

# INTERNET DISCLOSURE OF THE NOTICE OF CONVOCAATION OF THE 6th ORDINARY GENERAL MEETING OF SHAREHOLDERS

## Business Report

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## Financial Statements

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SATUDORA HOLDINGS CO., LTD.

The above matters are provided to our shareholders by posting them on the Company website (<https://satudora-hd.co.jp/ir/>) in accordance with laws and regulations and Article 15 of our Articles of Incorporation.

## Systems to ensure appropriate business operations

SATUDORA HOLDINGS CO., LTD. (hereinafter referred to as “the Company”) has established, in accordance with the Basic Policy for the Establishment of Internal Control Systems, the following systems to ensure that the performance of duties by Directors complies with laws and regulations and the Articles of Incorporation, as well as to ensure appropriate business operations of the Company. The Board of Directors operates in accordance with this Basic Policy and has established a lawful and appropriate business execution system.

### (1) **System to ensure that the performance of duties by Directors and employees complies with laws and regulations and the Articles of Incorporation**

- ① The Company Group has established the Group Code of Business Conduct and Ethics, which clearly states the rules of conduct that all Directors and employees of the Company Group shall observe not only laws, regulations, the Articles of Incorporation, and internal regulations, but also social norms in the performance of their duties. At the same time, the Directors and employees shall be thoroughly informed and carry out their duties based on their principles of conduct.
- ② The Company has established the Control Committee as an organization that oversees activities related to compliance with ethics, laws, the Articles of Incorporation, and internal regulations, and has assigned a General Affairs and Legal Team from the General Affairs and Legal Group to promote the Company Group's compliance with ethics and laws.
- ③ The Company Group has established Whistleblower Regulations, and in the event that a violation of ethics, laws, regulations, the Articles of Incorporation, or internal regulations is committed or is likely to be committed by a Director or an employee of the Company Group, the violation should be discussed and reported to the internal or external Whistleblower Hotline. In addition, the Company shall ensure the proper operation of the Whistleblower Regulations to protect those who report or consult on matters in accordance with the Whistleblower Protection Act.
- ④ The legality of the performance of duties by Directors (excluding those who are members of the Audit and Supervisory Committee) shall be ensured through mutual supervision by the Board of Directors and audits by the Audit and Supervisory Committee. The Board of Directors shall, in principle, meet once a month to receive reports from Directors and other personnel regarding the performance of their duties and to review the maintenance and operation of the internal control systems in a timely manner.

### (2) **System for the storage and management of information related to the performance of duties by Directors**

The Company shall maintain a system whereby the Board of Directors and other important decision-making information are recorded, stored and managed in accordance with laws and regulations, the Articles of Incorporation, and internal regulations, and is available for inspection by Directors and Audit and Supervisory Committee Members.

- (3) Regulations and other systems for managing the risk of loss of the Company and its Group Companies**
- ① The Company has established the Control Committee as an organization that oversees risk management and has also assigned a Corporate Planning Team from the Business Management Group to promote risk management for the Company Group.
  - ② The Corporate Planning Team from the Business Management Group analyzes and evaluates anticipated risks according to their risk factors, frequency of occurrence, degree of impact, and other criteria, identifies major risks, prepares risk maps, establishes regulations regarding the system and methods for managing risks, and all relevant Directors and employees shall comply with these regulations.
  - ③ The Company Group shall strive to incorporate requests from customers into its management and shall take appropriate measures without neglecting these requests.
  - ④ The Internal Audit Office shall conduct audits on the Company Group's risk management conditions and report the results to the Board of Directors on a regular basis or as necessary.
  - ⑤ The Group has established Group Crisis Management Regulations, and in the event of an unforeseen situation, the Company Group shall establish a task force headed by the President and CEO to take prompt action, prevent further damage, and minimize losses.
- (4) System to ensure the efficient performance of duties by Directors**
- ① The Company shall regularly hold the Group Management Meetings, which will be chaired by the President and CEO, as an advisory body for making important business execution decisions and shall report to the Board of Directors through prompt and careful deliberations.
  - ② The Company's Board of Directors shall determine the division of duties of each Director and shall establish Segregation of Duties Regulations and Administrative Authorities Regulations to clarify the authority and responsibilities of Directors in charge of business operations and to ensure the proper execution of business operations.
- (5) System to ensure the appropriate business operations of the corporate group consisting of the Company and its Group Companies**
- ① As a holding company, the Company shall manage and supervise the business operations of each Group Company, allocate management resources efficiently throughout the Group, and develop systems to ensure the appropriate business operations of each Group Company.
  - ② The Company's Internal Audit Office shall conduct internal audits on a regular basis or as necessary and shall further develop the system to report the results of the audits to the President and CEO of the Company, Audit and Supervisory Committee, and relevant departments.
  - ③ The Company shall provide advice and guidance to its Group Companies regarding the development of internal control systems for major internal control items such as legal compliance and management of risk of loss, as necessary.
  - ④ The Internal Audit Office shall conduct internal audits of the Group Companies' management status and business activities and shall work with the Auditors of the Group Companies to improve internal control systems.

**(6) Matters regarding employees who are requested by the Audit and Supervisory Committee to assist in performing its duties**

The Company has assigned the proper personnel as employees to assist the Audit and Supervisory Committee in its duties.

**(7) Matters regarding the independence from Directors of employees who are to assist the Audit and Supervisory Committee in its duties and matters related to ensuring the effectiveness of instructions to these employees**

① Employees who are to assist the Audit and Supervisory Committee in performing its duties shall be subject only to the directions and orders of Audit and Supervisory Committee Members and the Audit and Supervisory Committee, and shall not be subject to the directions and orders of Directors or other employees.

② The exercise of authority over personnel affairs, such as performance evaluations, transfers, and disciplinary actions regarding these employees, shall be decided with the prior consent of the Audit and Supervisory Committee members and the Audit and Supervisory Committee, and independence from Directors shall be ensured.

**(8) System for Directors and employees to report to the Audit and Supervisory Committee**

① Directors and employees shall report the following items to the Audit and Supervisory Committee on a regular basis, and the Audit and Supervisory Committee Members shall attend Board of Directors Meetings, Group Management Meetings and other important meetings to receive reports.

(a) Matters to be resolved and reported by the Board of Directors

(b) Monthly, quarterly, half-yearly, and full-year business results, projections, and business conditions

(c) Matters that may cause significant damage to the Company

(d) Matters that may have a significant impact on the Company's management or business results and projections

(e) Other important matters to be discussed and approved

② Directors and employees shall immediately report to the Audit and Supervisory Committee any violations of laws and regulations or other facts that may cause significant damage to the Company as soon as they are discovered.

**(9) System to ensure that those who have submitted a report to the Audit and Supervisory Committee will not suffer from any disadvantageous treatment due to their reporting**

It shall be prohibited to give any disadvantageous treatment to Officers and employees of the Company Group who have submitted a report to the Audit and Supervisory Committee for the reason of reporting to the Audit and Supervisory Committee, and all Officers and employees of the Company Group shall be informed to that effect.

**(10) Other systems to ensure that audits by the Audit and Supervisory Committee are conducted effectively**

① The Audit and Supervisory Committee shall hold regular meetings with the President and CEO to exchange opinions on issues to be addressed by the Company, important auditing issues, and other

matters in order to ensure mutual communication.

- ② The Audit and Supervisory Committee shall maintain close cooperation with the Accounting Auditor on a regular basis and actively exchange opinions and information.
- ③ The Audit and Supervisory Committee shall receive reports on internal audits from the Internal Audit Office, and shall meet with the Internal Audit Office to exchange information and work in close cooperation.

**(11) Matters concerning procedures for the advance payment or redemption of expenses incurred in the execution of duties by Audit and Supervisory Committee Members and other matters related to policies for handling expenses and debts incurred from these duties**

In the event that a Member of the Audit and Supervisory Committee makes a request for advance payment or redemption of expenses incurred in performing his or her duties, the Company shall promptly process the expenses or debts, except in cases where it is recognized that the expenses or debts are not necessary for performing the duties of the Member of the Audit and Supervisory Committee.

**(12) System to ensure appropriate financial reporting**

- ① The Company Group places importance on reliable financial reporting and has established regulations such as accounting regulations and bylaws for accounting regulations to ensure appropriate financial reporting, and all Directors and employees shall comply with these rules.
- ② In order to ensure appropriate financial reporting, the Company Group has established the Control Committee, which is responsible for promoting internal control over financial reporting.
- ③ In order to ensure appropriate financial reporting, in accordance with the Financial Instruments and Exchange Act and other applicable laws and regulations, the Company Group has established an internal control system that oversees financial reporting, and regularly and continuously assesses the effectiveness of its development and operation, and takes necessary corrective actions.

**(13) Basic policy on exclusion of antisocial forces and its development**

- ① In order to maintain public confidence and ensure appropriate and sound business operations, the Company Group has established in its Group Code of Business Conduct and Ethics a resolute stance against antisocial forces that pose a threat to the order and safety of civil society, and is committed to decisively rejecting unreasonable and improper demands and severing ties with antisocial forces.
- ② The Company Group has established the Group Antisocial Forces Handling Regulations as a system to eliminate anti-social forces and assigned a person responsible for the prevention of unreasonable demands, while the General Affairs and Legal Team of the General Affairs and Legal Group collaborate with each department to collect and exchange information. In the event of unreasonable demands from antisocial forces, the Company Group shall place the highest priority on ensuring the safety of its employees and shall take systematic measures to deal with the situation, rather than leaving it to the person or department in charge.

In addition, even if an unreasonable demand is the result of the Company's misconduct, the Company shall not provide funds to antisocial forces or conduct transactions to conceal the fact, and shall take legal action from both civil and criminal perspectives.

- ③ The Company Group has prepared a manual for dealing with antisocial forces, in order to cope with unforeseen situations such as unreasonable demands by antisocial forces, and is working to acquire knowledge and disseminate it internally by providing training courses for personnel responsible for preventing unreasonable demands as well as internal training. In addition, the Company Group has established close cooperative relationships with external specialized organizations such as the police, Centers for Removal of Criminal Organizations, and legal counsel.

## Outline of the Operation of the System to Ensure Appropriate Business Operations

The outline of the operation of the system to ensure appropriate business operations of the Company during the current fiscal year is as follows.

**(1) Compliance initiatives**

In an effort to promote compliance, the Company Group has established internal regulations and a Code of Business Conduct and Ethics, and is working to ensure that employees are fully aware of these regulations through internal training and other awareness-raising activities.

**(2) Risk management initiatives**

The Company Group has established a Control Committee to oversee risk management, which reports on management issues at regular Group Management Meetings held by senior management, and in the event that various risks become apparent, the Control Committee discusses solutions, shares information, and takes action.

**(3) Initiatives to ensure the proper and efficient performance of duties by Directors**

There were 17 Board of Directors Meetings held during the current term, at which Directors and Audit and Supervisory Committee Members actively exchanged opinions on important matters for discussion. Outside Directors, in cooperation with the Audit and Supervisory Committee, provide advice and opinions from their respective perspectives and actively make proposals regarding the performance of duties by Directors.

**(4) Initiatives for the implementation of internal audits**

Based on the internal audit program for the fiscal year, the Internal Audit Office conducts internal audits of the operations of each department and Group Company and monitors internal control systems to ensure appropriate and efficient business activities and operations. Audit results are promptly reported to Directors, senior management, and the Audit and Supervisory Committee, and appropriate improvements and follow-ups are made accordingly.

**(5) Initiatives to ensure that audits by the Audit and Supervisory Committee are conducted effectively**

The Audit and Supervisory Committee met five times during the current term and thoroughly discussed and addressed audit policies and audit plans, while Audit and Supervisory Committee Members (including selected Audit and Supervisory Committee Members) attended the Board of Directors Meetings, Group Management Meetings, and other important meetings, and held meetings with the President and CEO, Accounting Auditor, Internal Audit Office, and Control Committee as appropriate, in order to ensure that audits are conducted effectively.

# Notes to Consolidated Financial Statements

## 1. Notes to significant matters serving as basis for the preparation of Consolidated Financial Statements

### (1) Disclosure of scope of consolidation

Information about consolidated subsidiaries

- Number of subsidiaries      8 subsidiaries
- Names of subsidiaries      SAPPORO DRUG STORE CO., LTD.  
   Create Co., Ltd.  
   Regional Marketing Co., Ltd.  
   GRIT WORKS CO., LTD.  
   TAIWAN SATUDORA CO., LTD.  
   CoelaQanth, Inc.  
   RxR Innovation Initiative CO., LTD.  
   S-Asset Co., Ltd.
- Reason for inclusion within the scope of consolidation  
    S-Asset Co., Ltd. is included within the scope on consolidation because it was established in the current consolidated fiscal year.

### (2) Disclosure about application of equity method

Names of associates to which the equity method is not applied and reasons for not applying the equity method

EZODEN Co., Ltd.

Regional Marketing Ryukyu, Inc.

Hokkaido MD Organization, Inc.

(Reasons for not applying the equity method)

EZODEN Co., Ltd., Regional Marketing Ryukyu, Inc., and Hokkaido MD Organization Inc. are excluded from the scope of application of the equity method because they are small in scale, and their profit or loss (amount corresponding to equity) and retained earnings (amount corresponding to equity) would not have a material impact on the Consolidated Financial Statements if they were excluded from the scope of the equity method, and they are insignificant as a whole.

### (3) Disclosure about fiscal years, etc. of consolidated subsidiaries

Of the consolidated subsidiaries, Regional Marketing Co., Ltd., GRIT WORKS CO., LTD., CoelaQanth, Inc., and RxR Innovation Initiative CO., LTD. close their accounts on the last day of April. TAIWAN SATUDORA CO., LTD. closes its account on the last day of February.

In preparing the Consolidated Financial Statements, Financial Statements that share the same closing date are currently used.

However, necessary adjustments are made for consolidation purposes for significant transactions that occur between the consolidated closing dates.



(4) Disclosure of accounting policies

① Valuation of significant assets and valuation method

(a) Securities

Other securities

Other than shares, etc., without market value

Stated at market value, based on quoted market prices as of the fiscal year-end (valuation differences are reported as a component of shareholders' equity, and the costs of securities sold are calculated using the moving average method).

Shares, etc. without market value

Stated at cost, as determined by the moving average method.

(b) Inventories

Merchandise

Stated at cost, as determined by the retail method (values on the Balance Sheet are subject to the book value reduction method based on decreased profitability).

② Significant depreciation methods for depreciable assets

(a) Property, plant and equipment

(excluding leased assets)

Declining-balance method is used (however, the straight-line method is used for buildings acquired on or after April 1, 1998 (excluding facilities attached to buildings) as well as for facilities attached to buildings and structures acquired on or after April 1, 2016).

The useful life of main assets are as follows.

Buildings and structures 8 to 39 years

Tools, furniture and fixtures 3 to 15 years

Straight-line method is used.

Moreover, the depreciation of software for internal use is calculated based on the usable period (five years).

(b) Intangible assets

(excluding leased assets)

Leased assets related to finance leases under which ownership is not transferred are depreciated using the straight-line method over the lease period with a residual value of zero.

(c) Leased assets

③ Accounting standards for significant provisions

(a) Allowance for doubtful accounts

Allowance for doubtful accounts is provided for the estimated unrecoverable amount of trade receivables and loans receivable, based on the loan loss ratio for general accounts receivable and on an individual assessment of recoverability for doubtful accounts receivable.

(b) Provision for bonuses

The allocation of employee bonuses is based on the portion of the estimated amount of bonus payment as attributable to the current consolidated fiscal year.

④ Significant hedge accounting methods

- (a) Hedge accounting methods
- (b) Hedging instruments and hedged items
- (c) Hedging policy

Special treatment is applied to interest rate swaps that meet the requirements for special treatment.

Hedging instruments: Interest rate swap transactions

Hedged items: Interest on borrowings

In accordance with the Company's internal regulations on risk management, the Company enters into interest rate swap transactions in order to effectively avoid future interest rate risks associated with financial obligations and does not enter into such transactions for speculative purposes.

- (d) Hedging effectiveness evaluation method

Hedging effectiveness is evaluated based on the judgment that the interest rate swaps meet the requirements for special treatment.

⑤ Basis for Recognition of Revenues and Costs

The Group's revenues from contracts with customers are based on performance obligations to deliver goods in exchange for receipt of consideration mainly in the drugstore business, inbound business, and dispensing business. Such performance obligations are deemed to be satisfied at a certain point in time when the customer obtains control over the goods, and the Company recognizes revenue when the goods are delivered to the customer.

With respect to the amount equivalent to points granted to customers at the time of product sales based on a point system operated by another company, the Company recognizes revenue on a net amount, which is determined to be the amount to be collected on behalf of a third party when calculating the transaction price.

⑥ Other significant matters for preparing Consolidated Financial Statements

- (a) Accounting methods for retirement benefits

Retirement benefit obligations are recorded based on the estimated amount at the end of the current consolidated fiscal year in order to prepare for retirement benefits for employees. The method of attributing the estimated amount of retirement benefits to the period up to the current consolidated fiscal year is based on the calculation of benefits.

Actuarial differences are amortized by the straight-line method over a fixed number of years (three years) within

the average remaining service period of employees at the time of occurrence of each consolidated fiscal year, starting from the consolidated fiscal year following the time of occurrence.

Unrecognized actuarial differences are recorded as accumulated adjustment for retirement benefits in accumulated other comprehensive income under net assets, after adjusting for tax effects.

- (b) Standards for the translation of significant foreign currency-denominated assets and liabilities into Japanese currency

Foreign currency-denominated receivables and payables are translated into Japanese yen using the spot exchange rate on the consolidated closing date, with translation differences recorded as gains or losses. Assets and liabilities of overseas consolidated subsidiaries are translated into yen using the spot exchange rate on the closing day of the fiscal year of the overseas consolidated subsidiary, and revenue and expenses are translated into yen using the average exchange rate during the fiscal year, with translation differences included in the foreign currency translation adjustments account under net assets.

## 2. Notes - Changes in accounting policies

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

"Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020. Hereinafter, "Revenue Recognition Accounting Standard"), etc. has been applied by our Company from the beginning of the current consolidated fiscal year. Revenue is recognized at the point in time when control of the promised goods or services is transferred to the customer, in the amount estimated to be received in exchange for such goods or services. Traditionally, the amount equivalent to the points granted to customers at the time of sale of products based on the points program operated by other companies was treated as selling, general and administrative expenses. However, the method has been changed, and revenue is recognized on a net amount basis based on the judgment that such amount should be regarded as collected on behalf of third parties when calculating the transaction price.

The application of the Revenue Recognition Accounting Standard follows the transitional treatment stipulated in the provision of Paragraph 84 of the Revenue Recognition Accounting Standard. However, there is no impact on retained earnings at the beginning of the current consolidated fiscal year.

As a result, net sales, gross profit, and selling, general and administrative expenses for the current consolidated fiscal year decreased by 1,277 million yen, but there was no impact on operating profit, ordinary profit, and profit before income taxes.

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

The "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019. Hereinafter, "Fair Value Measurement Accounting Standard") has been applied from the beginning of the current consolidated fiscal year, and the new accounting policies stipulated by the Fair Value Measurement Accounting Standard, etc. will be applied prospectively following

transitional treatment based on paragraph 19 of the Fair Value Measurement Accounting Standard and Paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019). Note that there was no impact on the consolidated financial statements.

3. Notes - Changes in presentation

(Consolidated balance sheet related)

"Accounts receivable-other," which was included in "other" under "current assets" in the previous consolidated fiscal year, is presented as a separate line item in the current consolidated fiscal year due to its increased importance in terms of its amount.

4. Notes to accounting estimates

Valuation of non-current assets in the form of stores at SAPPORO DRUG STORE CO., LTD.

(1) Value recorded in the Consolidated Financial Statements for the current consolidated fiscal year

Value of stores of SAPPORO DRUG STORE CO., LTD.

Property, plant and equipment: 12,239 million yen, Impairment losses: 376 million yen

(2) Information on the contents of significant accounting estimates related to identified items

① Calculation method

At SAPPORO DRUG STORE CO., LTD., the basic unit is the store, which is the smallest unit that generates cash flow, and the Company identifies signs of impairment when the operating income of each store becomes negative on a continuous basis, when the market value of non-current assets declines significantly, or when a decision is made to close a store. For property, plant and equipment of stores for which indications of impairment loss were identified in the current consolidated fiscal year, if the total amount of undiscounted future cash flow is less than the carrying amount of the asset, the carrying amount is reduced to the recoverable amount, and the amount of the reduction is recorded as impairment loss. The recoverable amount is measured based on the value in use, and if the estimated future cash flow is negative, it is calculated as zero.

② Major assumptions

The major assumptions used in estimating future cash flows are future sales forecasts based on business plans approved by the Board of Directors, and future forecasts of gross profit margins and of selling, general and administrative expenses. Future sales forecasts are based on the assumption that sales will grow or diminish at a certain rate based on the number of years in operation and the actual results of previous years. In addition, the gross profit margin and selling, general and administrative expenses are forecast based on the actual results of previous fiscal years.

Although it remains uncertain when COVID-19 will be contained, accounting estimates are based on the assumption that the inbound format will gradually recover from the second half of the next fiscal year while COVID-19 will continue to affect the format through the year.

③ Impact on the Consolidated Financial Statements for the next consolidated fiscal year

The major assumptions used in estimating future cash flows are based on the best estimates. However, they may be affected by future changes in economic conditions, the containment of COVID-19, and other factors. If it becomes necessary to revise the major assumptions, there may be new impairment losses in the Consolidated Financial Statements for the next fiscal year.

Valuation of merchandise at SAPPORO DRUG STORE CO., LTD.

(1) Amount recorded in the consolidated financial statements for the fiscal year

Amount at SAPPORO DRUG STORE CO., LTD.

Merchandise 10,771 million yen

(2) Matters related to significant accounting estimates for identified items

In valuing merchandise, SAPPORO DRUG STORE CO., LTD. devalues the book value to the net selling price when the amount recorded as inventory cost based on the selling price reduction method exceeds the net selling price. In judging a decline in profitability due to retention, recent sales results, consumer trends, and other factors are used as key assumptions. However, it is possible that such assumptions may be affected by uncertain future changes in economic conditions, etc. If actual sales results differ from the estimates, the carrying amount may be devalued and significantly impact the consolidated financial statements for the following fiscal year.

5. Notes to Consolidated Balance Sheet

Accumulated depreciation of property, plant and equipment 9,387 million yen

6. Notes to Consolidated Statement of Income

Impairment losses

During the current consolidated fiscal year, the Company Group recorded impairment losses in the following asset groups.

Region	Purpose	Class
Hokkaido and other regions	20 stores	Buildings and other facilities

In the Company Group, the basic unit is the store, which is the smallest unit to generate cash flow, and assets for lease and idles assets are grouped by property unit.

Regarding stores deemed to be closed and stores with continuously negative operating income, the Company reduced the value to their recoverable amount and recorded the amount of reduction as impairment loss. The recoverable amount is calculated based on the value in use. Moreover, the value in use is calculated as zero because the valuation based on estimated future cash flows is negative. The breakdown of value is as follows.

Buildings and structures	232 million yen
Tools, furniture and fixtures	71 million yen
Construction in progress	71 million yen
Other	0 million yen
Total	376 million yen

## 7. Notes to Consolidated Statement of Changes in Equity

### (1) Class and total number of issued shares at the end of the current consolidated fiscal year

Ordinary shares      14,226,000 shares

### (2) Disclosure of dividends of surplus

#### ① Dividends paid

Resolution	Class of shares	Total amount of dividends (millions of yen)	Dividend paid per share (yen)	Record date	Effective date
August 11, 2021 Ordinary General Meeting of Shareholders	Ordinary shares	128	28	May 15, 2021	August 12, 2021

(Note ) The Company conducted a 3-for-1 stock split of common shares effective November 16, 2021. The above dividend per share reflects the actual amount before the stock split.

#### ② Dividends for which the record date falls within the current consolidated fiscal year but for which the effective date falls within the next consolidated fiscal year

Resolution	Class of shares	Source of dividends	Total amount of dividends (millions of yen)	Dividend paid per share (yen)	Record date	Effective date
August 10, 2022 Ordinary General Meeting of Shareholders	Ordinary shares	Retained earnings	128	9.34	May 15, 2022	August 12, 2022

### (3) Number of shares to be issued upon exercise of share acquisition rights by the Company as of the last day of the current consolidated fiscal year

Ordinary shares      60,000 shares

## 8. Notes to Financial Instruments

### (1) Matters regarding information about financial instruments

#### ① Policy on financial instruments

The Company Group procures necessary funds (mainly through bank loans) based on its capital expenditure program. Temporary surplus funds are mainly invested in highly liquid financial assets, and short-term working capital is procured through bank loans. Derivatives are used to avoid interest-rate risk, with a policy of not engaging in speculative transactions.

#### ② Description of financial instruments, their risks and risk management system

Trade receivables, which are accounts receivable - trade, are exposed to the credit risk of customers. To manage this risk, the Company manages due dates and outstanding balances for each customer in accordance with internal regulations, and has a system to monitor the credit status of major customers.

Investment securities are shares of companies with which the Company has business relationships and are exposed to the risk of market price fluctuations. To manage this risk, the Company periodically monitors the market value and financial conditions of issuers (client companies) and continuously reviews the status of shareholding.

Leasehold and guarantee deposits are mainly related to rentals of stores, and are exposed to the credit risk of the lenders. To manage this risk, the Company manages outstanding balances for each lender and has a system to monitor the credit status of major lenders.

Most of the accounts payable - trade and accounts payable - other are due within four months.

Borrowings are mainly for the purpose of procuring funds for capital expenditures, with a maximum redemption date of 10 years after the account closing date. A portion of these is exposed to interest-rate risk.

The Company executes and manages derivatives in accordance with internal regulations that stipulate transaction

authorities. In addition, when using derivatives, the Company conducts transactions only with highly creditworthy financial institutions in order to mitigate credit risk. Hedging effectiveness is evaluated based on the judgment that the interest rate swaps meet the requirements for special treatment.

Trade payables and borrowings are exposed to liquidity risk, which is managed by preparing cash flow plans in a timely manner.

Moreover, a portion of borrowings is subject to financial covenants, exposing the Company to liquidity risk.

③ Supplementary explanations regarding the market value of financial instruments

The market value of financial instruments includes values based on market prices or reasonable calculations in the absence of market price quotations. The market value calculation rests on variable factors and therefore is subject to change depending on the different assumptions used.

(2) Matters regarding the market value of financial instruments

The amount on the Consolidated Balance Sheet, the market value, and their difference as of May 15, 2022, are as follows. In addition, shares and other securities that do not have market value are not included. Cash has been omitted from the notes, and deposits, accounts receivable, accounts payable, accounts payable-other, and short-term loans payable are settled in a short period of time, and their fair value approximates their book value so they have been omitted from the notes.

	Amount on the Consolidated Balance Sheet (millions of yen)	Market value (millions of yen)	Difference (millions of yen)
① Investment securities	1	1	-
② Leasehold and guarantee deposits	6,222		
Allowance for doubtful accounts (*1)	△11		
	6,210	6,007	△203
Total assets	6,212	6,008	△203
③ Long-term borrowings(*2)	12,748	12,749	0
Total liabilities	12,748	12,749	0

(\*1) Leasehold and guarantee deposits are deducted from the allowance for doubtful accounts, which is recorded individually.

(\*2) Current portion of long-term borrowings is included.

(Note) Shares, etc. without market value

Shares and other securities without market value are not included in “① Investment securities.” The carrying amounts of such financial instruments on the consolidated balance sheets are as follows.

Category	Amount on the Consolidated Balance Sheet (millions of yen)
Shares not listed	240
Preferred shares	21

(3) Matters concerning the breakdown, etc. of the fair value of financial instruments by level

The fair value of financial instruments is classified into the following three levels based on the possibility of observation and the importance of inputs used to calculate market value.

Level 1 market value      Among the inputs to the calculation of observable market value, a market value is calculated based on quoted market prices for the assets or liabilities for which such fair value is calculated and formed in an active market.

Level 2 market value      Among the inputs to the calculation of observable market value, the market value is calculated using inputs to calculate fair value other than Level 1 inputs.

Level 3 market value      Market value calculated using inputs related to the calculation of unobservable market value

If multiple inputs that have a significant impact on the calculation of market value are used, market value is classified to the level with the lowest priority in the calculation of market value among the levels to which each of those inputs belongs.

① Financial instruments recorded on the consolidated balance sheet at market value

Category	Market value (millions of yen)			
	Level 1	Level 2	Level 3	Total
Investment securities				
Other securities				
Shares	1	-	-	1
Total assets	1	-	-	1

② Financial instruments other than those listed on the consolidated balance sheet at market value

Category	Market value (millions of yen)			
	Level 1	Level 2	Level 3	Total
Leasehold and guarantee deposits	-	6,007	-	6,007
Total assets	-	6,007	-	6,007
Long-term borrowings	-	12,749	-	12,749
Total liabilities	-	12,749	-	12,749

(Note) Explanation of market value techniques and inputs used in the calculation of market value

Investment securities

Listed stocks are valued using quoted market prices. Because listed stocks are traded in active markets, their fair value is classified as Level 1 fair value.

Leasehold and guarantee deposits

The market value of the above is calculated based on the current value discounted at the risk-free rate based on a reasonable estimate of the expected repayment period of the guarantee deposits. It is classified as Level 2 market value. In addition, the allowance for doubtful accounts individually recorded for guarantee deposits is deducted from the fair value.

Long-term borrowings

The market value of the above is calculated based on the present value of the total principal and interest discounted based on an interest rate that takes into account the remaining term of the debt and credit risk and it is classified as Level 2 market value.



9. Notes on revenue recognition

(1) Information that divides revenue arising from contracts with customers

(Millions of yen)

	Reportable Segment			Other	Total	Adjustment	Amount shown on consolidated financial statements
	Retail Business	IT Solutions Business	Total				
Net Sales							
Drugstore	76,619	—	76,619	—	76,619	—	76,619
Inbound	443	—	443	—	443	—	443
Pharmacies	3,726	—	3,726	—	3,726	—	3,726
Other	541	151	692	738	1,431	—	1,431
Revenue arising from contracts with customers	81,331	151	81,482	738	82,221	—	82,221
Other revenues	667	—	667	16	683	—	683
External sales	81,998	151	82,149	755	82,905	—	82,905
Inter-segment sales and transfers	53	6	59	313	373	△373	-
Total	82,051	157	82,209	1,069	83,278	△373	82,905

(Note) "Other revenues" are revenues based on the revenue recognition standard for lease transactions, etc., and are listed separately from "revenues arising from contracts with customers."

(2) Information that serves as a basis for understanding revenues arising from contracts with customers

Information that serves as a basis for understanding revenues arising from contracts with customers is presented in ("Notes, etc. on significant matters serving as the basis for the preparation of consolidated financial statements) (4) Matters related to accounting policies (v) Basis for recording revenues and expenses".

(3) Information that serves as a basis for understanding the amount of income for the current and subsequent fiscal years

Information to understand the total amount of revenue for the current and subsequent fiscal years is not material, and therefore, the notes have been omitted.

10. Notes - Per share information

(1) Net assets per share 637.45 yen

(2) Net income per share 22.98 yen

(Note) The Company conducted a 3-for-1 stock split of common shares effective November 16, 2021. Net assets per share and net income per share are calculated on the assumption that the stock split was conducted at the beginning of the current consolidated fiscal year.

11. Notes - Significant events after reporting period

None.

# Notes to Financial Statements

## 1. Notes - Significant accounting policies

### (1) Valuation standards and methods for securities

Shares of subsidiaries and associates      Stated at cost, as determined by the moving average method.

Other securities

Shares , etc. without market value      Stated at cost, as determined by the moving average method.

### (2) Depreciation methods for non-current assets

Property, plant and equipment      Declining-balance method is used.

Intangible assets      Straight-line method is used.

### (3) Basis for Recognition of Revenues and Costs

The Company, a pure holding company, derives revenues from management guidance fees and dividends received from its subsidiaries. In the case of management guidance fees, the Company recognizes the provision of contractual services to its subsidiaries as performance activities. Since such business activities are sufficiently fulfilled over a certain period, dividends received are recognized as of the effective date of the dividends.

## 2. Notes - Changes in accounting policies

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

"Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020. Hereinafter, "Revenue Recognition Accounting Standard"), etc. has been applied by our Company from the beginning of the current fiscal year. Revenue is recognized at the point in time when control of the promised goods or services is transferred to the customer, in the amount estimated to be received in exchange for such goods or services. Note that there is no impact on the financial statements.

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

The "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019. Hereinafter, "Fair Value Measurement Accounting Standard") has been applied from the beginning of the current fiscal year, and the new accounting policies stipulated by the Fair Value Measurement Accounting Standard, etc. will be applied prospectively following transitional treatment based on paragraph 19 of the Fair Value Measurement Accounting Standard and Paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019). Note that there is no impact on the financial statements.

3. Notes to Balance Sheet

(1) Accumulated depreciation of property, plant and equipment	3 million yen
(2) Monetary claims and liabilities to subsidiaries and associates	
Short-term receivables	20 million yen
Short-term payables	61million yen

4. Notes to Statement of Income

Volume of transactions with subsidiaries and associates	Operating revenue	792 million yen
	Volume of other operating transactions	333 million yen
	Volume of non-operating transactions	0 million yen

5. Notes to Consolidated Statement of Changes in Equity

Class and number of treasury shares as of the last day of the current fiscal year

Ordinary shares	432,747 shares
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6. Notes - Tax effect accounting

The main cause for deferred tax assets is due to the denial of accrued shareholder benefits expenses.

7. Notes - Transactions with related parties

Subsidiaries and associates

(Unit: millions of yen)

Class	Company name	Percentage of voting rights held (owned)	Relationship with related party	Transaction description	Transaction amount (Note) 3	Item	Balance at end of period
Subsidiaries	SAPPORO DRUG STORE CO., LTD.	100% directly owned	Management guidance	Acceptance of consulting fee income (Note) 1	650	—	—
			Interlocking directorate	Acceptance of loaned employees (Note) 2	287	Accounts payable - other Accrued expenses	29 30

(Note)

- The consulting fee income is reasonably determined through mutual consultation.
- The personnel expenses for loaned employees paid by SAPPORO DRUG STORE CO., LTD. were determined on the basis of actual expenses.
- Consumption taxes are not included in the transaction amount.

8. Notes - Revenue recognition transactions with related parties

(Information that serves as a basis for understanding revenues arising from contracts with customers)

Information that serves as a basis for understanding revenues from contracts with customers is omitted because the same information is presented in "1. Notes on significant accounting policies, (3) Note on the Basis for recognition of revenues and costs").

9. Notes - Per share information

(1) Net assets per share                   621.64 yen

(2) Net income per share                11.41 yen

(Note) The Company conducted a 3-for-1 stock split of common shares effective November 16, 2021. Net assets per share and net income per share are calculated on the assumption that the stock split was conducted at the beginning of the current consolidated fiscal year.

10. Notes - Significant events after reporting period

None.