(370)	-
Net cash provided by (used in) operating activities	21,745	19,040

(Millions of yen)

	Prior Fiscal Year (Apr. 1, 2018 – Mar. 31, 2019)	Current Fiscal Year (Apr. 1, 2019 – Mar. 31, 2020)
Cash flows from investing activities		
Payments into time deposits	(924)	(886)
Proceeds from withdrawal of time deposits	846	739
Purchase of property, plant and equipment	(6,416)	(5,586)
Proceeds from sales of property, plant and equipment	35	2,128
Purchase of intangible assets	(501)	(847)
Purchase of investment securities	(3,045)	(2,700)
Proceeds from sales and redemption of investment securities	-	3,615
Purchase of shares of subsidiaries resulting in change in scope of consolidation	-	(5,755)
Subsidies received	-	110
Payments of long-term loans receivable	(341)	(343)
Collection of long-term loans receivable	43	118
Other, net	58	2
Net cash provided by (used in) investing activities	(10,245)	(9,405)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(91)	(2,649)
Proceeds from long-term loans payable	101	5,032
Repayments of long-term loans payable	(646)	(714)
Cash dividends paid	(2,506)	(3,078)
Cash dividends paid to non-controlling interests	(1)	(8)
Purchase of shares of subsidiaries resulting in no change in scope of consolidation	(200)	-
Other, net	(41)	(184)
Net cash provided by (used in) financing activities	(3,386)	(1,603)
Effect of exchange rate change on cash and cash equivalents	(832)	(781)
Net increase (decrease) in cash and cash equivalents	7,281	7,250
Cash and cash equivalents at beginning of period	30,063	37,345
Increase in cash and cash equivalents from newly consolidated subsidiary	-	69
Cash and cash equivalents at end of period	37,345	44,665

(5) Notes to Consolidated Financial Statements

Going Concern Assumption

No reportable information.

Changes in Accounting Policies

(1) Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606 — Revenue From Contracts With Customers

From the first quarter of this fiscal year, some overseas consolidated subsidiaries have applied ASC 606 "Revenue From Contracts With Customers."

Accordingly, revenue is recognized, when promised goods or services are transferred to a customer, in amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

For applying this standard, the Rohto Group adopts a method to recognize the cumulative effect of applying the new standard at the date of initial application in accordance with transitional measures. Retained earnings at the beginning of the first quarter have been adjusted.

As a result, retained earnings at the beginning of the first quarter of this fiscal year decreased 349 million yen. Net sales, operating income, ordinary income and profit before income taxes increased 49 million yen for the current fiscal year.

(2) International Financial Reporting Standards (IFRS) 16 — Leases

From the first quarter of this fiscal year, some overseas consolidated subsidiaries have applied IFRS 16 "Leases." For applying this standard, the Rohto Group adopts a method to recognize the cumulative effect of applying the new standard at the date of initial application in accordance with transitional measures. Retained earnings at the beginning of the first quarter have been adjusted.

For leases that were classified as operating leases by the lessee under the previous standard, IAS 17 "Leases," the right-of-use assets and lease liabilities are recognized at the application start date. In addition, some assets recorded as other under Investments and other Assets are reclassified to right-of-use assets.

As a result, other, net under property, plant and equipment in the consolidated balance sheets increased by 643 million yen, other under current liabilities increased by 120 million yen and other under non-current liabilities increased by 167 million yen, while other under investments and other assets decreased by 369 million yen.

The change had a minimal impact on the consolidated financial statements and per-share information for the current fiscal year.

Segment and Other Information

Segment Information

1. Overview of reportable segments

Segments used for financial reporting are the Company's constituent units for which separate financial information is available and for which the Board of Directors performs periodic studies for the purposes of determining the allocation of resources and evaluating performance.

The Company undertakes manufacture and sales activities mainly in the health and beauty care categories. Within Japan, these operations are mainly handled by the Company. Overseas, operations are mainly handled by The Mentholatum Company, Inc. in America, The Mentholatum Company Ltd. (UK). in Europe, and The Mentholatum (Asia Pacific) Ltd. and Mentholatum (China) Pharmaceutical Co., Ltd. in Asia, together with overseas affiliates. These affiliates each operate as autonomous business units, formulating comprehensive strategies in each region and developing business activities for the products and services they undertake.

Accordingly, the Company comprises the four geographical reportable segments of Japan, America, Europe, and Asia based on our manufacturing and sales structure. In each segment, we manufacture and sell eye care (including eye drops and eyewash preparations), skincare (including dermal medicines, lip balm, sunscreens, and functional cosmetics, etc.), internal medicines (including gastrointestinal medicines, traditional Chinese herbal medicines and supplements), and other products and services, such as in-vitro test kits.

2. Calculation methods for net sales, profits/losses, assets, liabilities, and other items for each reportable segment

The accounting treatment methods for reportable segments are generally the same as those listed in "Significant Accounting Policies in the Preparation of Consolidated Financial Statements" presented in the Group's annual securities report (*Yuka Shoken Hokokusho.*)

Profits for reportable segments are generally operating income figures. Inter-segment sales and transfers are determined based on market prices.

3. Information related to net sales, profit/loss, assets, liabilities, and other items for each reportable segment

Prior Fiscal Year (Apr. 1, 2018 – Mar. 31, 2019)

(Millions of yen)

	Reportable segment (Note 1)					Others (Note 2)	Total	Adjustment (Note 3)	Reported in consolidated statements of income (Note 4)
	Japan	America	Europe	Asia	Subtotal				
Net sales									
(1) Sales to customers	112,166	9,293	8,555	51,664	181,679	1,903	183,582	-	183,582
(2) Inter-segment sales and transfers	3,579	1,228	46	3,137	7,992	108	8,100	(8,100)	-
Total	115,746	10,521	8,601	54,802	189,672	2,011	191,683	(8,100)	183,582
Segment profit	13,181	286	352	6,497	20,317	163	20,481	330	20,812
Segment assets	143,462	28,191	8,876	64,731	245,261	1,506	246,767	(45,814)	200,953
Segment liabilities	43,399	4,374	1,949	23,020	72,744	392	73,137	(4,372)	68,764
Other items									
Depreciation	3,958	330	331	1,010	5,631	20	5,652	-	5,652
Amortization of goodwill	6	168	69	-	245	-	245	-	245
Increase in property, plant and equipment and intangible fixed assets	5,522	357	187	517	6,585	31	6,617	-	6,617

Notes: 1. "America" includes the business activities of overseas entities in the U.S. and Brazil, and others; "Europe" those in the U.K., Poland and South Africa; and "Asia" those in China, Taiwan, Vietnam, and others.

2. "Others" is the business that is excluded from reportable segments, and includes the business activities of entities in Australia.

3. (1) "Adjustment" to segment profit of 330 million yen indicates elimination for intersegment transactions.

(2) "Adjustment" to segment assets of (45,814) million yen and liabilities of (4,372) million yen indicate an elimination for intersegment transactions.

4. Segment profit is adjusted with operating income reported in the consolidated statements of income.

Current Fiscal Year (Apr. 1, 2019 – Mar. 31, 2020)

(Millions of yen)

	Reportable segment (Note 1)					Others (Note 2)	Total	Adjustment (Note 3)	Reported in consolidated statements of income (Note 4)
	Japan	America	Europe	Asia	Subtotal				
Net sales									
(1) Sales to customers	115,767	9,121	8,740	52,971	186,601	1,726	188,327	-	188,327
(2) Inter-segment sales and transfers	3,439	1,358	149	3,289	8,237	34	8,271	(8,271)	-
Total	119,206	10,480	8,890	56,261	194,838	1,760	196,599	(8,271)	188,327
Segment profit	14,852	283	217	7,220	22,573	142	22,716	369	23,085
Segment assets	154,855	15,095	8,708	64,329	242,989	1,435	244,425	(29,124)	215,301
Segment liabilities	49,966	3,178	2,083	21,864	77,092	330	77,422	(2,153)	75,269
Other items									
Depreciation	3,991	306	288	1,037	5,623	25	5,649	-	5,649
Amortization of goodwill (Note 5)	53	86	209	-	349	-	349	-	349
Increase in property, plant and equipment and intangible fixed assets	5,803	179	206	817	7,007	62	7,069	-	7,069

Notes: 1. "America" includes the business activities of overseas entities in the U.S. and Brazil, and others; "Europe" those in the U.K., Poland and South Africa, and others; and "Asia" those in China, Taiwan, Vietnam, and others.

2. "Others" is the business that is excluded from reportable segments, and includes the business activities of entities in Australia.

3. (1) "Adjustment" to segment profit of 369 million yen indicates elimination for intersegment transactions.

(2) "Adjustment" to segment assets of (29,124) million yen and liabilities of (2,153) million yen indicate an elimination for intersegment transactions.

4. Segment profit is adjusted with operating income reported in the consolidated statements of income.

5. In addition to amortization of goodwill as selling, general and administrative expenses, there was "Amortization of goodwill" of 529 million yen as extraordinary loss belonging to "America".

Related information

Prior Fiscal Year (Apr. 1, 2018 – Mar. 31, 2019)

1. Products and services information

(Millions of yen)

	Eye care products	Skincare products	Internal medicines	Others	Total
Sales to customers	39,428	117,488	20,244	6,422	183,582

Current Fiscal Year (Apr. 1, 2019 – Mar. 31, 2020)

1. Products and services information

(Millions of yen)

	Eye care products	Skincare products	Internal medicines	Others	Total
Sales to customers	40,004	120,072	22,436	5,813	188,327

Per-share Information

(Yen)

	Prior Fiscal Year (Apr. 1, 2018 – Mar. 31, 2019)	Current Fiscal Year (Apr. 1, 2019 – Mar. 31, 2020)
Net assets per share	1,147.42	1,217.67
Basic net income per share	86.00	135.13
Diluted net income per share	85.66	134.71

Notes: 1. Basis for calculation of basic net income per share and diluted net income per share are as follows. (Millions of yen)

Item	Prior Fiscal Year (Apr. 1, 2018 – Mar. 31, 2019)	Current Fiscal Year (Apr. 1, 2019 – Mar. 31, 2020)
Basic net income per share		
Profit attributable to owners of parent	9,799	15,410
Amount not available to common stock shareholders	-	-
Profit attributable to owners of parent applicable to common stock	9,799	15,410
Average number of common stock shares outstanding during the period (thousand shares)	113,955	114,039
Diluted net income per share		
Adjusted to profit attributable to owners of parent	-	-
Increase in the number of common stock shares (thousand shares)	441	354
[of which subscription rights to shares (thousand shares)]	[441]	[354]
Summary of dilutive shares not included in the calculation of "diluted net income per share" since there was no dilutive effect.	-	

2. Basis for calculation of net assets per share is as follows. (Millions of yen)

Item	Prior Fiscal Year End (As of Mar. 31, 2019)	Current Fiscal Year End (As of Mar. 31, 2020)
Total net assets on the balance sheets	132,189	140,032
Deduction from total net assets	1,416	1,132
[of which subscription rights to shares]	[498]	[382]
[of which non-controlling interests]	[917]	[749]
Net assets applicable to common stock	130,773	138,899
Number of common stock shares used in calculation of net assets per share (thousand shares)	113,971	114,070

Material Subsequent Events

No reportable information.

** This financial report is solely a translation of "Kessan Tanshin" (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.*

Independent Auditors' Report

June 29, 2020

The Board of Directors
Rohto Pharmaceutical Co., Ltd.

Ernst & Young ShinNihon LLC

Kaname Matsumoto

Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Takao Oshitani
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Opinion

We have audited the accompanying consolidated financial statements of Rohto Pharmaceutical Co., Ltd. and its subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2020 and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.
In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.
However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
We communicate with the Corporate Auditor and the Board of Corporate Auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

Conflicts of Interest

We have no interest in the Group which should be disclosed in accordance with the Certified Public Accountants Act.