

SANDEN HOLDINGS CORPORATION

May 13, 2021

SUMMARY OF CONSOLIDATED FINANCIAL STATEMENTS AS OF MARCH 31, 2021

Fiscal year ended March 31, 2021

SANDEN HOLDINGS CORPORATION

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Date of general meeting of stockholders for the annual operation results: June 25, 2021

Date of registration of securities report (Yukashokenhoukokusho): June 25, 2021

Planned date of dividend payment: -

Supplementary briefing materials created for the annual report: Yes

Briefing sessions held on annual results: Yes (for securities analysts and institutional investors)

(Fractions less than ¥1 million omitted)

1. Consolidated Financial Results for current fiscal year (April 1, 2020- March 31, 2021)

(1) Results of operations

(%: percentage change from previous fiscal year)

	Net Sales (Millions of ¥, %)		Operating income (Millions of ¥, %)		Ordinary income (Millions of ¥, %)		Net income (Millions of ¥, %)	
Fiscal year ended March 31, 2021	137,477	(32.9)	(18,456)	-	(23,237)	-	(45,251)	-
Fiscal year ended March 31, 2020	204,880	(25.2)	(3,401)	-	(9,735)	-	2,287	-

Notes: Equity in Comprehensive Income: March 31, 2021 ¥(41,189) million, (—)% March 31, 2020 ¥335 million, (-) %

	Net income per share basic (¥)	Net income per share diluted (¥)	Net income over equity ratio (%)	Ordinary income before extraordinary items over total assets ratio (%)	Operating income over sales ratio (%)
Fiscal year ended March 31, 2021	(1630.38)	-	(3928.3)	(13.6)	(13.4)
Fiscal year ended March 31, 2020	82.54	-	11.5	(4.5)	(1.7)

Notes: Equity in earnings (losses) of affiliates: March 31, 2021 ¥(676) million March 31, 2020 ¥71 million

(2) Financial positions

(Fractions less than ¥1 million omitted)

	Total assets (Millions of ¥)	Net assets (Millions of ¥)	Equity Ratio of equity over total assets(%)	Net assets per share (¥)
Fiscal year ended March 31, 2021	155,081	(16,956)	(11.9)	(664.58)
Fiscal year ended March 31, 2020	187,559	22,699	11.1	747.92

Notes: Equity capital March 31, 2021 ¥(18,446) million March 31, 2020 ¥20,750 million

(3) Cash flows

(Millions of ¥; Fractions less than ¥1 million omitted)

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
Fiscal year ended March 31, 2021	3,234	(5,661)	(3,632)	18,203
Fiscal year ended March 31, 2020	7,219	28,452	(24,677)	23,711

2. Dividends

	Dividend per share (¥)					Total annual dividends (Millions of ¥)	Dividend payout ratio (Consolidated) (%)	Ratio of dividend payout over net assets (Consolidated) (%)
	1Q	2Q	3Q	4Q	Total			
Fiscal year ended March 31, 2020	-	0.00	-	0.00	0.00	-	-	-
Fiscal year ended March 31, 2021	-	0.00	-	0.00	0.00	-	-	-
Fiscal year ending March 31, 2022 (Forecast)	-	-	-	-	-		-	

Notes: The dividend for the fiscal year ending March 31 2022 is undecided at this time.

3. Forecast of business results for the next fiscal year (April 1, 2021- March 31, 2022)

No forecast made for the consolidated business results for the fiscal year ending March 2022, as it is not possible to reasonably calculate the impact of the spread of new coronavirus at this time. These information will be disclosed promptly when it becomes possible to reasonably calculate the forecast of the consolidated business results.

***Notes**

- (1) Changes in significant subsidiaries during the period (Changes in specific subsidiaries accompanied by changes in the scope of consolidation): None
- (2) Changes in accounting principles and estimates, and retrospective restatement
- (a) Changes due to revision of accounting standards: None
- (b) Changes other than in (a): None
- (c) Changes in accounting estimates: None
- (d) Retrospective restatement: None

- (3) Number of outstanding shares (common stock, shares)

(a) Outstanding shares (including treasury shares)	As of March 31, 2021:	28,066,313	As of March 31, 2020:	28,066,313
(b) Treasury shares	As of March 31, 2021:	309,793	As of March 31, 2020:	322,538
(c) Average number of shares outstanding during the second quarter (cumulative)	As of March 31, 2021:	27,754,962	As of March 31, 2020:	27,719,909

[Reference] Non-consolidated Financial Results**Non-consolidated financial results for the fiscal year ended March 2021 (April 1, 2020 – March 31, 2021)**

- (1) Result of operations (Non-consolidated)

(Percentage figures represent year on year changes)

	Net Sales		Operating income		Ordinary income		Net income	
	Million Yen	%	Million Yen	%	Million Yen	%	Million Yen	%
Fiscal year ended March 31, 2021	7,984	0.5	1,823	20.1	(13,734)	-	(42,093)	-
Fiscal year ended March 31, 2020	7,940	(39.1)	1,518	(69.1)	(926)	-	8,312	231.7

	Net income per share (Basic)	Net income per share (Diluted)
	Yen	Yen
Fiscal year ended March 31, 2021	(1510.99)	-
Fiscal year ended March 31, 2020	298.78	-

- (2) Financial Position (Non-consolidated)

	Total assets	Net assets	Equity Ratio	Net assets per share
	Million Yen	Million Yen	%	Yen
Fiscal year ended March 31, 2021	75,725	(16,950)	(22.4)	(608.41)
Fiscal year ended March 31, 2020	111,462	25,070	22.5	900.29

Reference: Shareholders' equity

As of March 31, 2021: (16,950) million yen As of March 31, 2020: 25,070 million yen

* This report is exempt from the audit procedure by certified public accountants or accounting firms.

* Cautionary statement regarding forecasts of operating results and special notes (Notes to the forward-looking statements and others)

Forward-looking statements in these materials are based on information available to management at the time this report was prepared and assumptions that management believes are reasonable. These statements are not promised by the Company regarding future performance. Actual results may differ significantly from these statements for a number of reasons. For information about the forecasts, please see "1. Results of Operations (4) Outlook" on page 4.

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1. Results of Operations

(1) Overview of Results of Operations

The Sanden Group develops products with advanced technologies in order to meet the environmental demands from customers and supplies products with value centered on compact dimensions, light weight and low power consumption. The group is currently focusing on activities to accomplish the goals of SCOPE2023, a medium-term management plan that will end in fiscal 2023. This plan consists of five reform plans: (1) comprehensive reorganization of production system, (2) enhancement of basic earning power, (3) growth by actively promoting 'collaborative creation', (4) cash flow creation through capital reinforcement and reform of assets structure, and (5) system innovation for implementation. Most significant are measures to optimize the workforce as part of a global reexamination of manufacturing operations that started in the previous fiscal year, faster joint development activities for electric vehicles, which is one of our collaborative creation strategic goals, and more activities involving vehicle integrated thermal management systems.

On June 30, 2020, Sanden Holdings and some of its subsidiaries officially submitted a business revitalization ADR (alternative dispute resolution) procedure application. At the re-continuation of the third creditors meeting that was held on May 7, 2021, all financial institutions that are creditors gave their approval to the business revitalization plan. As a result, the revitalization procedure was completed.

In the fiscal year that ended in March 2021, although there was a worldwide recession due to the COVID-19 pandemic, economic activities gradually resumed in many countries. Automobile demand as well is recovering, especially in the fiscal year's second half. However, the COVID-19 pandemic is still a serious problem on a global scale. There are also issues involving the supply shortage of semiconductors and other parts and the rising cost of logistics. As a result, the global economy is still extremely unstable.

The COVID-19 pandemic forced the Sanden Group and its client companies to temporarily suspend operations of their factories starting in April 2020. In addition, there were temporary furloughs at some factories in Japan, the United States and other locations because of a downturn in demand. As a result, sales plummeted in the fiscal year's first quarter. In the second quarter, all factories began to resume operations and demand started to recover. In the third and fourth quarters, the recovery was even stronger than anticipated. Although demand has returned to the prior-year level, fiscal year sales were far below sales in the fiscal year that ended in March 2020.

Sanden Retail Systems Corp. (SDRS), which was the primary component of the commercial store systems business, was removed from the consolidated financial statements beginning with the third quarter of the previous fiscal year. This exclusion of SDRS was responsible for 43,275 million yen of the decrease in sales in the current fiscal year.

For these reasons, fiscal year sales decreased 32.9% from the previous fiscal year to 137,477 million yen.

In this challenging environment, the Sanden Group continued structural reforms enacted in the previous fiscal year to consistently produce benefits. There were also more measures for improving variable expenses and lowering fixed expenses. Despite these activities, there were substantial losses. The main reasons were the big first quarter downturn in demand caused by COVID-19 and the severe impact of higher expenses in the fiscal year's second half as demand recovered rapidly. Higher demand triggered a sharp increase in logistics expenses and there were significant expenses for an increase in the use of air cargo because of the shortage of parts. The result was an increase in the operating loss from 3,401 million yen to 18,456 million yen. The ordinary loss increased from 9,735 million yen to 23,237 million yen because of the larger operating loss and expenses associated with the business revitalization ADR procedure. Due to ordinary loss, an impairment loss on noncurrent assets in Japan and Europe associated with the preparation of the business revitalization plan, and other items, the loss attributable to owners of parent was 45,251 million yen compared with a profit of 2,287 million yen one year earlier.

There is no segment information because, beginning with the first quarter of the fiscal year ended in March 2021, Sanden Holdings has changed from the previous two reportable segments of Automotive Systems and Commercial Store Systems to the single reportable segment of Automotive Systems.

(2) Overview of Financial Condition

Total assets were 155,081 million yen at the end of the fiscal year, down 32,478 million yen from one year earlier. This decrease includes declines in cash and deposits, inventories and other items due to sales decline caused by the COVID-19 pandemic.

Total liabilities increased 7,177 million yen to 172,037 million yen mainly because of increases in notes and accounts payable-trade, accounts payable-other and several provisions. There was no significant change in total borrowings.

Net assets decreased 39,655 million yen to negative 16,956 million yen because of the loss attributable to owners of parent.

(3) Overview of Cash Flows

Cash and cash equivalents were 18,203 million yen at the end of the fiscal year, 5,507 million yen less than at the end of the previous fiscal year.

Net cash provided by operating activities decreased 3,984 million yen to 3,234 million yen. Cash was provided by the decrease in working capital as sales declined but there was a loss before income taxes.

Net cash used in investing activities was 5,661 million yen, down 34,114 million yen from the positive cash flow one year earlier. Payments of 7,076 million yen for the purchase of property, plant and equipment were a major use of cash.

Net cash used in financing activities decreased 21,045 million yen to 3,632 million yen. There were repayments of lease obligations of 2,662 million yen and other uses of cash.

Cash flow indicators are as follows.

Fiscal years ended March 31	FY3/2020	FY3/2021
Equity ratio (%)	11.1	(11.9)
Market cap equity ratio (%)	5.4	7.2
Cash flow/interest-bearing debt ratio (X)	15.3	34.1
Interest coverage ratio (X)	2.9	1.9

Equity ratio is shareholders' equity divided by total assets.

Market cap equity ratio is market capitalization divided by total assets.

Cash flow/ interest-bearing debt ratio is interest-bearing debt divided by operating cash flows.

Interest coverage ratio is operating cash flows divided by interest expenses.

Notes: 1 All figures are based on consolidated financial data.

2 Market capitalization is calculated based on the number of shares issued after deducting treasury shares.

3 Operating cash flows are cash flows from operating activities in the consolidated statements of cash flows.

4 Interest-bearing debt is the sum of all interest-bearing liabilities on the consolidated balance sheets.

5 Interest expenses are interest expenses paid as shown in the consolidated statements of cash flows.

(4) Outlook

The Sanden Group will continue to conduct business operations while complying with the policies of national and local governments and placing the highest priority on COVID-19 preventive measures to ensure the health and safety of employees, customers and all other stakeholders.

In the global automobile market, there is a gradual recovery from steep downturn in the first quarter of the past fiscal year because of COVID-19. In the fiscal year ending in March 2022, the automobile market is expected to return to the level before the pandemic in all regions except China. Nevertheless, there are still significant risk factors. For example, COVID-19 cases are increasing again in India, Europe and other areas, there is a worldwide shortage of semiconductors and resin parts, and supply chains are unstable because of turmoil in the logistics sector. Some companies that use Sanden Group products have already decided to reduce output and other effects of these problems are starting to appear. The magnitude of the effect of these problems on results of operations is unclear at this time.

Sanden Holdings and some of its subsidiaries officially submitted a business revitalization ADR procedure application on June 30, 2020, and this procedure was completed on May 7, 2021. In addition, Sanden Holdings and Hisense Home Appliances Group Co., Ltd., signed an agreement on March 1, 2021, for the sale of newly issued Sanden Holdings stock to this group by using a third-party allotment. However, all of these activities have not yet been completed and any issues concerning progress involving these activities may have an effect on the Sanden Group's results of operations. As a result, there is no forecast at this time for the fiscal year ending in March 2022.

An announcement will be made promptly when these procedures have been completed and it becomes possible to determine a reliable forecast.

(5) Fundamental policy for allocation of earnings and dividends for the current fiscal year and next fiscal year

Distributing earnings to shareholders is one of the highest priorities of Sanden Holdings. Based on our policy of making earnings distributions in accordance with consolidated results of operations, our goal is to pay a stable and consistent dividend.

In the fiscal year that ended in March 2021, there was a 45,251 million yen loss attributable to owners of parent because of the COVID-19 pandemic, reevaluation of assets and reexamination of liabilities associated with the establishment of a business revitalization plan, and other reasons. As a result, net assets were negative at the end of the fiscal year, creating an extremely challenging financial condition. Due to this situation, there will be no year-end dividend for the fiscal year that ended in March 2021.

Currently, there is no decision regarding a dividend for the fiscal year ending in March 2022. Although net assets are expected to become positive, the business climate is likely to remain challenging.

To overcome these challenges, Sanden Holdings will continue to implement structural reforms and take actions centered on collaborative creation for the purpose of achieving sustained growth. Based on the new business revitalization plan, group companies will remain focused on the goals of increasing financial soundness and corporate value as well as achieving progress in order to resume dividend payments soon.

2. Basic Position concerning Selection of Accounting Standards

A study is under way concerning the establishment of accounting principles for adopting International Financial Reporting Standards (IFRS) in the future and the timing of the application of IFRS.

3. Consolidated Financial Statements and Important Notes

(1) Consolidated balance sheets

(Million yen)

	Fiscal year ended March 2020 As of March 31, 2020	Fiscal year ended March 2021 As of March 31, 2021
ASSETS		
Current assets		
Cash and deposits	26,440	19,899
Notes and accounts receivable - trade	45,344	44,979
Merchandise and finished goods	16,193	12,762
Work in process	8,699	5,579
Raw materials	7,514	6,099
Other inventories	2,932	2,386
Accounts receivable - other	4,570	4,197
Consumption taxes receivable	3,780	4,225
Other	8,153	9,420
Allowance for doubtful accounts	(17,842)	(16,702)
Total current assets	105,787	92,847
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	16,144	14,820
Machinery, equipment and vehicles, net	16,671	10,223
Tools, furniture and fixtures, net	3,359	2,342
Land	10,610	10,094
Leased assets, net	6,764	1,816
Construction in progress	4,971	4,125
Total property, plant and equipment	58,522	43,423
Intangible assets		
Goodwill	13	-
Leased assets	141	-
Other	3,956	815
Total intangible assets	4,111	815
Investments and other assets		
Investment securities	15,903	15,196
Retirement benefit asset	99	134
Deferred tax assets	1,743	1,380
Other	3,165	4,640
Allowance for doubtful accounts	(1,774)	(3,356)
Total investments and other assets	19,138	17,995
Total non-current assets	81,772	62,234
Total assets	187,559	155,081

(Million yen)

	Fiscal year ended March 2020 As of March 31, 2020	Fiscal year ended March 2021 As of March 31, 2021
LIABILITIES		
Current liabilities		
Notes and accounts payable - trade	29,983	33,030
Short-term borrowings	47,497	56,986
Current portion of bonds payable	1,985	2,185
Current portion of long-term borrowings	20,984	24,292
Accounts payable - other	6,341	9,072
Lease obligations	2,627	2,656
Income taxes payable	238	452
Provision for bonuses	1,475	1,330
Provision for sales rebates	169	166
Provision for product warranties	1,736	2,757
Other	8,131	8,993
Total current liabilities	121,170	141,923
Non-current liabilities		
Bonds payable	3,847	1,662
Long-term borrowings	25,938	15,719
Lease obligations	7,610	6,649
Deferred tax liabilities	476	336
Retirement benefit liability	3,491	2,569
Provision for environmental measures	198	505
Provision for share-based compensation	153	158
Other	1,972	2,512
Total noncurrent liabilities	43,689	30,114
Total liabilities	164,859	172,037
NET ASSETS		
Shareholders' equity		
Share capital	11,037	11,037
Capital surplus	3,377	3,377
Retained earnings	12,772	(30,944)
Treasury shares	(704)	(674)
Total shareholders' equity	26,482	(17,204)
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(46)	1
Deferred gains or losses on hedges	(50)	(28)
Foreign currency translation adjustment	(3,986)	(873)
Remeasurements of defined benefit plans	(1,648)	(341)
Total accumulated other comprehensive income	(5,732)	(1,241)
Non-controlling interests	1,949	1,490
Total net assets	22,699	(16,956)
Total liabilities and net assets	187,559	155,081

(2) Statements of consolidated income and consolidated comprehensive income

Consolidated statement of income

(Million yen)

	Fiscal year ended March 31, 2020 (Apr. 1, 2019 – Mar. 31, 2020)	Fiscal year ended March 31, 2021 (Apr. 1, 2020 – Mar. 31, 2021)
Net sales	204,880	137,477
Cost of sales	173,052	129,802
Gross profit	31,827	7,674
Selling, general and administrative expenses	35,229	26,131
Operating income (loss)	(3,401)	(18,456)
Non-operating income		
Interest income	587	450
Dividend income	19	8
Share of profit of entities accounted for using equity method	71	-
Foreign exchange gains	-	420
Rental income	372	734
Other	694	292
Total non-operating income	1,745	1,906
Non-operating expenses		
Interest expenses	2,400	1,711
Share of loss of entities accounted for using equity method	-	676
Foreign exchange losses	2,997	-
Commission expenses	775	-
Advisory expenses	70	1,371
Other	1,835	2,928
Total non-operating expenses	8,079	6,687
Ordinary income (loss)	(9,735)	(23,237)
Extraordinary income		
Gain on sales of non-current assets	1,364	178
Gain on sales of shares of subsidiaries and associates	25,403	-
Gain on sales of investment securities	9	0
Other	30	80
Total extraordinary income	26,808	259
Extraordinary losses		
Loss on disposal of non-current assets	733	148
Shutdown expenses	257	957
Impairment loss	11,110	19,272
Loss on reversal of foreign currency translation adjustment incurred from liquidation of foreign subsidiaries	96	-
Other	2,548	1,213
Total extraordinary loss	14,746	21,592
Profit (loss) before income taxes	2,326	(44,571)
Income taxes - current	1,031	790
Income taxes - deferred	328	291
Total income taxes	1,360	1,081
Profit (loss)	966	(45,652)
Profit (loss) attributable to non-controlling interests	(1,321)	(401)
Profit (loss) attributable to owners of parent	2,287	(45,251)

Consolidated statement of comprehensive income

(Million yen)

	Fiscal year ended March 31, 2020 (Apr. 1, 2019 – Mar. 31, 2020)	Fiscal year ended March 31, 2021 (Apr. 1, 2020 – Mar. 31, 2021)
Profit (loss)	966	(45,652)
Other comprehensive income		
Valuation difference on available-for-sale securities	(301)	42
Deferred gains or losses on hedges	34	22
Foreign currency translation adjustment	622	316
Remeasurements of defined benefit plans, net of tax	(507)	1,306
Share of other comprehensive income of entities accounted for using equity method	(479)	2,775
Total other comprehensive income	(631)	4,463
Comprehensive income	335	(41,189)
Comprehensive income attributable to owners of parent	1,821	(40,760)
Comprehensive income attributable to non- controlling interests	(1,485)	(428)

(3) Consolidated statement of changes in equity

Previous fiscal year (Apr. 1, 2019 –Mar. 31, 2020)

(Million yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	11,037	3,579	10,484	△877	24,225
Changes during period					
Profit (loss) attributable to owners of parent			2,287		2,287
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares			(0)	172	172
Change in ownership interest of parent due to transactions with non-controlling interests		(202)			(202)
Net changes in items other than shareholders' equity					
Total changes during period	-	(202)	2,287	172	2,257
Balance at end of period	11,037	3,377	12,772	(704)	26,482

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Re-measurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	257	(84)	(4,297)	(1,140)	(5,265)	4,579	23,538
Changes during period							
Profit (loss) attributable to owners of parent							2,287
Purchase of treasury shares							(0)
Disposal of treasury shares							172
Change in ownership interest of parent due to transactions with non-controlling interests							(202)
Net changes in items other than shareholders' equity	(304)	34	311	(507)	(466)	(2,629)	(3,096)
Total changes during period	(304)	34	311	(507)	(466)	(2,629)	(839)
Balance at end of period	(46)	(50)	(3,986)	(1,648)	(5,732)	1,949	22,699

Current fiscal year (Apr. 1, 2020 –Mar. 31, 2021)

(Million yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	11,037	3,377	12,772	(704)	26,482
Cumulative effects of application of inflation accounting			1,825		1,825
Restated balance	11,037	3,377	14,597	(704)	28,307
Total changes during period					
Profit (loss) attributable to owners of parent			(45,251)		(45,251)
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares				30	30
Decrease in capital surplus and retained earnings by adjustment of inflation accounting			(291)		(291)
Net changes in items other than shareholders' equity					
Total changes during period	-	-	(45,542)	30	(45,512)
Balance at end of period	11,037	3,377	(30,944)	(674)	(17,204)

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Re-measurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	(46)	(50)	(3,986)	(1,648)	(5,732)	1,949	22,699
Cumulative effects of application of inflation accounting							1,825
Restated balance	(46)	(50)	(3,986)	(1,648)	(5,732)	1,949	24,524
Total changes during period							
Profit (loss) attributable to owners of parent							(45,251)
Purchase of treasury shares							(0)
Disposal of treasury shares							30
Decrease in capital surplus and retained earnings by adjustment of inflation accounting							(291)
Net changes in items other than shareholders' equity	48	22	3,113	1,306	4,490	(459)	4,030
Total changes during period	48	22	3,113	1,306	4,490	(459)	(41,481)
Balance at end of period	1	(28)	(873)	(341)	(1,241)	1,490	(16,956)

(4) Consolidated statement of cash flows

(Million yen)

	Fiscal year ended March 31, 2020 (Apr. 1, 2019 – Mar. 31, 2020)	Fiscal year ended March 31, 2021 (Apr. 1, 2020 – Mar. 31, 2021)
Cash flows from operating activities		
Profit (loss) before income taxes	2,326	(44,571)
Depreciation	10,088	8,607
Amortization of goodwill	13	13
Increase (decrease) in provision for bonuses	(892)	(156)
Increase (decrease) in retirement benefit liability	422	(809)
Increase (decrease) in allowance for doubtful accounts	170	33
Increase (decrease) in provision for product warranties	(451)	968
Increase (decrease) in provision for environmental measures	(40)	290
Increase (decrease) in provision for loss on compensation for damage	(432)	-
Interest and dividend income	(606)	(459)
Interest expenses	2,400	1,711
Share of loss (profit) of entities accounted for using equity method	(71)	676
Loss on reversal of foreign currency translation adjustment incurred from liquidation of foreign subsidiaries	96	-
Gain on sales of non-current assets	(1,364)	(178)
Loss on disposal of non-current assets	733	148
Loss (gain) on sales of shares of subsidiaries and associates	(25,403)	-
Loss (gain) on sales of investment securities	(9)	-
Impairment loss	11,110	19,272
Decrease (increase) in trade receivables	13,187	1,981
Decrease (increase) in inventories	(1,231)	9,979
Decrease (increase) in accounts receivable - other	861	451
Decrease (increase) in consumption taxes refund receivable	334	(173)
Increase (decrease) in other non-current liabilities	85	(259)
Increase (decrease) in trade payables	(3,839)	2,580
Increase (decrease) in accounts payable - other	(435)	2,874
Increase (decrease) in accrued expenses	372	1,078
Decrease (increase) in other current assets	98	69
Increase (decrease) in other current liabilities	(575)	(955)
Other, net	2,249	325
Subtotal	9,197	3,499
Interest and dividends received	2,308	1,591
Interest paid	(2,451)	(1,742)
Income taxes (paid) refund	14	(114)
Extra retirement payments	(1,849)	-
Net cash provided by (used in) operating activities	7,219	3,234

(Million yen)

	Fiscal year ended March 31, 2020 (Apr. 1, 2019 – Mar. 31, 2020)	Fiscal year ended March 31, 2021 (Apr. 1, 2020 – Mar. 31, 2021)
Cash flows from investing activities		
Collection of short-term loans receivable	2,300	0
Purchase of property, plant and equipment	(9,821)	(7,076)
Proceeds from sales of property, plant and equipment	5,395	1,686
Purchase of intangible assets	(1,633)	(863)
Purchase of investment securities	(115)	(14)
Proceeds from sales of investment securities	19	4
Payments into time deposits	(3,480)	-
Proceeds from sales of shares of subsidiaries and associates	35,604	1,000
Other, net	183	(399)
Net cash provided by (used in) investing activities	28,452	(5,661)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	2,697	8,828
Proceeds from long-term borrowings	840	531
Repayments of long-term borrowings	(23,418)	(8,344)
Redemption of bonds	(1,505)	(1,985)
Repayments of lease obligations	(2,397)	(2,662)
Purchase of treasury shares	(0)	(0)
Proceeds from sales of treasury shares	172	30
Dividends paid to non-controlling interests	(183)	(30)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(882)	-
Other, net	-	(0)
Net cash provided by (used in) financing activities	(24,677)	(3,632)
Effect of exchange rate change on cash and cash equivalents	(312)	552
Net increase (decrease) in cash and cash equivalents	10,681	(5,507)
Cash and cash equivalents at beginning of period	13,030	23,711
Cash and cash equivalents at end of period	23,711	18,203

(5) Notes to the consolidated financial statements

(Notes to going concern assumptions)

In the fiscal year that ended in March 2020, sales were 204,880 million yen, down 25% from the previous fiscal year and there was an operating loss of 3,401 million yen and an ordinary loss of 9,735 million yen. The causes of these performances include the sale of all shares of SDRS, a major subsidiary that conducted the commercial store systems business, and the negative effect of lower vehicle sales primarily in Europe and China and the global COVID-19 pandemic on the automotive systems business. At the end of March 2020, borrowings and bonds payable totaled 100,252 million yen, which was high in relation to cash and cash equivalents of 23,711 million yen. In addition, current liabilities exceeded current assets.

In the current fiscal year, sales decreased 32.9% from one year earlier to 137,477 million yen and there was an operating loss of 18,456 million yen and an ordinary loss of 23,237 million yen. The main reasons were the sale of SDRS and the impact of COVID-19 on the automotive systems business. At the end of March 2021, borrowings and bonds payable totaled 100,846 million yen, which was high in relation to cash and cash equivalents of 18,203 million yen, and current liabilities exceeded current assets. Also, total liabilities of 172,037 million yen exceeded total assets of 155,081 million yen at the end of March 2021.

For these reasons, the current status of the Sanden Group continues to raise significant doubts about the going concern assumption.

In response to this difficult situation, Sanden Holdings and some of its subsidiaries officially submitted a business revitalization ADR procedure application on June 30, 2020 for the purposes of building a powerful profit structure for renewed growth and significantly improving financial soundness. In addition, Sanden Holdings and Hisense Home Appliances Group Co., Ltd., signed an agreement on March 1, 2021, for the sale of newly issued Sanden Holdings common stock through a third-party allotment at an aggregate price of approximately 21,400 million yen to a special purpose company established by this group.

Based on the terms of the agreement for the third-party allotment, Sanden Holdings created a proposal for a business revitalization plan after holding discussions with Hisense Home Appliance Group and its special purpose company Hisense Japan Automotive Air-Conditioning Systems Corporation. Following the agreement mentioned above, Sanden Holdings and the participating subsidiaries gave an explanation of this plan to the financial institutions at the third continuation of the second creditors meeting (for the purpose of discussing the proposed business revitalization plan) on March 22, 2021 and these institutions examined the proposal, including the forgiveness of debt. On May 7, 2021, the re-continuation of the third creditors meeting (for the purpose of reaching a decision about the proposed business revitalization plan) was held and all participating financial institutions agreed to the business revitalization plan. The financial institutions submitted their consent in writing and, on the same day, the business revitalization ADR procedure was completed.

Debt forgiveness will become effective only after the payment for the third-party allotment has been completed. Before the stock for this allotment can be issued, Sanden Holdings shareholders must approve an amendment to the Articles of Incorporation for increasing the authorized number of shares and must approve all resolutions as proposed concerning this third-party allotment at an extraordinary shareholders meeting to be held on May 27, 2021. In addition, once the payment for the third-party allotment is completed (which is also the date the debt forgiveness becomes effective), Sanden Holdings must promptly (this can be as much as three months after the third-party allotment payment completion date) use these funds for the repayment to the financial institutions involved of all principal of claims that remain after the debt forgiveness. Sanden Holdings intends to fulfill all of the terms for the third-party allocation and, with the cooperation of Hisense Home Appliances Group, procure funds for the repayment of the principal of all remaining debt.

Despite this intention, Sanden Holdings have not yet fulfilled the requirements for the third-party allotment, which is linked to the effectiveness of the debt forgiveness, nor procured the funds for the repayment of the principal of all remaining debt. Consequently, Sanden Holdings believes that there are currently significant uncertainties about the going concern assumption.

The going concern assumption was used as the basis for preparing the consolidated financial statements and these statements do not reflect the significant uncertainties regarding this assumption.

(Supplementary information)

Effective from the beginning with the second quarter of the current fiscal year, the financial statements of our Iran affiliate have been accounted for by the equity method after adjustment to comply with IAS 29 (Financial Reporting in Hyper-Inflationary Economies).

As a result, retained earnings at the beginning of the current fiscal year increased by 1,825 million yen after retroactive application of the accounting standard.

(Segment information, etc.)

[Segment information]

I Previous fiscal year (April 1, 2019 - March 31, 2020)

As stated in "II Current fiscal year (Item concerning change in reportable segments)."

II Current fiscal year (April 1, 2020 - March 31, 2021)

Omitted because the Sanden Group has only the single reportable segment of Automotive Systems.

(Item concerning change in reportable segments)

In prior fiscal years, the Sanden Group had two reportable segments: Automotive Systems and Commercial Store Systems. Due to the sale in the previous fiscal year of all shares of SDRS, the primary subsidiary of the Commercial Store Systems segment, this segment has become immaterial. As a result, beginning with the first quarter of the fiscal year ended in March 2021, the Sanden Group has only the single reportable segment of Automotive Systems and therefore is providing no segment information for the current and previous fiscal years.

(Per-share information)

(Yen)

	Previous fiscal year (Fiscal year ended March 31, 2020)	Current fiscal year (Fiscal year ended March 31, 2021)
Net assets per share	747.92	(664.58)
Earnings (loss) per share	82.54	(1,630.38)

Notes: 1. Diluted earnings per share for previous fiscal year is not presented since the company has no potential shares. Diluted earnings per share for current fiscal year is not presented since earnings per share for current fiscal year is a negative figure and the company has no potential shares.

2. Shares held by the Executive Compensation Board Incentive Plan (BIP) Trust is included in treasury shares which is excluded from the average number of shares in each fiscal year used to calculate the earnings or loss per share, and is included in treasury shares which is excluded from the number of shares at the end of each fiscal year used to calculate the net assets per share. The average number of shares held by this trust was 230,747 shares in the previous fiscal year and 194,771 shares in the current fiscal year. This trust held 206,494 shares as of March 31, 2020 and 192,639 shares as of March 31, 2021.

3. The basis for calculating earnings (loss) per share is as follows.

	Previous fiscal year (Fiscal year ended March 31, 2020)	Current fiscal year (Fiscal year ended March 31, 2021)
Profit (loss) attributable to owners of parent (million yen)	2,287	(45,251)
Profit not attributable to common shareholders (million yen)	-	-
Profit (loss) attributable to owners of parent related to common shares (million yen)	2,287	(45,251)
Average number of shares outstanding (shares)	27,719,909	27,754,962

(Significant subsequent event)

(Completion of the business revitalization ADR procedure and implementation of debt forgiveness and other financial assistance)

On June 30, 2020, Sanden Holdings and some of its subsidiaries submitted a business revitalization ADR procedure application. At the re-continuation of the third creditors meeting (for the purpose of reaching a decision about the proposed business revitalization plan) that was held on May 7, 2021, all financial institutions involved with this procedure gave their approval to the business revitalization plan, which includes financial assistance consisting primarily of the forgiveness of some Sanden Holdings debt. The financial institutions submitted their consent in writing and, on the same day, the business revitalization ADR procedure was completed.

More information is in 3. Consolidated Financial Statements and Important Notes (5) Notes to the consolidated financial statements (Notes to going concern assumption).

The following is a summary of the financial assistance in the business revitalization plan that received the consent of financial institutions.

(1) Debt forgiveness

a. Lenders

20 financial institutions

b. Type and amount of debt subject to forgiveness

Debt related to the claims (defined as the total of all loans, bonds and loan guarantee obligations as of June 30, 2020, for which the financial institutions, which are the creditors, can demand payment): 63,000 million yen

c. Date of debt forgiveness

Date of completion of the payment for the third-party allotment of stock (a third-party allotment of Sanden Holdings common stock for an aggregate price of approximately 21,400 million yen to Hisense Japan Automotive Air-Conditioning Systems Corporation, a special purpose company established by Hisense Home Appliances Group Co., Ltd.) (the date of effectiveness)

d. Item concerning fulfillment of criteria for delisting

The amount of debt forgiveness solely for Sanden Holdings is more than 10% of the total amount of debt as of the end of the most recent fiscal year. Therefore, on May 7, 2021, Sanden Holdings submitted an application for an examination pertaining to restructuring plans, etc. in the second sentence of Article 601, Paragraph 1, Item 7 and Article 605, Paragraph 1 of the Securities Listing Regulations of Tokyo Stock Exchange, Inc. along with the business revitalization plan to this company. On the same day, Sanden Holdings received certification of this plan as a “restructuring plan prescribed by the enforcement rules” from the Tokyo Stock Exchange. As a result, pursuant to the exchange’s listing regulations, Sanden Holdings common stock will retain its listing if both the average market capitalization during the designated one-month period (from May 8, 2021 to June 7, 2021) and the market capitalization on the final day of this period (June 7) are at least 1,000 million yen. Consequently, Sanden Holdings common stock will be delisted if either average market capitalization during one-month period (from May 8, 2021 to June 7, 2021) or the market capitalization on the final day of this one-month period (June 7) is less than 1,000 million yen.

(2) Revision to terms of loans

a. Lenders

20 financial institutions

b. Type and amount of debt subject the revision of terms

For the applicable claims of the creditors, the remaining principal will be maintained following the approval of the business revitalization plan until the date of effectiveness of debt forgiveness in the preceding section (1). Therefore, interest will continue to be paid in accordance with the contractual agreements as of the record date of June 30, 2020. In addition, for applicable claims of the creditors that remain after the debt forgiveness, the principal of each remaining claim will be maintained following the date of effectiveness of debt forgiveness in the preceding section (1) until all of these claims have been repaid as described below.

(i) The principal of all remaining claims is to be repaid promptly after the completion of the payment for the third-party allotment (the date of effectiveness of debt forgiveness in the preceding section (1)), and these repayments can be as much as three months after the third-party allotment payment completion date.

(ii) Beginning on the next day after the debt forgiveness become effective, interest will continue to be paid in accordance with the contractual agreements as of the record date for remaining claims. Furthermore, on the date that principal is repaid for each remaining claim, interest will be paid for the period between the latest interest payment date and this repayment date of principal.

As of March 31, 2021, Sanden Holdings had total liabilities of 172,037 million yen and total assets of 155,081 million yen, resulting in negative net assets of 16,956 million yen. Based on the business revitalization plan that was approved by the financial institutions involved, this situation is applicable to the “case where there is a plan for ending negative net assets” as prescribed in Article 601, Paragraph 4, Item 4-b of the Securities Listing Regulations of Tokyo Stock Exchange, Inc. Consequently, Sanden Holdings has confirmed with the Tokyo Stock Exchange that its negative assets do not fulfill a delisting criterion.

(Submission of business revitalization plan to Tokyo Stock Exchange, Inc.)

Because the amount of debt forgiveness related to the business revitalization plan is equivalent to more than 10% of the total debt of Sanden Holdings as of the end of the most recent fiscal year, Sanden Holdings submitted an application, along with

the business revitalization plan, to the Tokyo Stock Exchange on May 7, 2021 to perform an examination of this plan and other items as prescribed in the second sentence of Article 601, Paragraph 1, Item 7 and Article 605, Paragraph 1 of the Securities Listing Regulations of the Tokyo Stock Exchange.

(Certification of a reorganization plan concerning debt forgiveness and start of market capitalization examination)

Following above, the Tokyo Stock Exchange on May 7, 2021, certified the business revitalization plan as a “restructuring plan prescribed by the enforcement rules”.

The next step after this certification is a market capitalization examination of Sanden Holdings stock in accordance with the listing regulations explained above. Sanden Holdings common stock will retain its listing if both the average market capitalization during the designated one-month period (from May 8, 2021 to June 7, 2021) and the market capitalization on the final day of this period (June 7) are at least 1,000 million yen. Sanden Holdings common stock, therefore, will be delisted if either average market capitalization during one-month period (from May 8, 2021 to June 7, 2021) or the market capitalization on the final day of this one-month period (June 7) is less than 1,000 million yen.

The business revitalization plan is recognized as an appropriate plan that includes the goal of eliminating negative net assets through a business turnaround based on the special certified dispute resolution procedure stipulated in Article 2, Paragraph 16 of the Act on Strengthening Industrial Competitiveness. Consequently, Sanden Holdings has been notified by the Tokyo Stock Exchange that Article 601, Paragraph 1, Item 5 of the Listing Regulations (delisting criteria) does not apply to negative net assets in this case.