Translation

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Summary of Consolidated Financial Results for the Fiscal Year Ended July 2022 (Based on Japanese GAAP)

September 14, 2022

Company name: AXXZIA Inc. Listing exchange: Tokyo Stock Exchange

Securities code: 4936 URL: https://axxzia.co.jp/en/

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Scheduled date for next ordinary general meeting of shareholders: October 24, 2022

Scheduled date for commencing dividend payments: -

Scheduled date for filing securities report: October 25, 2022

Preparation of supplementary materials on financial results: Yes

Holding of financial results briefing session: Yes (for institutional investors and analysts)

(Amounts are rounded down to the nearest million yen, unless otherwise noted)

1. Consolidated Financial Results for the Fiscal Year Ended July 2022 (from August 1, 2021 to July 31, 2022)

(1) Consolidated Operating Results (Percentage figures 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 July 31, 2022	8,215	42.0	1,633	18.1	1,746	27.4	1,116	28.6
Fiscal year ended July 31, 2021	5,787	34.9	1,383	28.5	1,370	33.0	868	21.1

(Note) Comprehensive income

Fiscal year ended July 2022: 1,219 million yen [34.7%] Fiscal year ended July 2021: 905 million yen [27.2%]

	Basic earnings per share	Diluted earnings per share	Return on equity	Return on assets	Operating income/ net sales
	Yen	Yen	%	%	%
Fiscal year ended July 31, 2022	43.28	43.15	14.3	19.1	19.9
Fiscal year ended July 31, 2021	35.97	35.83	18.4	24.6	23.9

(Notes) 1. Diluted earnings per share for the fiscal year ended July 31, 2021, is calculated by using the average share price for the period from the initial listing date to the end of the previous fiscal year, deeming it to be the period-average share price, as the Company was listed on the Tokyo Stock Exchange Mothers market on February 18, 2021.

2. The Company conducted a 1,000-for-1 stock split of its common shares as of October 1, 2020. Accordingly, basic earnings per share and diluted earnings per share have been calculated on the assumption that the stock splits were conducted at the beginning of the previous fiscal year.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of July 31, 2022	10,053	8,396	83.5	325.43
As of July 31, 2021	8,267	7,193	87.0	278.81

(Reference) Total shareholders' equity

As of July 31, 2022: 8,396 million yen As of July 31, 2021: 7,193 million yen

(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 July 31, 2022	797	(775)	386	6,389
Fiscal year ended July 31, 2021	1,059	(84)	3,959	5,935

2. Cash Dividends

	Annual dividends per share					Total dividends	Payout ratio (Consolidated)	Dividends/ net assets (Consolidated)
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	Fiscal year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Fiscal year ended July 31, 2021	–	0.00	–	0.00	0.00	–	–	–
Fiscal year ended July 31, 2022	–	0.00	–	0.00	0.00	–	–	–
Fiscal year ending July 31, 2023 (Forecast)	–	0.00	–	0.00	0.00	–	–	–

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending July 2023 (from August 1, 2022 to July 31, 2023)

(Percentage figures indicate year-on-year changes for full year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	10,351	26.0	1,818	11.3	1,797	2.9	1,172	5.0	45.43

* Notes

(1) Changes in significant subsidiaries during the fiscal year
(changes in specified subsidiaries resulting in change in scope of consolidation): Yes
Newly consolidated: 1 (Huit laboratories, Inc.) Excluded from consolidation: None

(2) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements

1) Changes in accounting policies due to revisions to accounting standards and other regulations: Yes
2) Changes in accounting policies other than those in 1) above: No
3) Changes in accounting estimates: No
4) Restatement of prior period financial statements: No

(3) Number of issued shares (common shares)

1) Total number of issued shares at the end of the period (including treasury shares)

As of July 31, 2022	25,800,000 shares	As of July 31, 2021	25,800,000 shares

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

As of July 31, 2022	- shares	As of July 31, 2021	- shares

3) Average number of shares during the period

Fiscal year ended July 2022	25,800,000 shares	Fiscal year ended July 2021	24,147,945 shares

(Note) The Company conducted a 1,000-for-1 stock split of its common shares as of October 1, 2020. Accordingly, total number of issued shares at the end of the period, number of treasury shares at the end of the period and average number of shares during the period have been calculated on the assumption that the stock splits were conducted at the beginning of the previous fiscal year.

(Reference) Overview of Non-consolidated Financial Results

1. Non-Consolidated Financial Results for the Fiscal Year Ended July 2022 (from August 1, 2021 to July 31, 2022)

(1) Non-Consolidated Operating Results (Percentage figures represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year ended July 31, 2022	7,568	40.4	1,410	25.0	1,528	36.6	946	41.0
Fiscal year ended July 31, 2021	5,389	31.7	1,127	24.5	1,118	29.7	671	16.6

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Fiscal year ended July 31, 2022	36.70	36.59
Fiscal year ended July 31, 2021	27.82	27.71

(Notes) 1. Diluted earnings per share for the fiscal year ended July 31, 2021, is calculated by using the average share price for the period from the initial listing date to the end of the previous fiscal year, deeming it to be the period-average share price, as the Company was listed on the Tokyo Stock Exchange Mothers market on February 18, 2021.

2. The Company conducted a 1,000-for-1 stock split of its common shares as of October 1, 2020. Accordingly, basic earnings per share and diluted earnings per share have been calculated on the assumption that the stock splits were conducted at the beginning of the previous fiscal year.

(2) Non-Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of July 31, 2022	9,209	7,777	84.5	301.45
As of July 31, 2021	7,826	6,847	87.5	265.40

(Reference) Total shareholders' equity

As of July 31, 2022: 7,777 million yen As of July 31, 2021: 6,847 million yen

* This summary of financial results is not subject to review procedures by a public accountant or audit corporation.

* Explanation regarding appropriate use of earnings forecasts, and other notes

The earnings outlook and other forward-looking statements contained in this document are based on information currently available to and certain assumptions that are thought to be reasonable by the Company. Accordingly, such statements should not be construed as a guarantee of achieving the results by the Company. Actual results, etc. may materially differ from the forecast due to various factors.

For the conditions forming the assumptions used in forecasting earnings and precautions regarding the use of earnings forecasts, please refer to "1. Overview of Operating Results, etc. (4) Future Outlook" on page 3 of the Attachment.

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1. Qualitative Information on the Financial Results for the Period under Review

(1) Overview of Operating Results, Etc.

In the fiscal year ended July 2022 (the "current fiscal year"), although the Japanese economy recovered moderately due to the expansion of vaccinations and the relaxation of action restrictions, the yen continued to depreciate and there were concerns about the downturn in the economy due to the turmoil in the international community arising from factors such as the raw material price hikes and the tense situation in Ukraine, which has caused an uncertain outlook to continue.

In the domestic cosmetics market, the recovery in consumer sentiment was delayed due to various rises in prices caused by the depreciation of the yen and raw materials price hikes, and has resulted in a harsh market environment.

In the overseas cosmetics market, the Chinese market's economy slowed down as China's outlook remained uncertain due to the impact from the lockdown (city closure) caused by COVID-19, but the e-commerce market continued to recover moderately.

Under such market conditions, the AXXZIA Group ("the Group") has strengthened its investment in advertisement in mainland China and strengthened its sales capabilities while propelled initiatives to create next-generation growth products.

In China, in order to expand and deepen the Chinese EC channel, the Chinese subsidiary (Xiaozi Cosmetic (Shanghai) Inc.) opened flagship stores on Douyin (Chinese mainland version of the video platform TikTok) and JD.com (e-commerce platform). It also opened a flagship store on Kuaishou (video platform) for cross-border EC. In addition, the Group worked to strengthen its brand power and recognition by utilizing Baidu as a measure against SEO in mainland China to further strengthen its investment in advertisement as well as sales capabilities, while also advancing initiatives to create next-generation growth products. In particular, the Group is developing products mainly targeting the Chinese market, and taking advantage of the Chinese characteristics of being able to sell even mid- and high-priced products on e-commerce, it is working to further enhance its brand power and raise its name recognition.

In Japan, on April 1, 2022, it acquired all shares of Huit laboratories, Inc., which has a manufacturing plant for cosmetics and quasi-pharmaceutical products, and turned it into its consolidated subsidiary. By establishing a foundation for speeding up product development and manufacturing in small lots, the Group has been working to create synergies for the following fiscal year and beyond.

As a result, the Company posted net sales of 8,215,618 thousand yen (up 42.0% year-on-year) for the current fiscal year and has successfully renewed its highest record. This was the same for profit with the gross profit renewing the highest record at 6,221,287 thousand yen due to the revenue increasing effect. In addition, with the aim of improving its recognition and brand power, the Company conducted aggressive upfront investments such as advertisement as it did last year, which resulted in an increase in selling, general and administrative expenses. The Company posted operating income of 1,633,768 thousand yen (up 18.1%), ordinary income of 1,746,872 thousand yen (up 27.4%) and profit attributable to owners of parent of 1,116,666 thousand yen (up 28.6%), marking record highs for respective figures for profit as well.

Note that descriptions by segment are omitted, as the Group has a single operating segment engaged in the cosmetics business.

[Summary of Results]

	Previous fiscal year Millions of yen	Current fiscal year Millions of yen	Year-on-year changes %
Net sales	5,787	8,215	+42.0
Operating income	1,383	1,633	+18.1
Ordinary income	1,370	1,746	+27.4
Profit attributable to owners of parent	868	1,116	+28.6

(2) Financial Position

(Assets)

Total assets at the end of the current fiscal year amounted to 10,053,522 thousand yen, an increase of 1,786,001 thousand yen from the end of the previous fiscal year. Of this, current assets increased by 1,105,963 thousand yen from the end of the previous fiscal year to 8,795,997 thousand yen and non-current assets increased by 680,037 thousand yen from the end of the previous fiscal year to 1,257,525 thousand yen.

The increase in current assets was mainly attributable to factors such as cash and deposits increasing by 454,330 thousand yen through borrowings from banks and finished goods increasing by 424,335 thousand yen, while the increase in non-current assets was mainly attributable to property, plant and equipment increasing by 407,084 thousand yen, intangible assets increasing by 132,139 thousand yen and investments and other assets increasing by 140,813 thousand yen.

(Liabilities)

Total liabilities at the end of the current fiscal year amounted to 1,657,436 thousand yen, an increase of 583,183 thousand yen from the end of the previous fiscal year. Of this, current liabilities increased by 285,327 thousand yen from the end of the previous fiscal year to 1,243,425 thousand yen. This was mainly attributable to factors such as an increase in short-term borrowings by 79,877 thousand yen and an increase in current portion of long-term borrowings by 83,000 thousand yen. Non-current liabilities amounted to 414,010 thousand yen, an increase of 297,856 thousand yen from the end of the previous fiscal year. This was mainly attributable to factors such as an increase in long-term borrowings by 256,956 thousand yen through borrowings.

(Net assets)
Total net assets at the end of the current fiscal year amounted to 8,396,086 thousand yen, an increase of 1,202,817 thousand yen from the end of the previous fiscal year. This was mainly attributable to factors such as profit attributable to owners of parent increasing by 1,116,666 thousand yen. Consequently, the equity ratio came to 83.5% (in contrast to 87.0% at the end of the previous fiscal year).

(3) Cash Flows

Cash and cash equivalents ("net cash") at the end of the current fiscal year increased by 454,330 thousand yen from the end of the previous fiscal year to 6,389,690 thousand yen. The status of cash flows in the current fiscal year and their contributing factors are as follows.

(Cash flows from operating activities)
Net cash provided by operating activities at the end of the current fiscal year amounted to 797,693 thousand yen (in contrast with net cash provided amounting to 1,059,038 thousand yen in the previous fiscal year). This was mainly attributable to factors such as payments due to an increase in inventories of 237,944 thousand yen and income taxes paid of 688,430 thousand yen while profit before income taxes amounted to 1,746,872 thousand yen.

(Cash flows from investing activities)
Net cash used in investing activities at the end of the current fiscal year amounted to 775,356 thousand yen (in contrast with net cash used amounting to 84,511 thousand yen in the previous fiscal year). This was mainly attributable to factors such as purchase of property, plant and equipment of 7,231 thousand yen, purchase of intangible assets of 57,602 thousand yen and purchase of a subsidiary of receiving 646,864 thousand yen.

(Cash flows from financing activities)
Net cash provided by financing activities at the end of the current fiscal year amounted to 386,430 thousand yen (in contrast to net cash provided amounting to 3,959,187 thousand yen in the previous fiscal year). This was mainly attributable to factors such as proceeds from short-term borrowings and long-term borrowings, which were 79,877 thousand yen and 450,000 thousand yen, respectively, against repayments of long-term borrowings of 110,044 thousand yen.

(4) Future Outlook

With regard to the future outlook, the outlook for the global economy is uncertain, due to factors such as the impact of the surge in prices of resources, etc. and the conflict in Ukraine.

There is a concern that there will be a slowdown of economic growth in China, the major market of the Group, due to factors such as the imposition of severe action restrictions as it implements the "zero-COVID" policy against COVID-19. As for the impact of COVID-19 infections in the domestic market, the economy is expected to recover moderately, assuming that economic activity will be resumed in earnest under the living with COVID policy, despite the emergence of new variants.

In light of the above conditions, the Company expects to achieve net sales of 10,351 million yen (up 26.0% year-on-year), operating income of 1,818 million yen (up 11.3%), ordinary income of 1,797 million yen (up 2.9%) and profit attributable to owners of parent of 1,172 million yen (up 5.0%) for the fiscal year ending July 31, 2023.

Looking ahead to the post-COVID era, the Group will propel business expansion by demonstrating imagination while adapting to the rapidly changing environment.

2. Basic Principle on the Choice of Accounting Standards

For the time being, the Group makes it a policy to prepare its consolidated financial statements based on Japanese GAAP, in view of the comparability for the period covered by the consolidated financial statements and inter-company comparability.

With regard to the application of the International Financial Reporting Standards (IFRS), the Company intends to respond to the application in an appropriate manner, based on the situations of various factors both in and outside Japan and taking into account the trend of other companies in the same industry.

3. Consolidated Financial Statements and Significant Notes Thereto

(1) Consolidated Balance Sheets

(Thousands of yen)

	Previous fiscal year (As of July 31, 2021)	Current fiscal year (As of July 31, 2022)
Assets		
Current assets		
Cash and deposits	5,935,360	6,389,690
Accounts receivable - trade	439,678	507,972
Finished goods	733,193	1,157,528
Work in process	-	10,745
Raw materials and supplies	374,370	418,177
Other	209,053	313,504
Allowance for doubtful accounts	(1,621)	(1,621)
Total current assets	7,690,033	8,795,997
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	19,187	163,797
Land	242,578	393,578
Other, net	102,818	214,291
Total property, plant and equipment	364,583	771,667
Intangible assets		
Goodwill		66,719
Other	77,008	142,428
Total intangible assets	77,008	209,148
Investments and other assets		
Deferred tax assets	70,694	116,187
Other	65,200	160,521
Total investments and other assets	135,895	276,709
Total non-current assets	577,487	1,257,525
Total assets	8,267,521	10,053,522

(Thousands of yen)

	Previous fiscal year (As of July 31, 2021)	Current fiscal year (As of July 31, 2022)
Liabilities		
Current liabilities		
Accounts payable - trade	160,570	128,141
Short-term borrowings	-	79,877
Current portion of long-term borrowings	72,544	155,544
Income taxes payable	392,517	376,743
Provision for bonuses	10,971	21,410
Other	321,493	481,708
Total current liabilities	958,098	1,243,425
Non-current liabilities		
Long-term borrowings	63,134	320,090
Deferred tax liabilities	-	20,812
Other	53,020	73,108
Total non-current liabilities	116,154	414,010
Total liabilities	1,074,252	1,657,436
Net assets		
Shareholders' equity		
Share capital	2,109,875	2,109,875
Capital surplus	2,011,875	2,011,875
Retained earnings	3,042,755	4,142,769
Total shareholders' equity	7,164,505	8,264,519
Accumulated other comprehensive income		
Foreign currency translation adjustment	28,764	131,566
Total accumulated other comprehensive income	28,764	131,566
Total net assets	7,193,269	8,396,086
Total liabilities and net assets	8,267,521	10,053,522

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

Consolidated Statements of Income

(Thousands of yen)

	Previous fiscal year (August 1, 2020 - July 31, 2021)	Current fiscal year (August 1, 2021 - July 31, 2022)
Net sales	5,787,495	8,215,618
Cost of sales	1,712,166	1,994,330
Gross profit	4,075,329	6,221,287
Selling, general and administrative expenses	2,692,289	4,587,519
Operating income	1,383,039	1,633,768
Non-operating income		
Interest and dividend income	538	1,130
Subsidy income	3,684	-
Foreign exchange gains	29,456	113,956
Other	3,182	2,475
Total non-operating income	36,860	117,561
Non-operating expenses		
Interest expenses	3,115	4,440
Share issuance costs	25,714	-
Listing expenses	18,128	-
Other	2,291	16
Total non-operating expenses	49,250	4,457
Ordinary income	1,370,649	1,746,872
Profit before income taxes	1,370,649	1,746,872
Income taxes - current	531,336	666,026
Income taxes - deferred	(29,324)	(35,819)
Total income taxes	502,012	630,206
Profit	868,637	1,116,666
Profit attributable to owners of parent	868,637	1,116,666

Consolidated Statements of Comprehensive Income

(Thousands of yen)

	Previous fiscal year (August 1, 2020 – July 31, 2021)	Current fiscal year (August 1, 2021 – July 31, 2022)
Profit	868,637	1,116,666
Other comprehensive income		
Foreign currency translation adjustment	36,795	102,802
Total other comprehensive income	36,795	102,802
Comprehensive income	905,433	1,219,468
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	905,433	1,219,468
Comprehensive income attributable to non-controlling interests	-	-

(3) Consolidated Statements of Changes in Equity

Fiscal year ended July 31, 2021 (August 1, 2020 to July 31, 2021)

(Thousands of yen)

	Shareholders' equity				Accumulated other comprehensive income		Total net assets
	Share capital	Capital surplus	Retained earnings	Total shareholders' equity	Foreign currency translation adjustment	Total accumulated other comprehensive income	
Balance at beginning of period	98,000	—	2,174,118	2,272,118	(8,031)	(8,031)	2,264,086
Cumulative effects of changes in accounting policies			—	—			—
Restated balance	98,000	—	2,174,118	2,272,118	(8,031)	(8,031)	2,264,086
Changes of items during period							
Issuance of new shares	2,011,875	2,011,875		4,023,750			4,023,750
Profit attributable to owners of parent			868,637	868,637			868,637
Net changes in items other than shareholders' equity					36,795	36,795	36,795
Total changes during period	2,011,875	2,011,875	868,637	4,892,387	36,795	36,795	4,929,183
Balance at end of period	2,109,875	2,011,875	3,042,755	7,164,505	28,764	28,764	7,193,269

Fiscal year ended July 31, 2022 (August 1, 2021 to July 31, 2022)

(Thousands of yen)

	Shareholders' equity				Accumulated other comprehensive income		Total net assets
	Share capital	Capital surplus	Retained earnings	Total shareholders' equity	Foreign currency translation adjustment	Total accumulated other comprehensive income	
Balance at beginning of period	2,109,875	2,011,875	3,042,755	7,164,505	28,764	28,764	7,193,269
Cumulative effects of changes in accounting policies			(16,651)	(16,651)			(16,651)
Restated balance	2,109,875	2,011,875	3,026,103	7,147,853	28,764	28,764	7,176,617
Changes of items during period							
Issuance of new shares	—	—		—			—
Profit attributable to owners of parent			1,116,666	1,116,666			1,116,666
Net changes in items other than shareholders' equity					102,802	102,802	102,802
Total changes during period	—	—	1,116,666	1,116,666	102,802	102,802	1,219,468
Balance at end of period	2,109,875	2,011,875	4,142,769	8,264,519	131,566	131,566	8,396,086

(4) Consolidated Statement of Cash Flows

(Thousands of yen)

	Previous fiscal year (August 1, 2020 - July 31, 2021)	Current fiscal year (August 1, 2021 - July 31, 2022)
Cash flows from operating activities		
Profit before income taxes	1,370,649	1,746,872
Depreciation	28,770	82,429
Amortization of goodwill	-	2,669
Interest and dividend income	(538)	(1,130)
Interest expenses	3,115	4,440
Share issuance costs	25,714	-
Listing expenses	18,128	-
Foreign exchange losses (gains)	(18,945)	5,192
Decrease (increase) in trade receivables	(161,399)	(3,670)
Decrease (increase) in inventories	(72,139)	(237,944)
Increase (decrease) in trade payables	(99,735)	(58,277)
Increase (decrease) in income taxes payable - factor based tax	43,192	(16,777)
Increase/decrease in consumption taxes payable/consumption taxes refund receivable	105,365	(72,269)
Other, net	(473)	38,124
Subtotal	1,241,705	1,489,660
Interest and dividends received	538	1,130
Interest paid	(3,118)	(4,666)
Income taxes refund (paid)	(180,086)	(688,430)
Net cash provided by (used in) operating activities	1,059,038	797,693
Cash flows from investing activities		
Purchase of property, plant and equipment	(33,040)	(7,231)
Purchase of intangible assets	(41,442)	(57,602)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	-	(646,864)
Other, net	(10,028)	(63,657)
Net cash provided by (used in) investing activities	(84,511)	(775,356)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	-	79,877
Proceeds from long-term borrowings	-	450,000
Repayments of long-term borrowings	(5,544)	(110,044)
Proceeds from issuance of shares	4,023,750	-
Payments for issuance of shares	(25,714)	-
Payments for listing expenses	(18,128)	-
Others, net	(15,175)	(33,402)
Net cash provided by (used in) financing activities	3,959,187	386,430
Effect of exchange rate change on cash and cash equivalents	77,086	45,562
Net increase (decrease) in cash and cash equivalents	5,010,801	454,330
Cash and cash equivalents at beginning of period	924,558	5,935,360
Cash and cash equivalents at end of period	5,935,360	6,389,690

(5) Notes to Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable.

(Changes in Accounting Policies)

(Application of Accounting Standard for Revenue Recognition, etc.)

The Company has applied the "Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan [ASBJ] Statement No. 29, issued on March 31, 2020), etc. from the beginning of the current fiscal year ended July 2022, and decided to recognize revenue at the amount expected to be received in exchange for the promised goods or services when control of the goods or services is transferred to the customer.

However, the Company has applied alternative treatment stipulated in Paragraph 98 of the "Implementation Guidance on Accounting Standard for Revenue Recognition" and decided to recognize revenue at the time of shipping the finished goods in case the finished goods are to be sold in Japan and the period between the time of shipping and the time when control of the finished goods are transferred to the customer is in an ordinary time span.

The Company has applied the Accounting Standard for Revenue Recognition, etc. in accordance with the transitional treatment stipulated in the proviso of Paragraph 84 of the said Standard. The cumulative effect amount, when applying the new accounting policy retrospectively prior to the beginning of the current fiscal year ended July 2022, was adjusted to retained earnings at the beginning of the current fiscal year, and the Company has applied the new accounting policy to the balance at the beginning of the current fiscal year. However, with the adoption of the method stipulated in Paragraph 86 of the Accounting Standard for Revenue Recognition, the Company has not retrospectively applied the new accounting policy to contracts that have recognized almost all revenue in accordance with the previous treatment prior to the beginning of the current fiscal year. In addition, with the adoption of the method prescribed in the other option (1) for Paragraph 86 of the Accounting Standard for Revenue Recognition, the Company accounts for contract changes made prior to the beginning of the current fiscal year based on the contract terms after reflecting all contract changes. The cumulative effect amount from this was adjusted to retained earnings at the beginning of the current fiscal year.

As a result, net sales in the consolidated statements of income for the current fiscal year increased by 38,925 thousand yen, cost of sales increased by 7,334 thousand yen, and operating income, ordinary income, and profit before income taxes each increased by 14,922 thousand yen. In addition, the balance of retained earnings at the beginning of the current fiscal year decreased by 16,651 thousand yen.

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

The Company has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, issued on July 4, 2019), etc. from the beginning of the current fiscal year ended July 2022, and decided to adopt the new accounting policies set forth by the said Accounting Standard for Fair Value Measurement, etc. going forward in accordance with the transitional treatment as stipulated 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, issued on July 4, 2019). Note that the application has not affected the consolidated financial statements.

(Additional Information)

(Application of New Accounting Treatment Accompanying the Occurrence of a New Fact)

The Company decided to apply hedge accounting from the current fiscal year as it started transactions based on forward exchange contracts regarding foreign-currency-denominated forecast transactions, and to apply deferred hedge accounting for transactions that meet the hedge requirements.

(Impact of the COVID-19 Infections)

The impact of COVID-19 on the Company's performance was limited although distribution of goods stagnated due to city closure (lockdown) in Shanghai, China, and had an impact on product delivery as well as export and import.

Although it is difficult to predict the impact of factors such as when it will be contained in the future, accounting estimates are reflected in accounting based on currently available information. The future impact of COVID-19 remains uncertain and may affect our financial position and operating results in the future.

(Segment Information, Etc.)

[Segment information]

The information is omitted as the Company has a single operating segment engaged in the cosmetics business.

[Related information]

Previous fiscal year (from August 1, 2020 to July 31, 2021)

1. Information by product and service

This information is omitted as sales to external customers concerning the cosmetics business account for more than 90% of net sales in the consolidated statements of income.

2. Information by region

(1) Net sales

(Thousands of yen)

Japan	China	Others	Total
384,178	5,226,265	177,050	5,787,495

(Note) Net sales are classified by country or region based on the final delivery destination.

(2) Property, plant and equipment

(Thousands of yen)

Japan	China	Others	Total
306,286	58,297	0	364,583

(Note) Property, plant and equipment are classified by country or region based on their location.

3. Information by major customer

(Thousands of yen)

Name of customer	Net Sales	Name of related segment
Aishilan Cosmetic (Shanghai) Inc.	711,159	Cosmetics business

Current fiscal year (from August 1, 2021 to July 31, 2022)

1. Information by product and service

This information is omitted as sales to external customers concerning the cosmetics business account for more than 90% of net sales in the consolidated statements of income.

2. Information by region

(1) Net sales

(Thousands of yen)

Japan	China	Others	Total
586,092	7,499,804	129,722	8,215,618

(Note) Net sales are classified by country or region based on the final delivery destination.

(2) Property, plant and equipment

(Thousands of yen)

Japan	China	Others	Total
681,256	90,411	0	771,667

(Note) Property, plant and equipment are classified by country or region based on their location.

3. Information by major customer

(Thousands of yen)

Name of customer	Net Sales	Name of related segment
Dalian Jiayue Commerce&Trading Inc.	986,330	Cosmetics business

[Information about impairment loss on non-current assets by reportable segment]

Not applicable.

[Information about amortization and unamortized balance of goodwill by reportable segment]

Previous fiscal year (from August 1, 2020 to July 31, 2021)

Not applicable.

Current fiscal year (from August 1, 2021 to July 31, 2022)

The information is omitted as the Company has a single operating segment engaged in the cosmetics business.

[Information about gain on bargain purchase by reportable segment]

Not applicable.

(Business Combinations)

(Business combinations through acquisition)

(1) Overview of the business combination

i. Name of the acquired company and its business

Name of the acquired company: Huit laboratories, Inc.

Description of business: Manufacturing, sales, contract manufacturing, etc. of cosmetics and quasi-pharmaceutical products

ii. Major reasons for the business combination

By acquiring all of the shares of Huit laboratories, Inc., it would be possible to prepare skin care brands with different price ranges according to sales channels and customer basis that can coexist within the Group. In addition, through accelerating product development by using Huit laboratories' manufacturing facilities and developing new products by utilizing their expertise in the OEM business, it would be possible to develop in a speedy manner cosmetics and quasi-pharmaceutical products which have a theme and will become new mainstay products.

iii. Date of the business combination

April 1, 2022

iv. Legal form of the business combination

Share acquisition

v. Name of the controlling entity after the business combination

No change

vi. Percentage share of voting rights acquired

100%

vii. Main reason for deciding to acquire the acquired company

This is because the Company acquired shares in exchange for cash.

(2) Period of the acquired company's perfomance included in the consolidated statements of income

from April 1, 2022 to June 30, 2022

(3) Acquisition cost of the acquired company and breakdown by type of compensation

Compensation of the acquisition	Cash	860,000 thousand yen
Acquisition cost		860,000 thousand yen

(4) Description and amounts of major acquisition-related expenses

Advisory expenses, etc. 48,131 thousand yen

(5) Goodwill, reason for recognizing goodwill, amortization method and amortization period

i. Amount of goodwill recognized

69,190 thousand yen

ii. Reason for recognizing goodwill

This was mainly due to the excess profitability expected from future business development.

iii. Method and term to amortize goodwill

Straight-line method over 7 years

During the first nine months of the current fiscal year, the Company applied a provisional accounting treatment for the allocation of acquisition costs based on reasonable information available at the time of preparing the quarterly consolidated financial statements. However, the allocation of acquisition costs had been completed at the end of the current fiscal year.

(6) Amounts of assets and liabilities acquired on the day of the business combination and their major breakdown

Current assets	524,508 thousand yen
Non-current assets	432,965
Total assets	957,473
Current liabilities	127,237
Non-current liabilities	39,427
Total liabilities	166,664

The non-current assets mentioned above include 90,323 thousand yen for machinery and equipment, 10,220 thousand yen for trademark right, and 5,556 thousand yen for customer-related assets, which were identified as a result of the allocation of acquisition costs.

(7) Approximate amounts of impact of the business combination on the consolidated statements of income for the current fiscal year if it is assumed that the business combination was completed on the first day of the current fiscal year, and the method for calculating that amount

Net sales	537,308 thousand yen
Operating income	(6,884)
Ordinary income	(6,484)
Profit before income taxes	(6,484)
Profit attributable to owners of parent	(5,773)

(Calculation method of the approximate amounts)

The difference between the net sales calculated based on the assumption that the business combination was completed on the first day of the fiscal year and the amount in information on income is used as the approximate amount of the impact.

The difference includes amortization of goodwill equivalent to the period from the first date of the fiscal year to the date of the business combination.

In addition, the approximate amounts have not been audited.

(Per Share Information)

	Previous fiscal year (August 1, 2020 – July 31, 2021)	Current fiscal year (August 1, 2021 - July 31, 2022)
Net assets per share	278.81 yen	325.43 yen
Basic earnings per share	35.97 yen	43.28 yen
Diluted earnings per share	35.83 yen	43.15 yen

(Note) 1. Diluted earnings per share for the previous fiscal year is calculated by using the average share price for the period from the initial listing date to the end of the previous fiscal year, deeming it to be the period-average share price, as the Company was listed on the Tokyo Stock Exchange Mothers market on February 18, 2021.

2. The Company conducted a 1,000-for-1 stock split of its common shares as of October 1, 2020. Accordingly, net assets per share, basic earnings per share and diluted earnings per share have been calculated on the assumption that the stock splits were conducted at the beginning of the previous fiscal year.

3. The basis of calculating basic earnings per share and diluted earnings per share is as follows.

(Thousands of yen)

Item	Previous fiscal year (August 1, 2020 - July 31, 2021)	Current fiscal year (August 1, 2021 – July 31, 2022)
Basic earnings per share		
Profit attributable to owners of parent	868,637	1,116,666
Amount not attributable to common shareholders	—	—
Profit attributable to owners of parent for common shares	868,637	1,116,666
Average number of common shares during period	24,147 thousand shares	25,800 thousand shares
Diluted earnings per share		
Adjustment to profit attributable to owners of parent	—	—
Increase in the number of common shares	94 thousand shares	77 thousand shares
(Of which, increase in the number of share subscription rights)	(94 thousand shares)	(77 thousand shares)
Description of dilutive shares not included in the calculation of diluted earnings per share due to the absence of dilutive effects	—	—

(Significant Subsequent Events)

Not applicable.