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July 14, 2022

## Consolidated Financial Results for the Fiscal Year Ended May 31, 2022 (Under Japanese GAAP)

Company name: I.K Co., Ltd.  
 Listing: Tokyo Stock Exchange  
 Nagoya Stock Exchange  
 Securities code: 2722  
 URL: <https://www.ai-kei.co.jp>  
 Representative: Chairman & CEO Hiroshi Iida  
 Inquiries: Managing Director, Administration Nobuyoshi Takahashi  
 Telephone: 052(856)3101  
 Scheduled date of annual general meeting of shareholders: Aug 18, 2022  
 Scheduled date to commence dividend payments: Aug 19, 2022  
 Scheduled date to file annual securities report: Aug 19, 2022  
 Preparation of supplementary material on financial results: Yes  
 Holding of financial results briefing: Yes (for analyst)

(Yen amounts are rounded down to millions, unless otherwise noted.)

### 1. Consolidated financial results for the fiscal year ended May 31, 2022 (from June 1, 2021 to May 31, 2022)

#### (1) Consolidated operating results

(Percentages indicate year-on-year changes.)

Fiscal year ended	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
May 31, 2022	16,335	(21.3)	(360)	—	(323)	—	(905)	—
May 31, 2021	20,754	12.3	705	19.4	730	17.1	321	(16.3)

Note: Comprehensive income For the fiscal year ended May 31, 2022: ¥(912) million [—%]  
 For the fiscal year ended May 31, 2021: ¥316 million [(19.5)%]

Fiscal year ended	Basic earnings per share	Diluted earnings per share	Return on equity	Ratio of ordinary profit to total assets	Ratio of operating profit to net sales
	Yen	Yen	%	%	%
May 31, 2022	(115.95)	—	(30.1)	(4.4)	(2.2)
May 31, 2021	42.60	42.28	10.1	10.0	3.4

Reference: Share of profit (loss) of entities accounted for using equity method  
 For the fiscal year ended May 31, 2022: ¥— million  
 For the fiscal year ended May 31, 2021: ¥— million

#### (2) Consolidated financial position

As of	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
May 31, 2022	7,378	2,504	33.5	321.94
May 31, 2021	7,226	3,557	49.0	451.96

Reference: Equity  
 As of May 31, 2022: ¥2,470 million  
 As of May 31, 2021: ¥3,543 million

**(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
Fiscal year ended	Millions of yen	Millions of yen	Millions of yen	Millions of yen
May 31, 2022	(769)	(319)	1,135	1,075
May 31, 2021	636	(220)	(258)	967

**2. Cash dividends**

	Annual dividends per share					Total cash dividends (Total)	Payout ratio (Consolidated)	Ratio of dividends to net assets (Consolidated)
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Fiscal year ended May 31, 2021	—	0.00	—	12.00	12.00	94	28.2	2.9
Fiscal year ended May 31, 2022	—	0.00	—	12.00	12.00	92	—	3.1
Fiscal year ending May 31, 2023 (Forecast)	—	0.00	—	12.00	12.00		—	

**3. Consolidated earnings forecasts for the fiscal year ending May 31, 2023 (June 1, 2022 to May 31, 2023)**

	Operating revenue		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Six months ending Nov 30, 2022	7,839	(4.0)	13	—	18	—	(99)	—	(12.97)
Fiscal year ending May 31, 2023	16,426	0.6	511	—	520	—	186	—	24.34

\* **Notes**

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

Newly included: — companies

Excluded: — companies

(2) Changes in accounting policies, changes in accounting estimates, and restatement

(i) Changes in accounting policies due to revisions to accounting standards and other regulations: Yes

(ii) Changes in accounting policies due to other reasons: None

(iii) Changes in accounting estimates: None

(iv) Restatement: None

(3) Number of issued shares (common shares)

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

As of May 31, 2022	8,308,000 shares
As of May 31, 2021	8,308,000 shares

(ii) Number of treasury shares at the end of the period

As of May 31, 2022	634,376 shares
As of May 31, 2021	467,576 shares

(iii) Average number of shares outstanding during the period

Fiscal year ended May 31, 2022	7,809,821 shares
Fiscal year ended May 31, 2021	7,542,297 shares

**[Reference] Overview of non-consolidated financial results**

**1. Non-consolidated financial results for the fiscal year ended May 31, 2022 (from June 1, 2021 to May 31, 2022)**

**(1) Non-consolidated operating results**

(Percentages indicate year-on-year changes.)

Fiscal year ended	Net sales		Operating profit		Ordinary profit		Profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
May 31, 2022	10,883	(8.8)	421	28.4	90	(72.1)	(147)	—
May 31, 2021	11,934	(0.9)	328	88.3	323	34.4	146	(2.2)

Fiscal year ended	Basic earnings per share	Diluted earnings per share
	Yen	Yen
May 31, 2022	(18.90)	—
May 31, 2021	19.47	19.32

**(2) Non-consolidated financial position**

As of	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
May 31, 2022	6,175	2,638	42.2	339.41
May 31, 2021	6,055	2,933	48.3	372.72

Reference: Equity

As of May 31, 2022: ¥2,605 million

As of May 31, 2021: ¥2,922 million

\* Financial results reports are exempt from audit conducted by certified public accountants or an audit corporation.

\* Proper use of earnings forecasts, and other special matters

Forecasts and forward-looking statements in this document are based on management's assumptions and beliefs in light of the information currently available to it, and are therefore subject to a number of uncertainties. Actual results may differ from these forecasts due to changes in the business environment and other factors.

○Table of Contents of the Appendix

1. Business Performance Overview.....	2
(1) Business Performance Overview for Current Term .....	2
(2) Financial Position Overview for Current Term .....	3
(3) Cash Flow Overview for Current Term .....	3
(4) Future Outlook.....	3
2. Basic Policy on Selection of Accounting Standards .....	4
3. Consolidated Financial Statements and Major Notes .....	4
(1) Consolidated Balance Sheet.....	4
(2) Consolidated Statement of Profit and Loss and Consolidated Statement of Comprehensive Income .....	6
(3) Consolidated Statement of Change in Shareholders' Equity.....	8
(4) Consolidated Statement of Cash Flows .....	10
(5) Notes to Consolidated Financial Statements.....	12
(Notes on Going Concern Assumption) .....	12
(Change in Accounting Policy) .....	12
(Segment Information) .....	12
(Information Related to Business Combination, Etc.) .....	15
(Per-share Information) .....	16
(Important Subsequent Events) .....	16
4. Other .....	20

## 1. Business Performance Overview

### (1) Business Performance Overview for Current Term

In the current consolidated fiscal year, the Japanese economy witnessed a slowdown in consumption in some business categories due to repeated implementation of priority measures to prevent the spread of the novel coronavirus and the declarations of a state of emergency. However, with the number of infected people decreasing due to the third round of vaccination, economic and social activities are expected to recover due to the relaxation of novel coronavirus prevention measures. Nonetheless, the outlook remains uncertain due to rising geopolitical risks due to issues such as the Russia-Ukraine conflict as well as rising crude oil and raw material prices and the yen depreciation.

Under these circumstances, our corporate group announced for the first time a three-year medium-term management plan “IK Way to 2024,” which started in the consolidated fiscal year ended May 2022. Our corporate group has been "promoting M&A measures in priority investment areas" as one of the plan's pillars and worked on TV shopping, EC, development of subscription products, etc.

In terms of M&A measures, we acquired all the shares of Communication Bridge Inc., which was the sole agent in Japan for the chat system “M-Talk,” the main product of the IT solutions business, and AlfaCom, Ltd., a consolidated subsidiary of our company that operates this business, absorbed Communication Bridge Inc. to improve profit margin. In addition, to expand the revenue share of subscription products, we have been discussing the acquisition of the cosmetics business of Combi Corporation that uses Collocalia, a beauty ingredient extracted from swallow's nest, as a raw material.

In the TV shopping business, we increased TV broadcasting from September to January to expand sales of the Speed Heat Thermal Vest, which was a big hit in the previous consolidated fiscal year. However, this was the third season for boosting sales of this product, which significantly reduced sales efficiency and was a significant factor in the deterioration of earnings.

As a result, the business earnings for the current consolidated fiscal year were sales of 16,335 million yen (down 21.3% year on year), an operating loss of 360 million yen (an operating income of 705 million yen in the previous consolidated fiscal year), an ordinary loss of 323 million yen (an ordinary income of 730 million yen in the previous consolidated fiscal year), and a loss attributable to owners of parent of 905 million yen (a profit attributable to owners of parent of 321 million yen in the previous consolidated fiscal year).

Earnings in each segment are as follows. (Sales indicate sales to external customers.)

#### • Direct marketing business

In terms of sales, the sales efficiency of our main product in TV shopping, Speed Heat Thermal Vest, fell sharply, and the sales efficiency of other hit products also declined. In addition, due to the repeated implementation of priority measures to prevent the spread of the novel coronavirus and the declarations of a state of emergency, the situation remained severe at SKINFOOD stores due to people refraining from going out and shortening store business hours. Thus, sales were 5,184 million yen (down 38.8% year on year), and operating loss was 805 million yen (an operating income of 298 million yen in the same period last year).

#### • Sales marketing business

Although there was a slight increase in the store route sales, the co-op and mail-order route sales slightly declined as the demand from housebound consumers subsided. Therefore, sales were 10,699 million yen (down 10.0% year on year), and operating income was 395 million yen (up 21.9% year on year).

#### • IT solution business

Sales were 450 million yen (up 12.1% year on year), and operating income was 29 million yen (down 43.0% year on year) due to sales expansion of the mainstay chat system “M-Talk.”

## (2) Financial Position Overview for Current Term

### (Assets)

Current assets at the end of the current consolidated fiscal year were up 322 million yen from the end of the previous consolidated fiscal year. The main changes in current assets were due to an increase of 275 million yen in cash and deposits and an increase of 476 million yen in merchandise and finished goods, as well as a decrease of 187 million yen in notes and accounts receivable - trade.

Non-current assets at the end of the current consolidated fiscal year were down 171 million yen from the end of the previous consolidated fiscal year. Major changes in non-current assets were due to a decrease of 127 million yen in property, plant and equipment (other).

As a result, total assets at the end of the current consolidated fiscal year were 7,378 million yen, up 151 million yen from the end of the previous consolidated fiscal year.

### (Liabilities)

Current liabilities at the end of the current consolidated fiscal year were up 905 million yen from the end of the previous consolidated fiscal year. The main changes in current liabilities were due to increases of 800 million yen in short-term loans payable, 176 million yen in accounts payable - other, and 122 million yen in current portion of long-term loans payable, as well as a decrease of 113 million yen in accounts payable - trade.

Non-current liabilities at the end of the current consolidated fiscal year were up 298 million yen from the end of the previous consolidated fiscal year. The main changes in non-current liabilities were due to an increase of 306 million yen in long-term loans payable.

As a result, liabilities at the end of the current consolidated fiscal year were 4,873 million yen, up 1,204 million yen from the end of the previous consolidated fiscal year.

### (Net assets)

Net assets at the end of the current consolidated fiscal year were down 1,052 million yen from the end of the previous consolidated fiscal year. The main changes in net assets were due to a decrease of 998 million yen in retained earnings due to the recording of net loss.

## (3) Cash Flow Overview for Current Term

Cash and cash equivalents (hereinafter referred to as "funds") in the current consolidated fiscal year amounted to 1,075 million yen (967 million yen in the same period of the previous year).

The status of each cash flow and the factors behind it are as follows.

### (Cash flow from operating activities)

Funds from operating activities decreased by 769 million yen (an increase of 636 million yen in the same period of the previous year). The main factors for the rise in funds were the depreciation of 253 million yen, the impairment loss of 251 million yen, and the decrease in notes and accounts receivable - trade of 201 million yen. The main factors behind the decline in funds were the net loss before taxes and other adjustments of 716 million yen, the decrease in accounts payable - trade of 134 million yen, the increase in inventories of 472 million yen, and the income taxes paid of 250 million yen.

### (Cash flow from investing activities)

Funds from investing activities decreased by 319 million yen (a decrease of 220 million yen in the same period of the previous year). The main factor for the decline in funds was the purchase of property, plant and equipment of 256 million yen.

### (Cash flow from financing activities)

Funds from financing activities increased by 1,135 million yen (a decrease of 258 million yen in the same period last year).

The main factors for the increase in funds were a net increase in short-term loans payable of 800 million yen and proceeds from long-term loans payable of 1,100 million yen. The main factors for the decrease in funds were repayments of long-term loans payable of 671 million yen and cash dividends paid of 92 million yen.

## (4) Future Outlook

Regarding future economic trends, the outlook remains uncertain because it is unclear when the novel coronavirus will subside and because of factors such as soaring crude oil and raw material prices, rising geopolitical risks due to the situation in Ukraine, weakening yen, etc.

In such an environment, our corporate group considers it an urgent task to rebuild the TV shopping business, which is a direct marketing business. We will improve sales efficiency by reducing advertising costs in the business by selecting and reducing broadcast slots and strengthening sales of subscription-type products. In the sales marketing business, we will expand sales by enhancing our product appeal to existing routes and providing products that please our customers.

Regarding the full-year consolidated earnings forecast for the next consolidated fiscal year, sales are expected to be 16,426 million yen, and operating income is projected to be 511 million yen. Ordinary income is predicted to be 520 million yen, and

profit attributable to owners of parent is forecast to be 186 million yen.

## 2. Basic Policy on Selection of Accounting Standards

Our corporate group has adopted Japanese GAAP as our accounting standard, considering the period comparability of the consolidated financial statements and the comparability between companies.

Regarding the application for IFRS (International Financial Reporting Standards), we will take appropriate measures while considering domestic and international situations.

## 3. Consolidated Financial Statements and Major Notes

### (1) Consolidated Balance Sheet

(Thousands of yen)

	FY 2021 (As of May 31, 2021)	FY 2022 (As of May 31, 2022)
<b>Assets</b>		
Current assets		
Cash and deposits	800,795	1,075,932
Notes and accounts receivable - trade	2,800,073	2,612,223
Securities	166,350	—
Merchandise and finished goods	1,928,944	2,405,121
Raw materials and supplies	18,702	15,299
Other	516,978	445,800
Allowance for doubtful accounts	(1,493)	(1,239)
Total current assets	6,230,351	6,553,139
Non-current assets		
Property, plant and equipment		
Buildings and structures	295,225	245,813
Accumulated depreciation	(170,580)	(158,574)
Buildings and structures, net	124,644	87,239
Land	80,216	80,216
Other	552,705	169,406
Accumulated depreciation	(395,678)	(139,646)
Other, net	157,026	29,760
Total property, plant and equipment	361,888	197,216
Intangible assets		
Goodwill	43,000	72,038
Other	114,538	136,115
Total intangible assets	157,538	208,153
Investments and other assets		
Investment securities	63,500	41,485
Long-term loans receivable	104,410	104,577
Deferred tax assets	110,443	92,709
Guarantee deposits	150,511	144,839
Other	58,405	47,368
Allowance for doubtful accounts	(10,564)	(11,218)
Total investments and other assets	476,707	419,761
Total non-current assets	996,134	825,132
Total assets	7,226,486	7,378,271



(Thousands of yen)

	FY 2021 (As of May 31, 2021)	FY 2022 (As of May 31, 2022)
<b>Liabilities</b>		
Current liabilities		
Accounts payable - trade	1,007,075	893,214
Short-term loans payable	—	800,000
Current portion of long-term loans payable	570,558	692,777
Accounts payable - other	544,234	720,741
Income taxes payable	144,343	115,846
Provision for bonuses	33,999	33,530
Provision for sales returns	56,093	—
Provision for the cost of customer compensation, etc.	17,447	—
Provision for surcharge	47,263	—
Provision for loss on business	—	15,660
Other	192,984	248,135
Total current liabilities	2,614,001	3,519,906
Non-current liabilities		
Long-term loans payable	737,880	1,044,007
Net defined benefit liability	143,273	140,835
Other	173,855	168,875
Total non-current liabilities	1,055,009	1,353,717
Total liabilities	3,669,010	4,873,623
<b>Net assets</b>		
Shareholders' equity		
Capital stock	620,949	620,949
Capital surplus	674,845	680,412
Retained earnings	2,400,412	1,401,804
Treasury shares	(156,964)	(233,023)
Total shareholders' equity	3,539,242	2,470,143
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,784	1,165
Foreign currency translation adjustment	(444)	(902)
Total accumulated other comprehensive income	4,340	263
Subscription rights to shares	11,315	34,240
Non-controlling interests	2,577	—
Total net assets	3,557,475	2,504,647
Total liabilities and net assets	7,226,486	7,378,271

(2) Consolidated Statement of Profit and Loss and Consolidated Statement of Comprehensive Income  
(Consolidated Statement of Profit and Loss)

(Thousands of yen)

	FY 2021 (From June 1, 2020 to May 31, 2021)	FY 2022 (From June 1, 2021 to May 31, 2022)
Net sales	20,754,610	16,335,372
Cost of sales	10,111,586	8,934,976
Gross profit	10,643,023	7,400,396
Provision for sales returns	56,093	—
Reversal of provision for sales returns	26,833	—
Gross profit - net	10,613,763	7,400,396
Selling, general and administrative expenses	9,908,213	7,760,431
Operating income (loss)	705,549	(360,035)
Non-operating income		
Interest income	1,416	993
Dividend income	1,113	863
Commission fee	1,078	1,042
House rent income	1,080	855
Subsidy income	20,678	4,407
Foreign exchange gains	8,906	33,824
Gain on sales of investment securities	2,200	2,415
Gain on sales of supplies	4,298	—
Employee dispatch burden	—	9,600
Other	1,793	8,147
Total non-operating income	42,564	62,150
Non-operating expenses		
Interest expenses	8,028	8,370
Store closure penalty	2,773	—
Share issuance cost	6,683	—
Provision for loss on business	—	15,660
Other	9	1,503
Total non-operating expenses	17,494	25,533
Ordinary income (loss)	730,620	(323,419)
Extraordinary income		
Reversal of provision for surcharge	—	13,943
Total extraordinary income	—	13,943
Extraordinary losses		
Loss on retirement of non-current assets	8,313	21,997
Impairment loss	58,686	251,844
The cost of customer compensation, etc.	41,785	115,151
Provision for the cost of customer compensation, etc.	17,447	—
Provision for surcharge	47,263	—
Loss on litigation	—	17,545
Total extraordinary losses	173,496	406,538
Profit (loss) before income taxes	557,123	(716,014)
Income taxes - current	235,858	173,137
Income taxes - deferred	5,779	19,329
Total income taxes	241,637	192,467
Profit (loss)	315,485	(908,481)
Profit (loss) attributable to non-controlling interests	(5,832)	(2,948)
Profit (loss) attributable to owners of parent	321,317	(905,533)

## (Consolidated Statement of Comprehensive Income)

(Thousands of yen)

	FY 2021 (From June 1, 2020 to May 31, 2021)	FY 2022 (From June 1, 2021 to May 31, 2022)
Profit (loss)	315,485	(908,481)
Other comprehensive income		
Valuation difference on available-for-sale securities	(343)	(3,618)
Foreign currency translation adjustment	1,787	(87)
Total other comprehensive income	1,444	(3,706)
Comprehensive income	316,930	(912,187)
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	321,998	(909,610)
Comprehensive income attributable to non-controlling interests	(5,067)	(2,577)

(3) Consolidated Statement of Change in Shareholders' Equity  
 Previous consolidated fiscal year (June 1, 2020 – May 31, 2021)

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	401,749	409,800	2,166,201	(184,275)	2,793,476
Changes of items during period					
Issuance of new shares	219,200	219,200			438,400
Dividends of surplus			(87,106)		(87,106)
Profit attributable to owners of parent			321,317		321,317
Purchase of treasury shares				(82)	(82)
Disposal of treasury shares		45,844		27,393	73,237
Net changes of items other than shareholders' equity					
Total changes of items during period	219,200	265,044	234,210	27,310	745,766
Balance at end of current period	620,949	674,845	2,400,412	(156,964)	3,539,242

	Accumulated other comprehensive income			Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income			
Balance at beginning of current period	5,127	(1,468)	3,659	4,849	7,645	2,809,631
Changes of items during period						
Issuance of new shares						438,400
Dividends of surplus						(87,106)
Profit attributable to owners of parent						321,317
Purchase of treasury shares						(82)
Disposal of treasury shares						73,237
Net changes of items other than shareholders' equity	(343)	1,023	680	6,466	(5,068)	2,078
Total changes of items during period	(343)	1,023	680	6,466	(5,068)	747,844
Balance at end of current period	4,784	(444)	4,340	11,315	2,577	3,557,475

Current consolidated fiscal year (June 1, 2021 – May 31, 2022)

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	620,949	674,845	2,400,412	(156,964)	3,539,242
Changes of items during period					
Dividends of surplus			(94,085)		(94,085)
Profit (loss) attributable to owners of parent			(905,533)		(905,533)
Purchase of treasury shares				(80,087)	(80,087)
Disposal of treasury shares		3,567		4,028	7,596
Capital increase of consolidated subsidiaries		2,000			2,000
Change of scope of consolidation			1,010		1,010
Net changes of items other than shareholders' equity					
Total changes of items during period	-	5,567	(998,607)	(76,059)	(1,069,099)
Balance at end of current period	620,949	680,412	1,401,804	(233,023)	2,470,143

	Accumulated other comprehensive income			Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income			
Balance at beginning of current period	4,784	(444)	4,340	11,315	2,577	3,557,475
Changes of items during period						
Dividends of surplus						(94,085)
Profit (loss) attributable to owners of parent						(905,533)
Purchase of treasury shares						(80,087)
Disposal of treasury shares						7,596
Capital increase of consolidated subsidiaries						2,000
Change of scope of consolidation						1,010
Net changes of items other than shareholders' equity	(3,618)	(457)	(4,076)	22,925	(2,577)	16,270
Total changes of items during period	(3,618)	(457)	(4,076)	22,925	(2,577)	(1,052,828)
Balance at end of current period	1,165	(902)	263	34,240	-	2,504,647

## (4) Consolidated Statement of Cash Flows

(Thousands of yen)

	FY 2021 (From June 1, 2020 to May 31, 2021)	FY 2022 (From June 1, 2021 to May 31, 2022)
<b>Cash flows from operating activities</b>		
Profit (loss) before income taxes	557,123	(716,014)
Depreciation	226,975	253,561
Impairment loss	58,686	251,844
Amortization of goodwill	12,000	12,732
Share-based compensation expenses	13,783	28,372
Increase (decrease) in allowance for doubtful accounts	(1,335)	400
Increase (decrease) in provision for bonuses	(9,465)	(468)
Increase (decrease) in net defined benefit liability	18,523	(2,438)
Increase (decrease) in provision for sales returns	29,260	—
Increase (decrease) in provision for loss on business	—	15,660
Increase (decrease) in provision for the cost of customer compensation, etc.	17,447	(17,447)
Increase (decrease) in provision for surcharge	47,263	(13,943)
Loss (gain) on sales of investment securities	(2,200)	(2,415)
Interest and dividend income	(2,529)	(1,857)
Interest expenses	8,028	8,370
Share issuance cost	6,683	—
Subsidy income	(20,678)	(4,407)
Foreign exchange losses (gains)	(5,432)	(28,985)
Loss on retirement of non-current assets	8,313	21,997
Decrease (increase) in notes and accounts receivable - trade	376,222	201,748
Decrease (increase) in inventories	(95,258)	(472,774)
Increase (decrease) in notes and accounts payable - trade	(147,626)	(134,935)
Decrease (increase) in consumption taxes refund receivable	(34,377)	(105,043)
Increase (decrease) in accrued consumption taxes	(45,390)	(28,304)
Increase (decrease) in accounts payable - other	(82,369)	105,530
Decrease (increase) in other assets	(61,860)	166,326
Increase (decrease) in other liabilities	(8,319)	(33,700)
<b>Subtotal</b>	<b>863,468</b>	<b>(496,192)</b>
Interest and dividend income received	2,465	1,837
Interest expenses paid	(7,834)	(8,699)
Proceeds from subsidy income	40,816	17,132
Surcharge paid	—	(33,320)
Income taxes paid	(263,964)	(250,248)
Income taxes refund	1,590	—
<b>Cash flows from operating activities</b>	<b>636,542</b>	<b>(769,489)</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(231,347)	(256,489)
Purchase of intangible assets	(52,976)	(38,126)
Purchase of investment securities	—	(10,000)
Proceeds from sales of investment securities	29,457	29,216
Purchase of shares of subsidiaries and associates	—	(62,000)
Payments of loans receivable	(500)	(1,350)
Collection of loans receivable	29,435	24,118
Payments for guarantee deposits	(295)	(16,972)
Proceeds from collection of guarantee deposits	5,436	11,822
<b>Cash flows from investing activities</b>	<b>(220,789)</b>	<b>(319,782)</b>

(Thousands of yen)

	FY 2021 (From June 1, 2020 to May 31, 2021)	FY 2022 (From June 1, 2021 to May 31, 2022)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(40,000)	800,000
Proceeds from long-term loans payable	150,000	1,100,000
Repayments of long-term loans payable	(787,040)	(671,655)
Proceeds from issuance of common shares	438,400	—
Cash dividends paid	(85,745)	(92,781)
Proceeds from disposal of treasury shares	65,760	—
Purchase of treasury shares	(82)	—
Cash flows from financing activities	(258,707)	1,135,563
Effect of exchange rate change on cash and cash equivalents	7,220	28,898
Net increase (decrease) in cash and cash equivalents	164,265	75,189
Cash and cash equivalents at beginning of period	802,880	967,145
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	—	33,597
Cash and cash equivalents at end of period	967,145	1,075,932

(5) Notes to Consolidated Financial Statements

(Notes on Going Concern Assumption)

There is no related information.

(Change in Accounting Policy)

(Application of the Accounting Standards regarding Revenue Recognition, etc.)

The "Accounting Standards regarding Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020; hereinafter referred to as the "Accounting Standards for Revenue Recognition") and others have been applied from the beginning of the current consolidated fiscal year, and revenue is recognized as the amount expected to be received in exchange for the promised goods or services when control of the promised goods or services is transferred to the customer.

In addition, our company applies the alternative treatment prescribed in Paragraph 98 of the "Guidance on Accounting Standards for Revenue Recognition." Our company recognizes revenue from domestic sales of goods or products at the time of shipment if the period between shipment and transfer of control of the goods or products to a customer is normal.

The main changes in the adoption of the new accounting standards for revenue recognition are as follows

1. A portion of the compensation paid to customers, such as sales commissions, which was previously recorded in selling, general and administrative expenses, is subtracted from the transaction price.

2. For "provision for sales returns," which was previously recorded in current liabilities based on the amount equivalent to gross profit on sales, we adopted the method of derecognition of the amount equivalent to net sales and cost of sales for goods and products that are expected to be returned.

The application of the accounting standards for revenue recognition, etc., in accordance with the transitional treatment stipulated in the proviso of Paragraph 84 of the Accounting Standards for Revenue Recognition, etc., has no effect on the initial balance of retained earnings.

As a result, net sales decreased 185,342 thousand yen and the cost of sales increased 20,407 thousand yen in the current consolidated fiscal year, resulting in a 205,750 thousand yen decrease in gross profit. However, there is no impact on operating loss, ordinary loss, and loss before income taxes and minority interests due to the decrease of 205,750 thousand yen in selling, general and administrative expenses.

Due to the application of the Accounting Standards for Revenue Recognition, returned goods assets and refund liabilities, which were indicated as "provision for sales returns" under "current liabilities" in the consolidated balance sheet for the previous consolidated fiscal year, are included in "other" under "current assets" and "other" under "current liabilities" from the current consolidated fiscal year. In accordance with the transitional treatment prescribed in Paragraph 89-2 of the Accounting Standards for Revenue Recognition, no reclassification has been made for the previous consolidated fiscal year using the new indication method.

(Application of the Accounting Standards for Estimation of Fair Value)

The "Accounting Standards for Estimation of Fair Value, etc. (ASBJ Statement No. 30, July 4, 2019; hereinafter referred to as "Accounting Standards for Estimation of Fair Value") have been applied from the beginning of the current consolidated fiscal year, in accordance with the transitional treatment prescribed in Paragraph 19 of the Accounting Standards for Fair Value Estimation and Paragraph 44-2 of the Accounting Standards for Financial Instruments (ASBJ Statement No. 10, July 4, 2019). The new accounting policies prescribed by the accounting standards will be applied prospectively. There is no impact on the consolidated financial statements.

(Segment Information)

[Segment information]

1. Overview of Segments to be Reported

Our company's segments to be reported are components of our company for which separate financial information is available and which are subject to periodic review by the Board of Directors in order to determine the allocation of management resources and evaluate their performance.

In the current consolidated fiscal year, our company changed the names of its segments from "B to C Business" to "Direct Marketing Business," "B to B to C Business" to "Sales Marketing Business," and "Others" to "IT Solutions Business." Since this change is only a name change and has no impact on segment information, the results for the previous consolidated fiscal year are also presented with the new names.

Direct marketing business: Retail business, including the sale of SKINFOOD cosmetics through TV shopping, Internet shopping, and retail stores.

Sales Marketing Business: Wholesale to consumer cooperatives, mail-order companies, retail stores, overseas partner



companies, etc.

IT Solutions Business: Sale of chat systems, voice call recording systems, etc.

2. Method for Calculating Sales, Profit or Loss, Assets, and Other Items in each Segment

The accounting method for business segments is the same as that stated in "Important Items as the Basis for Producing Consolidated Financial Statements."

The profit in each segment is based on operating income.

Intersegment sales or transferred amount are based on prevailing market prices.

3. Information on Sales, Profits or Losses, Assets, Liabilities, and Other Items for each Segment

The previous consolidated fiscal year (June 1, 2020 – May 31, 2021)

(Thousands of yen)

	Reporting segment				Adjustment Amount*1, *2	Consolidated balance sheet amount*3
	Direct Marketing Business	Sales Marketing Business	IT Solutions Business	Total		
Net Sales						
Sales to external customers	8,467,071	11,885,422	402,115	20,754,610	—	20,754,610
Intersegment sales or transferred amount	370,895	197,222	2,670	570,787	(570,787)	—
Total	8,837,967	12,082,644	404,785	21,325,397	(570,787)	20,754,610
Segment income (loss)	298,777	324,244	52,314	675,336	30,213	705,549
Segment assets	1,846,540	6,060,105	139,950	8,046,597	(820,110)	7,226,486
Other items						
Depreciation	158,983	66,885	1,164	227,032	(57)	226,975
Amortization of goodwill	—	12,000	—	12,000	—	12,000
Increase in property, plant, and equipment and intangible assets	194,792	76,700	1,697	273,190	(690)	272,500

(Notes) 1. Adjustment amount of segment income of 30,213 thousand yen is the amount of adjustment associated with elimination entries.

2. Adjustment amount of segment assets of (820,110) thousand yen represents the elimination of inter-segment receivables and payables.

3. Segment income is adjusted with operating income in the consolidated statements of income.

The current consolidated fiscal year (June 1, 2021 – May 31, 2022)

(Thousands of yen)

	Reporting segment				Adjustment Amount*1, *2	Consolidated balance sheet amount*3
	Direct Marketing Business	Sales Marketing Business	IT Solutions Business	Total		
Net Sales						
Sales to external customers	5,184,804	10,699,680	450,887	16,335,372	—	16,335,372
Intersegment sales or transferred amount	660,706	201,506	1,910	864,123	(864,123)	—
Total	5,845,511	10,901,187	452,797	17,199,496	(864,123)	16,335,372
Segment income (loss)	(805,843)	395,322	29,822	(380,697)	20,661	(360,035)
Segment assets	2,253,726	6,203,141	223,683	8,680,550	(1,302,279)	7,378,271
Other items						
Depreciation	192,615	57,822	3,260	253,699	(138)	253,561
Amortization of goodwill	—	12,000	732	12,732	—	12,732
Increase in property, plant, and equipment and intangible assets	253,523	106,499	5,587	365,609	—	356,609

(Notes) 1. Adjustment amount of 20,661 thousand yen for segment income (or loss) is an adjustment for elimination entries.

2. Adjustment amount of segment assets of (1,302,279) thousand yen represents elimination of inter-segment receivables and payables.

3. Segment income (or loss) is adjusted with operating loss in the consolidated statements of income.

**【Related information】**

The previous consolidated fiscal year (June 1, 2020 – May 31, 2021)

1. Information on each Product and each Service

Omitted because this information has been disclosed in the section of segment information.

2. Information on each Region

(1) Net sales

Omitted because sales to external customers in Japan account for more than 90% of net sales in the consolidated statements of income.

(2) Property, plant and equipment

Omitted because our company has no property, plant and equipment located outside Japan.

3. Information on each Major Customer

Omitted because there are no customers that account for 10% or more of net sales in the consolidated statements of income.

The current consolidated fiscal year (June 1, 2021 – May 31, 2022)

1. Information on each Product and each Service

Omitted because this information has been disclosed in the section of segment information.

2. Information on each Region

(1) Net sales

Omitted because sales to external customers in Japan account for more than 90% of net sales in the consolidated statements of income.

(2) Property, plant and equipment

Omitted because our company has no property, plant and equipment located outside Japan.

3. Information on each Major Customer

Omitted because there are no customers that account for 10% or more of net sales in the consolidated statements of income.

**【Information on impairment loss on non-current assets in each segment】**

The previous consolidated fiscal year (June 1, 2020 – May 31, 2021)

(Thousands of yen)

	Direct Marketing Business	Sales Marketing Business	IT Solutions Business	Consolidated/eliminated	Total
Impairment loss	58,686	—	—	—	58,686

The current consolidated fiscal year (June 1, 2021 – May 31, 2022)

(Thousands of yen)

	Direct Marketing Business	Sales Marketing Business	IT Solutions Business	Consolidated/eliminated	Total
Impairment loss	251,844	—	—	—	251,844

**[Information on amortization of goodwill and unamortized balance in each segment]**

The previous consolidated fiscal year (June 1, 2020 – May 31, 2021)

(Thousands of yen)

	Direct Marketing Business	Sales Marketing Business	IT Solutions Business	Consolidated/eliminated	Total
Reimbursement for the current period	—	12,000	—	—	12,000
Balance at the end of the current period	—	43,000	—	—	43,000

The current consolidated fiscal year (June 1, 2021 – May 31, 2022)

(Thousands of yen)

	Direct Marketing Business	Sales Marketing Business	IT Solutions Business	Consolidated/eliminated	Total
Reimbursement for the current period	—	12,000	732	—	12,732
Balance at the end of the current period	—	31,000	41,038	—	72,038

**[Information on the gain on negative goodwill in each segment]**

The previous consolidated fiscal year (June 1, 2020 – May 31, 2021)

There is no related information.

The current consolidated fiscal year (June 1, 2021 – May 31, 2022)

There is no related information.

**(Information Related to Business Combination, Etc.)**

Omitted due to immateriality.

## (Per-share Information)

	FY 2021 (From June 1, 2020 to May 31, 2021)	FY 2022 (From June 1, 2021 to May 31, 2022)
Net assets per share (yen)	451.96	321.94
Profit (loss) per share (yen)	42.60	(115.95)
Diluted profit per share (yen)	42.28	—

(Notes) 1. Diluted net income per share for the current consolidated fiscal year is not stated because net loss per share was recorded, although there are residual shares.

2. The basis for calculation of net income per share and diluted net income per share is as follows

	FY 2021 (From June 1, 2020 to May 31, 2021)	FY 2022 (From June 1, 2021 to May 31, 2022)
(1) Profit (loss) per share (yen)		
Profit (loss) attributable to owners of parent (thousand yen)	321,317	(905,533)
Amount not attributable to common shareholders (thousand yen)	—	—
Profit (loss) attributable to owners of parent on common stock (thousand yen)	321,317	(905,533)
The average number of stocks outstanding (shares)	7,542,297	7,809,821
(2) Diluted profit per share		
Adjustment on the profit attributable to owners of parent (thousand yen)	—	—
Increase in common stock (shares)	56,823	—
(of which subscription rights to shares (shares))	(56,823)	(—)
Residual shares not included in the calculation of diluted profit per share because they have no dilutive effect	—	—

## (Important Subsequent Events)

## (Company split)

At a meeting held on June 14, 2022, the Board of Directors of our company resolved to establish a wholly-owned subsidiary, IK Split Preparatory Company, as a preparatory company for the Company Split in order to transition to a holding company structure through a corporate split. After the Company Split, our company plans to change its name to "IK Holdings Corporation" on December 1, 2022 and transition to a holding company structure, but will continue to be listed on the stock exchange.

The demerger will be implemented after obtaining the approval for the absorption-type demerger agreement at the general meeting of shareholders, approval for the necessary procedures, etc., and the approval by the competent government agencies.

## 1. Purpose of the Transition to a Holding Company Structure

Our company has grown under the management philosophy of "Creating Fans" with the major mission of "improving customer satisfaction and realizing a sustainable society through its products."

In addition, our corporate group is making concerted efforts to achieve its three-year medium-term management plan, "IK Way to 2024," which started in June 2021.

In the current business environment, the spread of COVID-19 has led to a significant disparity in corporate performance among industries, and consumer spending remains generally sluggish. The business environment surrounding our corporate group remains uncertain, with some sales channels benefiting from the demand by people staying at home, while others are being damaged by the temporary closure of commercial facilities and voluntary restraint of going out.

In this difficult environment, our company believes that it is essential to execute its M&A strategy, which is a priority investment area, strengthen its business portfolio management, enhance its governance structure, and strengthen the development of its human resources as an engine for growth, with a view to future expansion, achievement of the medium-term management plan "IK Way to 2024," and enhancement of its corporate value, and has decided that it is necessary to transition to a holding company structure.

After the transition to a holding company structure, our company, as a publicly listed company, will continue to aim to maximize corporate value as a group by speeding up decision-making in management, formulating flexible strategies, optimizing the allocation of management resources, promoting the functional separation of supervision and execution and delegation of authority, and creating new businesses and management personnel.

## 2. Summary of the Transition to a Holding Company Structure

### (1) Method of transition

The business to be transferred will be transferred to the wholly-owned subsidiary, "IK Split Preparatory Company," through a company split (absorption-type split) with our company as the split company.

### (2) Schedule of the company split

Board of Directors' meeting to approve the establishment of the Split Preparatory Company: June 14, 2022

Establishment of the Split Preparatory Company: July 1, 2022

Board of Directors meeting to approve absorption-type demerger agreement: July 14, 2022

Conclusion of absorption-type demerger agreement: July 14, 2022

General shareholders' meeting to approve the absorption-type demerger agreement: August 18, 2022 (scheduled)

The effective date of the absorption-type demerger: December 1, 2022 (scheduled)

### (3) Details of allotment related to the absorption-type demerger

The successor company, "IK Split Preparatory Company," will issue one share of common stock upon the demerger, which will be allotted and delivered to the demerged company.

### (4) Regarding stock acquisition rights and bonds with stock acquisition rights in connection with the absorption-type demerger

There will be no change in our company's handling of stock acquisition rights as a result of the demerger. Our company has not issued any bonds with stock acquisition rights.

### (5) Decrease in capital, etc. due to the absorption-type demerger

There will be no change in capital, etc.

### (6) Rights and obligations to be succeeded by the succeeding company

The successor company will assume the assets, liabilities, contracts, and other rights and obligations stipulated in a separate absorption-type demerger agreement.

### (7) Prospect for the fulfillment of obligations

Since the number of assets of both our company and the successor company after the absorption-type demerger is expected to exceed the number of liabilities, our company has determined that there will be no problem in fulfilling its obligations.

## 3. Outline of the Companies Involved in the Demerger

Splitting company (As of May 31, 2022)	Splitting company	Successor company (Established on July 1, 2022)
Trade name	I.K Co.,Ltd. (Scheduled to be changed to " IK HOLDINGS Co.,Ltd." on December 1, 2022)	(The preparatory company for the I.K. split will be changed to " I.K Co.,Ltd." on December 1, 2022)
Business activities	Sales Marketing Business	Sales Marketing Business
Capital	2,603 million yen	10 million yen
Number of outstanding shares	8,308,000	100
Net assets	2,638 million yen (non-consolidated)	10 million yen (non-consolidated)
Total assets	6,175 million yen (non-consolidated)	10 million yen (non-consolidated)
Number of employees	101 (non-consolidated)	0 (non-consolidated)

(Note) The number of employees does not include part-time employees.

#### 4. Description of Business to be Split off

Sales Marketing Business

#### 5. Operating Results of the Business to be Split

Net sales of 10,883 million yen

#### (Transfer of business)

At a meeting of the Board of Directors held on June 8, 2022, our company resolved to transfer the cosmetics business operated by Combi Corporation to Prime Direct Corporation ("Prime Direct"), a consolidated subsidiary of our company, as the transferee company, and the business transfer agreement was executed on the same date.

#### 1. Reason for Business Transfer

Our corporate group has been promoting its business based on its mid-term plan "IK Way to 2024," which was announced on July 13, 2021. In the mid-term plan, we set M&A in the intensive investment area as a priority measure, and aim to concentrate on TV shopping, EC, and subscription products and enhance overseas promotion of made-in-Japan products. In addition, our company is developing products based on the three themes of "health care," "beauty," and "fun (entertainment)."

The cosmetics business operated by Combi Corporation, which is the subject of this acquisition, handles a line of products made from "Colocalia," a rare and highly valuable beauty ingredient derived from swallow's nests, and is a very attractive product line for each sales channel of the direct marketing and sales marketing businesses. We believe that the acquisition will contribute to the enhancement of the corporate value of our corporate group, as it is expected to expand sales of these products.

The reason why Prime Direct, a consolidated subsidiary of our company, will be the transferee is that Prime Direct is engaged in the direct marketing business, and has determined that the synergy effects are the highest and most optimal, as it focuses on TV shopping, EC, and subscription products as its growth engine.

#### 2. Details of Business Transfer

Cosmetics business (cosmetics business using Colocaria and other raw materials)

#### 3. Transfer Price

The transfer price is not disclosed. However, appropriate due diligence was conducted by a third-party organization to calculate the transfer price, which is considered to be a fair and reasonable amount.

#### 4. Overview of the Company Transferring the Business

(1) Name	Combi Corporation	
(2) Location	6-7, Motoasakusa 2-chome, Taito-ku, Tokyo	
(3) Representative	Eiji Kobori, President and Representative Director	
(4) Business activities	Manufacture and sale of baby care products, etc.	
(5) Capital	100 million yen	
(6) Date of establishment	December 2, 1957	
(7) Relationship between the listed company and the relevant company	Capital relationship	Not applicable.
	Personnel relationship	Not applicable.
	Business Relationship	A basic business alliance agreement was concluded on June 8, 2022.

#### 5. Overview of the Company Taking over the Business

(1) Name	Prime Direct Corporation
(2) Location	4-20, Kamikomemo-cho, Nakamura-ku, Nagoya-shi, Aichi
(3) Representative	Shogo Nagano, President and Representative Director

(4) Business activities	TV shopping, EC shopping
(5) Capital	70 million yen
(6) Date of establishment	July 28, 2014
(7) Number of outstanding shares	1,400
(8) Major shareholder and shareholding ratio	I.K CO., Ltd 100%

#### 6. Schedule of Business Transfer

Date of conclusion of the business transfer agreement: June 8, 2022

Date of business transfer: June 30, 2022

#### 7. Future Outlook

The impact of the business transfer on our company's consolidated financial results is not expected to be material. However, our company will promptly disclose any matters that should arise in the future.

#### 4. Other

Changes in Executives, etc.

(1) Change of Representative

Not applicable.

(2) Other changes in executives (scheduled for August 18, 2022)

Candidates for new directors

Outside Director, Audit Committee Member (full-time): Atsumi Yamamoto

Retiring Directors

Director: Keiji Kumazawa

Outside Director, Audit Committee Member (full-time): Sakie Kondo