Consolidated Statements of Cash Flows

Wacoal Holdings Corp. and Subsidiaries
Years Ended March 31, 2020, 2019 and 2018

		Millions of Yen		Thousands of U.S. Dollars (Note 2)
Years Ended March 31, 2020, 2019 and 2018	2020	2019	2018	2020
OPERATING ACTIVITIES:				
Net income	¥ 2,968	¥ 395	¥ 9,660	$ 27,602
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	6,029	5,647	5,492	56,068
Share-based compensation (Note 14)	71	62	68	670
Allowance for returns and doubtful receivables – net	299	(2,263)	18	2,781
Deferred income taxes	(5,673)	(2,817)	662	(52,757)
Loss on sales or disposal of property, plant and equipment – net	103	48	250	958
Impairment charges on property, plant and equipment (Note 21)	769	167		7,151
Compensation income			(708)	
Impairment charges on goodwill (Notes 8 and 21)	217	4,325	206	2,018
Impairment charges on other intangible assets (Notes 8 and 21)	256	1,509		2,381
Loss (gain) on sale, exchange and valuation of marketable securities and investments – net (Note 3)	3,760	5,430	(206)	34,967
Equity in net loss (income) of affiliated companies, less dividends received	480	(211)	(397)	4,464
Changes in assets and liabilities:				
Decrease (increase) in notes and accounts receivable	4,685	822	(232)	43,569
(Increase) decrease in inventories	(1,350)	(76)	1,012	(12,556)
Decrease (increase) in return assets	312	(1,180)		2,902
(Increase) decrease in other current assets	(29)	(653)	270	(270)
(Decrease) increase in notes and accounts payable	(373)	(1,640)	676	(3,469)
Decrease (increase) in refund liabilities	(837)	3,482		(7,784)
Increase (decrease) in liability for termination and retirement benefits	776	(620)	(833)	7,217
Increase (decrease) in accrued expenses, income taxes payable and other current liabilities	665	1,075	(518)	6,184
Other	197	118	73	1,823
Net cash provided by operating activities	13,325	13,620	15,493	123,919
INVESTING ACTIVITIES:				
Increase in time deposits	(438)	(4,783)	(5,129)	(4,073)
Decrease in time deposits	3,576	5,226	3,368	33,256
Proceeds from sales and redemption of equity securities	15,252	2,497	394	141,839
Payments to acquire equity securities	(339)	(323)	(22)	(3,153)
Proceeds from redemption of debt securities	544	1,008	567	5,060
Payments to acquire debt securities		(900)	(1,605)	
Compensation income			708	
Proceeds from sales of property, plant and equipment	104	276	159	967
Payments to acquire property, plant and equipment	(3,442)	(2,603)	(3,429)	(32,010)
Payments to acquire intangible assets (Note 8)	(3,539)	(3,180)	(2,455)	(32,912)
Acquisition of a subsidiary (net of cash acquired) (Note 7)	(9,181)			(85,381)
Proceeds from sales of shares of affiliated companies		270		
Other	32	38	82	298
Net cash provided by (used in) investing activities	2,569	(2,474)	(7,362)	23,891
FINANCING ACTIVITIES:				
Decrease (increase) in short-term bank loans with original maturities of three months or less – net	(4,645)	1,061	(755)	(43,197)
Repayments of long-term debt	(53)	(50)	(47)	(493)
Purchase of treasury stock	(7,745)	(6,919)	(4,007)	(72,026)
Disposal of treasury stock	0	0	0	0
Dividends paid on common stock	(4,907)	(4,811)	(7,386)	(45,635)
Dividends paid to noncontrolling interests	(237)	(191)	(194)	(2,204)
Proceeds from share issuance of noncontrolling interests	116	38	86	1,079
Net cash used in financing activities	(17,471)	(10,872)	(12,303)	(162,476)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(651)	372	(336)	(6,054)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,228)	646	(4,508)	(20,720)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	30,133	29,487	33,995	280,229
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 27,905	¥ 30,133	¥ 29,487	$ 259,509
ADDITIONAL CASH FLOW INFORMATION:				
Cash paid for:				
Interest	¥ 20	¥ 1	¥ 11	$ 186
Income taxes	4,758	5,068	5,853	44,248
NONCASH INVESTING ACTIVITIES:				
Acquisition of a subsidiary (contingent consideration) (Note 7)	4,172			38,798
Acquisition of property, plant and equipment by assuming payment obligation	¥ 751	¥ 954	¥ 583	$ 6,984

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Wacoal Holdings Corp. and Subsidiaries

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Statements—Wacoal Holdings Corp. (the "Company") and subsidiaries are predominantly engaged in one industry, the manufacturing and sale of apparel, including foundation garments, lingerie, nightwear, and outerwear in Japan, the United States of America, Europe, and certain other countries in Asia.

The accompanying consolidated financial statements, stated in Japanese yen, have been prepared on the basis of accounting principles generally accepted in the United States of America ("U.S. GAAP").

Consolidation—The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries (collectively, the "Companies"). All intercompany transactions and balances have been eliminated.

Some foreign subsidiaries of the Company have a fiscal year ending December 31. The accounts of those subsidiaries are included in the Company's consolidated financial statements based on the subsidiaries' fiscal year-end. Necessary adjustments have been made for significant events related to subsidiaries that occurred during the period between their fiscal year-ends and March 31.

Investments in affiliated companies where the Companies' ownership is 20% to 50% are accounted for using the equity method.

Significant influence is generally deemed to exist if the Companies have an ownership interest in the voting stock of the investee from 20% to 50%, although other factors are considered in determining whether the equity method of accounting is appropriate.

Use of Estimates—The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Companies reflected the impact of the COVID-19 outbreak in such estimates. The official views of when the outbreak will be contained have not been announced by public institutions. The Companies are estimating that COVID-19 will have an impact on their business results until September 2020, and that their results in October 2020 will recover to the level before the outbreak. The Companies developed future business plans and used them for the estimates of impairment charges on property, plant and equipment, goodwill and other intangible assets based on this assumption. However, COVID-19's impact on impairment charges on property, plant and equipment, goodwill and other intangible assets recorded for the year ended March 31, 2020 were immaterial.

Note that when the outbreak will be settled is not easy to predict and there is a possibility that these impairment charges would increase if the assumptions were different from actual results.

Cash and Cash Equivalents—Cash and cash equivalents include all highly liquid investments with original maturities of three months or less.

Foreign Currency Translation—Assets and liabilities of foreign subsidiaries have been translated to Japanese yen at period-end exchange rates and income and expenses have been translated using average exchange rates for the period. Translation adjustments resulting from the process of translating consolidated financial statements, net of tax, are included in accumulated other comprehensive (loss) income, which is a separate component of equity. Exchange gains and losses resulting from foreign currency transactions and the conversion of monetary assets and liabilities denominated in foreign currencies are included in other (expenses) income in the consolidated statements of income.

Foreign currency translation gains (losses) for the years ended March 31, 2020, 2019 and 2018 were ¥36 million, ¥76 million and ¥(189) million, respectively. They have been included in other – net of other (expenses) income.

Marketable Securities and Investments—The Companies classify their marketable securities and investments in debt securities into one of two categories: available-for-sale or held-to-maturity. Available-for-sale securities are recorded at fair value with a corresponding recognition of unrealized holding gain or loss (net of tax) in accumulated other comprehensive (loss) income, which is a separate component of equity, until realized. Held-to-maturity securities are measured at amortized cost. The Companies classify debt securities as held-to-maturity only if the Companies have the positive intent and ability to hold those securities to maturity. Gains and losses on sales of debt securities are computed based on cost determined using the average cost method. The Company periodically determines whether any decline in the value of debt securities is temporary, based on the period and extent of the decline, the issuer's financial position and prospects, and the intention to hold it for a sufficient period of expected recovery of fair value. If it is determined that the decline is not temporary, the difference between the carrying amount and its fair value is recognized as a valuation loss.

Equity securities are measured at fair value and unrealized holding gain or loss is recorded in net profit or loss.

Allowance for Doubtful Receivables—An allowance for doubtful notes and receivables is estimated based on historical collection experience and additional information including current economic conditions and the creditworthiness of each applicable customer.

Inventories—Inventories are stated at the lower of cost or net realizable value, cost being determined by the first-in, first-out method for raw materials and the average cost method for work in process and finished products. Cost includes net prices paid for materials purchased, production labor cost, factory overhead and charges for customs duties.

Property, Plant and Equipment—Property, plant and equipment is stated at cost less impairment charges. Property, plant and equipment are amortized over their estimated useful lives mainly using the straight-line method. The estimated useful lives are as follows:

Buildings and structures
2 to 50 years (mainly 38 years)

Machinery and equipment (except for the part of the paintings)
2 to 20 years (mainly 5 years)

Depreciation expenses for the years ended March 31, 2020, 2019 and 2018 were ¥3,545 million, ¥3,538 million and ¥3,681 million, respectively.

Impairment of Property, Plant and Equipment—The carrying amount of long-lived assets held and used by the Companies is evaluated for impairment whenever there is an event or change in circumstances that indicates that such assets have been impaired or that the carrying amounts of such assets might not be recoverable. The carrying amount of property, plant and equipment is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. That assessment is based on the carrying amount of the asset at the date it is tested for recoverability, whether in use or under development. The impairment charge is measured as the amount by which the carrying amount of property, plant and equipment exceeds its fair value.

Goodwill and Other Intangible Assets—Goodwill represents the excess of the purchase price of an acquired entity over the fair value of assets acquired and liabilities assumed.

Goodwill and other intangible assets with indefinite useful lives are tested for impairment annually, or more frequently if conditions indicate an earlier review is necessary. The goodwill is allocated to the reporting unit in which the business that the goodwill resides. To test for goodwill impairment, the carrying amount of each reporting unit is compared with its fair value. If the carrying amount of a reporting unit exceeds its fair value, an impairment charge is recognized in an amount equal to that excess. To test for impairment of other intangible assets with indefinite useful lives, the carrying value of an intangible asset is compared with its fair value. If the carrying amount of an intangible asset with indefinite useful life exceeds its fair value, an impairment charge is recognized in an amount equal to that excess.

Other intangible assets with finite useful lives consist primarily of brands and software are amortized over their estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Brands	10, 20 and 25 years (mainly 25 years)
Customer relationships	5 years
Software	5 years

Asset Retirement Obligations—The Companies have obligations arising from contractual commitments to remove leasehold improvements from leased facilities and return the property to a specified condition when the lease terminates. The Companies recognize asset retirement obligations at the inception of a lease. The asset retirement obligations are measured with an expected present value technique based on historical experience and recorded in other long-term liabilities in the consolidated balance sheets and subsequently adjusted for changes in estimated disposal costs. The difference between the gross expected future cash flow and its present value is accreted over the life of the related lease, which is determined using best estimates because the Companies' lease contracts generally have automatic renewal provisions. The estimated asset retirement costs are capitalized as part of the carrying amount of the associated long-lived asset and depreciated over its useful life. For some lease contracts that are automatically renewed at the end of the contract, asset retirement obligations are calculated based on a reasonable estimate of the end of the contract.

Termination and Retirement Plans—Termination and retirement benefits are accounted for in accordance with the guidance for retirement benefits. The Companies amortize net actuarial gains and losses and prior service cost over the average employees' remaining service period by the declining-balance method and by the straight-line method, respectively.

Leases—As for lessor accounting, the Companies recognized revenue mainly from contracts consisted of leasing mannequins, display furniture and real estate owned by the Companies to our customers. These lease arrangements are classified as operating leases and related revenue is recognized ratably over the lease term. Options to extend or terminate the leases are included in some of the contracts. The Companies take such options into account to determine the lease term when it is probable that these options will be exercised. Moreover, almost all of the contracts do not contain variable consideration and purchase options for their customers. Some of the contracts contain lease and non-lease components and the consideration in the contracts are allocated based upon estimated standalone selling prices of the lease and non-lease components.

As for lessee accounting, the Companies have leases for assets such as retail stores, warehouses, offices, corporate housing, vehicles, machinery, and equipment, which are classified as an operating lease. The Companies determine whether a contract is, or contains a lease at the inception of the contract. Options to extend or terminate the leases contracts are included in some of the contracts. The Companies take such options into account in order to determine the lease term when it is probable that these options will be exercised. Some of the contracts contain variable lease payments. Most of the variable lease payments are for our retail stores, which depend on their sales. Material residual value guarantees and restriction or covenants imposed by leases do not exist in the contracts.

Some of the contracts contain lease and non-lease components. Considerations in the contracts for which underlying assets are land and buildings and structures are allocated based upon the estimated standalone selling prices of the lease and non-lease components, which are accounted for separately. On the other hand, the Companies elects the practical expedient and did not separate lease components from non-lease components for leases for which underlying assets are machinery and equipment. The Companies uses the incremental borrowing rate based on the information available at commencement date to determine the present values of lease payments, unless the implicit rate is readily determinable. The Companies also elects the practical expedient which allows entities to expense leases with a term of 12 months or less at the commencement date as incurred. Operating lease cost is recognized on a straight-line basis over the lease term.

Treasury Stock—The Companies account for treasury stock under the cost method and include treasury stock as a component of equity.

Acquisitions—The Companies account for acquisitions using the acquisition method in accordance with the guidance for business combinations. The Companies allocate the purchase price to the assets acquired and liabilities assumed based on the estimated fair values at the date of acquisition, including intangible assets that can be identified and named. The purchase price in excess of the fair value of the net assets is recorded as goodwill. In the case where the purchase price is below the fair value of the net assets, the Companies recognize the excess of fair value of the net assets over the purchase price in earnings as a gain on bargain purchase in the consolidated statements of income. The Companies measure contingent consideration classified as liabilities at the fair value as of the date of acquisition and remeasure them to fair values at each reporting date until the contingencies are resolved. Fluctuations of the fair values due to the remeasurement are recognized in income or expenses as incurred.

Revenue Recognition—The Companies recognize revenue when control of promised products are transferred to customers and performance obligations are satisfied. The Group's revenue is recognized for transactions, net of any trade discounts or rebates given. In addition, provision for expected returns is deducted from revenue based on historical return.

Shipping and Handling Costs—Shipping and handling costs are expensed as incurred.

Advertising Expenses—Advertising costs are expensed as incurred. Advertising expenses for the years ended March 31, 2020, 2019 and 2018 were ¥13,169 million, ¥12,329 million and ¥12,719 million, respectively, and have been included in selling, general and administrative expenses.

Research and Development Costs—Research and development costs are expensed as incurred. Research and development costs for the years ended March 31, 2020, 2019 and 2018 were ¥508 million, ¥739 million and ¥781 million, respectively, and have been included in selling, general and administrative expenses.

Consumption Taxes—Consumption taxes are excluded from sales, costs, and expenses in the consolidated statements of income.

Income Taxes—The provision for income taxes is determined under the asset and liability method in accordance with the guidance for income taxes. Under this method, deferred tax assets and liabilities are determined for temporary differences between the financial statements and tax bases of assets and liabilities and tax loss carryforwards at presently enacted tax rates. A valuation allowance is recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized in the future.

The Companies assess their income tax positions and record tax benefits for all years subject to examination based upon their evaluation of the facts, circumstances, and information available as of the end of the fiscal year. For those tax positions only where there is greater than a 50% likelihood that the tax position will be sustained, the Companies record the largest amount of tax benefit that may potentially be realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. Interest and penalties related to income taxes are included in the consolidated statements of income.

Share-Based Compensation—Share-based compensation is accounted for in accordance with Accounting Standard Codification 718,

"Compensation – Stock Compensation" ("ASC 718"). The Company measures share-based compensation cost at the grant date, based on the fair value of the award and recognizes the cost over the requisite service period, which is the vesting period. The fair value of the award is estimated using the Black-Scholes option-pricing model.

Derivatives—Derivative instruments, including certain derivative instruments embedded in other contracts, are accounted for in accordance with the guidance for derivatives and hedging. Because such derivative instruments are not designated as hedges, changes in the fair value of the derivatives are recorded in earnings or losses.

Subsequent Events—In accordance with the guidance for subsequent events, the Company has evaluated subsequent events through June 26, 2020.

Reclassifications—Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the current year's presentation. And as of October 1, 2017, the Company effected a one-for-two ordinary share reverse stock split. The number of ordinary shares, outstanding shares, treasury stock, and net income attributable to Wacoal Holdings Corp. per share are calculated assuming that the reverse stock split occurred at the beginning of the earliest fiscal year presented in the consolidated financial statements.

Recent Accounting Pronouncements:

Recently Adopted Accounting Guidance

Leases—In February 2016, the FASB issued new accounting guidance related to leases, Accounting Standard Codification 842, "Leases" ("ASC 842"). This guidance requires an entity to recognize lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under current U.S. GAAP ("ASC 840") with a few exceptions.

In January 2018, the FASB also issued a new accounting guidance related to land easements. This guidance clarifies that land easements are within the scope of ASC 842 and introduces a transition practical expedient allowing the Company to forgo assessment as to whether existing or expired land easements that were not previously accounted for as leases under ASC 840 are or contain leases under ASC 842. The guidance is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years.

In July 2018, the FASB issued ASU No. 2018-11, "Leases." This ASU provides entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, entities initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.

This guidance is effective for annual reporting periods beginning after December 15, 2018 and quarter periods within those fiscal year. The Companies has adopted the guidance from the quarter beginning April 1, 2019. The Companies has adopted the modified retrospective approach, and applied the transition requirements at the effective date with a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption, and prior periods were not restated. The Companies elected to apply the package of practical expedients permitted under the transition guidance which does not require entities to reassess whether any expired or existing contracts are leases, lease classification and initial direct costs. The Companies also elected to apply the practical expedient which allows entities to not assess whether existing or expired land easements that were not previously accounted for as leases are leases. As a result of this adoption, operating leases right-of-use assets and operating leases liabilities of ¥14,550 million were recorded in the consolidated balance sheet as of April 1, 2019. In addition, the application of deferred tax accounting resulted in the recording of deferred tax liabilities of ¥515 million and a related decrease in the opening balance of retained earnings as a cumulative-effect adjustment for the same amount. The adoption of this guidance is not expected to have a material impact on our group's cash flows.

Recent Accounting Guidance Not Yet Adopted

Internal-Use Software– In August 2018, the FASB issued guidance related to internal-use software. This guidance clarifies the accounting for costs of implementation activities performed in a cloud computing arrangement that is a service contract. This guidance is effective for fiscal years beginning after December 15, 2019 and interim periods within that annual period. The adoption of this guidance is not expected to have a material impacts on the Company's balance sheets and statements of income.

Disclosure on Fair Value Measurement– In August 2018, the FASB issued guidance related to the fair value measurement disclosure. This guidance removes, modifies, and adds some of the disclosure requirements on fair value. This guidance is effective for fiscal years beginning after December 15, 2019 and interim periods within that annual period. The adoption of this guidance is not expected to have a material impact on the Company's balance sheets and statements of income.

Disclosure on Defined Benefit Plans– In August 2018, the FASB issued guidance related to disclosure on defined benefit plans. This guidance removes, modifies, and adds the disclosure requirements on defined benefit pension. This guidance is effective for fiscal years beginning after December 15, 2020 and interim periods within that annual period. The adoption of this guidance did not have a material impact on the Company's balance sheets and statements of income.

Measurement of Credit Losses on Financial Instruments– In June 2016, the FASB issued a new accounting guidance related to measurement of credit losses on financial instruments. This guidance introduces a new impairment model based on expected losses rather than incurred losses. Using this model will result in more timely recognition of losses than under current incurred approach. In November 2019, the FASB issued an additional guidance related to changing the effective date of the above guidance. As a result, the guidance is effective for fiscal years beginning after December 15, 2022 and interim periods within those fiscal years. The Company is currently evaluating the impact of adoptions on the Company's consolidated financial position, results of operations or cash flows.

2. TRANSLATION INTO U.S. DOLLAR STATEMENTS

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside of Japan and has been made at the rate of ¥107.53 to $1, the noon buying rate for yen in New York City as of March 31, 2020. Such translation should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at the above or any other rate.

3. MARKETABLE SECURITIES AND INVESTMENTS

Debt Securities—The fair value of debt securities is based on quoted market prices as of March 31, 2020 and 2019. The cost, gross unrealized gain and loss, and the fair value by major security type were as follows:

Millions of Yen

2020	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Held-to-maturity securities:				
Current:				
Corporate debt securities	¥656	¥2	¥1	¥657
Noncurrent:				
Corporate debt securities	¥329	¥4		¥333

Millions of Yen

2019	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Held-to-maturity securities:				
Current:				
Corporate debt securities	¥ 446	¥0	¥1	¥ 445
Noncurrent:				
Corporate debt securities	¥1,124	¥1	¥4	¥1,121

Gross unrealized losses and fair values of debt securities, for those that have been in a continuous unrealized loss position for more than 12 months as of March 31, 2020 and 2019, were as follows:

Millions of Yen

	2020		2019	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Held-to-maturity securities:				
Marketable securities:				
Corporate debt securities	¥109	¥1	¥332	¥1
Investment:				
Corporate debt securities			¥446	¥3

Gross unrealized losses and fair values of debt securities, for those that have been in a continuous unrealized loss position for less than 12 months as of March 31, 2020 and 2019, were as follows:

Millions of Yen

	2020		2019	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Held-to-maturity securities:				
Marketable securities:				
Corporate debt securities	¥220	¥0		
Investment:				
Corporate debt securities			¥228	¥1

The Companies periodically determine whether a decline in the fair value of debt securities is deemed to be other than temporary based on criteria that include the duration of the market decline, the extent to which cost exceeds fair value, the financial position and business outlook of the issuer, and the intent and ability of the Companies to retain the impaired held-to-maturity securities for a sufficient period of time for anticipated recovery in fair value. No debt securities were identified that meet the Companies' criteria for recognition of an impairment charge on debt securities in an unrealized loss position presented above. Therefore, the Companies do not believe the unrealized losses represent an other-than-temporary impairment as of March 31, 2020 and 2019.

Future maturities of debt securities classified as held-to-maturity securities as of March 31, 2020, were as follows:

Millions of Yen

	Cost	Fair Value
Due within one year	¥656	¥657
Due after one year through five years	329	333
Total	¥985	¥990

As a result of the conversion of convertible bonds into equity securities, the Company recorded gains on exchange of marketable securities of ¥140 million for the fiscal year ended March 31, 2019. There were no exchange of marketable securities and investments during the year ended March 31, 2020.

Equity Securities—Realized and unrealized gains and losses on equity securities during the year ended March 31, 2020 and 2019, were as follows:

Millions of Yen

	2020	2019
Realized gain (losses) recognized during the period on equity securities sold during the period	¥ 1,620	¥ (77)
Unrealized losses recognized during the period on equity securities still held at March 31	(5,380)	(5,493)
Net (gains) losses recognized during the period on equity securities	¥(3,760)	¥(5,570)

4. ALLOWANCES FOR DOUBTFUL RECEIVABLES

Information related to the Companies' allowance for doubtful receivables as of March 31, 2020, 2019 and 2018 was as follows:

Millions of Yen

	2020	2019	2018
Balance at the beginning of the year	¥229	¥207	¥219
Charged to expenses	270	36	28
Balances written off/reversed	(10)	(14)	(40)
Balance at the end of the year	¥489	¥229	¥207

Information related to the Companies' allowance for sales returns was as follows:

Millions of Yen

	2018
Balance at the beginning of the year	¥ 2,258
Charged to cost	2,252
Balances utilized	(2,258)
Balance at the end of the year	¥ 2,252

5. INVENTORIES

The components of inventories as of March 31, 2020 and 2019 were as follows:

Millions of Yen

	2020	2019
Finished products	¥37,224	¥36,358
Work in process	3,938	3,793
Raw materials	2,265	2,357
Total	¥43,427	¥42,508

6. INVESTMENTS IN AFFILIATED COMPANIES

Certain investments are accounted for using the equity method if the Companies have the ability to exercise significant influence over an investee. Significant influence is generally deemed to exist if the Companies have an ownership interest in the voting stock of the investee between 20% and 50%, although other factors are considered in determining whether the equity method of accounting is appropriate. The Companies record investments in equity method investees meeting these characteristics as "Investments in affiliated companies." Under the equity method, the Companies record their proportionate share of an affiliated company's income or loss based on the most recently available financial statements.

The primary affiliated companies and percentage of ownership as of March 31, 2020 and 2019 were as follows:

Percentage of Ownership (%)

Name of Investee	2020	2019
Shinyoung Wacoal Inc.	25	25
Taiwan Wacoal Co., Ltd.	50	50
THAI WACOAL PUBLIC CO., LTD.	34	34
PT. Indonesia Wacoal	42	42
House of Rose Co., Ltd.	21	21

Aggregate carrying amounts and fair values of investments in affiliated companies which have a quoted market price as of March 31, 2020 and 2019 were as follows:

Millions of Yen

	2020	2019
Carrying amount	¥14,431	¥14,523
Aggregate value of quoted market price	9,421	11,075

The following tables represent the affiliated companies' summarized balance sheets and statements of income as of and for the years ended March 31, 2020 and 2019. Such information as of and for the year ended March 31, 2018 were not disclosed as they were immaterial.

Millions of Yen

	2020	2019
Current assets	¥43,974	¥41,929
Noncurrent assets	42,161	44,635
Total	¥86,135	¥86,564
Current liabilities	¥ 9,048	¥ 8,569
Long-term liabilities	7,583	7,145
Equity	69,504	70,850
Total	¥86,135	¥86,564

Millions of Yen

	2020	2019
Net sales	¥62,676	¥63,066
Gross profit	32,455	32,105
Income before income taxes	1,654	3,458
Net income	860	2,714

The balance of receivables and payables to affiliated companies as of March 31, 2020 and 2019 were as follows:

Millions of Yen

	2020	2019
Accounts receivable	¥618	¥927
Accounts payable	509	665
Other receivable	329	286

The amounts for transactions with affiliated companies for the years ended March 31, 2020, 2019 and 2018 were as follows:

Millions of Yen

	2020	2019	2018
Sales	¥2,838	¥3,257	¥2,700
Cost of sales corresponding to sales of material and products	2,826	3,175	2,675
Purchases	5,302	5,612	5,744
Royalties	330	299	300

Dividends received from affiliated companies were ¥542 million, ¥514 million and ¥519 million for the years ended March 31, 2020, 2019 and 2018, respectively.

7. ACQUISITIONS

The Company decided to enter into a share purchase agreement pursuant to which the Companies acquired through our U.S. subsidiary Wacoal International Corp. ("Wacoal International") all of the issued and outstanding shares of Intimates Online, Inc. ("Intimates Online"), a women's innerwear design and sales company in the U.S. at the meeting of our board of directors held on July 30, 2019. Wacoal International entered into the share purchase agreement on the same day (U.S. time) and acquired all of the issued and outstanding shares of Intimates Online on July 31, 2019 (U.S. time).

Intimates Online designs and sells women's innerwear products under its "LIVELY" brand in the U.S. through its e-commerce website and directly managed retail stores. The Companies expect discontinuous growth in the U.S. by acquiring its customer base mainly for millennials and its unique marketing method to spread its reputation and online reviews by organizing its customers as its ambassador.

Consideration for the acquisition was ¥13,520 million and is consisted of ¥9,348 million (USD86 million) of cash and ¥4,172 million (USD38 million) of contingent consideration.

The contingent consideration was agreed with previous shareholders upon the share purchase agreement and will be paid to them over a period of four fiscal years. Payment is contingent on Intimate Online's performance achieving certain goals such as sales targets. The total contingent payment amount will be within the range of USD20 million and USD55 million.

The fair value of the contingent consideration was ¥3,874 million (USD36 million) as of March 31, 2020. The changes in fair value were recognized in selling, general and administrative expenses. The contingent consideration of ¥1,088 million (USD10 million), for which the consideration has been fixed, was recognized in accounts payable.

For the year ended March 31, 2020, acquisition-related costs were ¥245 million and had been included in selling, general and administrative expenses.

As a result of the purchase price allocation, the Company recognized ¥11,551 million of goodwill and ¥1,923 million of other intangible assets in Wacoal Business (Overseas). The goodwill arising from the acquisition consists largely of the expected growth of Intimates Online, synergies and economies of scale expected from combining the operations with Wacoal International. Other intangible assets were composed of ¥1,097 million brands, ¥793 million customer relationships, and ¥33 million of noncompetition agreements, respectively. Goodwill is not deductive for tax purposes. The amount of brands, customer relationships and noncompetition agreements are amortized based on the estimated useful lives of 10 and 5 years, respectively.

The Company adjusted the fair values of assets acquired and liabilities assumed as of the acquisition date based on the information the Company obtained subsequent to the acquisition date. These adjustment are reflected retrospectively to the fair value of assets acquired and liabilities assumed as of the acquisition date.

The fair values of assets acquired and liabilities assumed as of the acquisition date were as follows:

Millions of Yen

	July 31, 2019	
	Before Adjustment	After Adjustment
Cash and cash equivalents	¥ 167	¥ 167
Notes and accounts receivable	14	14
Inventories	341	383
Other current assets	16	12
Property, plant and equipment	14	17
Operating leases right-of-use assets	295	290
Goodwill	13,505	11,551
Other intangible assets		1,923
Other assets	18	18
Total assets	14,370	14,375
Notes and accounts payables	222	228
Short-term operating lease liabilities	47	47
Other current liabilities	42	43
Deferred income taxes		288
Long-term operating lease liabilities	249	249
Total liabilities	560	855
Total equity	¥13,810	¥13,520

Pro Forma Financial Information (Unaudited)

Unaudited supplemental pro forma information for the combined result of operation of the Company and its subsidiary as though the acquisition had occurred as of April 1, 2018 were as follows:

Millions of Yen

	2020	2019
Net sales	¥187,482	¥195,684
Operating income	6,338	4,346
Net income (loss) attributable to Wacoal Holdings Corp.	3,172	(193)

Net sales and operating loss of Intimates Online included in the Company's consolidated statements of income for the year ended March 31, 2020 are ¥1,301 million and ¥1,250 million, respectively.

FACTS

8. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill—Changes in the carrying amount of goodwill by operating segments for the years ended March 31, 2020, 2019 and 2018 were as follows.

Millions of Yen

	2020		
	Wacoal Business (Overseas)	Peach John	Total
Balance at the beginning of the year:			
Acquisition cost	¥11,954		¥11,954
Accumulated impairment charges			
Carrying amount	11,954		11,954
Acquisition during the year	11,551		11,551
Impairment charges	(217)		(217)
Foreign currency translation adjustments	(917)		(917)
Balance at the end of the year:			
Acquisition cost	22,594		22,594
Accumulated impairment charges	(223)		(223)
Carrying amount	¥22,371		¥22,371

Millions of Yen

	2019		
	Wacoal Business (Overseas)	Peach John	Total
Balance at the beginning of the year:			
Acquisition cost	¥12,269	¥ 11,203	¥ 23,472
Accumulated impairment charges		(6,878)	(6,878)
Carrying amount	12,269	4,325	16,594
Impairment charges		(4,325)	(4,325)
Foreign currency translation adjustments	(315)		(315)
Balance at the end of the year:			
Acquisition cost	11,954	11,203	23,157
Accumulated impairment charges		¥(11,203)	(11,203)
Carrying amount	¥11,954		¥ 11,954

Millions of Yen

	2018		
	Wacoal Business (Overseas)	Peach John	Total
Balance at the beginning of the year:			
Goodwill	¥11,746	¥11,203	¥22,949
Accumulated impairment charges		(6,878)	(6,878)
Total	11,746	4,325	16,071
Impairment charges	(206)		(206)
Foreign currency translation adjustments	736		736
Balance at the end of the year:			
Goodwill	12,482	11,203	23,685
Accumulated impairment charges	(213)	(6,878)	(7,091)
Total	¥12,269	¥ 4,325	¥16,594

The Company recorded impairment charges on goodwill of ¥217 million for the G Tech in the year ended March 31, 2020, which was included in operating costs and expenses of Wacoal Business (Overseas). The Company recorded impairment charges on goodwill of ¥4,325 million for the Peach John Business in the year ended March 31, 2019, which was included in operating costs and expenses of the Peach John Business. The Company recorded impairment charges on goodwill of ¥206 million for the A Tech in the year ended March 31, 2018, which was included in operating costs and expenses of Wacoal Business (Overseas). See Note 21 for further information about measurement of fair value.

Other Intangible Assets—The components of intangible assets excluding goodwill as of March 31, 2020 and 2019 were as follows:

Millions of Yen

Years Ended March 31	2020		2019	
	Gross Carrying Amount	Accumulated Amortization and Impairment Charges	Gross Carrying Amount	Accumulated Amortization and Impairment Charges
Amortized intangible assets:				
Brands	¥ 6,670	¥ 2,076	¥ 6,058	¥ 1,899
Software	16,039	8,163	14,060	7,542
Others	2,534	1,022	1,732	868
Total	¥25,243	¥11,261	¥21,850	¥10,309
Unamortized intangible assets:				
Trademarks	¥ 5,316	¥ 4,827	¥ 5,316	¥ 4,636
Other	76		76	
Total	¥ 5,392	¥ 4,827	¥ 5,392	¥ 4,636

Other intangible assets acquired during the year ended March 31, 2020 totaled ¥5,313 million, which primarily consist of brands and software. Other intangible assets acquired during the years ended March 31, 2019 and 2018 totaled ¥3,266 million and ¥2,569 million, which primarily consist of software. Estimated useful life brands and software are ten and five years, respectively.

During the years ended March 31, 2020 and 2019, the Companies recorded impairment charges on the trademark of Peach John of ¥191 million and ¥1,314 million, which was included in operating costs and expenses of the Peach John Business. During the year ended March 31, 2020, the Companies also recorded ¥65 million of impairment charges on software of the A Tech, which was included in operating expenses of the Wacoal Business (Overseas). During the year ended March 31, 2019, the Companies recorded ¥195 million of impairment charges on software of Ai, which was included in operating expenses of the Wacoal Business (Domestic). See Note 21 for further information.

Aggregate amortization expenses for the years ended March 31, 2020, 2019 and 2018 related to other intangible assets were ¥2,484 million, ¥2,109 million and ¥1,811 million, respectively. Future estimated amortization expenses as of March 31, 2020 were as follows:

Years Ending March 31	Millions of Yen
Estimated amortization expenses	
2021	¥ 2,640
2022	2,497
2023	2,267
2024	1,815
2025	1,169
Total	¥10,388

9. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans as of March 31, 2020 and 2019 consisted of the following:

Millions of Yen

	2020	2019
Unsecured bank loans	¥3,364	¥8,116

The weighted-average annual interest rates on short-term bank loans as of March 31, 2020 and 2019 were 0.3% and 0.2%, respectively.

Unused lines of credit for short-term financing as of March 31, 2020 and 2019 aggregated to ¥28,657 million and ¥22,935 million, respectively.

Long-term debt as of March 31, 2020 and 2019 was summarized below. The interest rates and maturities were for loans as of March 31, 2020.

Millions of Yen

	2020	2019
Collateralized bank loans, with fixed interest at 0.6%, maturing through 2022	¥ 35	¥ 55
Unsecured bank loans, with fixed interest at 0.4%, maturing through 2022	50	83
Total	85	138
Less current portion of long-term portion	(50)	(50)
Long-term debt, less current portion	¥ 35	¥ 88

The annual maturities of long-term debt as of March 31, 2020 were as follows:

Years Ending March 31	Millions of Yen
2021	¥50
2022	35
Total	¥85

A subsidiary has pledged assets as security for loans. As of March 31, 2020 and 2019, assets pledged as collateral for bank loans were as follows:

Millions of Yen

	2020	2019
Land	¥150	¥150
Buildings	146	169
Total	¥296	¥319

As is customary in Japan, both short-term and long-term loans are made under general agreements which provide for security and guarantees for future and present indebtedness to be given upon request of the bank. The bank has the right to offset cash deposits against obligations that have come due or, in the event of default, against all obligations due to the bank.

10. LEASES

Lessor Accounting

Operating lease income for the year ended March 31, 2020 was as follows. Lease income was included in net sales and other net income.

Millions of Yen	2020
Operating lease income	¥2,392

The acquisition costs of equipment leased to customers under operating leases were ¥2,756 million of land and ¥516 million of building and building improvements. Accumulated depreciation on these equipment was ¥413 million as of March 31, 2020. These are included in net property, plant and equipment.

Future minimum lease income classified as operating leases as of March 31, 2020 were as follows. Note that lease payments related to mannequins and display furniture which were mainly part of the Companies' lease income were not included in the below table because the contracts terms were not material.

Years Ending March 31	Millions of Yen
2021	¥ 245
2022	201
2023	173
2024	172
2025	112
Thereafter	1,287
Total	¥2,190

Lessee accounting

Operating lease costs for the year ended March 31, 2020 were as follows. Lease expenses were included in cost of sales and selling, general and administrative expenses.

Millions of Yen	2020
Operating lease costs	¥4,945
Short-term lease costs	635
Variable lease costs	1,295
Total	¥6,875

Supplemental cash flow information related to operating leases for the year ended March 31, 2020 was as follows:

Millions of Yen	2020
Cash paid for amounts included in the measurement of lease liabilities	¥4,798
Non-cash activities concerning right-of-use assets obtained in exchanged for new operating lease liabilities	5,483

Weighted-average remaining lease term and discount rate for operating leases were as follows:

	2020
Weighted-average remaining lease term	63.0 months
Weighted-average discount rate	1.7%

Future minimum lease payments classified as operating leases as of March 31, 2020 were as follows:

Years Ending March 31	Millions of Yen
2021	¥ 4,805
2022	3,075
2023	1,719
2024	1,148
2025	909
Thereafter	2,899
Total minimum lease payments	14,555
Less interest cost	(854)
Total lease liabilities	¥13,701

Any material leases commenced after April 1, 2020 were not recognized as of March 31, 2020.

11. ASSET RETIREMENT OBLIGATIONS

The Companies recorded the fair value of asset retirement obligations in order to recognize legal obligations associated with the removal of leasehold improvements from leased facilities and return of the property to a specified condition when the lease terminates.

A reconciliation of the beginning and ending aggregate carrying amount of the asset retirement obligation is as follows:

Millions of Yen	2020	2019	2018
Balance at the beginning of the year	¥813	¥ 825	¥855
Accretion expense	3	2	1
Liabilities incurred	63	92	62
Liabilities settled	(52)	(106)	(91)
Change due to foreign currency translation	0	0	(2)
Balance at the end of the year	¥827	¥ 813	¥825

12. TERMINATION AND RETIREMENT PLANS

Employee Retirement Plans—Certain subsidiaries of the Company sponsor termination and retirement benefit plans that cover substantially all employees. Benefits are based on the employee's years of service, position and performance. If the termination is involuntary or caused by death, the employee is usually entitled to greater payments than in the case of voluntary termination.

Certain subsidiaries of the Company have contributory defined retirement benefit plans and several unfunded termination plans administered by certain subsidiaries of the Company. Benefits under the contributory defined retirement benefit plan are usually paid in a lump sum at the earlier of termination or retirement, although periodic payments are available under certain conditions. Benefits under the other termination and retirement benefit plan are paid either as lump-sum payments or periodic payments under certain conditions. The benefits are usually paid as a lump-sum payment, if the employee resigns before the mandatory retirement age.

Contributory Defined Retirement Benefit Plan—The following provides a reconciliation of benefit obligations, plan assets, and funded status of the plans:

Millions of Yen	2020	2019	2018
Change in benefit obligations:			
Benefit obligations at the beginning of the year	¥38,681	¥34,580	¥34,935
Service cost	1,243	1,196	1,086
Interest cost	176	178	205
Participants' contributions	60	62	63
Actuarial (gain) loss	(217)	4,937	432
Loss based on prior service benefits	253		
Benefits paid from plan assets	(961)	(961)	(1,007)
Settlement paid from plan assets	(1,275)	(976)	(1,003)
Settlement paid by the Company and certain subsidiaries	(289)	(339)	(138)
Changes in foreign currency exchange rates	3	4	7
Benefit obligations at the end of the year	37,674	38,681	34,580
Change in plan assets:			
Fair value of plan assets at the beginning of the year	¥40,680	¥42,736	¥43,203
Actual return on plan assets	1,375	(846)	878
Employer contributions	579	657	612
Participants' contributions	60	62	63
Benefit payments	(961)	(961)	(1,007)
Settlement payments	(1,275)	(976)	(1,003)
Changes in foreign currency exchange rates	6	8	(10)
Fair value of plan assets at the end of the year	40,464	40,680	42,736
Funded status at the end of the year	¥ 2,790	¥ 1,999	¥ 8,156

Amounts recognized in the consolidated balance sheets as of March 31, 2020 and 2019 consisted of:

Millions of Yen	2020	2019
Prepaid pension expense	¥ 4,974	¥ 3,990
Other current liabilities	(115)	(163)
Liability for termination and retirement benefits	(2,069)	(1,828)
Total	¥ 2,790	¥ 1,999

Amounts recognized in accumulated other comprehensive income as of March 31, 2020 and 2019 were as follows:

Millions of Yen	2020	2019
Actuarial loss	¥(5,048)	¥(6,820)
Prior service cost	(253)	
Total	¥(5,301)	¥(6,820)

The accumulated benefit obligations for all defined retirement benefit plans as of March 31, 2020 and 2019 were as follows:

Millions of Yen	2020	2019
Accumulated benefit obligations	¥37,532	¥38,531

The projected benefit obligations and the fair value of the plan assets for certain subsidiaries' of the Company with projected benefit obligations in excess of the fair value of plan assets, and the accumulated benefit obligations and the fair value of the plan assets for certain subsidiaries' pension plans with accumulated benefit obligations in excess of the fair value of plan assets were as follows:

Millions of Yen

	2020	2019
Plans with projected benefit obligations in excess of plan assets:		
Projected benefit obligations	¥3,075	¥2,856
Fair value of plan assets	738	865
Plans with accumulated benefit obligations in excess of the fair value of plan assets:		
Accumulated benefit obligations	3,075	2,856
Fair value of plan assets	738	865

Net periodic benefit costs for certain subsidiaries' of the Company plans consisted of the following for the years ended March 31, 2020, 2019 and 2018:

Millions of Yen

	2020	2019	2018
Service cost	¥ 1,243	¥ 1,196	¥1,086
Interest cost	176	178	205
Expected return on plan assets	(1,006)	(1,007)	(991)
Amortization of actuarial loss (gain)	1,186	5	(157)
Amortization of prior service benefits			(121)
	¥ 1,599	¥ 372	¥ 22

The unrecognized net actuarial gain or loss and prior service benefits are amortized within 12 years (the average remaining service life of active participants) using the declining-balance method and the straight-line method, respectively.

Other changes in plan assets and benefit obligations recognized in other comprehensive income for the years ended March 31, 2020, 2019 and 2018 were as follows:

Millions of Yen

	2020	2019	2018
Actuarial gain (loss)	¥ 586	¥(6,790)	¥(545)
Amortization of actuarial loss (gain)	1,186	5	(157)
Prior service benefits	(253)		
Amortization of prior service benefits			(121)
	¥1,519	¥(6,785)	¥(823)

The estimated amounts that will be amortized from accumulated other comprehensive income into net periodic benefit costs over the next year were summarized as follows:

	Millions of Yen
Actuarial loss	¥875
Prior service cost	21

Certain subsidiaries of the Company use a measurement date of March 31 for their plans. The weighted-average assumptions used as of March 31, 2020 and 2019 in computing the benefit obligations shown above were as follows:

	2020	2019
Discount rate	0.5%	0.5%

The weighted-average assumptions used as of March 31, 2020, 2019 and 2018 in computing the net periodic benefit costs shown above were as follows:

	2020	2019	2018
Discount rate	0.5%	0.5%	0.6%
Rate of increase in future compensation	5.3%	5.3%	5.3%
Expected long-term rate of return on plan assets	2.5%	2.5%	2.5%

Certain subsidiaries' of the Company approach to establishing the discount rate is based upon corporate bond indices. The discount rate assumption is based upon effective yields as of March 31, 2020 on the corporate bond indices for which maturity dates approximate the timing of the expected future benefit payments.

The retirement benefit plan of certain subsidiaries of the Company is a point-based benefits system, and, therefore, the rate of compensation increase has not been included in computing the benefit obligations.

The expected long-term rate of return on plan assets is derived proportionally from return assumptions determined for each of the major asset classes. The return expectations for each of the asset classes are based largely on assumptions about economic growth and inflation, which are supported by long-term historical data. The estimated long-term rate of return is based on an asset allocation of equity securities of 26.0%, debt securities of 54.0%, life insurance company general accounts of 18.0%, and other short-term investments of 2.0%.

The plan investment strategy of certain subsidiaries of the Company is to maintain actual asset weightings within a preset range of target allocations. The plan investment strategy of certain subsidiaries of the Company is broadly diversified, consisting primarily of equity and debt securities. Certain subsidiaries of the Company believe these ranges represent an appropriate risk profile for the planned benefit payments of the plans based on the timing of the estimated benefit payments.

The asset allocation as of March 31, 2020 and 2019 was as follows:

	2020	2019
Equity securities	44.7%	42.3%
Debt securities	31.1%	34.9%
Life insurance company general accounts	9.3%	9.7%
Real estate	3.2%	3.4%
Other short-term investments	11.7%	9.7%

The target allocation percentages are reviewed and approved by the Pension Committee. The actual allocations for 2020 and 2019 are different from the target allocation percentages primarily because Wacoal Corp. maintained additional equity securities within a separate plan asset, which is assigned to the plan based on an agreement between Wacoal Corp. and its employees and is not governed by the Pension Committee. As such, the actual allocation percentage of equity securities to the total plan assets is higher than the target allocation and, similarly, the actual allocation for some other types of assets is lower than the target allocation.

The following tables present the plan assets of certain subsidiaries of the Company using the fair value hierarchy as of March 31, 2020 and 2019. The fair value hierarchy has three levels based on the reliability of the inputs used to determine the fair value. For references to each level, see Note 21.

Millions of Yen

2020	Level 1	Level 2	Level 3	Total
Assets evaluated by other than net asset value per share				
Equity securities:				
Japanese companies	¥9,707			¥ 9,707
Foreign companies	43			43
Debt securities:				
Foreign government bonds	216			216
Life insurance company general accounts		¥3,773		3,773
Other types of investments:				
Other short-term investments		2,209		2,209
Assets evaluated by net asset value per share (a)				
Equity securities:				
Pooled funds (b)				5,227
Debt securities:				
Pooled funds (c)				8,145
Other types of investments:				
Hedge funds (d)				3,634
Pooled funds (e)				7,510
Total	¥9,966	¥5,982		¥40,464

Millions of Yen

2019	Level 1	Level 2	Level 3	Total
Assets evaluated by other than net asset value per share				
Equity securities:				
Japanese companies	¥8,138			¥ 8,138
Foreign companies	58			58
Debt securities:				
Foreign government bonds	152			152
Life insurance company general accounts		¥3,928		3,928
Other types of investments:				
Other short-term investments		2,943		2,943
Assets evaluated by net asset value per share (a)				
Equity securities:				
Pooled funds (b)				5,955
Debt securities:				
Pooled funds (c)				8,912
Other types of investments:				
Hedge funds (d)				3,832
Pooled funds (e)				6,762
Total	¥8,348	¥6,871		¥40,680

(a) Certain assets evaluated by net asset value per share (or its equivalent) are not categorized in the fair value hierarchy. Total amounts in the above table are presented to reconcile the amounts in the fair value hierarchy to the amounts stated on the consolidated balance sheets.
(b) This class includes common stock of approximately 52% Japanese companies and 48% foreign companies as of March 31, 2020 and 50% and 50%, respectively, as of March 31, 2019.
(c) This class includes approximately 83% of foreign government bonds and 17% of corporate bonds investments as of March 31, 2020 and 79% and 21%, respectively, as of March 31, 2019.
(d) This class consists of hedge funds that invest in both securities and equity securities as of March 31, 2020 and 2019.
(e) This class includes approximately 20% corporate bonds, 0% common stock of Japanese companies, 29% common stock of foreign companies, 17% real estate and 34% other short-term investments as of March 31, 2020. This class includes approximately 34% corporate bonds, 1% common stock of Japanese companies, 30% common stock of foreign companies, 20% real estate and 15% other short-term investments as of March 31, 2019.

Equity securities and debt securities presented in Level 1 are primarily valued using a market approach based on the quoted market prices of identical instruments. Life insurance company general accounts categorized in Level 2 include contracts with insurance companies with guaranteed rates of return and capital, and those values are based on the sum of principal amount and return. Pooled funds are valued using the net asset, value per share provided by the administrator of the fund.

The funding policy for the funded plans of certain subsidiaries of the Company is to contribute amounts computed in accordance with actuarial methods accepted by Japanese tax law. Certain subsidiaries of the Company expect to contribute ¥564 million to their plans in the fiscal year ending March 31, 2021.

The following benefit payments, which reflect expected future services, are expected to be paid:

Years Ending March 31	Millions of Yen
2021	¥2,198
2022	2,152
2023	2,358
2024	2,113
2025	2,163
Thereafter	10,757

Defined Contribution Plan—Certain subsidiaries of the Company have defined contribution plans. The amounts of cost recognized for their contributions to the plan were ¥407 million, ¥394 million and ¥327 million for the years ended March 31, 2020, 2019 and 2018, respectively.

Termination Plan for Directors—The Company previously had, and a certain subsidiaries of the Company currently has, termination plans for directors. Payment of termination benefits to directors is made in a lump sum upon termination and requires the approval of the shareholders before payment. In June 2005, the Company rescinded its termination plan for directors upon the approval of its shareholders. The amount of benefits for each individual was fixed as of June 29, 2005 and will remain frozen until the retirement of each respective director. Outstanding liabilities of ¥344 million and ¥349 million as of March 31, 2020 and 2019, respectively, were recorded in other long-term liabilities. A certain subsidiary has plans for its directors and recorded a liability for termination benefits for directors at the amount that would be needed if all directors were to resign at each balance sheet date in accordance with the guidance for determination of vested benefit obligations for a defined benefit pension plan.

13. COMMITMENT AND CONTINGENT LIABILITIES

The Company entered into a construction supervision and construction contract in the amount of ¥4,290 million, in connection with a new logistics center that will be established next to the Moriyama Distribution Center in Moriyama, Shiga on March 16, 2020.

The Company had contractual obligation of ¥4,290 million as of March 31, 2020.

The annual payments of contractual obligation as of March 31, 2020 were as follows:

Years Ending March 31	Millions of Yen
2021	¥ 900
2022	3,200
2023	190
Total	¥4,290

14. SHARE-BASED COMPENSATION

The Company adopted an annual stock option plan in the fiscal year ended March 31, 2009. Under the stock option plan, the Company granted shares of its common stock to directors of the Company, excluding outside directors and directors of the Company's wholly owned subsidiary, Wacoal Corp., in the fiscal years ended March 31, 2020, 2019 and 2018. The Company believes that such awards better align the interests of its directors with those of its shareholders by sharing both risk and return from fluctuations in stock prices and giving motivation to enhance corporate value. Each stock option is exercisable to acquire 100 shares of the Company's common stock at ¥1 per share (for stock option granted prior to September 1, 2017, it is exercisable to acquire 500 shares of the Company's common stock). The compensation cost is measured at fair value on the grant date. Options vest over one year in proportion to the services rendered by the directors, and are exercisable from the day after the date of retirement up to (i) 20 years from the grant date or (ii) 5 years from the day after the date of retirement, whichever is earlier.

The fair value of the options is estimated by using the Black-Scholes option-pricing model with the following assumptions.

Expected dividend yield is based on the actual payout of dividends in the last fiscal year and the closing price of the Company's common stock on the grant date. Expected volatility is based on the historical volatility of the Company's share price over the most recent period commensurate with the expected term of the Company's stock options. The risk-free interest rate is based on the Japanese government bond yield curve in effect at the time of grant for a period commensurate with the expected term of the Company's share options. The expected term of options granted is based on the average remaining service period of directors, assuming that those who are granted options will render service until the stated retirement and they will exercise options immediately after their retirement.

	2020	2019	2018
Expected dividend yield	2.6%	2.2%	2.3%
Expected volatility	25.0%	24.6%	23.7%
Risk-free interest rate	(0.2)%	(0.1)%	(0.2)%
Expected term	4.0 years	3.7 years	3.4 years

A summary of stock option activities under the plan for the years ended March 31, 2020 and 2019 is as follows:

		Yen	Years	Millions of Yen
	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding as of April 1, 2019	249,900	¥1		
Granted	28,500	1		
Exercised	22,500	1		
Outstanding as of March 31, 2020	255,900	1	12.95 years	¥600
Exercisable as of March 31, 2020	36,800	1	3.23 years	86

		Yen	Years	Millions of Yen
	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding as of April 1, 2018	240,500	¥1		
Granted	20,900	1		
Exercised	11,500	1		
Outstanding as of March 31, 2019	249,900	1	13.09 years	¥687
Exercisable as of March 31, 2019	40,500	1	3.68 years	111

The total intrinsic value of options exercised was ¥62 million, ¥33 million and ¥16 million as of the years ended March 31, 2020, 2019 and 2018, respectively.

The total compensation costs recognized for the years ended March 31, 2020, 2019 and 2018 were ¥71 million, ¥62 million and ¥68 million, respectively. The total recognized tax benefits related thereto for the years ended March 31, 2020, 2019 and 2018 were ¥22 million, ¥19 million and ¥21 million, respectively.

The weighted-average grant date fair values of options granted for the years ended March 31, 2020, 2019 and 2018 were ¥2,516, ¥3,005 and ¥2,918, respectively.

As of March 31, 2020, there was ¥11 million in total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the plan. That cost is expected to be recognized over three months.

15. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit and Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria and, accordingly, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year.

The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the companies so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the total of the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury Stock

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula.

FACTS

16. OTHER COMPREHENSIVE (LOSS) INCOME

Changes in the components of accumulated other comprehensive income, including amounts attributable to noncontrolling interests, were as follows:

Millions of Yen

	2020			2019		
	Foreign Currency Translation Adjustments	Unrealized Gain on Securities	Pension Liability Adjustments	Foreign Currency Translation Adjustments	Unrealized Gain on Securities	Pension Liability Adjustments
Balance at the beginning of the year (after-tax)	¥ 1,551		¥(5,679)	¥2,274	¥ 27,424	¥(1,101)
Cumulative effects (net of tax) of the adoption of ASU 2016-01 and 2018-03					(27,320)	
Amount arising during the year:						
Pre-tax amount	(2,529)		265	(795)	(10)	(6,866)
Tax credit	(3)		(140)	45	3	2,079
Net amount	(2,532)		125	(750)	(7)	(4,787)
Reclassification adjustments:						
Pre-tax amount			1,357		(140)	202
Tax credit			(397)		43	(2)
Net amount			960		¥ (97)	200
Other comprehensive (income) loss attributable to noncontrolling interests (after-tax)	(52)			27		9
Balance at the end of the year (after-tax)	¥(1,033)		¥(4,594)	¥1,551		¥(5,679)

Millions of Yen

	2018		
	Foreign Currency Translation Adjustments	Unrealized Gain on Securities	Pension Liability Adjustments
Balance at the beginning of the year (after-tax)	¥1,212	¥21,075	¥ (414)
Cumulative effects (net of tax) of the adoption of ASU 2016-01 and 2018-03			
Amount arising during the year:			
Pre-tax amount	1,158	9,309	(655)
Tax credit	(45)	(2,815)	168
Net amount	1,113	6,494	(487)
Reclassification adjustments:			
Pre-tax amount		(201)	(278)
Tax credit		62	85
Net amount		(139)	(193)
Other comprehensive (income) loss attributable to noncontrolling interests (after-tax)	(51)	(6)	(7)
Balance at the end of the year (after-tax)	¥2,274	¥27,424	¥1,101

Reclassification adjustments (pre-tax) of unrealized gain or loss on securities are included in "(Loss) gain on sales, exchange and valuation of marketable securities and investments – net" in the consolidated statements of income.

Reclassification adjustments (pre-tax) of pension liability adjustments are included in "Other – net" in the consolidated statements of income as the net periodic benefit costs.

17. INCOME TAXES

The Companies are subject to a number of different taxes based on income. The effective income tax rates differed from the normal effective statutory tax rates for the following reasons for the years ended March 31, 2020, 2019 and 2018:

	2020	2019	2018
Normal Japanese effective statutory tax rates	30.6%	30.6%	30.9%
Increase (decrease) in taxes resulting from:			
Permanently nondeductible expenses	7.3	22.9	3.0
Change in valuation allowance	10.3	25.5	2.8
Undistributed earnings of associated companies	2.3	3.9	0.7
Differences in foreign subsidiaries' tax rate	(7.2)	(27.3)	(1.3)
Tax exemption	(2.0)	(2.9)	(0.9)
Unrecognized tax benefits	(1.0)	1.4	(0.1)
Impairment losses on goodwill	1.3	60.1	0.1
Changes in Japanese income tax rates	(0.1)	(0.4)	2.0
Other – net	(8.2)	1.2	1.6
Effective tax rates	33.3%	115.0%	38.8%

The approximate effect of temporary differences and tax loss carryforwards that gave rise to deferred tax balances as of March 31, 2020 and 2019 were as follows:

Millions of Yen

	2020		2019	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Refund liabilities	¥ 734		¥ 963	
Allowance for doubtful receivables	15		9	
Accruals not currently deductible	205		226	
Inventory valuation	1,089		837	
Accrued bonuses	882		990	
Advanced depreciation on property, plant and equipment		¥ 1,839		¥ 1,912
Undistributed earnings of associated companies		2,485		2,400
Net unrealized gain on marketable securities and investments		5,848		10,394
Net realized gain on exchange of investments		416		792
Capitalized supplies	137		172	
Enterprise taxes	352		245	
Accrued vacation	741		739	
Operating leases right-of-use assets		3,580		
Operating lease liabilities	3,616			
Asset retirement obligation	250		250	
Prepaid pension expense		720		357
Liability for termination and retirement benefit	611		430	
Return assets		266		361
Property, plant and equipment	1,591		1,393	
Tax loss carryforwards	2,388		1,838	
Intangible assets		1,151		1,261
Other temporary differences	36	277	602	245
Total	12,647	16,582	8,694	17,722
Valuation allowance	(2,858)		(2,177)	
Total	¥ 9,789	¥16,582	¥ 6,517	¥17,722

The valuation allowance decreased by ¥681 million and increased by ¥160 million for the years ended March 31, 2020 and 2019, respectively.

The Companies also utilized ¥245 million and ¥661 million of tax loss carryforwards, and recognized tax benefits of ¥29 million and ¥215 million for the years ended March 31, 2020 and 2019, respectively.

As of March 31, 2020, certain subsidiaries had tax loss carryforwards which are available to offset future taxable income of such subsidiaries and expire as follows:

Years Ending March 31	Millions of Yen
2021	¥ 186
2022	421
2023	554
2024	390
2025	818
2026	656
2027	577
2028	164
2029	1,047
2030	1,033
Thereafter	3,215
Total	¥9,061

There was no portion of undistributed earnings of foreign subsidiaries and foreign corporate joint ventures which was deemed to be permanently reinvested as of March 31, 2020 and 2019.

A reconciliation of beginning and ending amounts of unrecognized tax benefits is as follows:

Millions of Yen

	2020	2019	2018
Balance at the beginning of the year	¥ 101	¥ 5	¥4
Additions based on tax positions related to the current year	1	60	1
Additions based on tax positions related to the previous years		36	
Reductions for tax positions of previous years	(100)		
Balance at the end of the year	¥ 2	¥101	¥5

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is ¥2 million, ¥101 million and ¥5 million as of March 31, 2020, 2019 and 2018, respectively.

The Companies recognize interest and penalties accrued related to unrecognized tax benefits in income taxes in the consolidated statements of income. Total amounts of interest and penalties recognized in the consolidated statements of income for the years ended March 31, 2020, 2019 and 2018 were not material.

The Companies file income tax returns in Japan and various foreign tax jurisdictions. In Japan, the Companies are no longer subject to regular income tax examinations by the tax authorities for years before 2017, with few exceptions. For other countries, the Companies are no longer subject to regular income tax examinations by the tax authorities for years before 2010, with few exceptions. For certain subsidiaries in Japan, the United States, and Asia, the transfer pricing examinations for the years ended March 31, 2007, 2010 and 2016 were completed respectively.

18. REVENUE

The Group focuses on sales of innerwear (women's foundation garments and lingerie, nightwear and children's underwear), sportswear, and other textile products and related products ("Products"), and our customers include retail and wholesale distributors and consumers in Japan and overseas. See Note "23. Segment Information" for revenue information for each segment, by each product and service, and by geographic area.

Revenue from sales of our products is recognized when performance obligations are satisfied, which is upon delivery of the products. We invoice when we satisfy the performance obligation and receive cash payment shortly thereafter.

The Group's revenue is recognized for transactions, net of any trade discounts or rebates given. We generally provide a right of return to our customers. In order to estimate the transaction price, provision for expected returns is deducted from revenue based on historical returns.

Contract liabilities from contracts with customers consists mainly of customer loyalty points. Some of subsidiaries have customer loyalty programs as part of the promotion and provide loyalty points to customers when they purchase the products. The points provided to customers are identified as performance obligations, which are satisfied when the points are redeemed for the products. The unredeemed points as of the end of years are recorded as contract liabilities, which are estimated based on actual redemption amounts from previous fiscal year. Contract liability is included in other current liabilities, and the amount of contract liabilities as of March 31, 2020 and 2019 are as follows:

Millions of Yen

	2020	2019
Contract liabilities	¥917	¥873

Revenue recognized for the years ended March 31, 2020 and 2019, which had been included in the contract liabilities balance at beginning of year were ¥494 million and ¥324 million.

19. EARNINGS PER SHARE

Basic net income attributable to Wacoal Holdings Corp. per share has been computed by dividing net income attributable to Wacoal Holdings Corp. by the weighted-average number of common shares outstanding during each year. Diluted net income attributable to Wacoal Holdings Corp. per share assumes the dilution that would occur if share-based options to issue common stock were exercised.

The weighted-average number of common shares outstanding used in the computations of basic net income attributable to Wacoal Holdings Corp. per share was 63,989,561 shares, 66,143,405 shares and 67,928,557 shares for the years ended March 31, 2020, 2019 and 2018, respectively. The weighted-average number of diluted common shares outstanding used in the computations of diluted net income attributable to Wacoal Holdings Corp. per share was 64,242,244 shares, 66,393,127 shares and 68,157,430 shares for the years ended March 31, 2020, 2019 and 2018, respectively.

Note: As of October 1, 2017, the Company effected a one-for-two ordinary share reverse stock split. Net income attributable to Wacoal Holdings Corp. per share was calculated assuming that the reverse stock split had occurred at the beginning of the earliest fiscal year presented in the consolidated financial statements.

20. FINANCIAL INSTRUMENTS AND CONCENTRATION OF CREDIT RISK

Fair Value of Financial Instruments

The carrying amounts and fair values of financial instruments as of March 31, 2020 and 2019 were as follows:

Millions of Yen

	2020		2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Marketable securities	¥ 656	¥ 657	¥ 446	¥ 445
Investments	43,904	43,908	63,372	63,369
Total assets	¥44,560	¥44,565	¥63,818	¥63,814
Liabilities:				
Long-term debt including current portion	¥ 85	¥ 85	¥ 138	¥ 138
Total liabilities	¥ 85	¥ 85	¥ 138	¥ 138

The carrying amounts of all other financial instruments approximate their estimated fair values because of the short maturity of those instruments. For information about fair values of foreign exchange contracts and currency swaps, see Note 21.

Marketable Securities and Investments—The fair value of these held-to-maturity debt securities are based on Level 1 inputs. For all other investments included in marketable securities and investments, see Notes 3 and 21.

Long-Term Debt—The fair values for long-term debt are estimated by discounted cash flow analysis, using rates currently available for similar types of borrowings with similar terms and remaining maturities. The estimated fair value is based on Level 2 inputs.

Limitations—Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Concentration of Credit Risk—The Companies' business consists primarily of sales of women's intimate apparel to a large number of diverse customers in the Japanese retail industry, which include well-established department stores, general merchandise stores, and other general retailers and specialty stores.

21. FAIR VALUE MEASUREMENTS

The guidance for fair value measurements defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The guidance establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value as follows:

Level 1—Inputs are quoted prices in active markets for identical assets or liabilities.

Level 2—Inputs are quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3—Inputs are unobservable.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis as of March 31, 2020 and 2019 were as follows:

Millions of Yen

2020	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Equity securities	¥40,920		¥2,561	¥43,481
Mutual funds	94			94
Total	41,014		2,561	43,575
Derivative instruments:				
Foreign exchange contracts		¥57		57
Total assets	¥41,014	¥57	¥2,561	¥43,632
Liabilities:				
Derivative instruments:				
Foreign exchange contracts		¥24		¥ 24
Currency swap		72		72
Total		96		96
Contingent consideration			¥3,874	3,874
Total liabilities		¥96	¥3,874	¥ 3,970

Millions of Yen

2019	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Equity securities	¥59,911		¥2,287	¥62,198
Mutual funds	50			50
Total	59,961		2,287	62,248
Derivative instruments:				
Foreign exchange contracts		¥27		27
Total assets	¥59,961	¥27	¥2,287	¥62,275
Liabilities:				
Derivative instruments:				
Foreign exchange contracts		¥18		¥ 18
Currency swap		36		36
Total liabilities		¥54		¥ 54

Investments presented in Level 1 are valued using unadjusted quoted market prices in active markets with sufficient volume and frequency of transactions. Bonds presented in Level 2 are valued by financial institutions using quoted market prices for identical instruments in markets that are not active. Mutual funds presented in Level 2 are valued by financial institutions based on quoted prices in an inactive market for identical instruments which are included in the mutual funds.

As discussed in Note 3, the Companies record impairment charges on debt securities if a decline in fair value of debt securities is determined to be other than temporary.

Foreign exchange contracts and currency swaps presented in Level 2 are valued by financial institutions based on market data in both active and inactive markets.

Equity securities in Level 3 are non-marketable equity securities and are valued by the comparable multiple valuation method using financial indicators as inputs or other appropriate valuation methods. Contingent consideration are valued by the Monte Carlo simulation using unobservable inputs.

The tables below show the change in assets presented in Level 3 that are continuously assessed at fair value as of March 31, 2020 and 2019:

Millions of Yen

	2020	
	Investment	Contingent Consideration
Balance at the beginning of the year	¥2,287	
Purchase/assumed in acquisition	276	¥4,172
Total gains or losses for the period:		
(Loss) gain on sale, exchange and valuation of marketable securities and investments – net	(2)	
Selling, general and administrative expenses		(304)
Foreign currency translation adjustments		6
Balance at the end of the year	¥2,561	¥3,874
Unrealized (loss) gain included in earnings for assets and liabilities still held as of March 31, 2020	¥ (2)	¥ (304)

Millions of Yen

	2019
	Investment
Balance at the beginning of the year	¥2,002
Purchase	201
Total gains or losses for the period:	
(Loss) gain on sale, exchange and valuation of marketable securities and investments – net	84
Balance at the end of the year	¥2,287
Unrealized gains included in earnings for assets still held as of March 31, 2019	¥ 84

Assets Measured at Fair Value on a Non-recurring Basis

Assets measured at fair value on a non-recurring basis as of March 31, 2020 and 2019 were as follows:

Millions of Yen

2020	Level 1	Level 2	Level 3	Total	Impairment Losses
Buildings and structures			¥109	¥109	¥ (162)
Machinery and equipment			324	324	(607)
Goodwill (Note 8)					(217)
Trademarks (Note 8)			489	489	(191)
Software (Note 8)			14	14	(65)
					¥(1,242)

Millions of Yen

2019	Level 1	Level 2	Level 3	Total	Impairment Losses
Buildings and structures					¥ (43)
Machinery and equipment					(124)
Goodwill (Note 8)					(4,325)
Trademarks (Note 8)			¥680	¥680	(1,314)
Software (Note 8)					(195)
					¥(6,001)

As of March 31, 2019, the carrying amount of G Tech's machinery was fully written off, resulting in an impairment charge of ¥105 million, which is included as a charge to earnings for the year ended March 31, 2019. The impairment arose due to the close of the unprofitable business and the assets associated with it are considered to be non-recoverable. In addition, all the carrying amounts of Ai's buildings, equipment, and software were written off resulting in impairment charges of ¥43 million, ¥19 million, and ¥195 million, respectively. To measure their fair values, the Companies used the expected present value of future cash flows and incorporated relevant unobservable inputs, such as management's internal assumptions about future cash flows and appropriately risk-adjusted discount rates, and the prices calculated based on market data for comparable assets which reflected management's estimate of assumptions that market participants would use in pricing the asset in an arm's length transaction as of the measurement date.

As of the end of March 31, 2019, the carrying amount of goodwill in Peach John Business was fully written off, resulting in an impairment charge of ¥4,325 million, which is included in earnings for the year ended March 31, 2019. The impairment arose due to the decline in its fair value, which was caused by a downturn in consumption due to general market conditions. To measure the fair values of the reporting units, the Companies used the expected present value of future cash flows and incorporated relevant unobservable inputs, such as management's internal assumptions about future cash flows and appropriately risk-adjusted discount rates, which reflected management's estimate of assumptions that market participants would use in pricing the asset in an arm's length transaction as of the measurement date.

Peach John's trademarks with a carrying amount of ¥1,994 million as of March 31, 2019, were written down to their fair values of ¥680 million, resulting in recognition of an impairment charge of ¥1,314 million for the year ended March 31, 2019. The impairment arose due to the decline in their fair value, which was caused by a downturn in consumption due to general market conditions. To measure the fair value of the trademarks, the Companies used the relief-from-royalty method and incorporated relevant unobservable inputs, such as management's internal assumptions about future cash flows, the rate of royalty, and appropriately risk-adjusted discount rate, which reflected management's estimate of assumptions that market participants would use in pricing the asset in an arm's length transaction as of the measurement date. Future cash flows were based on management's cash flow projections for the future three years, and after three years, future cash flows were estimated using a perpetuity growth rate from 0% to 3.0%. Management's cash flow projections were developed using estimates for expected future revenue growth rates, profit margins and working capital levels of the reporting units. The rate of royalty used for the valuation was based on the actual royalty ratio used in transactions. The risk-adjusted discount rate represents a weighted-average cost of capital (WACC) adjusted for inherent risk spread.

As of the end of March 31, 2020, the carrying amount of A Tech's buildings, machinery and equipment, and software under the Wacoal Business (Overseas) were written down to their fair values, resulting in the recognition of an impairment charge of ¥162 million, ¥607 million, and ¥65 million, respectively. The impairment arose due to the revision of the future business plan made in response to a decrease in sales. To measure the fair values of A Tech's reporting units, the Companies used the discounted cash flows method and incorporated relevant unobservable inputs, such as management's assumptions about future cash flows and an appropriately risk-adjusted discount rate, which reflected management's estimate of assumptions that market participants would use in pricing the asset in an arm's length transaction as of the measurement date. Future cash flows were based on management's cash flow projections for the future five years, and after five years, future cash flows were estimated using a growth rate of 2.0%. Management's cash flow projections were developed using estimates for expected future revenue growth rates, profit margins and working capital levels of the reporting units. The risk-adjusted discount rate represents the weighted-average cost of capital (WACC).

As of the end of March 31, 2020, the carrying amount of G Tech's goodwill under the Wacoal Business (Overseas) was fully written off, resulting in an impairment charge of ¥217 million. The impairment is due to the revision of the future business plan made in response to a decrease in sales. To measure the fair values of G Tech's reporting units, the Companies used discounted cash flows method and incorporated relevant unobservable inputs, such as management's internal assumptions about future cash flows and appropriately risk-adjusted discount rates, which reflected management's estimate of assumptions that market participants would use in pricing the asset in an arm's length transaction as of the measurement date.

As of the end of March 31, 2020, Peach John's trademarks with a carrying amount of ¥680 million were written down to their fair values of ¥489 million, resulting in the recognition of an impairment charge of ¥191 million for the year ended March 31, 2020. The impairment is due to the decline in their fair value, which was caused by a downturn in consumption due to general market conditions. To measure the fair value of the trademarks, the Companies used the relief-from-royalty method and incorporated relevant unobservable inputs, such as management's assumptions about future cash flows, the rate of royalty, and an appropriately risk-adjusted discount rate, which reflected management's estimate of assumptions that market participants would use in pricing the asset in an arm's length transaction as of the measurement date. Future cash flows were based on management's cash flow projections for the future three years, and after three years, future cash flows were estimated using a perpetuity growth rate from 0% to 3.0%. Management's cash flow projections were developed using estimates for expected future revenue growth rates, profit margins and working capital levels of the reporting units. The royalty rate used for the valuation was based on the actual royalty ratio used in transactions. The risk-adjusted discount rate represents the weighted-average cost of capital (WACC) adjusted for an inherent risk spread.

Valuation process:

The valuation process involved in Level 3 measurements for applicable assets and liabilities is governed by the valuation policies and procedures, including evaluation method for fair value measurements, pre-approved by the Companies. Based on the policies and procedures, either personnel from the accounting division or personnel in charge of valuation determine the valuation model to be utilized to measure each asset and liability at fair value. We engage independent external valuation experts to assist us in the valuation process for certain assets over a specific amount, and the results of their valuations are reviewed by the responsible personnel. All of the valuations, including those performed by the external experts, are reviewed and approved by management of the Company before being recorded in the general ledger.

Quantitative information regarding Level 3 fair value measurements:

Information about valuation techniques and significant unobservable inputs used for Level 3 assets measured at fair value for the years ended March 31, 2020 and 2019 is as follows:

March 31, 2020	Millions of Yen Fair Value	Valuation Technique	Principal Unobservable Input	Range
Buildings and structures	¥ 109	Expected present value method	Discount rate	10.0%
Machinery and equipment	324		Short-term revenue growth rates (within five years)	(31.1)%–102.5%
Software	14		Growth rate (over five years)	2.0%
Trademarks	¥ 489	Relief-from-royalty method	Discount rate	10.3%–13.9%
			Royalty rate	3.0%
			Short-term revenue growth rates (within three years)	(14.8)%–24.3%
			Perpetuity growth rate (over three years)	0%–3.0%
Contingent consideration	¥3,874	Monte Carlo simulation	Discount rate	5.2%
			Volatility	15%

March 31, 2019	Millions of Yen Fair Value	Valuation Technique	Principal Unobservable Input	Range
Trademarks	¥680	Relief-from-royalty method	Discount rate	9.9%–13.4%
			Royalty rate	3.0%
			Short-term revenue growth rates (within three years)	2.3%–7.0%
			Perpetuity growth rate (over three years)	0%–3.0%

22. DERIVATIVE INSTRUMENTS

Risk Management Policy—The Companies are exposed to the risk of changes in foreign currency exchange rates. Derivative instruments are used to manage such risk. Derivative instruments are used based on Company policy and administrative provisions. There were no derivative instruments used for the purpose of speculative trading. The Companies consider the related credit risk to be low since these derivative instruments are provided by financial institutions with international credibility.

Foreign Exchange Risk—Assets and liabilities denominated in foreign currencies, which are primarily related to international business, are exposed to the risk of changes in foreign currency exchange rates. Foreign exchange contracts and currency swaps are used to mitigate such risk.

Derivative Instruments Not Designated as a Hedge—Foreign exchange contracts and currency swaps are classified as derivative instruments, which are not designated as a hedge since these derivative instruments do not qualify for hedge accounting. These derivative instruments are used to mitigate the risk of changes in foreign currency exchange rates, and the changes in fair value of such derivative instruments are recorded in earnings immediately.

Notional contract amounts of derivative instruments that are not designated as hedges as of March 31, 2020 and 2019 were as follows:

Millions of Yen

	2020	2019
Foreign currency exchange	¥2,786	¥1,837
Currency swaps	695	653

The amounts of derivative instruments at fair value in the consolidated balance sheets as of March 31, 2020 and 2019 were as follows:

Millions of Yen

	Balance Sheets Location	2020	2019
Assets:			
Foreign currency exchange	Other current assets	¥57	¥27
Liabilities:			
Foreign currency exchange	Other current liabilities	¥24	¥18
Currency swaps	Other current liabilities	72	36

The effect of derivative instruments in consolidated statements of income for the years ended March 31, 2020, 2019 and 2018 were as follows:

Millions of Yen

	Statements of Income Location	2020	2019	2018
Foreign currency exchange	Other – net	¥ 57	¥45	¥ 60
Currency swaps	Other – net	(36)	(5)	(31)

FACTS

23. SEGMENT INFORMATION

Operating Segment Information

The Companies have three reportable segments: "Wacoal Business (Domestic)," "Wacoal Business (Overseas)," and "Peach John," which are based on their locations and brands. These segments represent components of the Companies for which separate financial information is available and for which operating income (loss) is reviewed regularly by the chief operating decision-maker in deciding how to allocate the Companies' resources and in assessing their performance. The accounting policies used for these reportable segments are the same as those described in the summary of significant accounting policies in Note 1.

The "Wacoal Business (Domestic)" segment primarily produces and sells innerwear (consisting of foundation, lingerie, nightwear, and children's innerwear), outerwear, sportswear, and hosiery. The "Wacoal Business (Overseas)" segment produces and sells innerwear (consisting of foundation, lingerie, nightwear, and children's innerwear), outerwear, sportswear, and other textile-related products. The "Peach John" segment produces and sells innerwear (consisting of foundation, lingerie, and nightwear), outerwear, and other textile-related products, which are sold under the *Peach John* brand. The "Other" produces and sells innerwear (consisting of foundation, lingerie, nightwear, and children's innerwear), outerwear, other textile-related products, and mannequins and also engages in construction of stores and interior design.

Information about operating results and assets for each segment as of and for the years ended March 31, 2020, 2019 and 2018 is as follows:

Millions of Yen

2020	Wacoal Business (Domestic)	Wacoal Business (Overseas)	Peach John	Other	Elimination	Consolidated
Net sales:						
External customers	¥109,709	¥50,552	¥10,480	¥16,019	¥(17,360)	¥186,760
Intersegment	860	10,570	694	5,236	(17,360)	
Total	110,569	61,122	11,174	21,255		186,760
Operating costs and expenses:					(17,360)	
Operating costs and expenses	101,203	56,656	10,951	21,407		172,857
Depreciation and amortization	3,584	1,922	383	140		6,029
Impairment charges on property, plant and equipment		769				769
Impairment charges on goodwill		217				217
Impairment charges on other intangible assets		65	191		(17,360)	256
Total	104,787	59,629	11,525	21,547		180,128
Operating income (loss)	5,782	1,493	(351)	(292)		6,632
Total assets and capital expenditures:						
Total assets	236,961	86,292	9,751	16,708	(72,024)	277,688
Capital expenditures	4,619	2,106	129	127		6,981

Millions of Yen

2019	Wacoal Business (Domestic)	Wacoal Business (Overseas)	Peach John	Other	Elimination	Consolidated
Net sales:						
External customers	¥113,400	¥53,100	¥10,491	¥17,210		¥194,201
Intersegment	905	10,121	1,083	5,543	¥(17,652)	
Total	114,305	63,221	11,574	22,753	(17,652)	194,201
Operating costs and expenses:						
Operating costs and expenses	104,224	56,950	11,400	22,752	(17,652)	177,674
Depreciation and amortization	3,499	1,585	394	169		5,647
Impairment charges on property, plant and equipment	62	105				167
Impairment charges on goodwill			4,325			4,325
Impairment charges on other intangible assets	195		1,314			1,509
Total	107,980	58,640	17,433	22,921	(17,652)	189,322
Operating income (loss)	6,325	4,581	(5,859)	(168)		4,879
Total assets and capital expenditures:						
Total assets	249,141	78,912	8,038	17,395	(71,719)	281,767
Capital expenditures	3,382	1,837	494	70		5,783

Millions of Yen

2018	Wacoal Business (Domestic)	Wacoal Business (Overseas)	Peach John	Other	Elimination	Consolidated
Net sales:						
External customers	¥116,085	¥51,888	¥10,795	¥16,957		¥195,725
Intersegment	1,051	10,180	1,281	5,283	¥(17,795)	
Total	117,136	62,068	12,076	22,240	(17,795)	195,725
Operating costs and expenses:						
Operating costs and expenses	106,822	56,504	11,290	21,712	(17,795)	178,533
Depreciation and amortization	3,469	1,506	345	172		5,492
Impairment charges on goodwill		206				206
Total	110,291	58,216	11,635	21,884	(17,795)	184,231
Operating income	6,845	3,852	441	356		11,494
Total assets and capital expenditures:						
Total assets	260,582	77,374	13,825	18,261	(71,508)	298,534
Capital expenditures	3,649	1,752	365	118		5,884

The sum of the operating income (loss) of the reportable segments agrees to the operating income on the consolidated statements of income. For a reconciliation from operating income to income before income taxes and equity in net income of affiliated companies, see other expenses (income) on the consolidated statements of income.

The Companies account for intersegment sales and transfers at cost plus a markup. Operating income (loss) represents net sales less operating costs and expenses.

Products and Services Information

Net sales information by product and service for the years ended March 31, 2020, 2019 and 2018 is as follows:

Millions of Yen

	2020	2019	2018
Innerwear:			
Foundation and lingerie	¥144,933	¥146,525	¥146,970
Nightwear	7,459	8,296	8,758
Children's underwear	1,014	1,213	1,376
Subtotal	153,406	156,034	157,104
Outerwear/sportswear and others	¥ 12,746	¥ 14,733	¥ 16,128
Hosiery	1,563	1,881	1,983
Other textile goods and related products	7,545	9,428	8,907
Others	11,500	12,125	11,603
Total	¥186,760	¥194,201	¥195,725

Geographic Information

Information by major geographic area as of and for the years ended March 31, 2020, 2019 and 2018 is as follows:

Millions of Yen

	2020	2019	2018
Net sales:			
Japan	¥135,273	¥140,189	¥143,196
Asia and Oceania	20,596	22,509	21,057
Americas and Europe	30,891	31,503	31,472
Consolidated	¥186,760	¥194,201	¥195,725
Long-lived assets:			
Japan	¥ 44,014	¥ 45,257	¥ 46,367
Asia and Oceania	4,034	4,810	4,916
Americas and Europe	4,035	3,203	3,050
Consolidated	¥ 52,083	¥ 53,270	¥ 54,333

Countries or areas are classified according to their geographical proximity. Asia and Oceania includes East Asia, Southeast Asia, West Asia, and Australia. Net sales are attributed to countries or areas based on the location where sold. Long-lived assets represent property, plant and equipment.

24. SUBSEQUENT EVENTS

(Cancellation of Treasury Stock)
On May 15, 2020, the Board of Directors resolved to retire treasury stock as described below pursuant to the provisions of Article 178 of the Companies Act as follows.

a. Type of Shares to Be Retired:
Common stock of the Company

b. Total Number of Shares to Be Retired:
3,000,000 shares

c. Date for Retirement:
May 25, 2020

(Dividend Declaration)
On May 15, 2020, the Board of Directors resolved to pay a cash dividend of ¥100 per 5 shares of common stock to holders of record as of March 31, 2020 (aggregate amount of ¥1,248 million).

(Bank Loans)
On May 25, 2020, The Company received bank loans as working capital from MUFG Bank, Ltd., The Bank of Kyoto, Ltd. and The Shiga Bank, Ltd., as follows.

Bank	Transaction Method	Borrowing Amount	Interest Rate	Repayment Term
MUFG Bank, Ltd.	Loan by bill	¥10,000 million	Spread	May 25, 2021
The Bank of Kyoto, Ltd.	Overdraft	¥6,000 million	Base rate + spread	Within a month
The Shiga Bank, Ltd.	Overdraft	¥4,000 million	Base rate + spread	Within a month

Independent Auditors' Report

Deloitte.

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To the Board of Directors and Stockholders of Wacoal Holdings Corp.
Kyoto, Japan

We have audited the accompanying consolidated financial statements of Wacoal Holdings Corp. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of March 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended March 31, 2020 (all expressed in Japanese yen), and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Wacoal Holdings Corp. and its subsidiaries as of March 31, 2020 and 2019, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2020, in accordance with accounting principles generally accepted in the United States of America.

Convenience Translation

Our audit for the year ended March 31, 2020 also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2. The translation of the financial statement amounts into U.S. dollars has been made solely for the convenience of readers outside of Japan.

Report on Management's Report on Internal Control over Financial Reporting

Notwithstanding the second paragraph of the "Auditors' Responsibility" section, we have performed an audit of management's report on internal control over financial reporting ("ICFR") under the Financial Instruments and Exchange Act of Japan. A translated copy of management's report on ICFR along with a translated copy of our report is included within this Annual Securities Report as information for readers.

Deloitte Touche Tohmatsu LLC

June 26, 2020

Member of
Deloitte Touche Tohmatsu Limited

FACTS

Management's Annual Report On Internal Control Over Financial Reporting (Translation)

NOTE TO READERS

Following is an English translation of management's report on internal control over financial reporting ("ICFR") filed under the Financial Instruments and Exchange Act of Japan. This report is presented merely as supplemental information.

There are differences between management's assessment of ICFR under the Financial Instruments and Exchange Act ("ICFR under FIEA") and one conducted under the attestation standards established by the American Institute of Certified Public Accountants ("AICPA").

In management's assessment of ICFR under FIEA, there is detailed guidance on the scope of management's assessment of ICFR, such as quantitative guidance on business unit selection and/or account selection. In management's assessment of ICFR under the attestation standards established by the AICPA, there is no such detailed guidance. Accordingly, based on the quantitative guidance which provides an approximate measure of the scope of the assessment of internal control over business processes, we designated the business units that accounted for approximately two-thirds of the aggregated sales for the previous fiscal year on a consolidated basis as "significant business units" which should be subject to management's assessment of the process-level controls.

1. Matters Relating to the Basic Framework for Internal Control over Financial Reporting

Hironobu Yasuhara, President and Representative Director, and Masashi Yamaguchi, Director and Vice President, are responsible for designing and operating effective ICFR of Wacoal Holdings Corp. (the "Company"), and have designed and operated ICFR in accordance with the basic framework for internal control set forth in "On the Revision of the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting (Council Opinions)" published by the Business Accounting Council.

The internal control is designed to achieve its objectives to the extent reasonable through the effective function and combination of its basic elements. Therefore, there is a possibility that misstatements may not be completely prevented or detected by ICFR.

2. Matters Relating to Scope of Assessment, the Assessment Date, and Assessment Procedures

The assessment of ICFR was performed as of March 31, 2020. The assessment was performed in accordance with assessment standards for ICFR generally accepted in Japan.

In conducting this assessment, we evaluated internal controls which may have a material effect on the entire financial reporting in a consolidation ("company-level controls") and, based on the result of this assessment, we appropriately selected business processes to be evaluated, analyzed these selected business processes, identified key controls that may have a material impact on the reliability of our financial reporting, and assessed the design and operation of these key controls. These procedures have allowed us to evaluate the effectiveness of the internal controls.

We determined the required scope of the assessment of ICFR for the Company, as well as its consolidated subsidiaries and equity method affiliated companies, from the perspective of the materiality that may affect the reliability of our financial reporting. We determined the materiality that may affect the reliability of the financial reporting taking into account the materiality of quantitative and qualitative impacts. We confirmed that we had reasonably determined the scope of assessment of internal controls over business processes in light of the results of the assessment of company-level controls conducted for the Company, its consolidated subsidiaries and equity method affiliated companies. We did not include those consolidated subsidiaries and equity method affiliated companies which do not have any quantitatively or qualitatively material impact on the consolidated financial statements in the scope of the assessment of company-level controls.

Regarding the scope of assessment of internal control over business processes, we selected business units for testing as "significant business units," whose combined sales were at least two-thirds of total consolidated sales for the prior year on a consolidated basis.

At the selected significant business units, we included in the scope of our assessment those business processes leading to sales or accounts receivable and inventories as significant accounts that may have a material impact on our business objectives. Further, not only at selected significant business units, but also at other business units, we added to the scope assessment the following as business processes with greater materiality considering their impact on financial reporting:
(1) those business processes relating to greater likelihood of material misstatements and significant accounts involving estimates and management's judgment, and (2) those business processes relating to businesses or operations dealing with high-risk transactions.

3. Matters Relating to the Results of Assessment

As a result of the assessment above, we concluded that our ICFR was effective as of March 31, 2020.

4. Supplementary Matters

Not applicable.

5. Special Information

Not applicable

FACTS

Independent Auditors' Report

Deloitte.

NOTE TO READERS:
Following is an English translation of the Independent Auditors' Report filed under the Financial Instruments and Exchange Act ("FIEA") of Japan. This report is presented merely as supplemental information.

There are differences between an audit of internal control over financial reporting ("ICFR") under the Financial Instruments and Exchange Act and one conducted under attestation standards established by the American Institute of Certified Public Accountants ("AICPA").

In an audit of ICFR under FIEA, the auditors express an opinion on management's report on ICFR, and do not express an opinion on the Company's ICFR directly. In an audit of ICFR under attestation standards established by the AICPA, the auditors express an opinion on the Company's ICFR directly. Also, in an audit of ICFR under FIEA, there is detailed guidance on the scope of an audit of ICFR, such as quantitative guidance on business units selection and/or account selection. In an audit of ICFR under attestation standards established by the AICPA, there is no such detailed guidance. Accordingly, based on the quantitative guidance which provides an approximate measure for the scope of assessment of internal control over business process, we used a measure of approximately 70% of total assets on a consolidated basis and income before income taxes on a consolidated basis for the selection of significant business units.

(TRANSLATION)

INDEPENDENT AUDITORS' REPORT

June 26, 2020

Deloitte Touche Tohmatsu LLC
Kyoto office

Designated Engagement Partner,
Certified Public Accountant:

Wakyu Shinmen

Designated Engagement Partner,
Certified Public Accountant:

Hiroaki Sakai

Designated Engagement Partner,
Certified Public Accountant:

Tomomi Tsuji

To the Board of Directors of Wacoal Holdings Corp.

Audit of Financial Statements

Opinion

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the consolidated financial statements of Wacoal Holdings Corp. and its consolidated subsidiaries (the "Group") included in the Financial Section, namely, the consolidated balance sheet as of March 31, 2020, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of equity and consolidated statement of cash flows for the fiscal year from April 1, 2019 to March 31, 2020, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2020, and its consolidated results of its operations and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America pursuant to the provisions of Article 95 of the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in the United States of America.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgement. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in the United States of America, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Audit of Internal Control

Opinion

Pursuant to the second paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited management's report on internal control over financial reporting of Wacoal Holdings Corp. as of March 31, 2020.

In our opinion, management's report on internal control over financial reporting referred to above, which represents that the internal control over financial reporting of Wacoal Holdings Corp. as of March 31, 2020, is effectively maintained, presents fairly, in all material respects, the results of the assessment of internal control over financial reporting in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

Basis for Opinion

We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Internal Control Audit section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for Report on Internal Control

Management is responsible for designing and operating effective internal control over financial reporting and for the preparation and fair presentation of its report on internal control in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing and verifying the design and operating effectiveness of internal control over financial reporting. There is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

Auditor's Responsibilities for the Internal Control Audit

Our objectives are to obtain reasonable assurance about whether management's report on internal control over financial reporting is free from material misstatement and to issue an auditor's report that includes our opinion.

As part of an audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Perform audit procedures to obtain audit evidence regarding the results of the assessment of internal control over financial reporting in management's report on internal control. The procedures selected depend on the auditor's judgment, including the significance of effects on reliability of financial reporting.
- Examine representations on the scope, procedures and results of the assessment of internal control over financial reporting made by management, as well as evaluating the overall presentation of management's report on internal control.
- Obtain sufficient appropriate audit evidence regarding the results of the assessment of internal control over financial reporting. We are responsible for the direction, supervision and performance of the internal control audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the internal control audit, result of the internal control audit, including any identified material weakness which should be disclosed and the result of remediation.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.