

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

[Japanese GAAP]

Company name: NIHON TRIM CO., LTD.

Listing: Tokyo Stock Exchange, First Section

Securities code: 6788

URL: <http://www.nihon-trim.co.jp/>

Representative: Shinkatsu Morisawa, President

Contact: Norio Tahara, Senior Managing Director and General Manager of Administration Division

Tel: +81-(0) 6-6456-4600

Scheduled date of Annual General Meeting of Shareholders: June 23, 2020

Scheduled date of filing of Annual Securities Report: June 24, 2020

Scheduled date of dividend payment: June 24, 2020

Supplementary materials for financial results: None

Holding of financial results meeting: None

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

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

(1) Consolidated results of operations

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended Mar. 31, 2020	16,116	6.2	2,303	2.4	1,007	(52.5)	218	(82.5)
Fiscal year ended Mar. 31, 2019	15,179	8.2	2,250	40.1	2,121	26.2	1,250	5.8

Note: Comprehensive income (million yen) Fiscal year ended Mar. 31, 2020: 237 (down 80.8%)

Fiscal year ended Mar. 31, 2019: 1,233 (up 0.2%)

	Net income per share	Diluted net income per share	Return on equity	Ordinary profit on total assets	Operating profit on net sales
	Yen	Yen	%	%	%
Fiscal year ended Mar. 31, 2020	27.67	27.66	1.3	4.5	14.3
Fiscal year ended Mar. 31, 2019	157.05	156.95	7.2	9.1	14.8

Reference: Investment gain (loss) by equity method (million yen) Fiscal year ended Mar. 31, 2020: (1,466)

Fiscal year ended Mar. 31, 2019: (243)

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Mar. 31, 2020	22,416	17,123	74.9	2,128.85
As of Mar. 31, 2019	22,613	17,395	75.5	2,162.68

Reference: Shareholders' equity (million yen) As of Mar. 31, 2020: 16,779 As of Mar. 31, 2019: 17,075

(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
	Million yen	Million yen	Million yen	Million yen
Fiscal year ended Mar. 31, 2020	1,823	(2,644)	(518)	7,790
Fiscal year ended Mar. 31, 2019	1,875	(500)	(3,115)	9,135

2. Dividends

	Dividend per share					Total dividends	Dividend payout ratio (consolidated)	Dividend on equity (consolidated)
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total			
	Yen	Yen	Yen	Yen	Yen			
Fiscal year ended Mar. 31, 2019	-	0.00	-	60.00	60.00	473	38.2	2.8
Fiscal year ended Mar. 31, 2020	-	0.00	-	70.00	70.00	551	253.0	3.3
Fiscal year ending Mar. 31, 2021 (forecasts)	-	0.00	-	35.00	35.00		22.6	

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

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	6,190	(28.8)	360	(77.7)	410	(73.0)	260	(74.1)	32.99
Full year	14,510	(10.0)	1,770	(23.2)	1,870	85.5	1,220	458.4	154.78

*** Notes**

(1) Changes in consolidated subsidiaries during the period (changes in specified subsidiaries resulting in changes in the scope of consolidation): None

Newly added: -

Excluded: -

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

(i) Changes in accounting policies due to revisions in accounting standards, others: None

(ii) Changes in accounting policies other than (i) above: None

(iii) Changes in accounting estimates: None

(iv) Restatements: None

(3) Number of outstanding shares (common shares)

(i) Number of shares outstanding at end of period (including treasury shares)

As of Mar. 31, 2020: 8,656,780 shares

As of Mar. 31, 2019: 8,656,780 shares

(ii) Number of treasury shares at end of period

As of Mar. 31, 2020: 774,738 shares

As of Mar. 31, 2019: 761,438 shares

(iii) Average number of shares outstanding during the period

Fiscal year ended Mar. 31, 2020: 7,894,879 shares

Fiscal year ended Mar. 31, 2019: 7,961,911 shares

* The current financial report is not subject to audit by certified public accountants or auditing firms.

* Cautionary statement with respect to forward-looking statements, and other special items

Earnings forecasts regarding future performance in this material are based on assumptions judged to be valid and information currently available to the Company, and the Company does not in any way guarantee the achievement of the forecasts. Actual results may differ significantly from these forecasts for a number of factors. Please refer to “1. Overview of Results of Operations, etc., (4) Future Outlook” on page 6 of the attachments for assumptions for forecasts and notes of caution for usage.

Contents of Attachments

1. Overview of Results of Operations, etc.	2
(1) Overview of Results of Operations for the Current Fiscal Year	2
(2) Overview of Financial Position for the Current Fiscal Year	4
(3) Overview of Cash Flows for the Current Fiscal Year	5
(4) Future Outlook	6
2. Basic Approach for the Selection of Accounting Standards	7
3. Consolidated Financial Statements and Notes	8
(1) Consolidated Balance Sheet	8
(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income	10
(3) Consolidated Statement of Changes in Equity	12
(4) Consolidated Statement of Cash Flows	14
(5) Notes to Consolidated Financial Statements	16
Assumption for Going Concern	16
Segment and Other Information	16
Per Share Information	17
Subsequent Events	17

1. Overview of Results of Operations, etc.

(1) Overview of Results of Operations for the Current Fiscal Year

During the current fiscal year, the Group's net sales increased 6.2% year-on-year to 16,116 million yen, operating profit increased 2.4% to 2,303 million yen, ordinary profit decreased 52.5% to 1,007 million yen, and profit attributable to owners of parent decreased 82.5% to 218 million yen.

Regarding share of loss of entities accounted for using equity method reported in non-operating expenses for the current fiscal year, 1,100 million yen out of 1,466 million yen in total represents a conservative provision of allowance for doubtful accounts on loans associated with the hospital operation business in China. For the hospital operation business in China, we have continued to work towards its full-swing operation, hoping that the application for medical treatment covered by public insurance be approved, which is now delayed. We determined, however, that it would take longer than expected to recoup the investment due to the effects of the COVID-19 pandemic. We therefore recognized the allowance to cover the total amount of loans to the business in this fiscal year. Nonetheless, we will keep the business running on a solid basis as its growth potential is tremendous.

Ordinary profit, excluding the impact of this allowance, amounted to 2,108 million yen (down 0.6% year-on-year).

In the Electrolyzed Hydrogen Water (EHW) apparatus business, the operating performance progressed generally in line with our initial plan at the beginning of the current fiscal year, despite weaker demand in the overall market due to the influence of the consumption tax hike until the third quarter, although the performance was affected by the COVID-19 crisis to no small extent in the fourth quarter.

Electrolyzed hydrogen water produced with our EHW apparatus, a controlled medical device designated by the Ministry of Health, Labour and Welfare, is recognized to have an efficacy to **“improve gastrointestinal symptoms.”** Immune strength is said to be highly important in combatting COVID-19. In fact, nearly 70% of immune cells reside in the intestines. Intestines are often referred to as the **“second brain.”** Amid the COVID-19 crisis, people are keen on improving their **“gut health,”** driven by a growing awareness about the benefit of immune strength. We therefore expect that the demand for our EHW apparatus will grow further into the future.

Our EHW apparatus is capable of producing not only electrolyzed hydrogen water but also electrolyzed acidic water. The electrolyzed acidic water contains some hypochlorous acid, which is under the spotlight today. Although the concentration of hypochlorous acid is not high enough to allow us to boast its sterilization effect, customers have actually used the electrolyzed acidic water for cleansing. While the antiseptic solution, such as alcohol, is running short in the market due to the COVID-19 crisis and this situation will likely continue for the time being, we are making arrangements so that our customers can use the electrolyzed acidic water produced with our EHW apparatus more effectively.

In the face of the COVID-19 crisis, the EHW apparatus business will remain exposed to harsh market environments at least for a while, but is also gathering increasing attention for a variety of purposes, including health maintenance/enhancement, disease prevention and hygiene control, implying that the crisis can trigger a dramatic expansion in demand for EHW apparatus. To respond to such dramatic expansion in demand, we have been working to upgrade our EC site and have implemented a range of website related measures, including SEO.

In addition, we have worked on the development of new products adapted to the needs of the times in a bid to launch these products by the end of this year.

In the Electrolyzed Water Hemodialysis business, we have recently signed a contract to introduce our system to core hospitals in a metropolitan area in Japan; the number of prospective customers is also on the rise. Our system has proven to contribute not only to the QOL of patients but also to the operating performance of hospitals, which we are now trying to demonstrate with specific numbers. We are aiming to grow our system into a global standard in the near future.

In the regenerative medicine business, listing on the Tokyo Stock Exchange of StemCell Institute Inc., the largest private cord bank, was approved on March 5 this year. We, however, have decided to postpone the listing of the subsidiary in light of comprehensive evaluation of trends and situations surrounding the IPO market affected by the COVID-19 crisis. We will watch the trends of the IPO market closely and aim to list the subsidiary at an earliest

possible date.

The overall influence of the COVID-19 crisis is still unclear, but the Group has been making steady strides toward its ultimate goal of becoming a global medical company. With a planned rise in the amount of dividends by 10 yen to 70 yen, coupled with the provision of allowance for doubtful accounts stated above, the payout ratio for the current fiscal year stands at 253.0%. We, however, have secured enough cash flows to pay dividends in the amount announced on April 25, 2019, and thus, plan to pay a record high dividend of 70 yen per share.

Results by business segment were as follows.

[Water Healthcare Business]

In this business segment, for direct sales divisions consisting of workplace sales, installation and referral sales, and store sales, the number of seminars held by the workplace sales division decreased to approximately 60% of that held during the same period of the previous fiscal year in March, and also the number of face-to-face sales opportunities, including gatherings and events, have decreased due to a spate of their cancellations. However, the number of units sold per seminar has been on the rise, driven by growing expectation and awareness that our apparatus helps improve the gut health and, as a result, enhance immune strength and prevent infection with viruses. Since the beginning of April, situations of sales have been remained harsh, with the number of seminars having plummeted to approximately 20% of that held during the same period of the previous fiscal year. However, our sales efficiency has increased about 2.2-fold, and in May, we have succeeded in introducing 113 units in a package to a corporation. Once the spread of COVID-19 is under control and our operating environment returns to normal, we are confident that our operating performance will rapidly bounce back in line with soaring expectation for the benefits of our apparatus, including improvement in immune strength, prevention of infection, as well as enhancement of hygiene; we are now focused on establishing the effective method of utilizing electrolyzed acidic water produced with our EHW apparatus, as stated above. Also, looking at the COVID-19 crisis as an opportunity to expand our sales, we have strengthened sales activities targeted at small- and medium-sized enterprises and developing a new sales approach. The OEM and wholesale division focused on developing new customers, and as a result, two major transactions are scheduled to start the next fiscal year.

Sales of water purification cartridges, which generate a consistent revenue stream once an EHW apparatus is installed, have been growing steadily. We have upgraded our services to customers by distributing information through seasonal magazines, e-magazines and other channels, and by making follow-up calls.

With regard to research and development, a joint research paper with Ritsumeikan University was published on *Temperature*, a major international journal on physiology, in April this year. The paper is about how drinking of electrolyzed hydrogen water helps significantly reduce energy consumption during endurance sports in an extremely hot weather. The altmetrics, which is an indication to measure the impact of academic papers, has been surging for this paper since its publication; the paper has attracted attention given that the paper presents one of the solutions for the Tokyo Olympic Games where athletes, especially long-distance runners, must endure severer climate conditions due to an extremely hot weather. On top of this research paper, we also published a joint research paper with School of Medicine, Tohoku University on the clinical research concerning the efficacy of drinking EHW for diabetes patients, with some new data added to the paper, on an international academic journal. We also published a joint research paper with School of Engineering, The University of Tokyo on physical properties of electrolyzed hydrogen water. Moreover, the Group is preparing two joint research papers with Riken, a national research and development agency, on the mechanism for the benefits of electrolyzed hydrogen water. Besides these joint researches, the Group has been committed to joint research projects with the Faculty of Human Sciences, Waseda University, and Susaki City, Kochi Prefecture, in order to further raise the awareness of electrolyzed hydrogen water, build up evidences, and ultimately drive expansion of the EHW apparatus.

Overseas, the bottling business in Indonesia has been growing steadily to record a 32.5% year-on-year increase in net sales on a local currency basis. The Group also made upfront investments in sales promotion and advertisement from a medium-to long-term horizon. As a result, the Group recognized an operating loss of 39 million yen. COVID-19 is rampant in Indonesia as well, and self-quarantine has affected the sales of plastic bottled beverages at retailers, primarily convenience stores. However, sales of beverages in gallon bottles mainly through home delivery have

continued to grow. In the next fiscal year, we will continue focusing on marketing, but anticipate an operating margin of around 5.0%. We will strive to expand market share jointly with Sinarmas Group, a local business partner to achieve our target of 1.6 trillion Indonesian rupiah in net sales (approximately 10.7 billion yen at an exchange rate of 0.0067 yen per Indonesian rupiah as of March 31, 2020) in the fiscal year ending March 31, 2026.

As a result of the above, the water healthcare business recorded net sales of 14,233 million yen (up 2.2% year-on-year) with operating profit of 1,971 million yen (down 8.4% year-on-year).

[Medical Business]

In the electrolyzed water hemodialysis business, we focused on sales activities, and as a result, we recorded net sales of 139 million yen (up 755.9% year-on-year). In Japan, the number of patients receiving electrolyzed water hemodialysis has reached about 1,500. On April 21 this year, we launched a new electrolyzed water hemodialysis model capable of treating multiple patients at a time. In the past, we had manufactured systems tailored to the systems of customer hospitals on a made-to-order basis. However, as we continued to receive increasing inquiries from hospitals, we have transformed the system into a standardized model, which is lighter in weight, more compact, and is available for use in more hospitals. With the launch of this new model, we believe we can further drive the use of electrolyzed water hemodialysis. The department for collaborative research on hemodialysis treatment of chronic kidney diseases, residing in the Tohoku University Hospital, has revamped and expanded its functions, by collaborating with partner institutions, such as St Luke's International Hospital and Sendai City Hospital, since February this year, and appointing a person who is in charge of our research department as a visiting professor of Tohoku University Hospital. Backed by these drivers, the Group will further strengthen its research and development capabilities and aims to evolve its system into a global standard.

In the area of regenerative medicine, the business of StemCell Institute Inc., which operates the largest private cord blood bank in Japan, continued to grow steadily, with its net sales having increased 45.4% year-on-year to 1,676 million yen and operating profit also having increased 74.1% year-on-year to 382 million yen. In Japan, a number of clinical researches on cerebral palsy and autism have been implemented or scheduled. With the progress of these researches, we expect the demand for cord blood bank to soar. Further, the Group has worked to expand the business globally and broaden the scope of the business to include the storage of other kinds of cells and development of cell drugs. We are quite confident that the business has a significant growth potential.

For the hospital operation business in China, the number of patients has not increased as initially scheduled, due partly to the influence of the COVID-19 crisis, but is gradually on the rise. Given the recent rise in medical needs, the growth potential of the business has continued to expand. We are committed to making steady progress towards full-swing operation, although it will likely take longer than expected.

As a result of the above, the medical business recorded net sales of 1,883 million yen (up 49.9% year-on-year) with operating profit of 331 million yen (up 243.4% year-on-year).

(2) Overview of Financial Position for the Current Fiscal Year

Total assets decreased 196 million yen, or 0.9%, from the end of the previous fiscal year to 22,416 million yen at the end of the current fiscal year on a consolidated basis.

(i) Assets

Current assets decreased 1,330 million yen, or 8.4%, from the end of the previous fiscal year to 14,474 million yen. The main factor was a decrease of 1,345 million yen in cash and deposits.

Non-current assets increased 1,133 million yen, or 16.7%, to 7,941 million yen. The main factor was an increase of 1,044 million yen in investment securities.

(ii) Liabilities

Current liabilities decreased 26 million yen, or 0.6%, from the end of the previous fiscal year to 4,606 million yen. The main factors were decreases of 268 million yen in income taxes payable and 154 million yen in notes and accounts payable-trade, which were partially offset by an increase of 397 million yen in advances received.

Non-current liabilities increased 101 million yen, or 17.4%, from the end of the previous fiscal year to 686 million yen. The main factor was an increase of 60 million yen in other in non-current liabilities.

(iii) Net assets

Net assets decreased 272 million yen, or 1.6%, from the end of the previous fiscal year to 17,123 million yen. The main factors include payment of dividends of 473 million yen and purchase of treasury shares of 35 million yen, which were partially offset by profit attributable to owners of parent of 218 million yen.

(3) Overview of Cash Flows for the Current Fiscal Year

Cash and cash equivalents (hereinafter “net cash”) decreased 1,345 million yen from the end of the previous fiscal year to 7,790 million yen at the end of the current fiscal year on a consolidated basis.

Cash flows from operating activities

Net cash provided by operating activities totaled 1,823 million yen.

The main factors include profit before income taxes of 1,018 million yen, share of loss of entities accounted for using equity method of 1,466 million yen and depreciation of 215 million yen, which were partially offset by income taxes paid of 1,038 million yen.

Cash flows from investing activities

Net cash used in investing activities totaled 2,644 million yen.

The main factors were purchase of investment securities of 1,334 million yen, loan advances of 1,108 million yen and purchase of property, plant and equipment of 253 million yen.

Cash flows from financing activities

Net cash used in financing activities totaled 518 million yen.

The main factors were dividends paid of 473 million yen and purchase of treasury shares of 35 million yen.

Reference: Cash flow indicators

	FY3/16	FY3/17	FY3/18	FY3/19	FY3/20
Shareholders' equity ratio	71.0	73.9	72.5	75.5	74.9
Shareholders' equity ratio based on market value	185.2	129.1	185.7	201.8	100.0
Average debt repayment period (years)	0.6	1.2	0.7	0.0	0.0

Notes: Shareholders' equity ratio: Shareholders' equity / Total assets

Shareholders' equity ratio based on market value: Market capitalization / Total assets

Average debt repayment period: Interest-bearing debt / Operating cash flows

* All indicators are calculated based on consolidated figures.

* Market capitalization is calculated by multiplying the closing price at the end of the period by the number of shares outstanding at the end of the period (excluding treasury shares).

* Operating cash flows are the figures for operating cash flows in the consolidated statement of cash flows. Interest-bearing debt includes all debt on the consolidated balance sheet that incur interest.

* Disclosure of interest coverage ratio (operating cash flows / interest payments) is omitted because the amount of interest payments is insignificant.

(4) Future Outlook

Our earnings forecasts for the next fiscal year are based on the assumption that business environments remain harsh due to the COVID-19 pandemic until the second quarter but gradually return to normal from the third quarter.

When the COVID-19 crisis comes to an end is still unclear. However, the earlier the crisis ends, the earlier our earnings will start to recover. Our financial position has remained healthy, and we believe the Group's business centered on water, which is essential to life, and healthcare, will benefit from increased growth opportunities post the crisis.

[Water Healthcare Business]

Our EHW apparatus is recognized to help improve the condition of the gut, which has a close relationship with the immune system. We therefore believe that the demand for our EHW apparatus will soar, helped by growing expectation for its sanitation and hygiene benefits. Besides, the Group is involved in a number of joint research projects with universities and a total of five research papers are to be published by the end of this fiscal year, which we believe will attract massive attention in respect of maintenance/enhancement of health and prevention of diseases.

Direct sales divisions, consisting of workplace sales, installation and referral sales, and store sales, will continue to be deteriorated by the COVID-19 crisis at least during the first half. However, we believe the number of seminars and events for the workplace sales will gradually recover from the second half. Based on this assumption, we continue focusing on sales expansion through B2C channels on top of the existing B2B channel based the Health and Productivity Management concept, with the certification recognized as “Excellent Enterprise for Health and Productivity Management 2020” in March this year as a driver. In addition, looking at the COVID-19 crisis as an opportunity, we will work on the development of a new sales approach, and will make steady strides towards a dramatic growth in the fiscal year ending March 2022, with a view to prospective changes in the market climate and rippling effect of the joint research papers stated above.

In June this year, we plan to launch a generator of hypochlorous acid, which has gathered increasing attention for its sterilization effect today.

The OEM and wholesale division starts a new transaction in May and will start another new transaction in the third quarter. The division will continue focusing on reinforcing the sales support for the existing customers and further developing new customers, including customers abroad, primarily in the Southeast Asia.

As for sales of water purification cartridges, which generate a consistent revenue stream once an EHW system is installed, we will continue focusing on information dissemination to customers and post-sale follow-up activities to enhance customer satisfaction and increase the cartridge replacement rate, to ultimately expand the stable revenue base.

We will also focus more on joint research projects with institutions, such as Riken, The University of Tokyo and Tohoku University, to promote the use of our EHW apparatus; and work proactively on PR activities in order to raise public awareness of electrolyzed hydrogen water and revitalize the market.

At the same time, we are also making efforts to cut expenses, as we have always been, to build a leaner management structure.

For the bottling business in Indonesia, we will strengthen alliance with Sinarmas Group and tap new markets in Indonesia, leveraging our proprietary technologies and evidence. We also consider making capital investments in order to achieve a marked growth in the future. Although our sales promotion activities are affected by the COVID-19 crisis, we project net sales from the business to increase by 28.2% (on a local currency basis) for the fiscal year ending March 31, 2021.

[Medical Business]

For the electrolyzed water hemodialysis business, we are introducing a new model and has signed a contract to deliver the units to core hospitals in a metropolitan area in Japan, as stated above, in the fiscal year ending March 31, 2021. Introduction to some hospitals may be delayed under the influence of COVID-19, but we project an increase in net sales of 230 million yen or 65.1%. We will continue to focus on sales activities, while making efforts to closely coordinate with the facilities that have installed our systems, to gather more empirical evidence with a view to establishing our electrolyzed water hemodialysis systems as medical devices.

StemCell Institute Inc. will strengthen its system for sales operations, proactively implement advertising, PR and web-based measures to raise its awareness, as well as solidify and enhance its business platform from a medium- to long-term view. The institute is currently constructing a new CPC (Cell Processing Center) in Yokohama, which is scheduled to start operation in January next year. After the center starts operation, the processing capacity is expected to increase up to 2.5-fold. As for a listing of StemCell Institute on the stock exchange, we will watch the climate of the IPO market closely and would like to list the subsidiary at an earliest possible date. In the event any cause for information disclosure arises, we will promptly disclose the information.

As for the hospital operation business in China, we have positioned Beijing HanKun Hospital as the flagship hospital and will work from a broader perspective with a view to future business. Although the business will remain in an upfront investment phase the next fiscal year, we would like to move forward with the business in a steady and timely fashion.

We have recognized that the return to shareholders is one of our most important management policies, and thus, basically are committed to stable dividend payments. However, under the current circumstances where the business environment has rapidly worsened amid the COVID-19 crisis and when the crisis will come to an end is still unclear, we believe that maintaining a healthy financial base is key to our earnings recovery, and regrettably, the amount of dividend per share will be 35 yen per share for the fiscal year ending March 31, 2021. We, however, continue deliberations as to the appropriate dividend level, while closely watching the market climate and the trends of our operating performance. We will immediately announce if we have decided to revise the amount.

The Group has focused on the medical business towards achieving its ultimate goal of becoming a medical company. On top of that, we are aiming to evolve our electrolyzed water hemodialysis system into a global standard; scheduling a listing on the stock exchange of StemCell Institute Inc., the largest private cord bank; and considering investments in promising assets in the area of regenerative medicine. Although the future outlook is uncertain amid the COVID-19 pandemic, we are confident that we can achieve sustainable growth of both the Medical Business and Water Healthcare Business.

We will strive harder to expand our business, while keeping in mind a spirit of entrepreneurship, which the company has maintained since its inception, so we can achieve leaner and more efficient management.

2. Basic Approach for the Selection of Accounting Standards

The Group will continue to prepare consolidated financial statements using 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 (IFRS) by taking into account associated factors in Japan and other countries.

3. Consolidated Financial Statements and Notes**(1) Consolidated Balance Sheet**

	(Thousands of yen)	
	FY3/19 (As of Mar. 31, 2019)	FY3/20 (As of Mar. 31, 2020)
Assets		
Current assets		
Cash and deposits	9,885,874	8,540,829
Notes and accounts receivable-trade	1,935,474	1,803,718
Accounts receivable-installment	2,790,831	2,967,347
Finished goods	370,252	371,078
Raw materials and supplies	666,467	603,401
Other	168,010	204,678
Allowance for doubtful accounts	(11,840)	(16,485)
Total current assets	15,805,069	14,474,567
Non-current assets		
Property, plant and equipment		
Buildings and structures	1,717,309	1,731,347
Accumulated depreciation	(1,016,653)	(1,066,065)
Buildings and structures, net	700,656	665,281
Land	2,466,920	2,467,898
Other	1,561,254	1,758,307
Accumulated depreciation	(1,209,592)	(1,324,285)
Other, net	351,661	434,022
Total property, plant and equipment	3,519,239	3,567,202
Intangible assets		
Goodwill	534,507	497,387
Other	27,595	72,228
Total intangible assets	562,102	569,616
Investments and other assets		
Investment securities	1,785,341	2,829,500
Deferred tax assets	329,833	322,891
Other	658,515	702,222
Allowance for doubtful accounts	(46,952)	(49,619)
Total investments and other assets	2,726,738	3,804,994
Total non-current assets	6,808,079	7,941,813
Total assets	22,613,149	22,416,381

	(Thousands of yen)	
	FY3/19 (As of Mar. 31, 2019)	FY3/20 (As of Mar. 31, 2020)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	914,414	759,700
Current portion of long-term borrowings	12,490	11,390
Income taxes payable	457,999	189,204
Advances received	1,663,954	2,061,308
Provision for bonuses	152,540	168,980
Provision for product warranties	2,000	31,000
Provision for sales returns	25,000	24,000
Provision for loss on contract	207,895	121,180
Other	1,196,657	1,240,079
Total current liabilities	4,632,952	4,606,844
Non-current liabilities		
Long-term borrowings	12,950	11,550
Provision for retirement benefits for directors (and other officers)	194,672	212,604
Retirement benefit liability	263,389	288,063
Other	113,864	174,144
Total non-current liabilities	584,876	686,362
Total liabilities	5,217,828	5,293,207
Net assets		
Shareholders' equity		
Share capital	992,597	992,597
Capital surplus	645,641	645,641
Retained earnings	18,613,932	18,358,675
Treasury shares	(3,110,232)	(3,145,917)
Total shareholders' equity	17,141,939	16,850,996
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	8,693	5,716
Foreign currency translation adjustment	(68,838)	(68,789)
Remeasurements of defined benefit plans	(6,722)	(8,222)
Total accumulated other comprehensive income	(66,867)	(71,295)
Share acquisition rights	28,720	28,720
Non-controlling interests	291,529	314,753
Total net assets	17,395,320	17,123,174
Total liabilities and net assets	22,613,149	22,416,381

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

(Thousands of yen)

	FY3/19 (Apr. 1, 2018 – Mar. 31, 2019)	FY3/20 (Apr. 1, 2019 – Mar. 31, 2020)
Net sales	15,179,260	16,116,796
Cost of sales	4,359,223	4,758,137
Gross profit	10,820,037	11,358,659
Reversal of provision for sales returns	27,000	1,000
Gross profit-net	10,847,037	11,359,659
Selling, general and administrative expenses	8,596,943	9,056,385
Operating profit	2,250,093	2,303,273
Non-operating income		
Interest income	25,984	23,162
Dividend income	498	451
Commission income	8,237	1,573
Rental income from real estate	68,455	78,529
Foreign exchange gains	1,278	-
Surrender value of insurance policies	-	70,637
Other	66,644	32,760
Total non-operating income	171,099	207,115
Non-operating expenses		
Interest expenses	6,105	3,038
Depreciation of assets for rent	16,364	15,958
Foreign exchange losses	-	1,979
Share of loss of entities accounted for using equity method	243,581	1,466,545
Other	33,226	14,978
Total non-operating expenses	299,277	1,502,500
Ordinary profit	2,121,914	1,007,889
Extraordinary income		
Gain on sales of non-current assets	-	502
Gain on sales of shares of subsidiaries and associates	-	14,134
Total extraordinary income	-	14,637
Extraordinary losses		
Loss on sales of non-current assets	19,190	-
Loss on retirement of non-current assets	10,227	3,877
Loss on liquidation of subsidiaries and associates	35,558	-
Loss on liquidation of subsidiaries and associates	1,761	-
Total extraordinary losses	66,738	3,877
Profit before income taxes	2,055,176	1,018,649
Income taxes-current	758,932	770,853
Income taxes-deferred	13,070	10,739
Total income taxes	772,002	781,593
Profit	1,283,174	237,056
Profit attributable to non-controlling interests	32,740	18,593
Profit attributable to owners of parent	1,250,434	218,462

Consolidated Statement of Comprehensive Income

(Thousands of yen)

	FY3/19 (Apr. 1, 2018 – Mar. 31, 2019)	FY3/20 (Apr. 1, 2019 – Mar. 31, 2020)
Profit	1,283,174	237,056
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,325)	(2,977)
Foreign currency translation adjustment	(38,707)	4,626
Remeasurements of defined benefit plans, net of tax	500	(1,500)
Share of other comprehensive income of entities accounted for using equity method	(10,166)	53
Total other comprehensive income	(49,699)	202
Comprehensive income	1,233,474	237,259
Comprehensive income attributable to:		
Owners of parent	1,216,000	214,034
Non-controlling interests	17,473	23,224

(3) Consolidated Statement of Changes in Equity

FY3/19 (Apr. 1, 2018 – Mar. 31, 2019)

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	992,597	636,631	17,835,206	(2,006,146)	17,458,288
Changes during period					
Dividends of surplus			(486,902)		(486,902)
Profit attributable to owners of parent			1,250,434		1,250,434
Purchase of treasury shares				(1,104,086)	(1,104,086)
Change in scope of consolidation			15,194		15,194
Purchase of shares of consolidated subsidiaries		9,010			9,010
Net changes in items other than shareholders' equity					
Total changes during period	-	9,010	778,726	(1,104,086)	(316,349)
Balance at end of period	992,597	645,641	18,613,932	(3,110,232)	17,141,939

	Accumulated other comprehensive income				Share acquisition rights	Non-controlling interests	Total net assets
	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 period	10,019	(35,231)	(7,222)	(32,434)	28,720	333,990	17,788,565
Changes during period							
Dividends of surplus							(486,902)
Profit attributable to owners of parent							1,250,434
Purchase of treasury shares							(1,104,086)
Change in scope of consolidation							15,194
Purchase of shares of consolidated subsidiaries							9,010
Net changes in items other than shareholders' equity	(1,325)	(33,607)	500	(34,433)	-	(42,461)	(76,894)
Total changes during period	(1,325)	(33,607)	500	(34,433)	-	(42,461)	(393,244)
Balance at end of period	8,693	(68,838)	(6,722)	(66,867)	28,720	291,529	17,395,320

FY3/20 (Apr. 1, 2019 – Mar. 31, 2020)

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	992,597	645,641	18,613,932	(3,110,232)	17,141,939
Changes during period					
Dividends of surplus			(473,720)		(473,720)
Profit attributable to owners of parent			218,462		218,462
Purchase of treasury shares				(35,685)	(35,685)
Change in scope of consolidation			-		-
Purchase of shares of consolidated subsidiaries		-			-
Net changes in items other than shareholders' equity					
Total changes during period	-	-	(255,257)	(35,685)	(290,942)
Balance at end of period	992,597	645,641	18,358,675	(3,145,917)	16,850,996

	Accumulated other comprehensive income				Share acquisition rights	Non-controlling interests	Total net assets
	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 period	8,693	(68,838)	(6,722)	(66,867)	28,720	291,529	17,395,320
Changes during period							
Dividends of surplus							(473,720)
Profit attributable to owners of parent							218,462
Purchase of treasury shares							(35,685)
Change in scope of consolidation							-
Purchase of shares of consolidated subsidiaries							-
Net changes in items other than shareholders' equity	(2,977)	49	(1,500)	(4,428)	-	23,224	18,796
Total changes during period	(2,977)	49	(1,500)	(4,428)	-	23,224	(272,146)
Balance at end of period	5,716	(68,789)	(8,222)	(71,295)	28,720	314,753	17,123,174

(4) Consolidated Statement of Cash Flows

(Thousands of yen)

	FY3/19 (Apr. 1, 2018 – Mar. 31, 2019)	FY3/20 (Apr. 1, 2019 – Mar. 31, 2020)
Cash flows from operating activities		
Profit before income taxes	2,055,176	1,018,649
Depreciation	185,083	215,328
Amortization of goodwill	37,119	37,119
Increase (decrease) in allowance for doubtful accounts	3,596	7,313
Increase (decrease) in provision for bonuses	4,399	16,440
Increase (decrease) in provision for loss on contract	(67,877)	(86,715)
Increase (decrease) in retirement benefit liability	12,858	22,457
Increase (decrease) in provision for retirement benefits for directors (and other officers)	7,104	17,931
Interest and dividend income	(26,483)	(23,614)
Interest expenses	6,105	3,038
Share of loss (profit) of entities accounted for using equity method	243,581	1,466,545
Foreign exchange losses (gains)	(1,278)	1,979
Surrender value of insurance policies	-	(70,637)
Loss (gain) on sales of non-current assets	19,190	-
Loss (gain) on sales of shares of subsidiaries and associates	-	(14,134)
Loss on liquidation of subsidiaries and associates	35,558	-
Decrease (increase) in trade receivables	(49,365)	131,755
Decrease (increase) in accounts receivable-installment	(295,067)	(176,515)
Decrease (increase) in inventories	(95,450)	59,557
Increase (decrease) in trade payables	92,147	(154,713)
Increase (decrease) in accrued consumption taxes	102,865	66,143
Other, net	249,287	272,505
Subtotal	2,518,551	2,810,437
Interest and dividends received	38,548	54,308
Interest paid	(6,105)	(3,038)
Income taxes paid	(675,039)	(1,038,311)
Net cash provided by (used in) operating activities	1,875,955	1,823,395
Cash flows from investing activities		
Payments into time deposits	(750,000)	(750,000)
Proceeds from withdrawal of time deposits	600,000	750,000
Purchase of property, plant and equipment	(168,046)	(253,014)
Proceeds from sales of property, plant and equipment	24,902	18,148
Purchase of intangible assets	(3,477)	(50,265)
Purchase of investment securities	(150,000)	(1,334,820)
Purchase of shares of subsidiaries and associates	-	(100,000)
Loan advances	(53,058)	(1,108,093)
Payments of leasehold and guarantee deposits	(8,978)	(43,956)
Proceeds from refund of leasehold and guarantee deposits	6,670	4,130
Proceeds from cancellation of insurance funds	-	123,581
Other, net	1,635	100,082
Net cash provided by (used in) investing activities	(500,351)	(2,644,205)

	(Thousands of yen)	
	FY3/19	FY3/20
	(Apr. 1, 2018 – Mar. 31, 2019)	(Apr. 1, 2019 – Mar. 31, 2020)
Cash flows from financing activities		
Repayments of long-term borrowings	(1,485,538)	(2,500)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(51,120)	-
Proceeds from share issuance to non-controlling shareholders	22,000	-
Purchase of treasury shares	(1,104,086)	(35,685)
Dividends paid	(486,586)	(473,273)
Other, net	(10,026)	(6,984)
Net cash provided by (used in) financing activities	(3,115,357)	(518,443)
Effect of exchange rate change on cash and cash equivalents	(25,514)	(5,792)
Net increase (decrease) in cash and cash equivalents	(1,765,269)	(1,345,045)
Cash and cash equivalents at beginning of period	10,920,948	9,135,874
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(19,805)	-
Cash and cash equivalents at end of period	9,135,874	7,790,829

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

Not applicable.

Segment and Other Information

(Segment information)

1. Overview of reportable segment

The Group's reportable segment is a component of the Group for which discrete financial information is available and which is regularly reviewed by the Group's highest decision-making body to make decisions about management resources to be allocated to the segment and assess its performance.

There are two reportable operating segments: the water healthcare business and the medical business.

The water healthcare business includes EHW apparatus sales and associated operations. The medical business includes business operations in the fields of medical and preventive healthcare and regenerative medicine.

2. Calculation methods for net sales, profit or loss, assets, liabilities and other items of each reportable segment

The accounting method used for reportable operating segments is generally the same as the methods adopted in the preparation of consolidated financial statements.

Profits for reportable segments are operating profit figures.

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

FY3/20 (Apr. 1, 2019 – Mar. 31, 2020)

(Thousands of yen)

	Reportable segment			Adjustments	Total
	Water healthcare	Medical	Subtotal		
Net sales					
Sales to external customers	14,233,217	1,883,579	16,116,796	-	16,116,796
Inter-segment sales and transfers	-	-	-	-	-
Total	14,233,217	1,883,579	16,116,796	-	16,116,796
Segment profit	1,971,952	331,321	2,303,273	-	2,303,273
Segment assets	16,763,408	4,204,887	20,968,296	1,448,085	22,416,381
Other items					
Depreciation and amortization	166,769	32,600	199,370	15,958	215,328
Increase in property, plant and equipment and intangible assets	241,216	60,840	302,057	-	302,057

Per Share Information

(Yen)

	FY3/19 (Apr. 1, 2018 – Mar. 31, 2019)	FY3/20 (Apr. 1, 2019 – Mar. 31, 2020)
Net assets per share	2,162.68	2,128.85
Net income per share	157.05	27.67
Diluted net income per share	156.95	27.66

Note: The following is a reconciliation of net income per share and diluted net income per share.

	FY3/19 (Apr. 1, 2018 – Mar. 31, 2019)	FY3/20 (Apr. 1, 2019 – Mar. 31, 2020)
Net income per share		
Profit attributable to owners of parent (thousands of yen)	1,250,434	218,462
Profit not attributable to common shareholders (thousands of yen)	-	-
Profit attributable to common shareholders of parent (thousands of yen)	1,250,434	218,462
Average number of common shares outstanding during the period (shares)	7,961,911	7,894,879
Diluted net income per share		
Adjustment to profit attributable to owners of parent (thousands of yen)	-	-
Increase in the number of shares of common stock (shares)	5,070	2,600
Summary of potentially dilutive shares not included in the calculation of diluted earnings per share due to their anti-dilutive effect	-	-

Subsequent Events

Not applicable.

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.