

KOBAYASHI PHARMACEUTICAL CO., LTD.

Summary of Financial Statements (Japanese GAAP) (Consolidated) Financial Results for the 2nd Quarter of the Fiscal Year Ending December 31, 2021

July 29, 2021

Listed exchanges : Tokyo
 Listed company name: Kobayashi Pharmaceutical Co., Ltd.
 Code : 4967
 URL : <https://www.kobayashi.co.jp/english/index.html>
 Representative officer: Akihiro Kobayashi, President & COO
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 Expected date for submitting quarterly securities report: August 6, 2021
 Expected date for starting payment of dividends: September 9, 2021
 Preparation of supplementary documents for quarterly financial results: Yes
 Holding of an analyst meeting for quarterly financial results: Yes (For analysts and investors)

(Any fraction less than 1 million yen is rounded down to the nearest million yen.)

1. Consolidated Results for 2nd Quarter of Fiscal Year Ending December 31, 2021 (January 1, 2021 to June 30, 2021)

(1) Consolidated Operating Results (accumulation)

(% figures represent changes from same period in previous year)

	Q2 of FY ending December 31, 2021		Q2 of FY ended December 31, 2020	
Net sales	67,052 millions of yen	1.3 %	66,180 millions of yen	(4.5) %
Operating income	10,240	0.2	10,220	(8.2)
Ordinary income	11,091	0.6	11,029	(5.2)
Net income attributable to owners of the parent	7,881	(4.1)	8,218	0.2
Net income per share	100.84 yen		105.14 yen	

(Note) Comprehensive income

Q2 of FY ending December 31, 2021: 11,331 million yen (100.6%)

Q2 of FY ended December 31, 2020: 5,648 million yen (-24.8%)

(2) Consolidated Financial Position

	Q2 of FY ending December 31, 2021	FY ended December 31, 2020
Total assets	239,352 millions of yen	238,366 millions of yen
Net assets	190,553	182,583
Shareholders' equity ratio	79.6 %	76.6 %

(Reference) Shareholders' equity

Q2 of FY ending December 31, 2021: 190,553 million yen FY ended December 31, 2020: 182,583 million yen

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2. Dividends

	FY ended December 31, 2020	FY ending December 31, 2021	FY ending December 31, 2021 (forecasts)
Dividends per share			
Q1 end	—	—	
Q2 end	34.00 yen	37.00 yen	
Q3 end	—		—
Year-end	43.00		44.00
Total	77.00		81.00

(Note) Revision of the latest dividend forecast: Yes

3. Forecasts of Consolidated Operational Results for Fiscal Year Ending December 31, 2021 (January 1, 2021 to December 31, 2021)

	(% figures represent changes from previous year)	
	Full year	
Net sales	156,000 millions of yen	3.6 %
Operating income	26,000	0.2
Ordinary income	27,800	0.3
Net income attributable to owners of the parent	19,500	1.5
Earnings per share	249.48 yen	

(Note) Revision to the latest forecasts of operational results: None

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* Notes

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

(2) Adoption of special accounting methods for preparing quarterly consolidated financial statements: None

(3) Changes in accounting policies, changes in accounting estimates and retrospective restatement

① Changes in accounting policies due to revisions of accounting standards: None

② Changes in accounting policies other than ①: None

③ Changes in accounting estimates: None

④ Retrospective restatement: None

(4) Issued shares (common shares)

① Number of shares issued at period-end (including treasury stock):

Q2 of FY ending December 31, 2021	82,050,000 shares	FY ended December 31, 2020	82,050,000 shares
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② Number of shares of treasury stock at period-end:

Q2 of FY ending December 31, 2021	3,886,935 shares	FY ended December 31, 2020	3,886,911 shares
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③ Average number of shares outstanding during period (consolidated cumulative quarters):

Q2 of FY ending December 31, 2021	78,163,083 shares	Q2 of FY ended December 31, 2020	78,163,163 shares
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* This brief report of quarterly financial statements is not subject to audit procedures by a certified public accountant or an independent auditor.

* Notes on proper use of forecasts and other matters

The forward-looking statements in this document concerning forecasting of operational results, etc. are based on currently available information and assumptions considered reasonable by the Company. Actual operational results may be significantly different from these statements due to various factors. For matters concerning forecasts for operational results, please refer to "1. Qualitative Information on Quarterly Results (3) Explanation of future forecast information, such as forecast of consolidated results" on page 4 of the attachment.

(Method to obtain the supplementary documents for quarterly financial results)

The Company plans to hold a results presentation for institutional investors and securities analysts on Thursday, July 29, 2021. It plans to post the supplementary documents for financial results to be distributed in the results presentation on its website on the date of the results presentation.

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1. Qualitative Information on Quarterly Results

(1) Explanation of operational results

During the first six-month period of the consolidated fiscal year under review, the outlook of the business environment surrounding the Kobayashi Pharmaceutical Group continued to remain uncertain. Due to the COVID-19 pandemic, there were concerns about a slowdown of global economic activities, and sluggish consumption continued in Japan because of self-restraint concerning nonessential outings and the sharp decline in the number of foreign visitors to Japan.

Under these circumstances, the Group launched new products to meet customers' needs, strengthened its existing product lineups, and invested in businesses with high future growth potential, under the brand slogan "You make a wish and we make it happen."

As a result, net sales, operating income and ordinary income were 67,052 million yen (+1.3% year on year), 10,240 million yen (+0.2% year on year) and 11,091 million yen (+0.6% year on year), respectively, and net income attributable to owners of the parent was 7,881 million yen (-4.1% year on year).

Business results by segment were as follows:

For your information, from the first three-month period of the consolidated fiscal year under review, the Group has changed one of its key performance management indicators (performance indicators that the Kobayashi Pharmaceutical Group uses to determine the allocation of business resources and examine the evaluation of performance) from ordinary income to operating income. Accordingly, the Group has changed segment income from ordinary income to operating income.

In accordance with the change, the Group has changed segment income or loss for the first six-month period of the previous consolidated fiscal year to operating income or loss for comparison purposes.

Domestic Business

In the Domestic Business, the Company launched 14 new products. The products that contributed to growth in sales were *Zero-ora* (a germ-killing, total-care toothpaste that provides protection for teeth and gums by sterilizing various germs inside the mouth at once), *Benikoji CholesteHelp* (a functional food containing angkjak as a functional component to lower low-density lipoprotein), and *Nodonool Mask Murekan Taisaku* (a spray that relieves the stuffiness experienced when wearing a mask).

Furthermore, demand for disinfectant and sanitary products—items used to prevent COVID-19 infection—continued to grow from the previous year. Products that recorded robust sales included *Liquid Bluelet Disinfection EX* (a liquid tank cleaner that makes toilet cleaning easier by preventing black stains from appearing on water lines of toilet bowls) and *Hananoa* (a rinsing agent that easily cleans the nasal cavity without pain).

Meanwhile, inbound demand greatly decreased due to a fall in the number of foreign visitors to Japan.

In addition, sales of *BreathCare* (an oral breath freshener capsule that refreshes the breath from the stomach) and *Netsusama Sheet* (a cooling gel sheet for the forehead) declined from the previous year due to self-restraint on going out, a reduction in the number of drinking parties, and a fall in the number of patients suffering from a cold and influenza because of the effects of wearing masks.

Consequently, the Company reported net sales of 54,655 million yen (-3.4% year on year) and segment income of 10,243 million yen (+0.7% year on year).

Net sales include inter-segment sales or transfers, which totaled 2,844 million yen in the first six-month period of the previous consolidated fiscal year and 2,540 million yen in the same period of the current year.

(Breakdown of sales to external customers)

	Q2 ended June 30, 2020 (January 1, 2020 to June 30, 2020)	Q2 ended June 30, 2021 (January 1, 2021 to June 30, 2021)	Change	
	Amount (millions of yen)	Amount (millions of yen)	Amount (millions of yen)	Change (%)
Healthcare products	25,374	25,763	389	1.5
Household products	24,353	21,893	(2,459)	(10.1)
Skin care	3,425	3,552	126	3.7
Body warmers	554	904	350	63.3
Total	53,707	52,114	(1,592)	(3.0)

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International Business

In the International Business, the Company markets body warmers, *Netsusama Sheet* (a cooling gel sheet for the forehead) and *Ammeltz* (an external anti-inflammatory), mostly in the United States, China and Southeast Asia, and sought to expand sales by aggressively investing principally in advertising and sales promotion.

Furthermore, sales of body warmers increased, primarily in the U.S. and China, due to lower temperatures in each country this year as well as a reaction to the decrease in sales in the previous year caused by a milder winter.

In addition, Alva-Amco Pharmacal Companies, LLC, which became the Company's consolidated subsidiary through an acquisition in October 2020, contributed to growth in net sales.

As a result, net sales and segment loss were 10,833 million yen (+29.3% year on year) and 524 million yen (versus a segment loss of 381 million yen in the previous year), respectively.

Net sales include inter-segment sales or transfers, which totaled 680 million yen in the first six-month period of the previous consolidated fiscal year and 627 million yen in the same period of the current year.

(Breakdown of sales to external customers)

	Q2 ended June 30, 2020 (January 1, 2020 to June 30, 2020)	Q2 ended June 30, 2021 (January 1, 2021 to June 30, 2021)	Change	
	Amount (millions of yen)	Amount (millions of yen)	Amount (millions of yen)	Change (%)
United States	1,721	3,824	2,102	122.1
China	3,034	3,924	890	29.3
Southeast Asia	1,830	1,375	(455)	(24.9)
Others	1,110	1,082	(28)	(2.5)
Total	7,697	10,206	2,509	32.6

Direct Marketing Business

The Direct Marketing Business markets nutritional supplements and skin care products. The Company strove to exploit new customers while encouraging existing customers to continue to place orders for its products through sales promotional campaigns, such as advertisements and direct mail.

Consequently, the Company reported net sales of 4,482 million yen (+0.3% year on year) and segment income of 104 million yen (-4.1% year on year).

Net sales do not include inter-segment sales or transfers.

Other Businesses

Businesses in this segment include the transportation business, manufacture and sale of plastic containers, real estate management, and advertisement planning and production. The companies in this business segment operate individually on a financially independent basis, and their delivery prices of materials and services were reviewed and revised as necessary.

As a result, net sales and segment income were 3,346 million yen (+9.1% year on year) and 413 million yen (+28.3% year on year), respectively.

Net sales include inter-segment sales or transfers, which totaled 2,760 million yen in the first six-month period of the previous consolidated fiscal year and 3,096 million yen in the same period of the current year.

(2) Explanation of financial position

Total assets increased by 986 million yen from the balance as of the end of the previous consolidated fiscal year to 239,352 million yen. This was attributable mainly to an increase of 6,949 million yen in cash and deposits, a decline of 11,017 million yen in notes and accounts receivable-trade, a rise of 3,504 million yen in short-term investment securities, a growth of 3,612 million yen in merchandise and finished goods, an increase of 541 million yen in raw materials and supplies, a rise of 424 million yen in construction in progress, and a fall of 3,270 million yen in investment securities.

Liabilities declined by 6,984 million yen from the balance as of the end of the previous consolidated fiscal year to 48,799 million yen. This was attributable mainly to a fall of 3,611 million yen in accounts payable-other, a decrease of 1,746 million yen in income taxes payable, a decline of 1,172 million yen in accrued consumption taxes, and an increase of 1,120 million yen in deferred tax liabilities.

Net assets grew by 7,970 million yen from the balance as of the end of the previous consolidated fiscal year to 190,553 million yen, bringing the shareholders' equity ratio to 79.6%. This was attributable mainly to a rise of 4,520 million yen in retained earnings and a growth of 1,688 million yen in valuation difference on available-for-sale securities.

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Cash flows from operating activities

Cash flows from operating activities totaled 9,773 million yen (versus 11,969 million yen in the previous year). Major factors were income before income taxes of 11,037 million yen, depreciation of 1,871 million yen, a decrease in notes and accounts receivable-trade of 11,387 million yen, an increase in inventories of 4,149 million yen, a decrease in accounts payable-other of 3,638 million yen, and income taxes paid of 4,518 million yen.

Cash flows from investing activities

Cash flows from investing activities totaled 4,142 million yen (versus 182 million yen in the previous year). Major factors were payments into time deposits of 27,950 million yen, proceeds from withdrawal of time deposits of 32,004 million yen, proceeds from sales and redemption of securities of 2,100 million yen, and the purchase of property, plant and equipment of 1,773 million yen.

Cash flows from financing activities

Cash flows from financing activities totaled -3,459 million yen (versus -3,232 million yen in the previous year). The major factor was cash dividend paid of 3,361 million yen.

Consequently, cash and cash equivalents as of June 30, 2021 totaled 72,108 million yen, an increase of 10,951 million yen from the end of the previous fiscal year.

(3) Explanation of future forecast information, such as forecast of consolidated results

The Group did not revise its forecast of consolidated results for the fiscal year ending December 31, 2021, which the Group announced via the *Summary of Financial Statements for the Fiscal Year Ended December 31, 2020* released on February 1, 2021.

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2. Quarterly Consolidated Financial Statements and Main Notes

(1) Quarterly consolidated balance sheet

(millions of yen)

	Previous consolidated fiscal year (December 31, 2020)	End of 1st six-month period of FY ending December 2021 (June 30, 2021)
ASSETS		
Current assets		
Cash and deposits	78,253	85,202
Notes and accounts receivable-trade	52,850	41,832
Short-term investment securities	16,085	19,589
Merchandise and finished goods	8,960	12,572
Work in process	1,548	1,881
Raw materials and supplies	3,631	4,173
Other	2,917	2,650
Allowance for doubtful accounts	(21)	(16)
Total current assets	164,225	167,887
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	7,961	7,930
Machinery, equipment and vehicles, net	4,729	4,752
Tools, furniture and fixtures, net	1,397	1,421
Land	4,739	4,743
Leased assets, net	656	670
Construction in progress	1,337	1,761
Total property, plant and equipment	20,821	21,279
Intangible assets		
Goodwill	7,284	7,345
Trademark rights	4,030	3,942
Software	1,286	1,354
Other	192	199
Total intangible assets	12,794	12,841
Investments and other assets		
Investment securities	34,474	31,203
Long-term loans receivable	700	761
Deferred tax assets	1,443	1,528
Real estate for investment, net	2,765	2,747
Other	1,908	1,924
Allowance for doubtful accounts	(766)	(820)
Total investments and other assets	40,525	37,344
Total non-current assets	74,141	71,465
Total assets	238,366	239,352

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(millions of yen)

	Previous consolidated fiscal year (December 31, 2020)	End of 1st six-month period of FY ending December 2021 (June 30, 2021)
LIABILITIES		
Current liabilities		
Notes and accounts payable-trade	7,558	8,079
Electronically recorded obligations-operating	8,368	7,660
Short-term loans payable	13	1
Accounts payable-other	20,968	17,356
Lease obligations	170	175
Income taxes payable	4,371	2,624
Accrued consumption taxes	1,417	244
Provision for bonuses	2,797	2,350
Other	4,441	3,481
Total current liabilities	50,107	41,974
Non-current liabilities		
Lease obligations	505	517
Deferred tax liabilities	1,357	2,477
Net defined benefit liability	1,920	1,944
Provision for directors' retirement benefits	40	40
Other	1,852	1,843
Total non-current liabilities	5,675	6,824
Total liabilities	55,783	48,799
NET ASSETS		
Shareholders' equity		
Capital stock	3,450	3,450
Capital surplus	4,183	4,183
Retained earnings	187,071	191,592
Treasury stock	(19,763)	(19,763)
Total shareholders' equity	174,941	179,462
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	10,449	12,137
Foreign currency translation adjustment	(1,517)	107
Re-measurements of retirement benefit plans	(1,290)	(1,153)
Total accumulated other comprehensive income	7,641	11,091
Total net assets	182,583	190,553
Total liabilities and net assets	238,366	239,352

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- (2) Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income
 (Quarterly consolidated statements of income)
 (For the first six-month period of the fiscal year ending December 31, 2021)

(millions of yen)

	Six-month period ended June 30, 2020 (January 1, 2020 to June 30, 2020)	Six-month period ended June 30, 2021 (January 1, 2021 to June 30, 2021)
Net sales	66,180	67,052
Cost of sales	27,752	27,430
Gross profit	38,428	39,621
Selling, general and administrative expenses	28,207	29,381
Operating income	10,220	10,240
Non-operating income		
Interest income	171	75
Dividend income	239	227
Real estate rent	152	150
Foreign exchange gains	—	321
Other	537	226
Total non-operating income	1,101	1,001
Non-operating expenses		
Interest expenses	9	9
Rent cost of real estate	54	48
Foreign exchange losses	110	—
Provision of allowance for doubtful accounts	60	66
Other	56	27
Total non-operating expenses	292	150
Ordinary income	11,029	11,091
Extraordinary income		
Gain on sales of non-current assets	2	0
Total extraordinary income	2	0
Extraordinary loss		
Loss on sales and retirement of non-current assets	23	39
Other	125	14
Total extraordinary loss	149	53
Income before income taxes	10,882	11,037
Income taxes - current	3,266	2,834
Income taxes - deferred	(601)	322
Total income taxes	2,664	3,156
Net income	8,218	7,881
Net income attributable to owners of the parent	8,218	7,881

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(Quarterly consolidated statements of comprehensive income)
 (For the first six-month period of the fiscal year ending December 31, 2021)

(millions of yen)

	Six-month period ended June 30, 2020 (January 1, 2020 to June 30, 2020)	Six-month period ended June 30, 2021 (January 1, 2021 to June 30, 2021)
Net income	8,218	7,881
Other comprehensive income		
Valuation difference on available-for-sale securities	(2,183)	1,688
Foreign currency translation adjustment	(519)	1,625
Adjustment for retirement benefits	134	136
Total other comprehensive income	(2,569)	3,450
Quarterly comprehensive income	5,648	11,331
(Quarterly comprehensive income attributable to)		
Quarterly comprehensive income attributable to owners of the parent	5,648	11,331
Quarterly comprehensive income attributable to non-controlling interests	—	—

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(3) Consolidated statement of cash flows

(millions of yen)

	Six-month period ended June 30, 2020 (January 1, 2020 to June 30, 2020)	Six-month period ended June 30, 2021 (January 1, 2021 to June 30, 2021)
Cash flows from operating activities		
Income before income taxes	10,882	11,037
Depreciation	2,203	1,871
Amortization of goodwill	91	424
Interest and dividend income	(411)	(302)
Interest expenses	9	9
Loss (gain) on sales and retirement of non-current assets	20	39
Decrease (increase) in notes and accounts receivable-trade	14,633	11,387
Decrease (increase) in inventories	(3,911)	(4,149)
Increase (decrease) in notes and accounts payable-trade	(690)	(266)
Increase (decrease) in accounts payable-other	(6,302)	(3,638)
Other	(708)	(2,449)
Subtotal	15,815	13,963
Interest and dividend income received	418	336
Interest expenses paid	(11)	(8)
Income taxes paid	(4,253)	(4,518)
Net cash provided by (used in) operating activities	11,969	9,773
Cash flows from investing activities		
Payments into time deposits	(32,193)	(27,950)
Proceeds from withdrawal of time deposits	32,835	32,004
Proceeds from sales and redemption of securities	2,000	2,100
Purchase of property, plant and equipment	(2,150)	(1,773)
Proceeds from sales of property, plant and equipment	11	4
Purchase of intangible assets	(165)	(180)
Purchase of investment securities	(8)	(5)
Other	(147)	(57)
Net cash provided by (used in) investing activities	182	4,142
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(7)	(12)
Purchase of treasury stock	—	(0)
Cash dividends paid	(3,128)	(3,361)
Other	(96)	(85)
Net cash provided by (used in) financing activities	(3,232)	(3,459)
Effect of exchange rate change on cash and cash equivalents	(300)	495
Net increase (decrease) in cash and cash equivalents	8,618	10,951
Cash and cash equivalents at beginning of period	56,272	61,157
Cash and cash equivalents at end of period	64,891	72,108

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(4) Notes on quarterly consolidated financial statements

(Notes on assumption of going concern)

Not applicable

(Notes on a significant change in shareholders' equity)

Not applicable

(Segment information)

I. Six-month period ended June 30, 2020 (January 1, 2020 to June 30, 2020)

1. Information on net sales, income or loss by reportable segment

(millions of yen)

	Reportable segment				Other (Note 1)	Grand total	Adjustment (Note 2)	Figures in quarterly consolidated statements of income (Note 3)
	Domestic Business	International Business	Direct Marketing Business	Total				
Net sales								
Net sales to outside customers	53,707	7,697	4,468	65,873	307	66,180	—	66,180
Inter-segment sales and transfers	2,844	680	—	3,524	2,760	6,285	(6,285)	—
Total	56,551	8,377	4,468	69,398	3,067	72,465	(6,285)	66,180
Segment income (loss)	10,169	(381)	108	9,896	322	10,218	1	10,220

(Notes)

1. *Other* represents businesses that are not included in reportable segments, such as the transportation business, manufacture and sale of plastic containers, real estate management, and advertisement planning and production.
2. Adjustments of 1 million yen in segment income or segment loss are eliminations among segments.
3. Segment income or segment loss is adjusted with operating income in the quarterly consolidated statements of income.

2. Information concerning impairment loss on non-current assets or goodwill by reportable segments

The Group does not provide information concerning impairment loss on non-current assets or goodwill because it does not recognize significant impairment loss on non-current assets and there has been no significant change in the value of goodwill.

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II. Six-month period ended June 30, 2021 (January 1, 2021 to June 30, 2021)

1. Information on net sales, income or loss by reportable segment

(millions of yen)

	Reportable segment				Other (Note 1)	Grand total	Adjustment (Note 2)	Figures in quarterly consolidated statements of income (Note 3)
	Domestic Business	International Business	Direct Marketing Business	Total				
Net sales								
Net sales to outside customers	52,114	10,206	4,482	66,803	249	67,052	—	67,052
Inter-segment sales and transfers	2,540	627	—	3,167	3,096	6,264	(6,264)	—
Total	54,655	10,833	4,482	69,970	3,346	73,317	(6,264)	67,052
Segment income (loss)	10,243	(524)	104	9,823	413	10,236	3	10,240

(Notes)

1. *Other* represents businesses that are not included in reportable segments, such as the transportation business, manufacture and sale of plastic containers, real estate management, and advertisement planning and production.
2. Adjustments of 3 million yen in segment income or segment loss are eliminations among segments.
3. Segment income or segment loss is adjusted with operating income in the quarterly consolidated statements of income.

2. Matters regarding change in reportable segment, etc.

From the first three-month period of the consolidated fiscal year under review, the Group has changed one of its key performance management indicators (performance indicators that the Kobayashi Pharmaceutical Group uses to determine the allocation of business resources and examine the evaluation of performance) from ordinary income to operating income. Accordingly, the Group has changed segment income from ordinary income to operating income.

In accordance with the change, the Group has changed segment income or loss for the first six-month period of the previous consolidated fiscal year to operating income or loss for comparison purpose.

3. Information concerning impairment loss on non-current assets or goodwill by reportable segments

The Group does not provide information concerning impairment loss on non-current assets or goodwill because it does not recognize significant impairment loss on non-current assets and there has been no significant change in the value of goodwill.

(Important subsequent events)

Not applicable