

The Mentholatum Company Limited

Annual report and financial statements

Registered number 00197071

28 February 2022



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Directors and advisers

Directors	S Hossenlopp RWO Yateman M A Misztak L McColgan M Saito M Izon
Secretary	L McColgan
Auditor	Ernst & Young LLP G1 Building 5 George Square Glasgow G2 1DY
Registered office	Tricor Suite 4 th Floor 50 Mark Lane London EC3R 7QR
Bankers	Barclays Bank PLC 83 Argyle Street Glasgow G2 8BJ

Strategic report

The directors present their Strategic report for the year ended 28 February 2022.

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. The successful addition of the Hada Labo Tokyo (HLT) skincare brand to our portfolio has contributed to sales growth and added diversity and opportunity to our business growth strategy.

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. Consumer research helps drive its passion to create and develop meaningful products and solutions using the latest ingredients, packaging and technology, while being mindful of its sustainability commitments and goals. 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 record results for the year to 28 February 2022, against very challenging competitive and trading environments. Turnover increased by £7.1 million from £31.5 million in 2021 to £38.6 million in the year to 28 February 2022. This 22.5% increase on the prior year is due to the recovery of the UK and export markets since the early days of the coronavirus pandemic.

The company's key measurement of effectiveness of its operations are Gross Margin and Operating Income. Gross Profit increased from £16.5 million in 2021 to £19.3 million in 2022 due to higher sales, however Gross Margin decreased from 52.2% to 49.9% in the same period. The main contributor to the reduced profitability percentage is the increase in transportation costs. Whilst increasing energy costs and global price increases adversely impact costs, this was largely offset in the year by the existence of fixed price energy agreements and favourable foreign exchange position on purchases. Operating profit was relatively flat at £3.7 million (9.6%) in line with the previous year of £3.7 million (11.6%). Operating profit was a higher percentage of turnover in prior year due to strict cost control measures implemented from the beginning of the pandemic including the delaying a major R&D investment into 2022.

The business remains strong and anticipates that sales will continue on an upward trajectory albeit at a slower rate than previous years due to the cost of living challenges being experienced by our consumers. The future sales position will see a modest growth as HLT reaches a steady rate of sale and our topical analgesics business returns to a normal demand pattern. In terms of the OTC market, we have seen products which are reliant on a cough and cold season experiencing significant declines, however, products such as Deep Heat, Deep Freeze and Deep Relief have seen a greater resilience, despite the category declining in volume this year. The enforced UK national lockdown and work from home directive by the UK government have prompted a more active nation, resulting in an increase of minor injuries and benefiting products which fit into the minor ailment category of topical analgesics such as our Deeps portfolio.

Strategic report (continued)

Key performance indicators:

	2022	2021	Measure
Financial			
Gross Margin	49.9%	52.2%	Gross Profit/Turnover
Operating Income	9.6%	11.6%	Operating Profit/Turnover
Return on capital	13.9%	14.1%	Profit before tax/net assets
Current ratio	3.81	3.70	Current assets: current liabilities
Stock turnover	2.16	2.20	Cost of sales/average stock
Sales per employee (£000)	357	306	Turnover/average number of employees
Operating profit per employee (£000)	34	35	Operating profit/average number of employees

Key non-financial performance indicators include the monitoring of our employees' health and safety.

Non-financial

Lost time accidents	nil	nil	Reportable accidents
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Principal risks and uncertainties

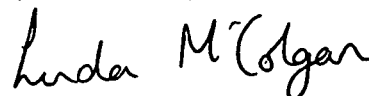
The principal risks and uncertainties affecting the business include the following:

- **Post Brexit continuity of supply to EU markets:** Following Brexit European-destined medicines are sold via our Belgian warehouse, and we have transferred our marketing authorisations (MAH) to a contract manufacturer who now perform EU testing, EU QP release and other regulatory roles for the EU market on our behalf. Post year end, we received notice that our existing partnership to test and release product into the EU will come to an end. This places our ability to sell medicines into the EU market at risk and for this reason Mentholatum will establish an EU entity and create a new process to release products to the EU marketplace. There is no imminent risk to sales to the EU market, as the contract has a termination period during which we will facilitate this switch. It is expected that costs involved in will be significant and the process will take 12 to 18 months to complete. Fortunately, however, due to a desire to return the MAH to Mentholatum control, we were already planning to action this during the current fiscal and allocated funding within the 2023 budget to facilitate this process.
- **War in Ukraine:** Following the invasion of Ukraine by Russia on 24th February 2022, the Directors determined that it was no longer appropriate to supply the Russian market. This decision was taken for ethical and reputational reasons. Whilst the protection of our company name and brands are paramount, the practical challenges in shipping goods are also considerable, with freight forwarders unwilling to ship to Russia or Ukraine, and insurers declining cover for transit. In terms of financial impact for the company year end, we made full provision against all stock held for the Russian Market as we no longer consider there to be any realisable value in that stock. Similarly, we made full provision against finished goods stock held for Ukraine due to uncertainty about how long the war will go on for, and if and when, that country might once again be in a position to take delivery of our products. We remain in close contact with the distributor in the region who has expressed a willingness to recommence supply as soon as the situation improves, and this becomes feasible. Management also recognise that the ongoing Russia-Ukraine conflict could dampen future manufacturing output with increased supply chain disruption and further volatility in the energy market, additional to the challenges detailed below.
- **Energy, wage and materials cost inflation:** rising wholesale energy prices have placed significant pressure on (1) overheads, primarily due to increased electricity charges; (2) the price of raw materials and packaging components from suppliers, as they too absorb these higher costs, and (3) consumer spending, as the cost-of-living crisis impacts the amount of cash available for discretionary spending. The company mitigates this risk by (1) entering long term price agreements with its energy providers; (2) implementing cost price increases across its product and customer base, (3) operating in a market more resilient to the cost-of-living impact.

Strategic report *(continued)*

- Global supply chain disruptions and supply chain resilience: the company monitors raw material and packaging sources on a global basis and negotiates annual price agreements where appropriate, with key suppliers. Continuity of supply is essential to the stable operation of the business and the company seeks to second source all key raw material and packaging components. Securing stock from China is particularly challenging due to lack of available shipping containers and boats, and the country's zero-covid policy resulting in lockdowns, factory closures and curtailing the ability of ports to function normally. This leads to increased freight costs and delays. The company has experienced a three-fold increase in transportation costs which it absorbed initially, but has now taken steps, by way of cost price increases, to recoup these. Lead times had been extended for orders, and increased buffer stocks are being held to mitigate the risk of stock-outs.
- Loss of Regulatory Accreditations: loss of accreditations or failure to comply with key regulatory requirements could result in an inability to supply products, leading to a loss of revenue and reputational damage. The company has a well-established Quality Assurance team in place including an experienced compliance function with deep industry insight and expertise and there are also regular audits and management reporting in place to mitigate these risks.
- Covid-19 pandemic: The Covid-19 global pandemic significantly impacted the UK economy beginning in March 2020 when the government implemented various measures to control the spread of the virus. Mitigating the unfavourable impacts caused by Covid-19 required 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. What has happened in the two years since has been a gradual transition to a situation whereby the World has adapted and learned to live in the presence of Covid-19 and where this no longer severely disrupts every facet of life to the extent that it did initially. Despite periods of severe lockdown across large areas of the UK and globally, Mentholatum maintained near normal operating levels in its manufacturing, laboratory and warehouse facilities, and sales rebounded and grew to reach record levels in fiscal 2022. This gives us confidence of our robustness to maintain strong market share throughout the pandemic and other challenges faced at this time. All office-based staff have worked at home throughout the pandemic albeit a return to the office on a hybrid working basis began in Spring 2022. Throughout this time the priority of the business has been to take all necessary measures to protect our colleagues and the sustainability of our products through this unprecedented event.
- 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



L McColgan
Director

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

30 June 2022

Directors' report

The directors present their annual report and audited financial statements of The Mentholatum Company Ltd for the year ended 28 February 2022.

Results and dividends

The profit for the year after taxation amounted to £2,849,000 (2021: £2,721,000). A dividend of £1,000,000 was paid during the year (2021: £nil).

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
L McColgan
M Saito
M Izon – appointed 18th August 2021

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

The directors retiring by rotation are M Misztak and M Izon who, being eligible, offers 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

Although 2022 will remain challenging due to disruption in global supply chains, and energy and commodity price inflation, the directors are cautiously optimistic. They aim to maintain and evolve the management policies that have resulted in the company's sustained growth in recent years. Particularly as the wider economy emerges from the pandemic, the directors consider that there are opportunities for growth in sales, driven by expansion into new products and new markets, including opportunities in e-commerce. 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. Opportunities in the Middle East to expand in new and existing markets, with both current and new product ranges, also present encouraging growth potential. This growth will be supported by investment in our people and in our manufacturing and laboratory equipment, warehouse facilities and office environment.

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 28 February 2022, the company has cash resources and short terms investments of £12.6 million (2021: £13.6 million).

In light of the wide-ranging challenges facing the world, including global logistics, price inflation and war, 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:

Directors' report (continued)

- Continuation of the positive expectation on sales and profitability, but with no anticipated improvement in working capital. This being due to deliberate business strategy to maintain high levels of inventory and to ensure continuity of manufacturing capabilities by reducing the risk of stock outs of key material and packaging items, but also to ensure supply of third party manufactured goods.
- Downside scenarios due to uncertainty created by the war in Ukraine and difficulties/delays in securing transportation of goods for the export markets in the Middle East and Africa.
- Increase in both Cost of Goods and overheads due to global price increases and increases in transportation costs.
- In the downside scenarios we have assumed 10% - 50% reduction in revenues across various markets 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 demonstrates 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 existence of multiple uncertainties. The going concern review period is to the end of June 2023.

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.

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 (2021: nil) and charitable contributions totalling £nil (2021: £nil).

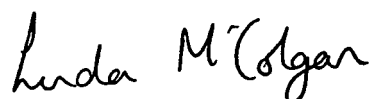
Disclosure of information to the auditor

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



L McColgan
Director

1 Redwood Avenue
Peel Park Campus
East Kilbride
Glasgow
G74 5PE
30 June 2022

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 28 February 2022 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 28 February 2022 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. 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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the period until 30 June 2023.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

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 contained within the annual report.

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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 the directors' responsibilities statement set out on page 7, 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the *primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.*

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that relate to the reporting framework (FRS102 and the Companies Act 2006) and the relevant direct and indirect tax compliance regulation in the United Kingdom. In addition, the Company has to comply with laws and regulations relating to its operations, including health and safety, employees and GDPR.
- We understood how the Company is complying with those frameworks by making enquiries of management to understand how the Company maintains and communicates its policies and procedures in these areas and corroborated this by reviewing supporting documentation. We also reviewed correspondence with relevant authorities.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by considering the risk of management override and by assuming revenue to be a fraud risk. We incorporated data analytics into our journal entry testing. We have incorporated unpredictability into our testing of manual journals and into our testing of revenue recognition. We tested specific transactions back to source documentation or independent confirmation, ensuring appropriate authorisation of the transactions.

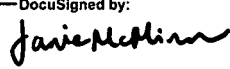
Independent auditor's report to the members of The Mentholatum Company Limited *(continued)*

- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved conducting management enquiries, substantively testing the legal expenses account and testing journals identified by specific risk criteria such as round number journals.

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.

DocuSigned by:

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Janie McMinn (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Glasgow
30 June 2022

Statement of Profit and Loss and Other Comprehensive Income
for the year ended 28 February 2022

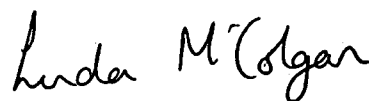
	<i>Note</i>	2022 £000	2021 £000
Turnover	2	38,608	31,511
Cost of sales		(19,353)	(15,049)
Gross profit		19,255	16,462
Distribution costs		(10,099)	(8,751)
Administrative expenses		(5,445)	(4,057)
Operating profit	3	3,711	3,654
Income from investments	10	45	-
Other interest receivable and similar income	6	9	2
Interest payable and similar expenses	7	(52)	(182)
Profit before taxation		3,713	3,474
Tax on profit	8	(864)	(753)
Profit for the financial year		2,849	2,721
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss</i>			
Remeasurement of the net defined benefit liability		170	479
Income tax on defined benefit liability remeasurement	8	(42)	(91)
Total other comprehensive income/(expense) for the year		128	388
Profit for the year		2,849	2,721
Total comprehensive income for the year		2,977	3,109

All operations in the current and preceding year are continuing.

Balance Sheet
at 28 February 2022

	<i>Note</i>	2022 £000	£000	2021 £000	£000
Fixed assets					
Tangible assets	9	4,188		4,713	
Investments	10	50		11	
			4,238		4,724
Current assets					
Stocks	11	10,150		7,783	
Debtors	12	8,266		6,424	
Short term investments	13	6,009		-	
Cash at bank and in hand		6,587		13,606	
			31,012		27,813
Creditors: amounts falling due within one year	14		(8,139)		(7,515)
Net current assets			22,873		20,298
Total assets less current liabilities			27,111		25,022
Provisions for liabilities					
Deferred tax liability	15	(730)		(633)	
Defined benefit pension asset	16	316		331	
			(414)		(302)
Net assets			26,697		24,720
Capital and reserves					
Called up share capital	17	1,900		1,900	
Profit and loss account		24,797		22,820	
Equity shareholder's funds			26,697		24,720

These financial statements were approved by the board of directors on 30 June 2022 and were signed on its behalf by:



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 2020	1,900	19,711	21,611
Total comprehensive income for the period			
Profit or loss	-	2,721	2,721
<i>Other comprehensive income</i>			
Remeasurement of the net pension scheme liability	-	479	479
Tax on remeasurement of the net pension scheme liability	-	(91)	(91)
Total comprehensive income for the period	-	3,109	3,109
Balance at 28 February 2021	1,900	22,820	24,720
	Called up share capital £000	Profit and loss account £000	Total equity £000
Balance at 1 March 2021	1,900	22,820	24,720
Total comprehensive income for the period			
Profit or loss	-	2,849	2,849
<i>Other comprehensive income</i>			
Remeasurement of the net pension scheme liability	-	170	170
Tax on remeasurement the net of pension scheme liability	-	(42)	(42)
Total comprehensive income for the period	-	2,977	2,977
Dividends	-	(1,000)	(1,000)
Balance at 28 February 2022	1,900	24,797	26,697

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 28 February 2022, the company has cash resources of £12.6 million (2021: £13.6 million).

In light of the wide-ranging challenges facing the world, including global logistics, price inflation and war, 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:

- Continuation of the positive expectation on sales and profitability, but with no anticipated improvement in working capital. This being due to deliberate business strategy to maintain high levels of inventory and to ensure continuity of manufacturing capabilities by reducing the risk of stock outs of key material and packaging items, but also to ensure supply of third party manufactured goods.

Notes (continued)

1 Accounting policies (continued)

1.2 Going concern (continued)

- Downside scenarios due to uncertainty created by the war in Ukraine and difficulties/delays in securing transportation of goods for the export markets in the Middle East and Africa.
- Increase in both Cost of Goods and overheads due to global price increases and increases in transportation costs.
- In the downside scenarios we have assumed 10% - 50% reduction in revenues across various markets 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 demonstrates 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 existence of multiple uncertainties. The going concern review period is to the end of June 2023.

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)

1.4 Basic financial instruments (continued)

Term deposit investments

Term deposit investments comprise deposits held with banks with maturities greater than three months.

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

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 it is 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.

1.16 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 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)

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.

	2022 £000	2021 £000
<i>By geographical market</i>		
United Kingdom	21,439	18,797
Africa	3,395	2,274
Europe	8,787	7,445
Middle East	4,708	2,808
Other	279	187
	<hr/>	<hr/>
Total turnover	38,608	31,511
	<hr/>	<hr/>

Included within sales to Europe are sales of £1,595,000 to Russia (2021: £291,000) and £1,044,000 to Ukraine (2021: £1,296,000).

3 Expenses and auditor's remuneration

Included in profit/loss are the following:

	2022 £000	2021 £000
<i>Operating profit is stated after charging/(crediting):</i>		
Depreciation of tangible fixed assets	771	781
Research and development expenditure	1,600	1,082
Foreign exchange loss	51	182
Gain on sale of fixed assets	-	1
Rental under operating leases – land and buildings	362	362
– motor vehicles	19	44
	<hr/>	<hr/>

Auditor's remuneration:

	2022 £000	2021 £000
Audit of these financial statements	53	47
Amounts receivable by the company's auditor in respect of:		
Assurance services on behalf of the parent undertaking	21	19
All other services	14	15
	<hr/>	<hr/>

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	
	2022	2021
Full-time directors and other executives	30	28
Administration	50	47
Production personnel	28	28
	<u>108</u>	<u>103</u>

The aggregate payroll costs of these persons were as follows:

	2022 £000	2021 £000
Wages and salaries	5,501	4,643
Social security costs	595	508
Pension costs (see note 15)	475	454
	<u>6,571</u>	<u>5,605</u>

5 Directors' remuneration

	2022 £000	2021 £000
Directors' remuneration	719	561
Company contributions to a defined contribution pension scheme	18	19
	<u>737</u>	<u>580</u>

The aggregate of remuneration of the highest paid director was £320,000 (2021: £302,000), and company pension contributions of £nil (2021: nil) were made to a defined contribution scheme on his behalf.

The aggregate of remuneration for 2 non-UK Directors who are remunerated through other Rohto Group companies in relation to services rendered to The Mentholatum Company limited was £nil (2021: £4,000).

	Number of directors	
	2022	2021
Retirement benefits are accruing to the following number of directors under:		
Defined contribution scheme	<u>2</u>	<u>2</u>

6 Other interest receivable and similar income

	2022 £000	2021 £000
Bank interest	<u>9</u>	<u>2</u>

Notes (continued)

7 Interest payable and similar expenses

	2022 £000	2021 £000
Foreign exchange loss	51	182
Other interest payable	1	-
	<hr/>	<hr/>
Total interest payable and similar charges	52	182
	<hr/>	<hr/>

8 Taxation

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

	2022 £000	£000	2021 £000	£000
<i>Current tax</i>				
UK corporation tax on income for the period	806		685	
Adjustments in respect of prior periods	2		-	
	<hr/>		<hr/>	
Total current tax		808		685
<i>Deferred tax (see note 14)</i>				
Origination and reversal of timing differences	(40)		(57)	
Adjustments in respect of prior periods	(27)		1	
Change in rate	169		65	
Deferred tax change in relation to pensions	(4)		150	
	<hr/>		<hr/>	
Total deferred tax		98		159
		<hr/>		<hr/>
Total tax		906		844
		<hr/>		<hr/>

	Current tax £000	2022 Deferred tax £000	Total tax £000	Current tax £000	2021 Deferred tax £000	Total tax £000
Recognised in Profit and loss account	808	56	864	685	68	753
Recognised in other comprehensive income	-	42	42	-	91	91
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total tax	808	98	906	685	159	844
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

	2022 £000	2021 £000
Analysis of current tax recognised in profit and loss		
UK corporation tax	787	672
Double taxation relief	19	13
Adjustments in respect of prior periods	2	-
	<hr/>	<hr/>
Total current tax recognised in profit and loss	808	685
	<hr/>	<hr/>

Notes (continued)

8 Taxation (continued)

Reconciliation of effective tax rate in the profit and loss account

	2022 £000	2021 £000
Profit for the year	2,849	2,721
Total tax expense	864	753
Profit excluding taxation	3,712	3,474
Tax using the UK corporation tax rate of 19% (2021: 19%)	705	660
Increase in the tax rate on deferred tax balances	169	65
Non-deductible expenses	41	12
Non-taxable income	(9)	-
Pension contributions in excess of profit and loss charge	(46)	-
Under provided in prior years	(25)	1
Other	29	15
Total tax expense included in profit or loss	864	753

In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would increase to 25% (rather than remaining at 19%, as previously enacted). This new law was substantively enacted on 24 May 2021. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

9 Tangible fixed assets

	Freehold land and buildings £000	Vehicles, plant and machinery £000	Total £000
Cost			
Balance at 1 March 2021	6,724	9,452	16,176
Additions	-	246	246
Disposals	-	(35)	(35)
Balance at 28 February 2022	6,724	9,663	16,387
Depreciation and impairment			
Balance at 1 March 2021	3,819	7,644	11,463
Depreciation charge for the year	212	559	771
Disposals	-	(35)	(35)
Balance at 28 February 2022	4,031	8,168	12,199
Net book value			
At 1 March 2021	2,905	1,808	4,713
At 28 February 2022	2,693	1,495	4,188

Tangible assets includes £55,000 (2021: £59,000) in respect of capitalised interest of which £nil was capitalised in the year.

Notes (continued)

9 Tangible fixed assets (continued)

Land and Buildings

The net book value of land and buildings includes £178,000 (2021: £178,000) in respect of freehold land on which no depreciation is charged.

10 Fixed asset investments

	2022 £000	2021 £000
Cost		
Balance at 1 March 2021	11	11
Additions	215	-
Disposals in the year	(176)	-
	<hr/>	<hr/>
Balance at 28 February 2022	50	11
	<hr/>	<hr/>

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%
A.J. North (Pty) Limited	11 Imam Haron Road, Claremont, Cape Town, 7708, South Africa	Manufacturing	South Africa	100%*

*Held by a subsidiary undertaking

The movements in the year relate to the transfer of ownership of Mentholatum South Africa (Pty) Limited, by way of a dividend in specie from Farmacas B.V. to the company, to be a directly owned subsidiary of the Company. Farmacas BV was deregistered on 26th January 2022.

RCL Investments (Pty) Limited, previously owned by a subsidiary undertaking, was deregistered on 17th June 2021.

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

	2022 £000	2021 £000
Raw materials and consumables	2,597	2,745
Work in progress	36	26
Finished goods	7,517	5,012
	<hr/>	<hr/>
	10,150	7,783
	<hr/>	<hr/>

Notes (continued)

11 Stocks (continued)

The difference between purchase price and production cost of stocks and their replacement cost is not material. The value of inventories recognised as an expense during the period was £19,017,000 (2021: £14,267,000).

12 Debtors

	2022 £000	2021 £000
Trade debtors	7,184	5,537
Amounts owed by group companies	629	517
Prepayments and accrued income	383	370
Other taxation and social security	70	-
	<u>8,266</u>	<u>6,424</u>

13 Current Asset Investments

	2022 £000	2021 £000
Term deposits	6,009	-
	<u>6,009</u>	<u>-</u>

Investments in term deposits have a maturity of 120 days. At the balance sheet date the average maturity was 120 days. (2021: nil). The average interest rate was 0.2% (2021: nil).

14 Creditors: amounts falling due within one year

	2022 £000	2021 £000
Trade creditors	3,699	3,377
Amounts owed to group companies	180	91
Other taxation and social security	161	490
Corporation tax	47	76
Accruals and deferred income	4,052	3,481
	<u>8,139</u>	<u>7,515</u>

15 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2022 £000	2021 £000	Liabilities 2022 £000	2021 £000	Net 2022 £000	2021 £000
Accelerated capital allowances	-	-	699	613	699	613
Employee benefits	-	-	68	72	68	72
Other timing differences	(37)	(52)	-	-	(37)	(52)
	<u>(37)</u>	<u>(52)</u>	<u>767</u>	<u>685</u>	<u>730</u>	<u>633</u>
Tax (assets)/liabilities	(37)	(52)	767	685	730	633
Net of tax liabilities/(assets)	37	52	(37)	(52)	-	-
	<u>37</u>	<u>52</u>	<u>(37)</u>	<u>(52)</u>	<u>-</u>	<u>-</u>
Net tax (assets)/liabilities	-	-	730	633	730	633

Notes (continued)

15 Deferred tax assets and liabilities (continued)

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.

16 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 asset/(liability)

	2022 £000	2021 £000
Defined benefit obligation	(5,012)	(5,332)
Plan assets	5,328	5,663
Net pension asset/(liability)	316	331

Movements in present value of defined benefit obligation

	2022 £000	2021 £000
At beginning of year	(5,332)	(5,746)
Past service cost	(185)	-
Interest expense	(100)	(95)
Remeasurement actuarial gains/(losses)	434	154
Benefits paid	171	355
At end of year	(5,012)	(5,332)

Movements in fair value of plan assets

	2022 £000	2021 £000
At beginning of year	5,663	5,292
Expected return on plan assets	106	89
Contributions by employer	-	306
Actuarial gains/(losses)	(270)	331
Benefits paid	(171)	(355)
At end of year	5,328	5,663

Expense recognised in the profit and loss account

	2022 £000	2021 £000
Past service cost	185	-
Interest on defined benefit pension plan obligation	(6)	5
Total expense recognised in profit or loss	179	5

Notes (continued)

16 Employee benefits (continued)

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

	2022 Fair value £000		2021 Fair value £000	%
Cash	243	5%	243	4%
Administration contract	3,672	69%	3,818	68%
Annuities	1,413	26%	1,602	28%
	<u>5,328</u>	<u>100%</u>	<u>5,663</u>	<u>100%</u>
Actual return on plan assets	<u>(164)</u>		<u>420</u>	

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:

	2022 %	2021 %
Discount rate	2.65%	1.90%
Retail price inflation	3.75%	3.20%
Pension in payment increases	3.90%	3.65%

The last full actuarial valuation was published on 8 May 2020 and measured the defined benefit obligations of the scheme as at 1 May 2019. The valuation detailed the company's obligation to the remaining 20 deferred scheme members and defined the required annual contributions from the company. These were agreed by the company on 6 May 2020.

In valuing the liabilities of the pension fund at 28 February 2022, 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 60-year old to live for a number of years as follows:

- Current pensioner aged 60: 27.2 years (male), 29.5 years (female).
- Future retiree upon reaching 60: 28.7 years (male), 31.0 years (female).

The actuarial valuation of the scheme as at 1 May 2019 showed a funding shortfall (technical provisions minus value of assets) of £421,000. To eliminate this funding shortfall, the Trustees and the Employer agreed that additional contributions would be paid to the scheme of £25,500 per month until October 2020.

Defined contribution plans

The pension cost charge for the period represents contributions payable by the company to the scheme and amounted to £475,000 (2021: £454,000). Contributions from employees and the company amounting to £44,000 (2021: £44,000) were payable to the scheme and are included in creditors.

Notes (continued)

17 Capital and reserves

Share capital

	2022 £000	2021 £000
<i>Allotted, called up and fully paid</i>		
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:

	2022 £000	2021 £000
Interim dividends paid in respect of the current year	1,000	-

18 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2022 £000	2021 £000
Less than one year	370	381
Between one and five years	1,047	1,071
More than five years	1,180	1,525
	2,597	2,977

19 Commitments

Capital commitments

The Company had the following capital commitments at year end.

	2022 £000	2021 £000
Contracts for future capital expenditure not provided in the financial statements	238	-
– Plant and equipment		
	238	-

Notes (continued)

20 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.

21 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.

22 Post Balance Sheet event

The Mentholatum Company (Ireland) Limited was incorporated as a 100% owned subsidiary of The Mentholatum Company Limited on 16th June 2022.

Consolidated Financial Results for the Fiscal Year Ended March 31, 2022

[Japanese GAAP]

Company name: ROHTO Pharmaceutical Co., Ltd. Stock Exchange listing: TSE, First Section
 Stock code: 4527 URL: <https://www.rohto.co.jp/>
 Representative: Masashi Sugimoto, President and COO
 Contact: Masaya Saito, Vice President and CFO
 Telephone: 81-(0) 6-6758-8223
 Scheduled date of Annual General Meeting of Shareholders: June 27, 2022
 Scheduled date of filing of Annual Securities Report: June 28, 2022
 Scheduled date of dividend payment: June 13, 2022
 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, 2022 (April 1, 2021 – March 31, 2022)

(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, 2022	199,646	-	29,349	-	29,084	-	21,018	-
Fiscal year ended Mar. 31, 2021	181,287	(3.7)	22,990	(0.4)	23,910	5.2	16,743	8.6

Note: Comprehensive income (Millions of yen): Fiscal year ended Mar. 31, 2022: 26,772 -%
 Fiscal year ended Mar. 31, 2021: 19,794 75.6%

	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, 2022	184.26	183.73	12.6	11.6	14.7
Fiscal year ended Mar. 31, 2021	146.78	146.36	11.7	10.8	12.7

Reference: Equity in earnings of affiliates (Millions of yen): Fiscal year ended Mar. 31, 2022: 143
 Fiscal year ended Mar. 31, 2021: 396

Note 1: The Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), from the beginning of the current fiscal year, and the figures for the fiscal year ended March 2022 are after the application of the said accounting standard. The percentage changes from the same period of the previous fiscal year are not stated.

Note 2: The provisional accounting treatment for business combinations has been finalized in the current fiscal year. The figures for the fiscal year ended March 31, 2021 have been restated accordingly.

(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, 2022	274,627	183,832	64.8	1,559.62
As of Mar. 31, 2021	226,149	156,612	68.8	1,363.42

Reference: Shareholders' equity (Millions of yen): As of Mar. 31, 2022: 177,905 As of Mar. 31, 2021: 155,525

Note: The provisional accounting treatment for business combinations has been finalized in the current fiscal year. The figures for the fiscal year ended March 31, 2021 have been restated accordingly.

(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, 2022	27,250	(16,406)	3,470	70,905
Fiscal year ended Mar. 31, 2021	20,008	(10,237)	(2,347)	52,254

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, 2021	-	13.00	-	15.00	28.00	3,193	19.1	2.2
Fiscal year ended Mar. 31, 2022	-	15.00	-	21.00	36.00	4,106	19.5	2.5
Fiscal year ending Mar. 31, 2023 (forecast)	-	18.00	-	19.00	37.00		21.6	

3. Consolidated Earnings Forecast for the Fiscal Year Ending March 31, 2023 (April 1, 2022 – March 31, 2023)

(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	218,000	9.2	28,000	(4.6)	28,000	(3.7)	19,500	(7.2)	170.95

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): None

(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

Note: For details, please refer “(5) Notes to Consolidated Financial Statements”, under “3. Consolidated Financial Statements and Major Notes” on page 16 of the attachment

(3) Number of common shares issued

- 1) Number of shares outstanding at the end of the period (including treasury shares):
 As of Mar. 31, 2022: 118,089,155 shares As of Mar. 31, 2021: 118,089,155 shares
- 2) Number of shares of treasury shares at the end of the period:
 As of Mar. 31, 2022: 4,019,262 shares As of Mar. 31, 2021: 4,019,044 shares
- 3) Average number of shares outstanding during the period:
 Fiscal year ended Mar. 31, 2022: 114,070,031 shares Fiscal year ended Mar. 31, 2021: 114,070,140 shares

Reference: Summary of Non-consolidated Financial Results

1. Non-consolidated Financial Results for the Fiscal Year Ended March 31, 2022 (April 1, 2021 – March 31, 2022)

(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, 2022	101,207	-	16,723	-	17,516	-	13,035	-
Fiscal year ended Mar. 31, 2021	101,009	(5.1)	13,018	(1.9)	12,564	(12.6)	8,920	27.8

	Basic net income per share	Diluted net income per share
	Yen	Yen
Fiscal year ended Mar. 31, 2022	114.27	113.94
Fiscal year ended Mar. 31, 2021	78.20	77.97

Notes: The Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), from the beginning of the current fiscal year, and the figures for the fiscal year ended March 2022 are after the application of the said accounting standard. The percentage changes from the same period of the previous fiscal year are not stated.

(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, 2022	172,621	122,859	71.0	1,073.69
As of Mar. 31, 2021	153,277	114,864	74.7	1,003.60

Reference: Shareholders' equity (Millions of yen): As of Mar. 31, 2022: 122,476 As of Mar. 31, 2021: 114,481

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, 2022	199,646	29,349	29,084	21,018
Fiscal year ended Mar. 31, 2021	181,287	22,990	23,910	16,743
Year-on-year change (%)	-	-	-	-

During the current fiscal year, the Japanese economy showed signs of gradual recovery in economic activities, although the situation remained severe due to the influence of COVID-19 infections. Overseas, the situation remains unpredictable due to soaring crude oil prices and high raw material costs resulting from economic slowdown due to China's zero-COVID policy and Russia's invasion of Ukraine.

Under these circumstances, the Rohto Group has created the slogan of "Connect for Well-being," suggesting people around the world living energetically and happily each day, both physically and mentally, throughout the various stages of their lives. We are endeavoring to further increase corporate value.

Consequently, the consolidated net sales increased significantly to 199,646 million yen in the current fiscal year.

Compared to the same period of the previous year, when sales fell sharply due to the influence of COVID-19 infections, progress in vaccination and the resumption of economic activity led to a recovery in consumer sentiment, which contributed to sales growth.

As a result of a significant sales growth and efforts to efficiently utilize selling, general and administrative expenses, the Company achieved a significant increase in all profit categories, with an operating income of 29,349 million yen, ordinary income of 29,084 million yen, and net income attributable to owners of the parent of 21,018 million yen.

Note: From the beginning of the current fiscal year, the Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29). Consequently, the accounting treatment of revenues differs from that of the previous fiscal year. The percentage changes from the previous fiscal year are not stated.

The rate of change from the prior first half was not given in the narrative. If we were to apply the new revenue recognition standard to the prior first half, the rate of change was as follows: sales rose 15.6%, Cost of sales 1.4%, operating income 27.8%, ordinary income 21.7%, and profit attributable to owners of parent 25.7% year-on-year. Sales and profits at all levels increased to all-time highs.

		(Millions of yen)			
		Net sales (Sales to customers)			
		Fiscal year ended Mar. 31, 2021	Fiscal year ended Mar. 31, 2022	Year-on-year change (Amount)	Year-on-year change (%)
Reportable segment	Japan	115,629	121,417	-	-
	America	7,687	10,037	2,350	30.6
	Europe	8,149	10,297	2,147	26.4
	Asia	48,056	55,988	7,931	16.5
	Subtotal	179,522	197,740	-	-
Others		1,764	1,906	141	8.0
Total		181,287	199,646	-	-

Japan

Sales to outside customers totaled 121,417 million yen. Sales of high-value eye drops increased due in part to an increase in the number of people complaining of eyestrain as a result of longer contact time with digital devices due to the COVID-19 pandemic, and the anti-pollen allergy products brand eye drops "ROHTO Alguard" also contributed to the increase in sales.

Net sales of sunscreens, which declined significantly due to the impact of the COVID-19 pandemic in the previous fiscal year, grew above the pre-COVID-19 levels driven by the strong performance of "SKIN AQUA." In addition, sales of "MELANO CC," "HADALABO," "DEOCO," and "ROHTO V5" continued to be strong. Moreover, the COVID-19 (SARS-CoV-2) antigen rapid test kits also contributed to the increase in sales.

In addition to ROHTO pharmaceuticals Co., Ltd. standalone, Nitten Pharmaceutical Co., Ltd. (the company name changed to Rohtonitten K.K. as of April 1 2011), which newly launched "lacrimal duct tube" this fiscal year, Qualitech Pharma Co., Ltd., and Amato Pharmaceutical Products, Ltd., which has "BORRAGINOL®," as its main product and became subsidiaries in August 2021 also contributed to the increase in sales. Meanwhile, sales of lip balms, especially colored ones, were sluggish due to the habit of wearing masks.

Segment income (operating income) increased significantly to 19,547 million yen due to the substantial increase in sales and reduction in cost of sales ratio.

Note: As described in the note for "(1) Explanation of Results of Operations," if we were to apply the new revenue recognition standard to the prior first half, sales rose 13.5% and operating income 33.5% year-on-year.

America

Sales to customers significantly increased 30.6% year-on-year to 10,037 million yen.

Hydrox Laboratories, which became a subsidiary in October 2021 and manufactures and sells alcohol disinfectants and other products, also contributed to the increase in sales.

Segment income (operating income) was 216 million yen (down 52.8% year-on-year) due to an increase in procurement costs for raw materials and supplies as well as a deterioration in the cost of sales ratio due to the impact of labor shortages.

Europe

Sales to customers significantly increased 26.4% year-on-year to 10,297 million yen.

Sales of the main-stay anti-inflammatory analgesic products performed well.

The Company also began cultivating the eye drop market with the May 2021 launch of "Rohto Dry Aid," an eye drop that has obtained the CE marking. Segment income (on an operating income basis) increased to 563 million yen (up 50.2 % year-on-year) as a result of efforts to efficiently utilize selling, general and administrative expenses, despite a deterioration in the cost of sales ratio due to an increase in procurement costs for raw materials and supplies as well as the impact of labor shortages.

Asia

Sales to customers significantly increased 16.5% year-on-year to 55,988 million yen.

As for sales, sunscreen and lip balm, which fell sharply in the previous fiscal year due to the COVID-19 pandemic, showed a recovery trend. And eye drops also performed well thanks to the launch of new products and aggressive sales promotion activities. "Acnes", an acne treatment, continued to contribute to sales growth due to an increase in skin problems associated with the wearing of masks. While sales in China and Hong Kong continued to perform well due to the economic recovery from the COVID-19 pandemic, sales were sluggish in Vietnam due to the lockdown policy and the resulting decline in factory capacity utilization.

Segment income (operating income) increased significantly to 8,365 million yen (up 20.8% year-on-year) due to

Outlook for the fiscal year ending Mar. 31, 2023

	(Millions of yen)			
	Net sales	Operating income	Ordinary income	Profit attributable to owners of parent
Fiscal year ending Mar. 31, 2023 (forecast)	218,000	28,000	28,000	19,500
Fiscal year ended Mar. 31, 2022 (results)	199,646	29,349	29,084	21,018
Year-on-year change after adjustment (%)	9.2	(4.6)	(3.7)	(7.2)

The future economic outlook remains uncertain due to the continuing spread of COVID-19 infections and economic slowdown by China's zero-COVID policy, affecting business activities and markets in some areas. In addition, following Russia's invasion of Ukraine, the supply of products to both countries has been suspended and the situation continues to be unpredictable due to soaring crude oil prices, etc.

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 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 situation, for the next fiscal year, the Company projects net sales of 218.0 billion yen, operating income of 28.0 billion yen partly due to an increase in R&D expenses resulting from progress in developing regenerative medicine and medical-use ophthalmic drugs in Japan segment, ordinary income of 28.0 billion yen, and profit attributable to owners of parent to be 19.5 billion yen.

These forecasts are based on an exchange rate of 125 yen to the U.S. dollar.

(2) Overview of Financial Position

Total assets at the end of the current fiscal year increased 48,477 million yen from the end of the previous fiscal year to 274,627 million yen. This was mainly due to increases of 19,827 million yen in cash and deposit, 9,532 million yen in buildings and structures, and 3,845 million yen in merchandise and finished goods, while there was a decrease of 1,020 million yen in construction in progress. Total liabilities increased 21,257 million yen from the end of the previous fiscal year to 90,794 million yen. This was mainly due to increases of 7,563 million yen in long-term loans payable, 5,720 million yen in short-term loans payable, and 4,056 million yen in notes and accounts payable- trade, despite the decrease of income taxes payable of 1,891 million yen. Net assets increased 27,220 million yen from the end of the previous fiscal year to 183,832 million yen. This was mainly due to increases of 16,684 million yen in retained earnings and 6,055 million yen in foreign currency translation adjustment, while there was a decrease of 724 million yen in valuation difference on available-for-sale securities.

(3) Overview of Cash Flows

(Millions of yen)

Item	Fiscal year ended Mar. 31, 2021	Fiscal year ended Mar. 31, 2022	Year-on-year change (Amount)
Cash and cash equivalents at the beginning of the period	44,665	52,254	7,589
Cash flows from operating activities	20,008	27,250	7,242
Cash flows from investing activities	(10,237)	(16,406)	(6,169)
Cash flows from financing activities	(2,347)	3,470	5,818
Effect of exchange rate changes on cash and cash equivalents	96	4,335	4,239
Increase (decrease) in cash and cash equivalents	7,519	18,650	11,130
Increase in cash and cash equivalents from newly consolidated subsidiaries	69	-	(69)
Cash and cash equivalents at the end of the period	52,254	70,905	18,650

During the current fiscal year, there was a net increase of 18,650 million yen in cash and cash equivalents to 70,950 million yen.

Operating activities

Net cash provided by operating activities increased 7,242 million yen year-on-year to 27,250 million yen. This was because profit before income taxes was 27,953 million yen, and there were 7,216 million yen of depreciation and amortization and 3,323 million yen of increase in trade payables as cash flow increasing factors, while there were 8,823 million yen of income tax paid and 3,061 million yen of increase in inventories as cash flow decreasing factors.

Investing activities

Net cash used in investing activities increased 6,169 million yen year-on-year to 16,406 million yen. This was mainly due to payments of 10,267 million yen for the purchase of property, plant and equipment and 3,697 million yen for the purchase of investment securities.

Financing activities

Net cash provided by financing activities amounted to 3,470 million yen in the current fiscal year (vs negative cash flow of 2,347 million yen in the same period of the previous year). This was mainly due to proceeds from long-term loans payable of 9,450 million yen, while there were 3,422 million yen of cash dividends paid, and 3,133 million yen of repayment of long-term loans payable.

(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 21 yen per share for the fiscal year ended on March 31, 2022. Added to the interim dividend of 15 yen, which has been distributed already, this will bring the annual dividend to 36 yen per share.

For the fiscal year ending on March 31, 2023, with our gratitude to all the shareholders who support us on a regular basis, we plan to pay interim dividends of 18 yen per share, year-end dividends of 19 yen per share bringing the annual total to 37 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, 2021)	Current Fiscal Year End (As of Mar. 31, 2022)
Assets		
Current assets		
Cash and deposits	52,964	72,791
Notes and accounts receivable-trade	31,207	33,310
Electronically recorded monetary claims-operating	16,943	18,551
Merchandise and finished goods	13,848	17,694
Work in process	2,799	3,264
Raw materials and supplies	11,278	12,569
Other	4,315	6,304
Allowance for doubtful accounts	(285)	(179)
Total current assets	133,071	164,306
Non-current assets		
Property, plant and equipment		
Buildings and structures	48,683	62,272
Accumulated depreciation	(29,303)	(33,359)
Buildings and structures, net	19,379	28,912
Machinery, equipment and vehicles	51,474	60,109
Accumulated depreciation	(43,434)	(50,183)
Machinery, equipment and vehicles, net	8,040	9,926
Tools, furniture and fixtures	15,642	17,739
Accumulated depreciation	(13,474)	(15,217)
Tools, furniture and fixtures, net	2,167	2,521
Land	12,887	15,121
Construction in progress	6,609	5,588
Other	1,371	1,284
Accumulated depreciation	(666)	(515)
Other, net	705	769
Total property, plant and equipment	49,790	62,839
Intangible assets		
Goodwill	3,304	2,954
Other	4,590	6,337
Total intangible assets	7,894	9,292
Investments and other assets		
Investment securities	26,226	28,132
Long-term loans receivable	3,361	5,420
Deferred tax assets	4,606	5,297
Other	5,170	6,092
Allowance for doubtful accounts	(3,971)	(6,754)
Total investments and other assets	35,392	38,188
Total non-current assets	93,078	110,320
Total assets	226,149	274,627

	(Millions of yen)	
	Prior Fiscal Year End (As of Mar. 31, 2021)	Current Fiscal Year End (As of Mar. 31, 2022)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	9,603	13,660
Electronically recorded obligations-operating	1,727	2,609
Short-term loans payable	2,312	8,033
Accrued expenses	22,566	16,266
Income taxes payable	4,948	3,056
Accrued consumption taxes	1,190	129
Provision for bonuses	2,612	3,048
Provision for directors' bonuses	30	40
Provision for sales returns	792	-
Provision for sales rebates	2,410	-
Refund liability	-	14,116
Other	8,277	10,528
Total current liabilities	56,471	71,488
Non-current liabilities		
Long-term loans payable	5,787	13,350
Deferred tax liabilities	998	1,450
Net defined benefit liability	3,451	3,332
Provision for loss on guarantees	1,675	55
Other	1,153	1,117
Total non-current liabilities	13,066	19,306
Total liabilities	69,537	90,794
Net assets		
Shareholders' equity		
Capital stock	6,504	6,504
Capital surplus	5,661	5,787
Retained earnings	145,511	162,195
Treasury shares	(4,936)	(4,936)
Total shareholders' equity	152,741	169,551
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	6,717	5,992
Foreign currency translation adjustment	(3,062)	2,992
Remeasurements of defined benefit plans	(870)	(631)
Total accumulated other comprehensive income	2,784	8,354
Subscription rights to shares	382	382
Non-controlling interests	704	5,543
Total net assets	156,612	183,832
Total liabilities and net assets	226,149	274,627

(2) Consolidated Statements of Income and Comprehensive Income**Consolidated Statements of Income**

	(Millions of yen)	
	Prior Fiscal Year (Apr. 1, 2020 – Mar. 31, 2021)	Current Fiscal Year (Apr. 1, 2021 – Mar. 31, 2022)
Net sales	181,287	199,646
Cost of sales	74,326	83,157
Gross profit	106,960	116,488
Provision for sales returns	234	-
Gross profit-net	106,726	116,488
Selling, general and administrative expenses		
Promotion expenses	20,228	11,575
Advertising expenses	20,297	26,539
Salaries and bonuses	13,967	16,308
Provision for bonuses	1,187	1,340
Provision for directors' bonuses	30	40
Retirement benefit expenses	680	692
Depreciation	1,438	1,640
Amortization of goodwill	372	457
Research and development expenses	7,903	8,740
Provision for doubtful accounts	90	(133)
Other	17,540	19,937
Total selling, general and administrative expenses	83,736	87,139
Operating income	22,990	29,349
Non-operating income		
Interest income	341	368
Dividend income	1,051	380
Share of profit of entities accounted for using equity method	396	143
Gain on investments in investment partnerships	140	-
Other	708	684
Total non-operating income	2,639	1,580
Non-operating expenses		
Interest expenses	145	248
Provision for doubtful accounts	1,124	1,158
Other	448	438
Total non-operating expenses	1,718	1,844
Ordinary income	23,910	29,084

	Prior Fiscal Year (Apr. 1, 2020 – Mar. 31, 2021)	Current Fiscal Year (Apr. 1, 2021 – Mar. 31, 2022)
Extraordinary income		
Gain on change in equity	37	-
Gain on sales of investment securities	29	76
Gain on sales of shares of subsidiaries and associates	2,723	-
Gain on bargain purchase	-	430
National subsidies	-	128
Total extraordinary income	2,791	636
Extraordinary losses		
Loss on disposal of fixed assets	82	-
Impairment loss	1,609	892
Loss on valuation of investment securities	1,484	642
Loss on sales of shares of subsidiaries and associates	16	-
Loss on valuation of shares of subsidiaries and associates	502	232
Total extraordinary losses	3,695	1,767
Profit before income taxes	23,006	27,953
Income taxes-current	8,207	7,480
Income taxes-deferred	(1,971)	(677)
Total income taxes	6,236	6,803
Profit	16,770	21,150
Profit attributable to non-controlling interests	27	131
Profit attributable to owners of parent	16,743	21,018

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Prior Fiscal Year (Apr. 1, 2020 – Mar. 31, 2021)	Current Fiscal Year (Apr. 1, 2021 – Mar. 31, 2022)
Profit	16,770	21,150
Other comprehensive income		
Valuation difference on available-for-sale securities	2,572	(733)
Foreign currency translation adjustment	(461)	6,115
Remeasurements of defined benefit plans, net of tax	972	239
Share of other comprehensive income of entities accounted for using equity method	(59)	0
Total other comprehensive income	3,024	5,622
Comprehensive income	19,794	26,772
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	19,843	26,588
Comprehensive income attributable to non-controlling interests	(48)	183

(3) Consolidated Statements of Change in Shareholders' Equity

Prior Fiscal Year (Apr. 1, 2020 – Mar. 31, 2021)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	6,504	5,661	131,985	(4,935)	139,215
Cumulative effects of changes in accounting policies					-
Restated balance	6,504	5,661	131,985	(4,935)	139,215
Changes of items during period					
Dividends of surplus			(2,965)		(2,965)
Profit attributable to owners of parent			16,743		16,743
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares					-
Change in scope of consolidation			(205)		(205)
Decrease in retained earnings due to exclusion of equity method companies			(46)		(46)
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	-	-	13,525	(0)	13,525
Balance at end of current period	6,504	5,661	145,511	(4,936)	152,741

	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	4,144	(2,617)	(1,843)	(316)
Cumulative effects of changes in accounting policies				
Restated balance	4,144	(2,617)	(1,843)	(316)
Changes of items during period				
Dividends of surplus				
Profit attributable to owners of parent				
Purchase of treasury shares				
Disposal of treasury shares				
Change in scope of consolidation				
Decrease in retained earnings due to exclusion of equity method companies				
Change in ownership interest of parent due to transactions with non-controlling interests				
Net changes of items other than shareholders' equity	(2,572)	(445)	972	3,100
Total changes of items during period	(2,572)	(445)	972	3,100
Balance at end of current period	6,717	(3,062)	(870)	(2,784)

	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at beginning of current period	382	749	140,032
Cumulative effects of changes in accounting policies			-
Restated balance	382	749	140,032
Changes of items during period			
Dividends of surplus			(2,965)
Profit attributable to owners of parent			16,743
Purchase of treasury shares			(0)
Disposal of treasury shares			-
Change in scope of consolidation			(205)
Decrease in retained earnings due to exclusion of equity method companies			(46)
Change in ownership interest of parent due to transactions with non-controlling interests			-
Net changes of items other than shareholders' equity	-	(45)	3,055
Total changes of items during period	-	(45)	16,580
Balance at end of current period	382	704	156,612

Current Fiscal Year (Apr. 1, 2021 – Mar. 31, 2022)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	6,504	5,661	145,511	(4,936)	152,741
Cumulative effects of changes in accounting policies			(912)		(912)
Restated balance	6,504	5,661	144,599	(4,936)	151,828
Changes of items during period					
Dividends of surplus			(3,422)		(3,422)
Profit attributable to owners of parent			21,018		21,018
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares		0		0	0
Change in scope of consolidation					-
Decrease in retained earnings due to exclusion of equity method companies					-
Change in ownership interest of parent due to transactions with non-controlling interests		126			126
Net changes of items other than shareholders' equity					
Total changes of items during period	-	126	17,596	(0)	17,722
Balance at end of current period	6,504	5,787	162,195	(4,936)	169,551

	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	6,717	(3,062)	(870)	2,784
Cumulative effects of changes in accounting policies				
Restated balance	6,717	(3,062)	(870)	2,784
Changes of items during period				
Dividends of surplus				
Profit attributable to owners of parent				
Purchase of treasury shares				
Disposal of treasury shares				
Change in scope of consolidation				
Decrease in retained earnings due to exclusion of equity method companies				
Change in ownership interest of parent due to transactions with non-controlling interests				
Net changes of items other than shareholders' equity	(724)	6,055	239	5,570
Total changes of items during period	(724)	6,055	239	5,570
Balance at end of current period	5,992	2,992	(631)	8,354

	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at beginning of current period	382	704	156,612
Cumulative effects of changes in accounting policies			(912)
Restated balance	382	704	155,700
Changes of items during period			
Dividends of surplus			(3,422)
Profit attributable to owners of parent			21,018
Purchase of treasury shares			(0)
Disposal of treasury shares			0
Change in scope of consolidation			-
Decrease in retained earnings due to exclusion of equity method companies			-
Change in ownership interest of parent due to transactions with non-controlling interests			126
Net changes of items other than shareholders' equity		4,839	10,409
Total changes of items during period	-	4,839	28,132
Balance at end of current period	382	5,543	183,832

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	Prior Fiscal Year (Apr. 1, 2020 – Mar. 31, 2021)	Current Fiscal Year (Apr. 1, 2021 – Mar. 31, 2022)
Cash flows from operating activities		
Income before income taxes and non-controlling interests	23,006	27,953
Depreciation	6,376	7,216
Impairment loss	1,609	892
Amortization of goodwill	372	457
Increase (decrease) in allowance for doubtful accounts	(233)	(139)
Increase (decrease) in provision for bonuses	(44)	288
Increase (decrease) in net defined benefit liability	384	77
Increase (decrease) in provision for sales returns	234	-
Increase (decrease) in provision for sales rebates	231	-
Increase (decrease) in provision for loss on guarantees	(11)	-
Provision for doubtful accounts	1,124	1,158
Loss on disposal of fixed assets	82	-
Loss (gain) on sales of investment securities	(29)	(76)
Gain on bargain purchase	-	(430)
Loss (gain) on valuation of investment securities	1,484	642
Loss on valuation of shares of subsidiaries and associates	502	232
Loss (gain) on sales of subsidiaries and associates	(2,707)	-
National Subsidies	-	(128)
Interest and dividend income	(1,393)	(752)
Interest expenses	145	248
Share of (profit) loss of entities accounted for using equity method	(396)	(143)
Loss (gain) on change in equity	(37)	-
Decrease (increase) in notes and accounts receivable - trade	2,464	(30)
Decrease (increase) in inventories	3,188	(3,061)
Increase (decrease) in notes and accounts payable - trade	(2,811)	3,323
Other, net	(5,272)	(634)
Subtotal	28,268	37,093
Interest and dividend income received	1,390	738
Interest expenses paid	(143)	(228)
Payments for performance of guarantee obligation	(1,735)	(1,622)
Income taxes paid	(7,798)	(8,823)
Income taxes refund	27	92
Net cash provided by (used in) operating activities	20,008	27,250

	(Millions of yen)	
	Prior Fiscal Year (Apr. 1, 2020 – Mar. 31, 2021)	Current Fiscal Year (Apr. 1, 2021 – Mar. 31, 2022)
Cash flows from investing activities		
Payments into time deposits	(692)	(1,918)
Proceeds from withdrawal of time deposits	634	963
Purchase of property, plant and equipment	(8,721)	(10,267)
Proceeds from sales of property, plant and equipment	597	12
Purchase of intangible assets	(1,583)	(1,061)
Purchase of investment securities	(1,514)	(3,697)
Proceeds from sales and redemption of investment securities	3,416	1,000
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(1,516)	(1,203)
Subsidies received	-	128
Payments of long-term loans receivable	(966)	(404)
Collection of long-term loans receivable	108	41
Other, net	(0)	(0)
Net cash provided by (used in) investing activities	(10,237)	(16,406)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(169)	1,273
Proceeds from long-term loans payable	2,883	9,450
Repayments of long-term loans payable	(1,880)	(3,133)
Cash dividends paid	(2,965)	(3,422)
Cash dividends paid to non-controlling interests	(0)	(0)
Purchase of shares of subsidiaries resulting in no change in scope of consolidation		(489)
Other, net	(214)	(208)
Net cash provided by (used in) financing activities	(2,347)	(3,470)
Effect of exchange rate change on cash and cash equivalents	96	4,335
Net increase (decrease) in cash and cash equivalents	7,519	18,650
Cash and cash equivalents at beginning of period	44,665	52,254
Increase in cash and cash equivalents from newly consolidated subsidiary	69	-
Cash and cash equivalents at end of period	52,254	70,905

(5) Notes to Consolidated Financial Statements**Going Concern Assumption**

No reportable information.

Changes in Accounting Policies**Application of the Accounting Standard for Revenue Recognition**

The Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) at the beginning of the first quarter of the current fiscal year. Based on this standard, revenue expected to be received in exchange for the provision of goods and services is recognized when the control of the goods and services is transferred to customers. As a result, as for sales with a right of return, previously recorded as a provision for sales returns based on the amount of gross profit, instead of recognizing revenue at the time of sale, we now recognize a refund liability for goods or products that are expected to be returned in the amount of the consideration received or receivable in accordance with the provisions on variable consideration. Furthermore, for some transactions for which no provision for sales rebates was previously recorded, additional refund liabilities have been recognized as the new standard clarifies how to account for these cases. In such cases, the Company estimates the amount of the variable portion of the transaction consideration. It includes in the transaction price only the portion of transaction price that is not likely to have significant reduction in the recognized revenue. In addition, the Company has changed its accounting method for consideration paid to customers, such as sales commissions. They were previously included in selling, general and administrative expenses, but now deducted from the transaction price.

For the application of the Accounting Standard for Revenue Recognition, in accordance with the transitional treatment prescribed in Paragraph 84 of this standard, the cumulative effect of the retrospective application of the new accounting standard, if it is applied prior to the first quarter of the current fiscal year, is added to or subtracted from retained earnings at the beginning of the first quarter of the current fiscal year. The new standard is then applied beginning with this amount of retained earnings. However, the Company has applied the method prescribed in Paragraph 86 of this standard and has not retrospectively applied the new accounting standard to contracts in which almost all revenue were recognized in accordance with the previous treatment prior to the beginning of the first quarter of the current fiscal year. In addition, the Company has applied the method prescribed in Paragraph 86, Article 1 of the Accounting Standard for Revenue Recognition, and accounted for contract changes made prior to the beginning of the first quarter of the current fiscal year based on the contract terms after reflecting all contract changes, and added or subtracted the cumulative effect of such changes to retained earnings at the beginning of the first quarter of the current fiscal year.

As a result, for the current fiscal year, net sales decreased 8,887 million yen, cost of sales increased 0 million yen, reversal of provision for sales returns decreased 287 million yen, gross profit-net decreased 9,175 million yen, selling, general and administrative expenses decreased 9,072 million yen, and operating income, ordinary income and profit before income taxes decreased 103 million yen respectively. In addition, the balance of retained earnings at the beginning of the current fiscal year decreased by 912 million yen.

Due to the application of the Accounting Standard for Revenue Recognition, the provision for sales returns and provision for sales rebates, etc. that were presented under current liabilities in the consolidated balance sheets in the previous fiscal year are, from the current fiscal year, included in the refund liabilities under current liabilities. In accordance with the transitional treatment prescribed in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, no reclassification has been made to the prior year's consolidated financial statements to conform to the new presentation. Furthermore, in accordance with the transitional treatment prescribed in Paragraph 89-3 of the Accounting Standard for Revenue Recognition, the Company has not presented the disaggregated information on revenues from contracts with customers for the previous fiscal year.

Application of the Accounting Standard for Fair Value Measurement

The Company has applied the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019), etc. from the beginning of the first quarter of the current fiscal year, and has applied the new accounting standard set forth by the Accounting Standard for Fair Value Measurement, etc. prospectively in accordance with the transitional treatment prescribed in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019). As a result of this change, the corporate bonds, which were previously considered to be financial instruments that were extremely difficult to determine the fair value and the Company used the acquisition cost as the quarterly consolidated balance sheet value, is now evaluated at the fair value. Even in cases where observable inputs are not available, the fair value is calculated using unobservable inputs based on the best available information.

(Business Combinations)**Finalization of provisional accounting treatment for business combinations**

The Company had used a provisional accounting treatment for the business combination with Interstem Co., Ltd. on March 23, 2021, but it was finalized in the current fiscal year. With the finalization of this provisional accounting treatment, there was a significant change in acquisition cost allocation. As a result, other under intangible assets increased mainly, and the amount of goodwill, provisionally calculated as 1,972 million yen at the previous fiscal year end, decreased by 658 million yen to 1,313 million yen after the accounting treatment was finalized. The intangible assets identified from the acquisition cost allocation process was 1,070 million yen of in-process research and development costs. The key assumptions in this measurement include milestone achievements (including the launch of developed products using the Cultured Chondrocyte Implantation (CCI) kit), probability of R&D success, post-launch sales revenue and raw material unit cost projections, and discount rates.

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.

As described in Changes in Accounting Policies, the Company has applied the Accounting Standard for Revenue Recognition from the beginning of the first quarter of the current fiscal year and changed the accounting method for revenue recognition. The calculation for segment information has also been changed accordingly.

As a result of this change, net sales in the Japan segment for the current fiscal year decreased by 8,887 million yen and segment profit decreased by 103 million yen, compared with the previous method.

3. Information related to net sales, profit/loss, assets, liabilities, and other items for each reportable segment
Prior Fiscal Year (Apr. 1, 2020 – Mar. 31, 2021)

(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	115,629	7,687	8,149	48,056	179,522	1,764	181,287	-	181,287
(2) Inter-segment sales and transfers	3,351	1,090	52	3,137	7,632	28	7,660	(7,660)	-
Total	118,980	8,778	8,202	51,193	187,154	1,793	188,947	(7,660)	181,287
Segment profit	14,656	458	375	6,926	22,416	118	22,534	455	22,990
Segment assets	164,120	17,038	8,940	64,885	254,985	1,745	256,730	(30,580)	226,149
Segment liabilities	47,758	2,287	2,319	18,906	71,272	375	71,648	(2,110)	69,537
Other items									
Depreciation	4,268	257	303	1,042	5,872	31	5,904	-	5,904
Amortization of goodwill	227	56	88	-	372	-	372	-	372
Increase in property, plant and equipment and intangible fixed assets	8,695	113	106	1494	10,410	24	10,434	-	10,434

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 455 million yen indicates elimination for intersegment transactions.

(2) "Adjustment" to segment assets of (30,580) million yen and liabilities of (2,110) million yen indicate an elimination for intersegment transactions.

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

5. The provisional accounting treatment for business combinations has been finalized in the current fiscal year. The segment information for the fiscal year ended March 31, 2020 have been restated accordingly.

Current Fiscal Year (Apr. 1, 2021– Mar. 31, 2022)

(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									
Revenue									
From Contracts with Customers	121,417	10,037	10,297	55,988	197,740	1,906	199,646	-	199,646
(1) Sales to customers	121,417	10,037	10,297	55,988	197,740	1,906	199,646	-	199,646
(2) Inter-segment sales and transfers	3,383	1,149	46	2,927	7,507	58	7,565	(7,565)	-
Total	124,800	11,187	10,344	58,915	205,247	1,964	207,212	(7,565)	199,646
Segment profit	19,547	216	563	8,365	28,693	171	28,864	484	29,349
Segment assets	198,238	20,171	9,667	74,789	302,866	1,714	304,580	(29,953)	274,627
Segment liabilities	66,036	3,820	2,424	20,331	92,612	258	92,871	(2,076)	90,794
Other items									
Depreciation	4,842	331	317	1,030	6,522	35	6,557	-	6,557
Amortization of goodwill	356	9	91	-	457	-	457	-	457
Increase in property, plant and equipment and intangible fixed assets	10,704	119	158	936	11,918	29	11,948	-	11,948

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 484million yen indicates elimination for intersegment transactions.

(2) "Adjustment" to segment assets of (29,953) million yen and liabilities of (2,076) million yen indicate an elimination for intersegment transactions.

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

Related information

Prior Fiscal Year (Apr. 1, 2020– Mar. 31, 2021)

1. Products and services information (Millions of yen)

	Eye care products	Skincare products	Internal medicines	Others	Total
Sales to customers	42,071	111,063	23,333	4,820	181,287

Current Fiscal Year (Apr. 1, 2021 – Mar. 31, 2022)

1. Products and services information (Millions of yen)

	Eye care products	Skincare products	Internal medicines	Others	Total
Sales to customers	43,102	124,055	25,604	6,884	199,646

Impairment loss on fixed assets for each reportable segment

Prior Fiscal Year (Apr. 1, 2020 – Mar. 31, 2021)

(Millions of yen)

	Reportable segment					Others	Adjustment	Total
	Japan	America	Europe	Asia	Subtotal			
Impairment losses on fixed assets	1,536	-	-	72	1,609	-	-	1,609

Current Fiscal Year (Apr. 1, 2021 – Mar. 31, 2022)

(Millions of yen)

	Reportable segment					Others	Adjustment	Total
	Japan	America	Europe	Asia	Subtotal			
Impairment losses on fixed assets	384	-	508	-	892	-	-	892

Information on gain on negative goodwill by reportable segment.

Prior Fiscal Year (Apr. 1, 2020 – Mar. 31, 2021)

No reportable information.

Current Fiscal Year (Apr. 1, 2021 – Mar. 31, 2022)

(Millions of yen)

	Reportable segment					Others	Adjustment	Total
	Japan	America	Europe	Asia	Subtotal			
Gain on bargain purchase	430	-	-	-	430	-	-	430

Per-share Information

(Yen)

	Prior Fiscal Year (Apr. 1, 2020 – Mar. 31, 2021)	Current Fiscal Year (Apr. 1, 2021 – Mar. 31, 2022)
Net assets per share	1,363.42	1,559.62
Basic net income per share	146.78	184.26
Diluted net income per share	146.36	183.73

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, 2020 – Mar. 31, 2021)	Current Fiscal Year (Apr. 1, 2021 – Mar. 31, 2022)
Basic net income per share		
Profit attributable to owners of parent	16,743	21,018
Amount not available to common stock shareholders	-	-
Profit attributable to owners of parent applicable to common stock	16,743	21,018
Average number of common stock shares outstanding during the period (thousand shares)	114,070	114,070
Diluted net income per share		
Adjusted to profit attributable to owners of parent	-	-
Increase in the number of common stock shares (thousand shares)	330	330
[of which subscription rights to shares (thousand shares)]	[330]	[330]
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, 2021)	Current Fiscal Year End (As of Mar. 31, 2022)
Total net assets on the balance sheets	156,612	183,832
Deduction from total net assets	1,087	5,926
[of which subscription rights to shares]	[382]	[382]
[of which non-controlling interests]	[704]	[5,543]
Net assets applicable to common stock	155,525	177,905
Number of common stock shares used in calculation of net assets per share (thousand shares)	114,070	114,069

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.*

(For Translation Purposes Only)
Independent Auditor's Report on Financial Statements Audit and
Internal Control Audit

June 28, 2022

The Board of Directors
ROHTO Pharmaceutical Co., Ltd.

Ernst & Young ShinNihon LLC
Osaka, Japan

Designated and Engagement Partner
Certified Public Accountant Kaname Matsumoto

Designated and Engagement Partner
Certified Public Accountant Takao Oshitani

<Financial statements audit>

Opinion

Pursuant to Article 193-2, Section 1 of the Financial Instruments and Exchange Act of Japan, we have audited the accompanying consolidated financial statements of ROHTO Pharmaceutical Co., Ltd. (the Company) included in the "Financial Information" section for the fiscal year from April 1, 2021 to March 31, 2022, which comprise the consolidated statement of financial position, and the consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, notes to consolidated financial statements and consolidated supplementary schedules.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company and its consolidated subsidiaries as at March 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

Key Audit Matters

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

Purchase price allocation in connection with acquisition of Interstem Co., Ltd. (formerly, Olympus RMS Co., Ltd.)

Description of Key Audit Matter	Auditor's Response
<p>As described in the notes to the consolidated financial statements, "Business Combination," the business combination involving Interstem Co., Ltd. (formerly, Olympus RMS Co., Ltd.) completed on March 23, 2021 in the previous fiscal year had been accounted for using provisional accounting treatment, however the Company finalized the purchase price allocation in the current fiscal year.</p> <p>As a result, in process research and development costs were identified accordingly and, in addition, the provisional amount of goodwill in the amount of ¥1,972 million decreased by ¥658 million to ¥1,313 million due to the finalization of the accounting treatment.</p> <p>In process research and development costs are measured at discounted present value of future cash flows based on the income approach (excess earning method).</p> <p>Future cash flows used for the calculation of in process research and development costs is based on the business plan of Interstem Co., Ltd. prepared by management, in which the timing of achieving milestones including the launch of the products under development using the CCI (Cultured Chondrocyte Implantation) kit, probability of success of research and development, projection of sales after launch and unit prices of raw materials, and discount rate are used as significant assumptions.</p> <p>The timing of achieving milestones including the launch of the products under development using the CCI (Cultured Chondrocyte Implantation) kit and probability of success of research and development require estimates of the probability of successful research and development and that the approval for sales obtained from regulatory authorities, and therefore management's judgement is required.</p> <p>Projected sales after launch require an estimation of market share and others over</p>	<p>The audit procedures we performed to assess the measurement of in process research and development costs identified at the time of acquisition of Interstem Co., Ltd. included the following, among others:</p> <ul style="list-style-type: none"> • In order to understand the overview of the transaction, we inspected documents relevant to it such as the minutes of the Board of Directors' meetings and stock purchase agreement. • We evaluated the consistency of the purpose of the transaction and accounting treatment by making inquiries to persons in charge including the representative director directly involved in this transaction. • We discussed with the management of Interstem Co., Ltd. and understood the necessity of changes in plans for clinical trials that could affect the timing of the achievement of milestones including launch of the products under development using the CCI kit and whether there were any factors leading to an increase in costs compared to the plan. • In order to assess the probability of success of research and development, we understood the progress of research and development in light of the plan by making inquiries to the management of Interstem Co., Ltd., and inspected relevant documents including the latest results of clinical trials. • We evaluated the consistency between the projection of sales after launch and unit prices of raw materials, and available external data including the estimated number of patients that can receive treatments with the products under development using the CCI kit and estimated costs of similar products, and other relevant documents. • We involved a valuation specialist of our network firm to assist in evaluating the

<p>multiple years, and it involves a number of uncertainties as the applicable period is long.</p> <p>Projected unit prices of raw materials are estimated based on professional expertise and experience in regenerative medicine and accordingly involves subjectivity.</p> <p>In addition, with respect to the discount rate, selection of calculation method and input data professional valuation knowledge is required.</p> <p>The assessment of significant assumptions used for the calculation of in process research and development costs requires advanced audit judgment, and in the event that assumptions used for calculation and computation performed are not appropriate, the measured value of intangible assets and amount of goodwill recognized may be inaccurate.</p> <p>Therefore, we determined this issue as a key audit matter.</p>	<p>discount rate applied for the calculation of in process research and development costs.</p>
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Purchase price allocation in connection with acquisition of Hydrox Laboratories	
Description of Key Audit Matter	Auditor's Response
<p>As described in the notes to consolidated financial statements, "Business Combination," the Company acquired Hydrox Laboratories, a pharmaceutical manufacturer engaging in manufacturing and sale of rubbing alcohol and detergents for disinfection, through the Mentholum Company on October 31, 2021, making it as a consolidated subsidiary.</p> <p>The acquisition cost was ¥2,337 million and the Company conducted purchase price allocation with the assistance of an external valuation specialist.</p> <p>As a result, intangible assets (other) in the amount of ¥1,604 million were identified and the difference between the acquisition cost and the value allocated to assets and liabilities in the amount of ¥279 million was recognized as goodwill.</p> <p>The identified intangible assets were mainly customer relationships of which the fair value at the time of business combination was measured mainly at discounted present value of future cash flows to be generated from</p>	<p>The audit procedures we performed to assess measurement of the intangible assets identified at the time of acquisition of Hydrox Laboratories included the following, among others:</p> <ul style="list-style-type: none"> • In order to understand the overview of the transaction, we inspected documents relevant to it such as the minutes of the Board of Directors' meetings and stock purchase agreement. • We evaluated the consistency of the purpose of the transaction and accounting treatment by making inquiries to person in charge including representative director relevant to this issue. • In order to assess future sales from existing customers, cost of sales ratio and sales and administrative expenses ratio, projected attrition rate of existing customers and discount rate, we made inquiries to the management of Hydrox Laboratories and involved the component auditor and performed the following audit

customer relationships based on the income approach (excess earning method)

Future cash flows used for the calculation of customer relationships are based on the business plan of Hydrox Laboratories prepared by management, in which future sales from existing customers, cost of sales ratio and sales and administrative expenses ratio, projected attrition rate of existing customers and discount rate are used as significant assumptions.

Future sales from existing customers are subject to external factors such as market environment for rubbing alcohol and detergents for disinfection and trends for customer sales, and cost of sales ratio and sales and administrative expenses ratio are determined based on the forecast of facility utilization and actual results in the past.

These significant assumptions are subject to significant uncertainties in their estimation because the applicable projection period is long.

The projected attrition rate of existing customers is determined based on actual results in the past under the assumption that sales from existing customers decrease over time, and accordingly it involves subjectivity and is subject to uncertainties.

In addition, with respect to the discount rate, selection of calculation method and input data require professional valuation knowledge.

The assessment of significant assumptions used for the calculation of customer relationships requires advanced audit judgment, and in the event that assumptions used for calculation and computation performed are not appropriate, measured value of intangible assets and amount of goodwill recognized may be inaccurate.

Therefore, we determined this issue as a key audit matter.

procedures:

1. Evaluation of consistency between future sales from existing customers and available external data including market forecasts.
2. Evaluation of the feasibility of the cost of sales ratio taking into consideration the facility utilization.
3. Trend analysis for sales and administrative expenses ratio based on actual results in the past.
4. Trend analysis for the projected attrition rate of existing customers based on actual results in the past.
5. Evaluation of the discount rate applied for the calculation of customer relationships with the assistance of a valuation specialist of our network firm.

Other Information

The other information comprises the information included in Annual Securities Report but does not include the consolidated financial statements and financial statement, and our auditor's report thereon. Management is responsible for preparation and disclosure of the other information. The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the execution of director's duties in designing and implementing the reporting process of the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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, which includes designing and implementing 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 Company'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 execution of director's duties in designing and implementing the Company'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, based on our audit performed, and to issue an auditor's report that includes our opinion from an independent standpoint. 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, and design and perform audit procedures responsive to those risks. The design and performance of audit procedures is based on our judgement. Furthermore, we 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 Company'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 Company'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, since our conclusion is based on audit evidence obtained by audit report date, future events or conditions may cause the Company 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 Company and its consolidated subsidiaries 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 communicate with the Corporate Auditor and the Board of Corporate Auditors 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 to remove or mitigate obstructions.

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

<Internal control audit>

Opinion

Pursuant to Article 193-2, Section 2 of the Financial Instruments and Exchange Act of Japan, we have audited the accompanying Internal Control Report as at March 31, 2022 of the Company.

In our opinion, the Internal Control Report referred to above, which represents that the internal control over financial reporting as at March 31, 2022 of the Company is effective, presents fairly, in all material respects, the result of management's assessment of internal control over financial reporting in accordance with standards for assessment of internal control over financial reporting generally accepted in Japan.

Basis for Opinion

We conducted our internal control audit in accordance with auditing standards on internal control over financial reporting generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Internal Control section of our report. We are independent of the Company and its consolidated subsidiaries in accordance with the ethical requirements that are relevant to our audit of the 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's and the Corporate Auditor and the Board of Corporate Auditors for Internal Control Report

Management is responsible for designing and implementing internal control over financial reporting, and for the preparation and fair presentation of Internal Control Report in accordance with standards for assessment of internal control over financial reporting generally accepted in Japan. The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing and verifying the design and implementation of internal control over financial reporting. Internal control over financial reporting may not prevent or detect misstatements.

Auditor's Responsibilities for the Audit of Internal Control

Our objectives are to obtain reasonable assurance about whether Internal Control Report is free from material misstatement based on our internal control audit performed, and to issue an auditor's report that includes our opinion from an independent standpoint. As part of an audit in accordance with auditing standards on internal control generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Perform audit procedures to obtain audit evidence relating to the result of management's assessment of internal control over financial reporting in Internal Control Report. The design and performance of audit procedures for internal control audit is based on our judgement in consideration of the materiality of the effect on the reliability of financial reporting.
- Consider the overall presentation of Internal Control Report with regards to the scope, procedures, and result of the assessment of internal control over financial reporting including descriptions by management.
- Obtain sufficient appropriate audit evidence regarding the result of management's assessment of internal control over financial reporting in Internal Control Report. We are responsible for the direction, supervision, and performance of the audit of Internal Control Report. 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 internal control audit, the results of the internal control audit, any significant deficiencies in internal control that we identify, and the results of corrective measures for such significant deficiencies.

We communicate with the Corporate Auditor and the Board of Corporate Auditors that we have complied with the ethical requirements regarding independence that are relevant to our audit of internal control 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 to remove or mitigate obstructions.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Company and its consolidated subsidiaries which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.