

CL HOLDINGS Inc.

Ex-Tainment

Experience X Entertainment

Integrated Report 2021

<https://www.clholdings.co.jp/en>
Printed in Japan

CL
HOLDINGS
- Creating Lives -

Management Philosophy

At CL GROUP, we pursue the material and intellectual growth of all our employees and will continue to contribute to the advancement of society through sound business activities.

Group Policy

We have gathered several strengths into one strong group.

Growth and the Future of CL Group

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Editorial Policy

This is the first time we have published an integrated report. The purpose of this report is to convey to our wide variety of stakeholders, but primarily shareholders and investors, in an easy-to-understand manner, our philosophy-based management, which our Group advocates, and initiatives, such as Ex-Tainment business, to increase our corporate value over the medium to long term. To convey this, we will use financial and non-financial information, dialogues, etc.

* Actual results refer to the fiscal 2021 figures for Legs Company, Ltd.

CL Group Website

Our website provides various kinds of information on CL Group, including IR information and Group Sustainability. Please peruse it alongside this report.

 <https://www.clholdings.co.jp/en>

Forward-Looking Statements

This integrated report contains statements regarding our future plans, strategies, and performance. These statements are not historical facts, but rather represent the Company's judgments based on the information currently available to CL Group. Actual future results may be affected by economic trends, industry competition, currency exchange rates, taxes, and other regulatory developments. For these reasons, these forward-looking statements are subject to potential risks and uncertainties.

Period Covered:

Fiscal year 2021 (January 1 – December 31, 2021)
(Where necessary, however, references are made to dates before and after the period under review.)

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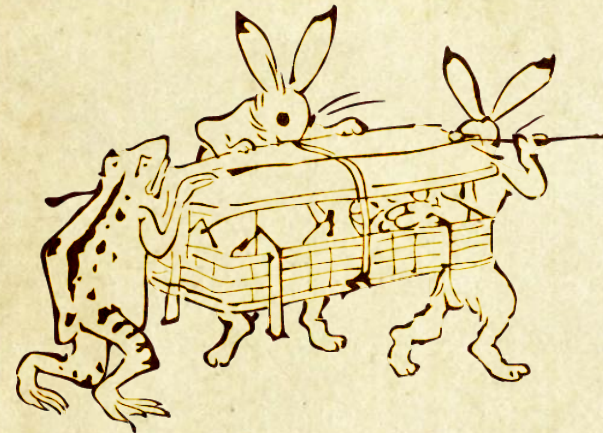
May 2022
Referenced Guidelines, etc.
International Integrated Reporting Council's (IIRC) "International Integrated Reporting Framework"

* The IIRC was reorganized as the Value Reporting Foundation (VRF) in June 2021.

Our Growth

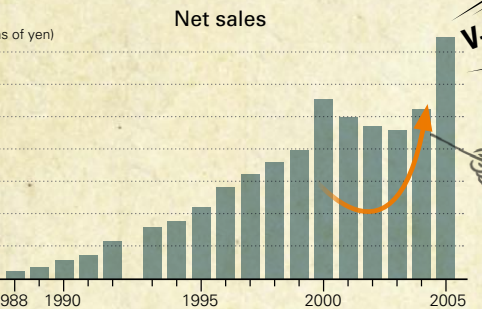
Journey of CL Holdings

The path we have walked, recorded as it was.



Three people rented an apartment in Harajuku (Tokyo) in 1986 and started the business, then, Uchikawa solely established Legs Company, Ltd. in 1988. It was an old building with a tiny bathroom. Although their talents were fairly average, the founders' energy made them stand out.

In 1997, the staff had quickly reached 50 employees. Net sales were over **3 billion yen**, a pleasant surprise, with expanding business as well.



After listing, sales and profits decreased for three years. During this difficult period, the entire company was reformed around the slogan of "3 Changes" addressing the "market," "products," and "management." A rapid recovery was achieved.



1986

Without any specific techniques, work is completed with the spirit of "Do it. Can do it. Try."

1988

Legs Company, Ltd. was established in Tokyo for the purposes of product planning, development, manufacturing, and sales. Legs was founded in a modest building, room 201, with rent of only 168,000 yen.

1991

Established SIP Company, Ltd. in Tokyo as a subsidiary for marketing planning and design. SIP was founded with three people in Nakamura SN2 (a two-story house with rent of 500,000 yen).

1996

Green Building 3F, 1996-98 / 50 employees / Sales of 3 billion yen

2001 ◀ Three Difficult Years ▶ 2004

Public listing on JASDAQ
5 important points discovered before public listing

- (1) Principles are everything
- (2) Work harder than others
- (3) Make patterns
- (4) Value your way of thinking
- (5) Figures are important

ISO 14001 (environmental) certification acquired

2005

Invested in MEDIAFLAG Inc. a marketing support business for stores

2006

Privacy Mark acquired



Sales/profits increase for 13 consecutive years!

A JASDAQ listing came in 2001. It was like a dream to be a publicly traded company. The founders' sentiments were, "Even if we aren't great geniuses, we have conviction. We got this far by working harder than the rest."



Progress in organizational capability

Weathering historic trouble (1)
The year it happened: 2006.
Trouble with an IP* content collaborative product

A certain number of products were found to have strength defects. All products were recalled, booking a one-time loss. It provided an opportunity to shift away from operations centered on individual duties. Part of this transition included acquiring ISO 9001 (quality management) certification.

*IP: intellectual property



Efforts to tackle the overseas market started in 2008.



January 2008

ISO 9001 (quality management) certification acquired

October 2008

Established Legs (Shanghai) Trading Company, Ltd. in Shanghai, China

2009

Acquired shares of M&I Co., Ltd. and made it a subsidiary

2011

Established Legs (Shanghai) Advertising Company, Ltd. in Shanghai, China

2012

Established Legs (Shenzhen) Trading Company, Ltd. in Shenzhen, China

February 2015

Listed on the second section of the Tokyo Stock Exchange

June 2015

Listed on the first section of the Tokyo Stock Exchange



Listed on the first section of the Tokyo Stock Exchange in 2015.

Achieved **15 billion yen** in consolidated sales in 2019.



CDG Co., Ltd. became an equity-method affiliate through a tender offer in 2020.

Strengthening our consumer business foundation

Weathering historic trouble (2)
The years it happened: 2016-2017.
An issue with collaboration cafe inventory

Soon after launching the collaboration cafe business, issues occurred with inventory shortages and surpluses. We adopted a reservation system and strove to continually improve operations, which gradually optimized inventory and led to increased sales and a better profit margin.



2020

CDG Co., Ltd. became an equity-method affiliate through a tender offer

2021

Established LTR inc., a joint venture with Transit General Office Inc.

January 2022

- CDG Co., Ltd. became a consolidated subsidiary by adoption of International Financial Reporting Standards (IFRS).
- Legs Company, Ltd. changed its corporate name to CL Holdings Inc. and shifted to a holding company structure.

April 2022

Transited to Prime Market in Tokyo Stock Exchange



Going forward, we aim for 100 billion yen!

Established LTR inc. in 2021 to further expand the collaboration cafe business.

In 2022, embarked on the next stage of organizational growth by transitioning to a holding company structure.

President & CEO



Under the new structure, we will continue to grow based on our philosophy-based management and aim to become a visionary company.

The Genesis of Philosophy-Based Management

I established Legs Company, Ltd., the predecessor to CL Holdings Inc., when I was 27. I did not know the first thing about management, so what I did was to learn from the best executives, starting with the writings and lectures of Kono-suke Matsushita and Kazuo Inamori. What I realized was that the most important thing when building a company is establishing a management philosophy that outlines the goals of the company and describes why the company exists. Clarifying a management philosophy makes it easier to gather team members who share your values as the number of employees continues to grow.

If you narrow it down, what employees seek from a company seems to be personal growth, economic stability, and prosperity. Consequently, it is not possible to achieve individual goals without growth of the company. This ties together the destinies of employees and the organization. Furthermore, the existential value of the company is meaningful for society. That is, one could say that the company's business contributes to a group of stakeholders that includes employees, customers, and local communities. Our corporate goal is to be useful to society and achieve economic growth that translates into stability and prosperity for employees. Identifying this in our principles and keeping it at the center of operations is the genesis of the philosophy-based management that CL Group stands for.

Factors behind our High Growth

One of the major factors behind Legs becoming publicly listed on the first section of the Tokyo Stock Exchange in 2015 was our commitment to continually uphold our goals under the banner of philosophy-based management. When our net sales reached approximately 600 million yen three years after our

founding in 1988, our resolute stance to achieve 10 billion yen in sales in 2001 led to the growth that followed.

In order to achieve lofty goals, even if individual skill levels and values are dissimilar, a company needs a collective group of employees who share the values of the organization. Even when the going is tough, if you vocally support your teammates, stay passionate, and create shared values toward your work, the path becomes more enjoyable and the strain of pursuing huge goals diminishes. Rugby athletes espouse the “one team” ethos. In our case, by championing philosophy-based management, we have attracted a group of personnel who share our principles. As much as possible, we openly communicate our company values during hiring interviews and strive to avoid any human resources mismatches.

Furthermore, with regard to management, we believe that “management = a structure for maximizing results.” With speed and execution as fundamental concepts, we have built a management system that includes, among other aspects, a management manual, seven management principles, and an administrative structure. These features are incorporated into the aforementioned management philosophy so that, even as our scale increases, the organization is able to quickly respond to changes without losing direction.

“Three Changes” that Marked a Turning Point

When we were founded, we were contracted through an advertising agency to do planning and development of products (“freebies”) for sales promotions. We gradually expanded beyond specialized niche business and started to handle promotions as well.

Legs became publicly listed on JASDAQ in 2001 and 80% of our approximately 5 billion yen in net sales came from the advertising agency. We thought that, in order to reach our goal of 10 billion yen in net sales, we would need to raise profit

Top Message

margins by changing sales channels and transacting directly with clients. Consequently, we embarked on “three changes,” a slogan that referred to reforming our market, products, and management. In three years, we reversed trends and achieved an 8-to-2 ratio of direct client transactions versus transactions through the advertising agency. During that time, although there were periods when sales stagnated, the experience taught us the importance of having passion and the spirit to never give up as we rallied together as a company. Following those years, we reached 10 billion yen in consolidated net sales in 2011 and 20.2 billion yen by the end of 2021.

Furthermore, as we increased direct transactions and entered the sales promotion industry, which was a space in which it was difficult for us to compete with advertising agencies, we received a request for more effective promotions from a distribution client with whom we now do a good deal of business. The client wanted to better differentiate themselves from competitors, so we started developing our content-based promotions business. This was the genesis of the Group’s strength in IP content procurement capability and knowledge of distribution.

Today we continue these efforts in the form of niche/unique business creation, in addition to cultivating new markets. This includes Ex-Tainment (experience + entertainment) business, which brings customers value in the form of interactive entertainment and covers promotion and merchandising services (which simultaneously roll out sales promotions and product

sales), limited distribution services (creating intangible goods demand and intangible goods consumption by offering limited distribution services, such as limited time, limited area, and limited product), and food entertainment services (which merge the domain of food with IP content).

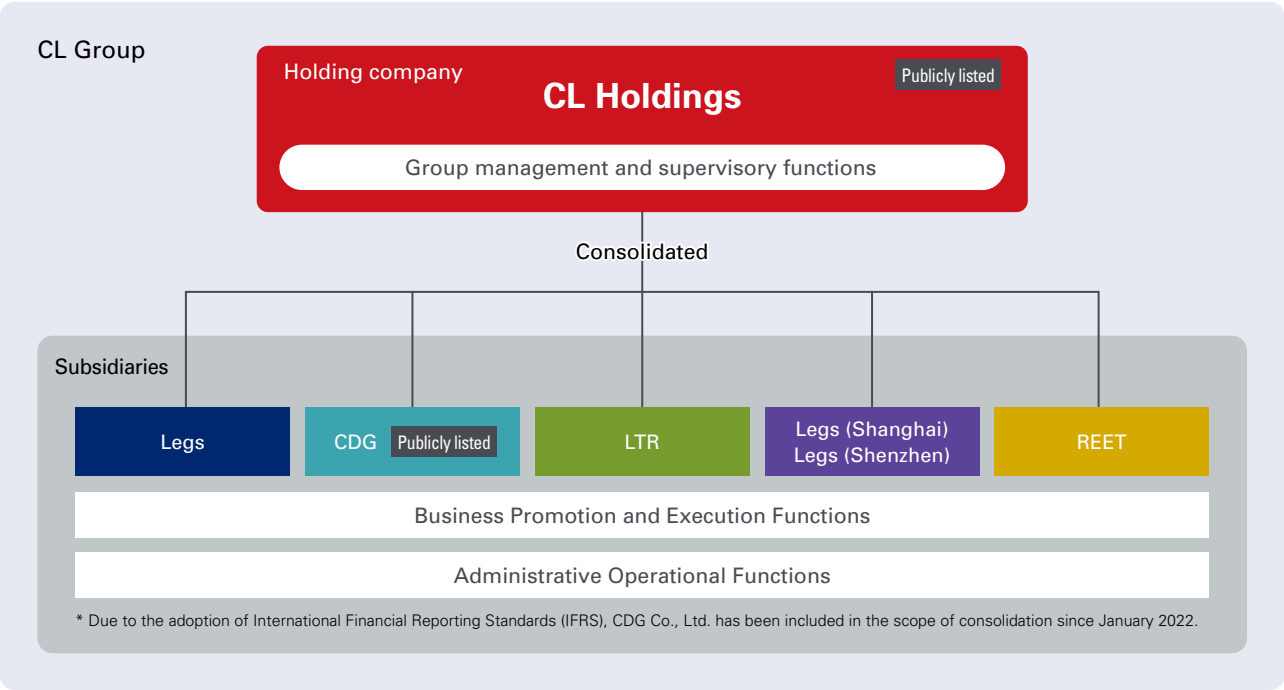
Although food entertainment services were impacted by COVID-19, we were able to leverage the Group’s core competencies and broadly increase revenue through, for example, premium services and product sales to distribution clients.

Transition to a Holding Company Structure and Future Prospects

The Group shifted to a holding company structure in January 2022. Since we are in a time of a drastically changing social environment, we must execute business while quickly making decisions on the front lines. As a result, we need to build a structure in which the holding company takes on Group-wide management, while personnel who are spearheading projects are able to make quick decisions. New businesses are an extension of our day-to-day businesses. In choosing a holding company structure, part of our desire was to have a structure conducive to new business projects continually emerging from our current sites.

In the future, as Japan experiences the declining birthrate and aging population, it is possible that the number of companies will decrease and there will be industry restructuring. This

New Organizational Structure



may allow us to connect with companies that can leverage our strengths, and tie together our principles and mindset as we do so.

Compliance and Governance Initiatives

There has been progress in the general understanding of the importance of ESG- and SDG-focused management and companies are being called upon to create economic, social, and environmental value through their business. As indicated by the traditional Japanese expression *sampo yoshi* (“*yoshi*” meaning “good,” “*sampo*” meaning “three sides” consisting of (1) the seller (“*urite*”), (2) the buyer (“*kaite*”) and (3) society (“*seken*”)), we humans have an innate feeling of goodness when, for example, picking up a piece of litter. I think that the coming age will be one of greater emphasis on management that values this kind of conscientious humanity, while also being an age in which “pride in one’s work leads to personal happiness” is a value that will receive the most attention.

In this sense, pursuing merely formal compliance and creating systems from a cynical outlook is likely to have little efficacy. We will need to carry out management while fostering a culture and establishing rules that are honest and that value the sentiments of those working alongside us.

With our transition to a holding company structure, governance will become even more important than in the past. Philosophy-based management does not stand in opposition to respect for diversity, nor does it seek uniformity of mindsets and values. One area for improvement going forward is our small number of female directors.

With regard to our CEO succession plan, I would like the selection process to work from various angles, including going through the Nominating and Compensation Advisory Committee. My mission is the preservation of my principles and words after I myself leave. By leaving a framework in place, I would like us to have the ability to strive to be a visionary company.*

* “Visionary company” is a phrase taken from *Built to Last: Successful Habits of Visionary Companies*, by Jim Collins and Jerry I. Porras. This seminal book describes companies that espouse a vision and adapt to changes while maintaining their management philosophy and continuing to move forward across decades.

To Our Stakeholders

Our long-term (10-year) goal is to achieve sales of 100 billion yen. In order to return profits to our stakeholders—and our shareholders in particular—we must build a highly profitable structure. To that end, we must build a buttress of human resources and capital, tackle the creation of new business, increase our market capitalization while paying a stable dividend, and grow sustainably. The achievement of this rests importantly upon the aforementioned fostering of management personnel and human resources development.

While pursuing philosophy-based management and sustainable growth, I would like to walk side by side with stakeholders to reach our objectives, for which I sincerely hope for your understanding and support.

April 2022

Junichiro Uchikawa
President & CEO



Risks, Opportunities, and Material Issues

From the perspective of social changes, we analyzed the external environment surrounding CL Group and identified material issues that have a high degree of importance for stakeholders and have an impact on the Group's medium- to long-term value creation. We then evaluated this materiality in terms of risks and opportunities. We aim to achieve sustainable development and growth for the Group by addressing materiality.

Social Changes	Issues	Risks	Opportunities
1. Changes in consumer behavior in the wake of the global outbreak of COVID-19	Developing products and services that respond to changes in consumer life-styles and behavior patterns, as well as clients' sales promotion needs	Decrease in opportunities to use the Group's products and services due to delays in responding to changing social needs	Creating new revenue models through development of new products and services demanded by consumers
2. Low birthrate and aging society / declining Japanese population / growing global population	<ul style="list-style-type: none"> Expanding the Group's overseas business Responding to the risk of contraction of the advertising and sales promotion market in Japan 	Decrease in sales promotion/customer attraction opportunities and decrease in product sales in Japan	Creating revenue-generating models in new markets, both inside and outside Japan
3. Transition to a digital society	<ul style="list-style-type: none"> Developing products and services utilizing digital technology Digitalizing business processes Enhancing cybersecurity 	<ul style="list-style-type: none"> Reduction of competitiveness of products and services Increase in SG&A and other costs due to lower productivity Information leakage and damages caused by security failures 	<ul style="list-style-type: none"> Creating new revenue models through the development of new products and services using digital technology Improving productivity through digitization of business processes Stable business continuity
4. Growing awareness of sustainability	<ul style="list-style-type: none"> Developing products and services with low environmental impacts Promoting CSR procurement 	<ul style="list-style-type: none"> Loss of business opportunities and increased costs due to the continued provision of environmentally detrimental products and services Loss of business opportunities due to decreased social credibility 	<ul style="list-style-type: none"> Creating business opportunities by gaining social credibility Reducing costs through energy efficiency and waste reduction Achieving a stable supply of products to the market
5. Diversification of work styles	<ul style="list-style-type: none"> Acquiring human resources that match the Group's management style Creating a pleasant and rewarding work environment 	<ul style="list-style-type: none"> Delays in nurturing management personnel Loss of business opportunities due to failure to acquire human resources, or due to outflow thereof 	<ul style="list-style-type: none"> Continuously producing management personnel Strengthening competitiveness in recruiting human resources by creating a pleasant and rewarding work environment
6. Government-led corporate governance reforms	Ensuring soundness and transparency of management	Unforeseen losses due to governance failures	Increasing corporate value through improved management efficiency

	Material Issues	CL Group Initiatives
Economic Value	Creating continuous innovation in response to changing consumer needs	Developing a platform* that covers real and digital
	Responding to the risk of the advertising and sales promotion market in Japan shrinking	Developing new services that combine sales promotion and product sales, and developing new, original products
	Developing business utilizing digital technology	Expanding collaboration cafes into the EC domain and overseas
Social and Environmental Value		Acquiring master licenses and developing IP content
		Developing digital premium services and digital campaign tools
	Reinforcing internal infrastructure using digital technology	Computerizing work flows and introducing a data warehouse
		Installing security monitoring systems
	Developing sustainable business	Reducing inventory disposal by using IP content analysis and a sales forecasting system
Governance	Securing and developing competitive human resources	Diversifying hiring categories and approaches
	Nurturing management personnel	Creating a system that can accommodate diverse work styles
		Creating infrastructure able to develop human resources from a long-term perspective
	Strengthening corporate governance	Strengthening management, business, and risk control systems for the Group globally

* Networks of stores in Japan and overseas run by retail distribution clients

Process of Value Creation

With our philosophy-based management and management system as the foundation, the Group develops marketing services that leverage our four strengths: IP content procurement and development capabilities, platform development capabilities, premium quality products and services, and digital sales promotion capabilities. While providing marketing solutions that meet the needs of corporate clients, we are improving sustainable corporate value by providing entertainment customer experience value through unlocking the Ex-Tainment¹ (experience + entertainment) market for consumers and fans.

1. Ex-Tainment: A term coined by combining the words "experience" and "entertainment," referring to the experiential value felt by consumers when consuming entertainment.



2. See p.28 for terminology details.

Dialogue

The Future of CL Group & the IP Content Business



Photo taken at Hatoyama Hall, Hanare Room

Potential for Development of Japanese IP¹ Content in the Global Market

- Hatoyama

Japanese IP content has very unique characteristics when viewed from a global perspective. For example, IP content in the U.S. started with westerns and developed around Disney animation, Hollywood, and movies, whereas in Japan, the focus is on manga and TV animation. In addition, Japan is an island nation with a high degree of social homogeneity and a diverse climate and food culture brought about by distinct seasonal changes. I think that these characteristics have been the seedbed for our unique ideas and IP content.
- Yamashita

As with the SDGs, a trend is now emerging in which countries around the world recognize each other’s diversity, and we believe that the cultural element of “accepting various cultures and respecting each other’s culture” that Japanese IP content possesses is a factor in its growing presence in overseas markets. Japanese entertainment has a long history dating back to ukiyoe (mass market woodblock prints), and has a great deal more depth and story variation than overseas productions.
- Hatoyama

Entertainment has become one of the most important things to humankind in recent years and the stay-at-home demand in the wake of COVID-19 has accelerated consumption and brought extra attention to the content market. Moreover, the scope of content has become extremely broad, including streaming videos and collaboration cafes, such as those undertaken by CL Group.
- Yamashita

The standardization and global spread of high-performance devices, along with the development of telecommunication infrastructure, have also played a major role in the expansion of the content market. I believe that the simultaneous shift in mindset (that content is more accessible) and the groundwork of improved infrastructure are major factors behind the global diffusion of Japanese IP content.
- Hatoyama

As you have noted, the development and improvement of telecommunication environments and the expansion of cross-border e-commerce have made it possible for Japanese content to be viewed and consumed instantly from overseas, which was previously a hurdle in terms of cost and time delay. I believe that the presence of Japanese IP content overseas has been relatively greatly enhanced by the fact that in the current environment, trends occur simultaneously, without time lag, in various parts of the world and can be experienced by companies as well as individuals. The content market, with its many future possibilities, is a very attractive market and there is a plethora of things that can be created specifically by Japan, so I have very high expectations for CL Group to provide solutions in this market.

Ex-Tainment¹ Business Prospects

- Yamashita

In Japan, awareness of the value of paying for the experience of content is growing through online streaming, and at the same time, the market for intangible goods consumption is expanding significantly. Overseas, on the other hand, the Ex-Tainment, or intangible goods consumption market itself is still undefined and I believe it can be extremely valu-

able for our Group to explore this market in depth. During the COVID-19 turmoil in Japan, consumers had increased opportunities to watch videos, which was accompanied by greater demand to go out (in search of entertainment) to their neighborhood convenience stores to purchase branded character/theme goods. Our business of sales promotion and merchandising sales using IP content for convenience stores has grown tremendously over the past two years since FY2020. The backdrop to this is that people want valuable experiences as a way to further enjoy their lives, and the memory of the recent opportunity to do so will remain even when they return to their post-COVID lives in the future. We recognize a great business opportunity if you take the perspective that a market has grown in which “intangible goods consumption” can be offered as added value to purchases.

- Hatoyama

It is uncommon in the world to find a country like Japan (though we do see S. Korea and, to an extent, China fostering this trend) where convenience stores and discount stores are close at hand and their sales floors serve as platforms for IP content—or, to rephrase your words, where entertainment has been sublimated into lifestyle. CL Group has, certainly, nurtured these platforms.
- Yamashita

Platforms are a point of contact between IP content and consumers. I feel that even in Japan, companies are missing the perspective of enjoyment in their approach to selling products. There is still a lot of room for development in Japan in terms of increasing customer satisfaction and I think our Group is very unique in that we offer a mixture of both B-to-B and B-to-C solutions.
- Hatoyama

As for changes in the market environment, services have developed that are completed in the digital world, such as e-commerce and the metaverse. This can be both a risk and a great opportunity as to how we will shift to the digital domain or cover both digital and real areas in the future. I will be keeping a close eye on CL Group to see how it positions itself to play a role in the future.

1. See p. 28 for terminology details.

Long-term Growth Potential of CL Group

- Hatoyama

I believe that a major issue for the long-term growth of CL Group is how to expand Ex-Tainment not only domestically but also internationally. With the declining birthrate, the domestic market is inevitably shrinking. Furthermore, if a situation such as COVID-19 occurs, demand from abroad cannot be counted on. It is very important not only for CL Group but also for copyright holders to come up with solutions to this problem. In addition, companies whose business depends on using IP content, both licensors and licensees, are still feeling their way forward in their business and the situation may be completely different in 10 years’ time. In this situation, I expect CL Group to be able to assert its presence as a valuable partner for copyright holders by anticipating and providing total solutions on how to maximize the use of IP content, including global strategies.
- Yamashita

CL Group is a partner of Japanese companies and copyright holders, building bridges to satisfy consumers and fans. In the future, we intend to expand the scale of that bridge-building to the world and build many bridges from Japan. In the advertising and sales promotion market, the emphasis is on improving client satisfaction, and in the content market, the focus tends to be on creativity and “brand first,” but we have changed that perspective and believe that the consumer is the client. This engenders the idea of experiential value and the view that the client is a partner, and in doing so, we go beyond the realm of B-to-B.
- Hatoyama

The Asian market is growing in many areas, and I believe that the use of IP content will increase in the future in order to ensure the competitive advantage of—and to differentiate—products in each category. IP content is an incredible tool not only for the copyright holder, but also for companies developing in each locale, and one can argue that such markets are expected to increase in the future.
- Yamashita

Manufacturers and retailers are expected to further accelerate their overseas expansion going forward. CL Group is also beginning to see an increase in opportunities to work outside Japan with Japanese manufacturers and retailers, as well as opportunities to expand our domestic business horizontally into overseas markets. We become bridges between Japan and other countries for copyright holders and Japanese companies, and our goal is to achieve long-term growth by developing the Ex-Tainment business in domains straddling B-to-B and B-to-C.

Rehito Hatoyama



An expert in the content media, consumer brands, and technology fields. After joining Mitsubishi Corporation, he was engaged in media and content business at Lawson, Inc. and other companies. After earning an MBA from Harvard Business School in 2008, he worked for Sanrio Company, Ltd., where he was in charge of business strategy, overseas business, and new businesses such as movies, media, and IT, and contributed to the globalization of Hello Kitty, before becoming an independent entrepreneur. Currently, while working as the Representative Director of Hatoyama Soken Corporation (a consulting firm), he also serves as an outside director for public companies such as Z Holdings Corporation and Pigeon Corporation and is a venture partner at Sozo Ventures, L.L.C., a venture capital firm. He resides in Palo Alto, California.

Director, CL Holdings Inc. Satoshi Yamashita



Director of CL Holdings Inc. and Executive Vice President of Legs Company, Ltd. He has been engaged in hands-on sales-related work in our Group for many years and has abundant experience and knowledge on the frontlines of business. He has extensive knowledge not only of the sales promotion industry, but also of the distribution industry and licensing business, and has contributed to the development of new business models, such as PMD services².

2. PMD service: Promotion & Merchandising service. A service that combines sales promotion and merchandise sales.

The Future Created by the Ex-Tainment Business

(1) What is Ex-Tainment?

The term was coined by combining the words “experience” and “entertainment,” and is a combination of experiential value and entertainment. In addition, in terms of positioning, the Ex-Tainment market includes potential areas across other markets, such as the markets for advertising and sales promotion, the merchandise sales market, and the entertainment content market.

(2) Potential of the Ex-Tainment market

Consumer behavior has become polarized. One pole is from the demand for “rational shopping,” which is the desire to make purchases quickly and easily. The other pole is from the demand for fun when shopping. With the advancement of digitalization, e-commerce’s absorption of demand for quick shopping is expected to accelerate even further. On the other hand, the demand for so-called “fun shopping,” or the desire for intangible goods consumption and experiential value, is also steadily increasing.

Currently, new content is being created one after another by copyright holders. In addition, with the increase in opportunities to access content due to advances in streaming technology and other factors, content fans are looking for contact points for those contents. However, the commercialization of creating contact points that provide consumers with an enjoyable shopping experience using entertainment content is still in its infancy, and this leaves a large gap that makes the potential market very considerable.

(3) From Japan to the world

CL Group is approaching this potential market with three services: promotion merchandising service (PMD service¹) limited distribution service,² and digital promotion service³ and is making strides in unlocking and fostering the Ex-Tainment market. Japan is an advanced country in terms of entertainment shopping and has the potential to spread this movement around the world. And, we are a company that excels at making an entertaining shopping experience. We will continue to pioneer the future in the Ex-Tainment business and provide fun shopping to consumers and fans not only in Japan, but around the world.

1. PMD Service (Promotional Product Sales): Promotion & Merchandising Services. A service that combines sales promotion and product sales.
2. Limited Distribution Services: A distribution service that creates intangible goods demand and intangible goods consumption by offering limited edition services, such as limited time, limited area, and limited product.
3. Digital Promotion Services: A promotional service that utilizes social networking and digital premiums.
4. GMS: General Merchandise Store.



By connecting various entertainment content to a huge retailer platform, we will spread the value of Ex-Tainment to the world.

Growth Strategy

CL Group delivers a variety of marketing services domestically and internationally to solve problems for clients, while providing consumers and fans with entertainment customer experience value that utilizes IP content. As we transition to a holding company structure, we, as a Group, will further coordinate and strengthen functions related to digital and IP content, and expand the Ex-Tainment market by promoting a larger distribution client platform, which itself is achieved by strengthening PMD services and the development of new products and services.

Group Business Domains and Core Competencies

The Group defines as its business domain (a) the areas in which we can best leverage our competitive strengths. The following three areas are our fields of competition.

- **Marketing:** mainly the sales promotion area
- **Entertainment:** mainly IP content and merchandising areas
- **Digital:** mainly digital promotions, digital premiums (prizes), database building, and other digital areas

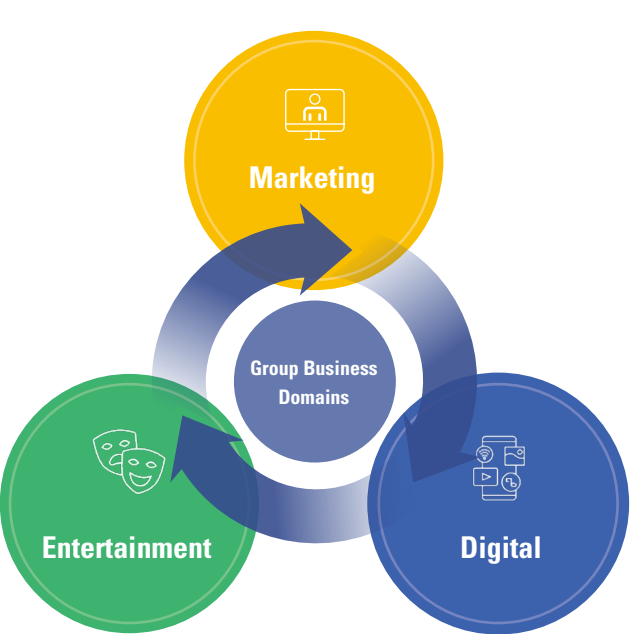
Next, we define our Group core competencies (b) and wield a competitive advantage by multiplying these competencies. Our four core competencies are as follows.

- (1) IP content procurement and deployment capabilities, which is the capacity to utilize a variety of IP content

- (2) The ability to develop platforms (sales sites) that expand consumer contacts domestically and internationally through transactions with a large number of retail distribution clients
- (3) The ability to plan products and services that appeal to many consumers, and to ensure QCD (quality, cost, delivery) management function
- (4) Digital sales promotion capabilities to accurately approach consumers in the digital world

Our fostering of human skills through philosophy-based management, and our management system based on the Management Manual, etc., are an extremely important foundation supporting these four strengths.

(a) Group Business Domains



(b) Group Core Competencies



Group Mid-term Strategy

The Group's mid-term strategy is to "expand the Ex-Tainment market by coordinating and strengthening business functions."

(1) Coordinating and strengthening business functions

In order to develop and deepen the Ex-Tainment market, we will strengthen Group coordination and functions in DX, digital promotions, and IP content matching. Specific initiatives include the use of an AI-based IP content analysis and merchandise sales forecasting system, and the enhancement of Group coordination and Group business functions in digital promotions and digital tools. These are in addition to strengthening coordination surrounding IP content procurement.

(2) Expansion of the Ex-Tainment market

The Group will accelerate expansion of the Ex-Tainment market, where the most business growth opportunities are expected in the medium term. In addition to coordinating and strengthening functions, as described above, we will promote the expansion of our retail distribution client platform by strengthening PMD services and the development of new products and services in order to achieve growth in this market. In our conceptualization of Group growth, we envision that the expansion of the Ex-Tainment market will have a ripple effect on the promotion business and that the entire Group will grow through synergistic effects.

Furthermore, as a key point of growth for the Group, we will increase the following three sales revenue items.

The first is sales revenue in our retail distribution client platform, which mainly refers to revenue from campaigns and merchandise sales at our distribution clients' customer

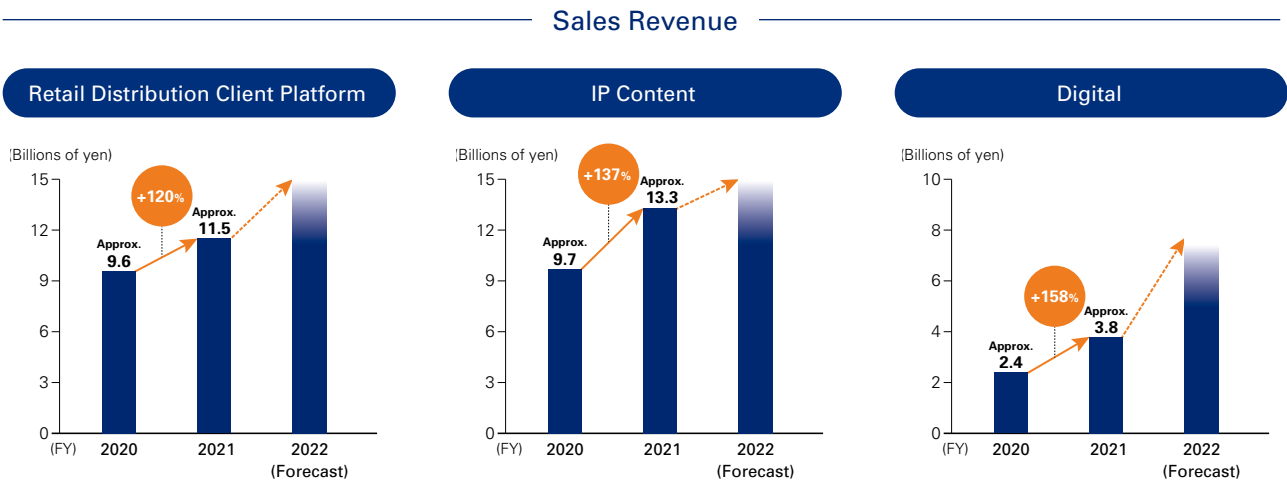
contact points—a nationwide network of stores and sales floors. We aim to grow this sales revenue by utilizing PMD services, limited distribution services, and digital promotion services to make strides in further unlocking the retail distribution client platform.

The second is revenue from sales using IP content. This represents how much sales revenue was generated by using IP content for sales promotions and merchandise sales. The Group has a track record, from an early stage, of using IP content in promotions and merchandise sales, and our strength is our ability to procure IP content. In line with the expansion of the content market, we will increase sales revenue by procuring a variety of IP content and developing a wide range of services that utilize such IP content.

The third is revenue from digital sales, which indicates how much revenue was generated from campaigns and merchandise sales in digital campaigns, digital premiums, and e-commerce. In particular, CDG, a core subsidiary of our Group, has digital promotions as one of its strengths, and we will continue to increase sales revenue in the digital medium by complementing and strengthening functions within the Group.

In addition, CL Group views sustainability as an important issue and is currently pursuing sustainability initiatives at a rapid pace. To address the various issues that threaten the sustainability of society and the world, we have established an SDGs Committee and are considering concrete initiatives. We will also enhance the sustainability of our businesses and companies by driving forward efforts to create social and environmental value as the foundation of our business activities.

Keys to Group Growth



The Group's Services

CL Group offers a variety of marketing services. We are expanding our promotional services, PMD services, and food entertainment services, etc. to a wide range of domestic and international markets.

* See p. 28 for terminology details.

Promotional Services

We provide various types of sales promotion and customer attraction services to our clients. We are capable of providing one-stop support for everything from campaign planning and management, to premium (prize) development and production, logistics management, and follow-up services. Our specialty is services handling IP content and digital campaigns, with the Group planning roughly over 10,000 promotions a year.

OEM Services

These services provide planning, production, quality control, and delivery of prizes and products to manufacturer clients and copy-right holders, among others, using the Group's supply chain.

VMD Services

These services plan and place visually appealing sales promotion displays that reflect the worldview and brand image of manufacturing clients' products on sales floors, encouraging consumers to make purchases. In particular, Legs Company, Ltd. a core subsidiary of our Group, has earned a high reputation for its VMD planning and design capabilities, including winning in fiscal 2021 a record number of two gold and seven silver awards in the JPM POP Creative Awards, Japan's largest POP tool contest.

PMD Services

These services simultaneously roll out sales promotion and customer attraction campaigns using prizes, and merchandise sales using products, mainly for our distribution clients. We specialize in the use of IP content to create experience-based consumption through distribution that is "limited in time," "limited in place," and "limited in product."

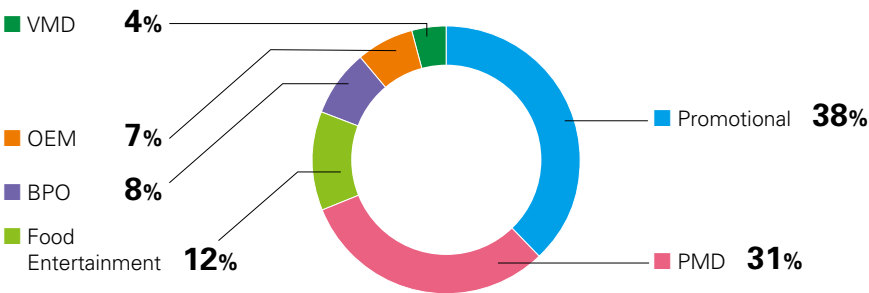
Food Entertainment Services

We are developing collaboration cafes utilizing artists, such as singers, and various IP content, such as characters, artists, movies, animation, and video games. We collaborate with a wide variety of IP content in what are considered prime locations in the city centers, creating accessible, impressive spaces and providing fans with inspiring experiences through total production, including the selection of IP content, planning and development of original menus and limited-edition goods, and store operations. In fiscal 2021, we established LTR inc., a joint venture specializing in collaboration cafes, to accelerate market expansion. These cafes have earned strong praise, including outside Japan, where we launched our first overseas collaboration cafe in Shanghai, China.

BPO Services

These services leverage the know-how cultivated in our corporate marketing promotion services and take on contracts for client marketing operations, as well as planning, procurement, quality control, and other operations and processes for sales promotion materials.

Graph of Group Sales and Sales Revenue Composition for FY2022 (Forecast)



Financial Strategy

Financial Policy

In January 2022, the Group shifted to a holding company structure. In the same month, we began the voluntary use of International Financial Reporting Standards (IFRS) and made CDG Co., Ltd. a consolidated subsidiary in conjunction with this change. As we transition to a holding company structure, we are building a Group management system to further accelerate business growth. In order to achieve business expansion and growth, it is necessary to continuously acquire human resources, make aggressive investments, including M&A, and generate ample cash to make these investments possible. With

regard to the sources of financial capital and the liquidity of funds in the Group, we always aim to maintain a sound financial position and generate stable cash flow. The balance of cash and cash equivalents at the end of the most recent fiscal year was 4 billion yen and we consider the Group to be in a sound financial position, as we have sufficient liquidity. Internal reserves will be used for hiring human resources and building our management system, as well as investing in digitalization, new businesses, M&A, and the like, in order to strengthen our management foundation.

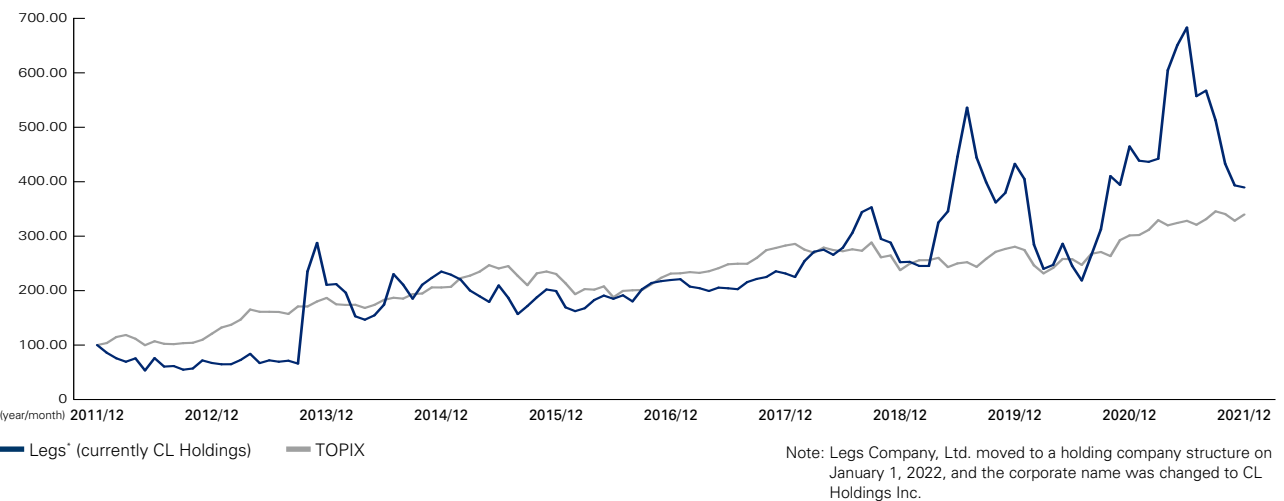
Details and Explanations of Financial KPIs

In order to maximize the Group's corporate value, our long-term policy aim is to achieve sales revenue of 100 billion yen and operating income of 10 billion yen as target management indices, while our mid-term management policy's reference targets are sales revenue of 50 billion yen and EBITDA of 5.5 billion yen* in the fiscal year ending December 2024. Performance for Legs Company, Ltd. in the fiscal year ended December 2021 was steady, with net sales of 20.22 billion yen (up 18.1% year-on-year), operating income of 1.52 billion yen (up 22.4% year-on-year), and EBITDA of 1.59 billion yen. As for shareholder returns, we recognize that returning profits to shareholders is an important management issue and, from the

perspective of Group management, our approach takes into account the consolidated dividend payout ratio. Our policy is to pay dividends due to business performance while securing the internal reserves necessary to strengthen the business foundation and develop future business. Accordingly, our profit distribution is conducted with a consolidated dividend payout ratio of 30% or higher. TSR, whether viewed for a three-year, five-year, or ten-year period, outperforms TOPIX and is higher than the cost of shareholders' equity due to high stock price performance and steady returns to shareholders.

* EBITDA is simply calculated as operating income plus depreciation and amortization.

Total Shareholder Return (TSR) (final data at the end of December 2011 = 100)



TSR (annualized)*

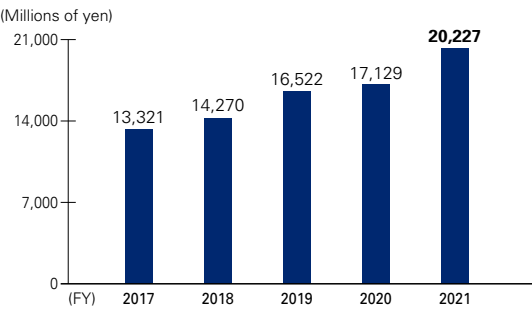
Investment period	1 year	3 years		5 years		10 years	
	Cumulative/ Annual rate	Cumulative	Annual rate	Cumulative	Annual rate	Cumulative	Annual rate
Legs (currently CL Holdings)	-18.0%	+61.9%	+17.4%	+85.3%	+13.1%	+289.5%	+16.3%
TOPIX	+12.7%	+43.0%	+12.7%	+46.9%	+8.0%	+239.8%	+14.6%

* Total Shareholder Return (TSR): Total return on investment including capital gains and dividends.
* TSR for Legs is calculated based on cumulative dividends and stock price fluctuations, and for TOPIX is calculated based on a stock price index including dividends (prepared by the Company based on data from Bloomberg and others).
* The values in the graph are indexed TSR market values, with the closing price data on the last day of December 2011 equaling 100 (with a holding period until the end of December 2021).

Financial and Non-Financial Highlights

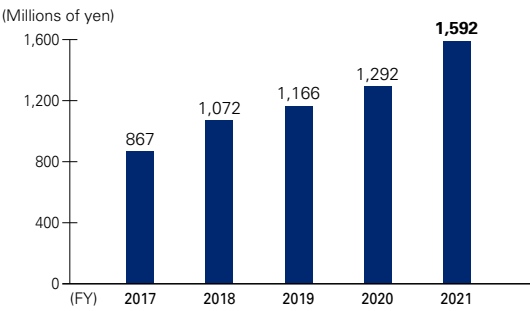
Financial Highlights

Net sales



Consolidated net sales for the fiscal year ended December 31, 2021 increased 18.1% YoY to a record high of 20,227 million yen due to strong sales of merchandise for retail distribution and premium goods or campaign for customers who use daily necessities, despite the impact of reductions in clients’ orders due in part to the prolonged spread of COVID-19.

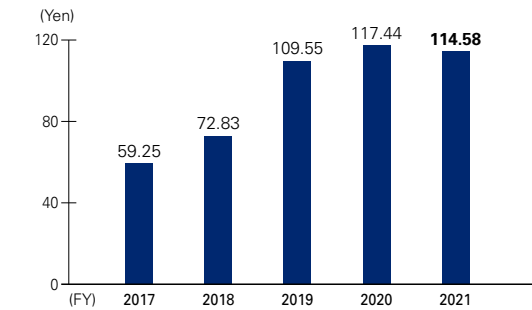
EBITDA



EBITDA for the year ended December 31, 2021, increased 23.2% YoY to a record high of 1,592 million yen, reflecting record high operating income.

* EBITDA is simply calculated as operating income plus depreciation and amortization.

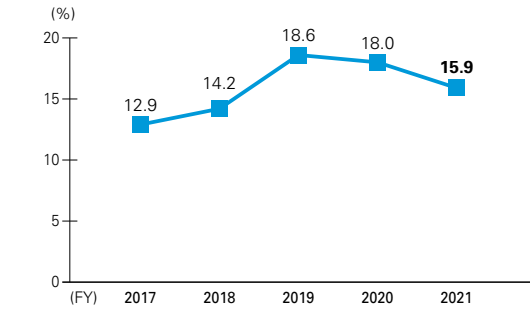
Diluted EPS



Net income attributable to owners of the parent for the year ended December 31, 2021 was down 2.6% YoY to 1,203 million yen due to a decrease in extraordinary income compared to the previous year. As a result, diluted EPS (net income per share)* decreased 2.4% YoY to 114.58 yen.

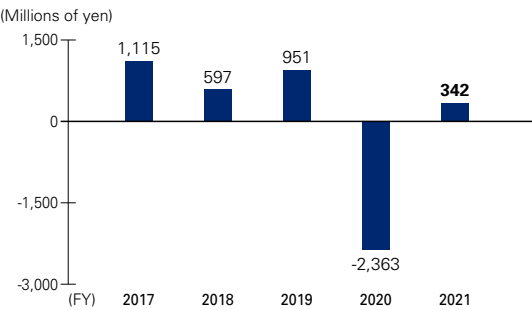
* Diluted EPS: Net income attributable to owners of the parent / Average number of shares outstanding during the period after deduction of treasury stock

Ratio of net income to shareholders’ equity (ROE)



ROE for the year ended December 31, 2021 was 15.9%, down 2.1 points YoY due to the decrease in net income attributable to owners of the parent.

Free cash flow

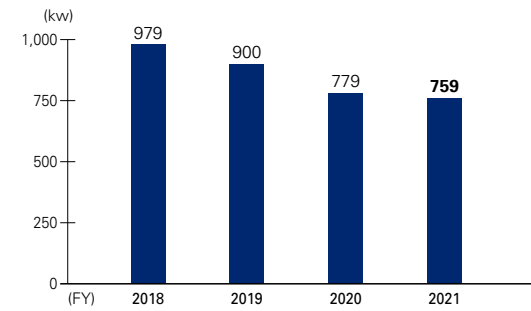


Net cash provided by operating activities for the year ended December 31, 2021 was 649 million yen, while net cash used in investing activities was 307 million yen. As a result, free cash flow was 342 million yen.

* Free cash flow = Net cash provided by operating activities + Net cash used in investing activities

Non-Financial Highlights

Annual electricity consumption per employee*

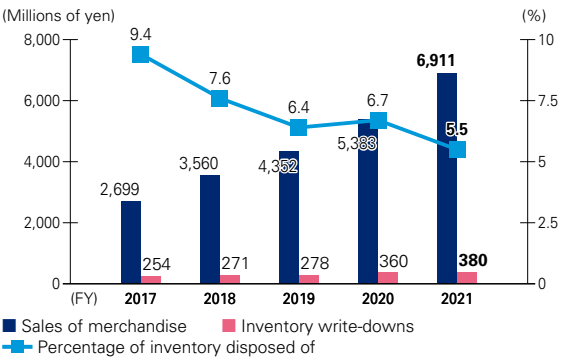


The Group is continually working to make effective use of energy. As part of these efforts, we are reducing the amount of electricity used, and the amount of electricity used per employee is decreasing yearly.

* The period covered by the measurement is the 11-month period excluding June of each year.

* Figures are for all employees, per person, at the end of the fiscal year for Legs Company, Ltd. (CL Group excluding CDG Co., Ltd.)

Inventory disposed of as a percentage of sales of merchandise*

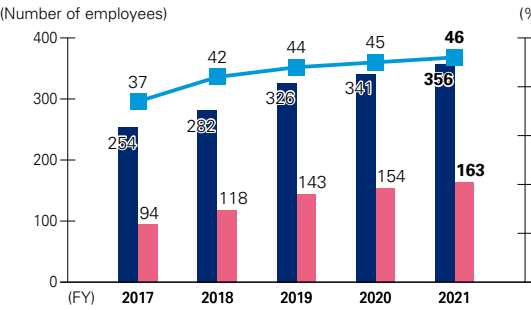


Calculation method: Inventory write-down / Sales of merchandise

As part of its sustainability efforts, the Group is working to reduce inventory disposal in its merchandise sales. Through such efforts as improving operations at the collaboration cafe and utilizing an AI-based IP content demand forecasting model, the ratio of discarded inventory to merchandise sales has been on a yearly downward trend.

* Figures for Legs Company, Ltd. (CL Group excluding CDG Co., Ltd.)

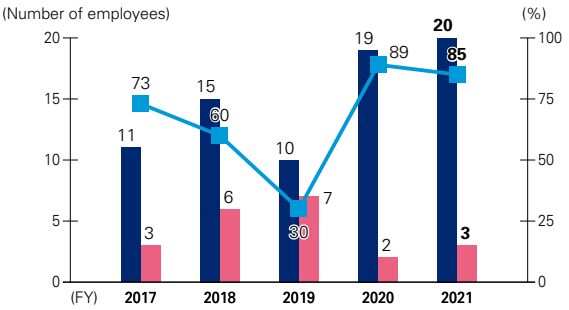
Percentage of female employees*



The Group is committed to creating an environment in which women can continue to work for a long time. As part of these efforts, we are promoting measures such as support systems for childcare, and the percentage of female employees is increasing yearly.

* Figures for Legs Company, Ltd.

Three-year retention rate of new graduate employees*

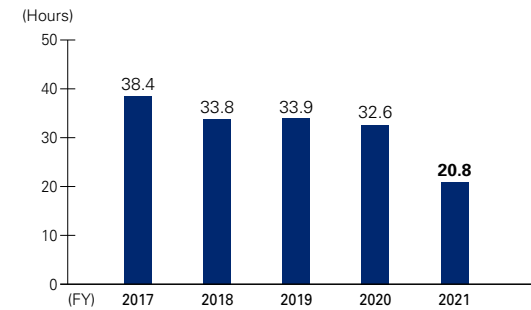


Calculation method: (Total number of new graduate hires - Number of new graduate hires who resigned)/Total number of new hires

The Group has a philosophy-based management approach and strives to prevent personnel mismatches by focusing on recruiting people who share the values of the organization.

* Figures for Legs Company, Ltd. (CL Group excluding CDG Co., Ltd.)

Average annual hours of training per employee*



Calculation method: Total training hours per year / Number of employees at the end of the fiscal year
Total training hours per year = Total of (hours of each training program x number of trainees x number of training sessions)

With penetration of the Group’s management philosophy and enhancement of management skills, we focus on employee training to bring about employee growth and strengthen organizational capabilities. We strive to implement training effectively by revising training methods and systems on a case-by-case basis.

* Figures for Legs Company, Ltd. (CL Group excluding CDG Co., Ltd.)

Sustainability

CL Group aims to continually enhance its corporate value by working with all stakeholders to contribute to solving social issues through its business activities and pursuing social and environmental sustainability.

Initiatives for Creating Social Value

Diverse work styles

The Group is developing and reforming various systems to enable employees from various backgrounds to choose diverse work styles and maximize their abilities. By creating an environment in which employees can continue to work with a sense of fulfillment while maintaining a balance between employee satisfaction and productivity, we are aiming to achieve the “material and intellectual growth of all our employees,” as stated in our management philosophy.

Initiatives to Realize Diverse Work Styles

- Remote Working System.....Company-wide implementation since 2020, triggered by the spread of COVID-19.
- Childcare Support Systems.....A childcare leave system that allows employees to take childcare leave until the child is up to two years old, shortened working hours allowing for childcare for those raising children under three years old, and a flexible work schedule to allow for childcare for those with children up to preschool age are currently in use.
- Flextime System.....The Company has had the system on a trial basis from January 2022 with the aim of improving operational efficiency and productivity.
- Life Event Support System.....In addition to support systems related to childcare, we have a system that enables employees to work flexibly or on shorter hours to accommodate various family situations, such as marriage, childbirth, nursing care, and medical treatment.

Human resource development from a long-term perspective

Our Group regards superior human resources nurtured by a philosophy-based management, as the source of its competitiveness, and actively invests in human resource development. We believe that it is essential to develop human resources who correctly understand, empathize, and practice our management philosophy for us to achieve sustainable business development and organizational growth. In order to maximize the value of our human capital, which is the source of our competitiveness, we are working to strengthen our human capital through various initiatives, such as education in our philosophy, and for leaders, education in management.

Initiatives for Human Resource Development

- Education in Our Philosophy.....The President & CEO is the primary instructor for all employees (currently conducted remotely), and he teaches with the aim of developing each employee's ability to work from a manager's viewpoint, by sharing the management philosophy and, at the same time, promoting the growth of humanity based on our philosophy.
- Education in Management for Leaders.....Conducted twice a month for leaders (currently conducted remotely) with the aim of developing leaders who are not only competent but who are also of excellent character.
- 1-on-1 Interviews.....Conducted once a month for the purpose of realizing long-term growth and career development of subordinates.
- Trial Leadership System.....A system that allows employees to take on the challenges of higher-level positions, established to create management opportunities and accelerate individual growth.



Education in our philosophy



Garbage pickup activities (cleaning up the neighborhood around the head office)



Recognized as a Minato City Model Office for Energy Conservation Promotion in the Minato Environmental Awards

To provide safe, reliable, and high-quality products and services

To manage supply chain risks and ensure the quality of our products and services, the Group was first in the industry to acquire ISO 9001 (quality management system) and ISO 14001 (environmental management system) certifications. We have established risk management methods for the environment and quality, and by implementing the PDCA cycle we are able to provide products and services that are always of low environmental impact, high quality, and ensure safety and security. In addition, to earn the trust and satisfaction of customers, our operating subsidiary Legs Company, Ltd. was one of the first in the industry to obtain the Privacy Mark, which is known in society for its rigorous examination standards.



Initiatives for Creating Environmental Value

The Group recognizes that environmental issues that threaten the sustainability of society and the world are important management issues, and is committed to contributing to the realization of a sustainable society. In addition to establishing an environmental policy and having all employees carry it out, we promote the creation of environmental value through the following activities in order to fulfill our corporate responsibility to all stakeholders as a member of society.

Environmentally Conscious Initiatives

Corporate Social Responsibility Initiatives

- Moved meetings online / Started remote working / Promoted paperless operations by digitalizing invoices and contracts
- Reduce electricity consumption
- Garbage pickup activities (cleaning up the neighborhood around the head office)
- Promote in-house waste separation

Initiatives through Business Activities

- Reduce waste inventory by using IP content demand forecasting models*
- Proactively propose eco-friendly products (e.g., eco bags)

* The system calculates the optimal number of products required based on IP content analysis and sales forecasts, using an AI-based data analysis platform.

SDGs Addressed by the CL Group

SDGs the Group is already working on

7 AFFORDABLE AND CLEAN ENERGY

- Recognized as a Minato City Model Office for Energy Conservation Promotion in the Minato Environmental Awards
- Garbage pickup activities (cleaning up the neighborhood around the head office)

8 DECENT WORK AND ECONOMIC GROWTH

- Childcare support
- Work style reform (remote working, etc.)

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

- Developed an IP content demand forecasting model

10 REDUCED INEQUALITIES

- Support for workers with disabilities
- Regional contribution (local government) Propose contribution plans

11 SUSTAINABLE CITIES AND COMMUNITIES

- Reducing electricity consumption
- Reducing copy paper

14 LIFE BELOW WATER

15 LIFE ON LAND

Proactively propose eco-friendly products (e.g., eco bags)

Developed digital premium

Promoting of in-house waste separation

SDGs to be addressed in the future

5 GENDER EQUALITY

- Increase percentage of female managers

1 NO POVERTY

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

- Thorough reduction of waste inventory (use of IP content demand forecasting model)

13 CLIMATE ACTION

- Evolution of factory audits

14 LIFE BELOW WATER

15 LIFE ON LAND

Strengthen proposals for use of eco-friendly commercial materials (e.g., commercial materials made from recycled materials)

Use of recycled materials in materials and equipment used at the collaboration cafe

Strengthen proposals for contribution-related projects (e.g., donations)

Donation of merchandise made of eco-friendly materials

SDGs Committee has been established and is considering specific initiatives to be done through our business

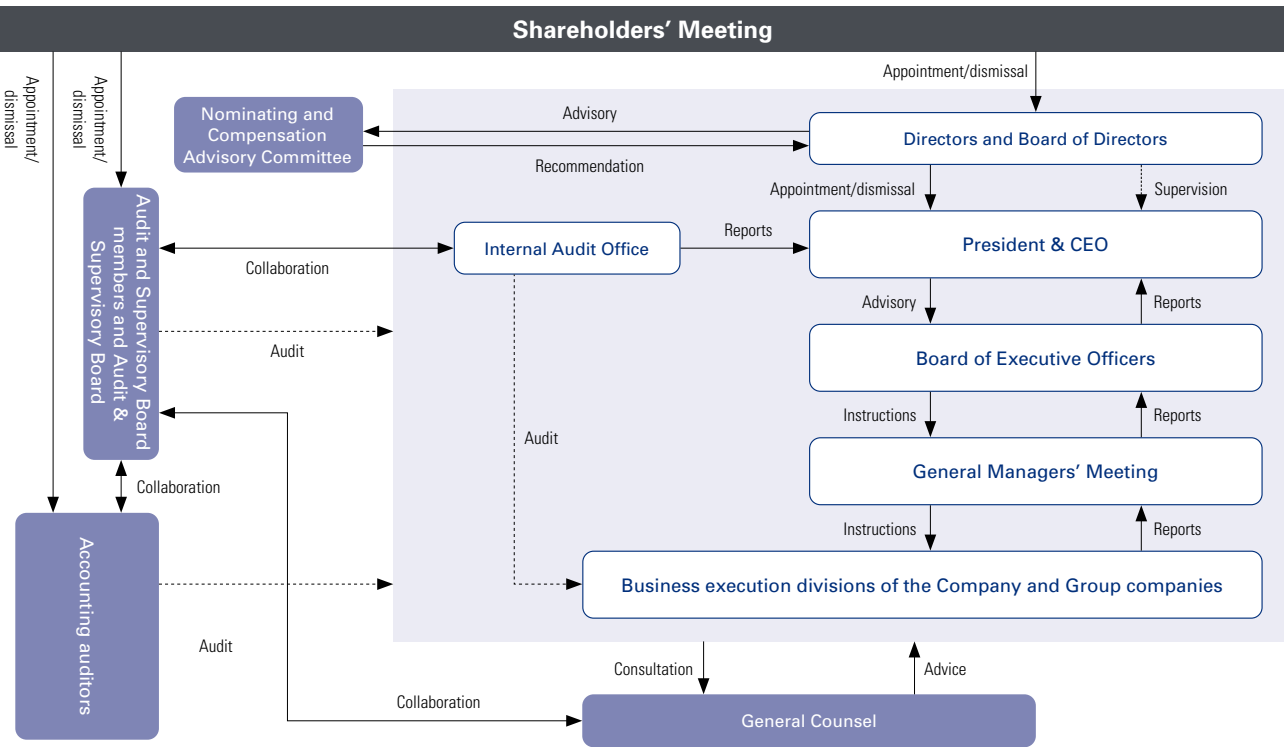
Corporate Governance

CL Holdings regards corporate governance as one of the most important management issues and has focused on ensuring sound, transparent, and speedy management. In order for corporate governance to function properly, we believe it is necessary for us to instill, and have all employees understand our corporate philosophy based on our ethical values, and to establish a framework to ensure sound, transparent, and speedy management. We will continue to work on these two aspects, ethics and mechanisms, to further improve our corporate governance capabilities, fulfill our responsibility for explaining to our shareholders and other stakeholders, and enhance our corporate value.

Corporate Governance Structure

In order to ensure sound and transparent management, and a speedy decision-making system, the Company provides objective and neutral oversight from a professional standpoint by its Audit and Supervisory Board members. In addition, we are improving corporate governance by enhancing our audit and supervision system through the supervisory function of independent outside directors and outside Audit and Supervisory Board members.

Corporate Governance Structure (As of March 23, 2022)



Board of Directors

Our Board of Directors consists of one President & CEO and seven other directors (including three outside directors), and in addition to regular monthly meetings, extraordinary meetings are held as necessary. By appointing outside directors who have excellent insight into all aspects of management, we are working to ensure that management supervision is strengthened by the incorporation of neutral and outside perspectives and ensure that management is transparent and fair. The term of office of directors was set at one year from FY2021.

Audit and Supervisory Board

CL Holdings employs an Audit and Supervisory Board System of one full-time and two part-time outside auditors. The Audit and Supervisory Board meets once a month to discuss important audit-related matters and exchange information. Each auditor also participates in meetings of the Board of Directors, while the full-time auditor attends other important meetings, such as the Board of Executive Officers Meeting, to monitor the execution of duties by directors and the Board of Executive Officers.

Nominating and Compensation Advisory Committee

To ensure the transparency and objectivity of procedures related to the nominating and compensation of directors and to further enhance our corporate governance system, we have established a Nominating and Compensation Advisory Committee as a voluntary advisory body to the Board of Directors. The committee is chaired by an outside auditor and consists of the three auditors (including the committee chair) and three outside directors. The committee responds to inquiries from the Board of Directors regarding the appointment and dismissal of directors, as well as the basic compensation policy, individual compensation amounts for directors and executive officers, director and auditor compensation limits, etc.

Evaluation of the Effectiveness of the Board of Directors

In order to continuously improve the effectiveness of the Board of Directors, the Company conducts a questionnaire of all officers (directors and auditors) participating in the Board of Directors meetings and has a third-party organization analyze and evaluate the results. After receiving a report on the results, the Board of Directors discusses future issues related to the effectiveness of the Board of Directors as a whole.

Improvements and Continuing Issues for FY2021			
Improvements	(1) Discussion and initiatives on succession planning for President & CEO (2) Discussions and initiatives on the selection and dismissal of senior management		
Continuing Issues	(1) Discussions and initiatives on governance and risk management (2) ESG compliance and sustainability initiatives	(3) Discussions on management remuneration (4) Ensuring diversity in board member backgrounds	

Executive Remuneration System

CL Holdings' executive remuneration system is based on the principle that remuneration is linked to medium- and long-term improvements in corporate value and the achievement of management targets. Directors' compensation consists of monthly compensation, which is fixed compensation, and bonuses, shares, etc., which are performance-linked compensation, and 1) fixed compensation and 2) performance-linked compensation are each determined based on independent criteria.

1) Fixed compensation: Monthly compensation, which is fixed compensation, is determined according to position and responsibility, taking into consideration social conditions, the Company's business environment, and the standards of other companies in the same industry. The Nomination and Compensation Advisory Committee is consulted on compensation proposals based on the compensation table established by the Board of Directors, and the committee verifies and reports on the appropriateness of the proposals by incorporating data from executive compensation surveys conducted by external organizations.

2) Performance-linked compensation: Bonuses, shares, etc., which are performance-linked compensation, are determined in accordance with the Company's performance and each director's contribution to management, with the aim of making the linkage to performance clearer and increasing the motivation to contribute to improving performance and increasing corporate value. Those eligible for payment are executive directors, and the percentage of the total amount of payment allocated individually is determined based on the monthly compensation of the eligible directors. In principle, outside directors are paid only fixed compensation in consideration of their independence from the execution of business.

Total amount of compensation for directors and Audit and Supervisory Board Members (FY2021)

Executive classification	Total amount of compensation, etc. (thousands of yen)	Total amount of compensation by type (thousands of yen)			Amount paid Number of directors and auditors covered by the plan
		Basic compensation	Performance-linked compensation	Non-monetary compensation, etc.*	
Directors (outside directors)	111,002 (10,200)	110,010 (10,200)	– (–)	992 (–)	9 (2)
Audit and Supervisory Board members (outside Audit & Supervisory Board members)	20,730 (9,000)	20,730 (9,000)	– (–)	– (–)	4 (2)

* Stock acquisition rights are granted to directors in the form of stock options as non-monetary compensations, etc.

Dialogue

President & CEO, CL Holdings, Inc.

Representative Attorney-at-Law, HS & Co.

Junichiro Uchikawa × Hiroshi Sonobe



What is Needed in Corporate Governance Going Forward

Why Philosophy-based Management Can Be the Source of Competitive Advantage

- Uchikawa**

In our Group’s management philosophy, “pursue the material and intellectual growth of all our employees” and “continue to contribute to the advancement of society through sound business activities” are the values we share with stakeholders and the non-financial value we create for society. I studied management at Seiwajyuku*, and since founding Legs Company, Ltd., I have managed in a way to always do the right thing as a person. More simply put, I believe that if values such as honesty, courage, and hard work are at the center of the work that you do, it will be accepted anywhere in the world. Lately, even in America, which it is said shareholders are put first, companies are focusing on increasing corporate value over the long term and are changing direction to emphasizing stakeholders. Our Group’s philosophy-based management was ahead of the times in taking this way, and has been stakeholder-oriented.
- Sonobe**

I studied at Seiwajyuku with President Uchikawa and have the same ideals. Our Group’s management philosophy also fulfills the thinking of “respect for individuals,” which is the basic principle of Japan’s Constitution. To make the pursuit of the material and intellectual growth of all our employees a reality, we must first make an environment where it is easy to work so each person in the company can give maximum expression to their abilities. In other words, the corporation is people. This way of thinking is truly the source of competitive advantage. President Uchikawa spends a lot of his time teaching employees, and the employees that take in that education bring along the workplace as management leaders. The management philosophy is wonderfully bearing fruit in the shape of increasing corporate value through the growth of all employees.
- Uchikawa**

Even if something cannot be done by a single person, by bringing together people with various abilities, value can be created and the world made better. This is the fundamental purpose of a company, and there are many such people even in the young generation called Generation Z that share this idea. To tie this sort of value to a business, our Group manages in a way that puts the creation of non-financial value on the same axis as the creation of profit.

* A private school run by Kazuo Inamori, the founder of Kyocera Corporation, for managers.

The Role the Board of Directors Should Fulfill to Strengthen Governance

- Sonobe**

The narrow definition of governance is to emphasize returns to shareholders, steadily produce profit, and make management decisions that help the company grow. But from the viewpoint of ESG and the SDGs, the sustainability of society is emphasized and a broad definition of governance is being demanded of companies where the interests of many stakeholders are balanced. The management that we have been doing, that of making the *raison d’être* of the company clear, and making strategies based on that, is close to the recently popular purpose-driven management. Also, with regard to diversity of the Board of Directors, too, the Group is implementing initiatives that consider diversity, which can be appreciated in terms of governance. Going forward, we will need to improve governance by, with respect to the SDGs, looking at risk from a wide point of view, particularly for things that affect the environment, and also by clearly defining management issues as material issues, and by having deep discussions to hammer out strategies and tactics.
- Uchikawa**

Going forward, as our areas of business expand, our employees and management team will both need to raise their awareness of compliance so we can handle various types of risks. Japanese society is an aging one, with a low birth-rate, and our industry is in a market that is led by domestic demand, so if we don’t create new business through more innovation, we cannot expect the business to grow. First, I think we need to stimulate a culture that promotes the attempting of daringly new businesses while bearing various risks. At the same time, we will convey our management philosophy that honesty and modesty are important for us as people, while we also establish a system and mechanisms for backing up the new businesses legally and by managing intellectual property.

Promoting Thorough Compliance

- Sonobe**

With regard to the compliance violation that occurred in 2021, it was thoroughly discussed internally and the cause analyzed. In our Group, so far we have entrusted work to individuals, relying on mutual trust under our education in our philosophy. We have brought about an extremely good organizational culture in our Group, but on the other hand, it seems we had situations arise where work was tied to individuals and it wasn’t possible for people to honestly keep each other in check. Now, by discussing the background to the rise of the compliance violation, I think we can share organizational issues with the management team for why the problem occurred.
- Uchikawa**

With regard to that compliance violation, it is something that definitely must not occur and I take it very seriously. Taking this as an opportunity to grow, currently I am working on strengthening compliance and governance with system and framework reform, changing the director system, revising the personnel and evaluation frameworks, including the personnel policy, with the thought of rebuilding the company.

Transitioning to a Holding Company Structure and a Succession Plan

- Uchikawa**

In January 2022, we shifted to a holding company structure. The entire Group will have the same management philosophy but each company’s mission, vision, and business will be left more and more to each company’s discretion, and we will aim for innovation. The role that CL Holdings has in this is as a backup for the Group by working on the observance of compliance and making governance work.
- Sonobe**

The largest management issues are, obviously, a succession plan, and the raising and education of core employees. A company is expected to fulfill its responsibility to explain to stakeholders regarding ESG and the SDGs, prevent scandals, and provide mechanisms so it can grow sustainably. As an outside director, I look to support this Group by looking at the corporate governance code and continually checking the effectiveness of this Group’s governance against the code.
- Uchikawa**

I teach new employees once a week, for an hour. This is also partly for my benefit, since as I look at them, I get the motivation that I need to make their future, 20 to 30 years hence. In other words, as president, one of my major jobs is making mechanisms so the company will continue to exist stably and for a long time. Currently, I am proceeding with a succession plan: making a human resource pool to produce human resources that can think centered on the management philosophy, having the Nominating Compensation Advisory Committee make multifaceted evaluations, and establishing clear standards for dismissal. Looking at how the company should be in 30 years, and borrowing Mr. Sonobe’s abilities, I want to sustainably improve the company’s value by putting together a more usable and highly transparent compliance and governance system.

Hiroshi Sonobe

Entered the Legal Training and Research Institute of the Supreme Court of Japan in 1992. Registered as an attorney-at-law in 1994. Established Hayashi, Sonobe & Fujigasaki Law Office (currently HS & Co.), Representative Attorney-at-Law (to present) in 2001. From March 2017 Outside Director, Legs Company, Ltd. (currently CL Holdings Inc.). Has a vast amount of experience and broad knowledge as a specialist in corporate law.

Skills Matrix of the Board of Directors

	Name	Skills that can be specifically utilized in the expertise we require										
		Management	Finance & Accounting	Legal & Governance	Human Resources/ Human Resource Development	ESG/SDGs	Overseas Business	Sales & Marketing	Production Engineering/ Quality Control	DX/IT	Content Business	New Business Development
Director	Junichiro Uchikawa	●	●		●			●	●			●
	Makoto Yoneyama	●	●	●	●	●				●		
	Satoshi Yamashita	●				●	●	●			●	●
	Hideo Konishi	●				●	●	●		●	●	
	Mitsuru Ishimura	●	●	●			●	●				●
	Hiroshi Sonobe Outside Independent			●	●	●				●		
	Takashi Watanabe Outside Independent	●			●	●		●				●
	Sachiyo Yasuda Outside Independent	●			●	●		●		●		●
Auditor	Hajime Kusuda			●	●			●	●			
	Hiroshi Magaribuchi Outside Independent		●	●	●	●						
	Motoo Kobayashi Outside Independent	●				●	●			●		

Compliance

As stated in our management philosophy, “we will continue to contribute to the advancement of society through sound business activities.” We recognize that compliance is an essential part of our corporate activities and that maintaining sound

management is indispensable for long-term enhancement of corporate value. We will continue to revise existing systems and initiatives, as well as consider and implement new initiatives to promote management that observes compliance.

Compliance Promotion System

With regard to the misconduct by a former executive officer that occurred in FY2021, the Group attributed the cause to inadequacies in internal systems and management systems and a lack of compliance education for officers and employees, and is revising its various policies and systems, viewing

this incident as an opportunity for growth and improvement. As one of these efforts, we established a Compliance and Governance Committee in April 2022 to further strengthen our compliance system, and have also begun working through this committee.

Initiatives Currently Being Implemented

● Education in Our Philosophy

.....The President & CEO is the primary instructor for all employees (currently conducted remotely), and he teaches with the aim of developing each employee’s ability to work from a manager’s viewpoint, by sharing the management philosophy and, at the same time, promoting the growth of humanity based on our philosophy.

● Compliance Training

.....Conducted multiple times a year with outside lecturers for management-level employees, with the aim of fostering compliance awareness and understanding.

● Whistleblowing System

.....The Group has established and is operating a whistleblowing system for all employees, including directors, for the purpose of preventing and detecting organizational or individual violations of laws and regulations and misconduct at an early stage, and improving the agility of the self-cleansing process. To ensure that whistleblowers are not treated unfairly, an appropriate reporting system is in place with the full-time auditor or an outside attorney as the contact point.

Initiatives Planned for the Future

● Conduct a compliance awareness survey of all employees to ascertain the actual status.

● Further improve basic knowledge of compliance through the use of e-learning and periodic lectures by outside instructors.

Directors



1 Junichiro Uchikawa
President & CEO

1988 March Founded Legs Company, Ltd. (currently, CL Holdings Inc.), Representative Director
1991 March Founded SIP Company, Ltd. (currently, REET Inc.), Representative Director
1994 February President & CEO, Legs Company, Ltd. (to present)
2009 July Director, M&I Co., Ltd.
2014 July Outside Director, Oreno Corporation
2016 February Director, JU Co., Ltd. (to present)
2020 July Chairman, Legs (Shanghai) Trading Company, Ltd. (to present)
2020 July Chairman, Legs (Shanghai) Cultural And Creative Company, Ltd. (to present)
2021 June Chairman & Representative Director, CDG Co., Ltd. (to present)
2021 August Founded Legs Company, Ltd. Successor Preparatory Company (currently Legs Company, Ltd.), President & CEO (to present)
2021 September Chairman, Legs (Shenzhen) Trading Company, Ltd. (to present)

2 Makoto Yoneyama
Director

1980 March Joined Kyoto Ceramic Co., Ltd. (currently KYOCERA Corporation)
2008 April Managing Director, KYOCERA MITA JAPAN Corporation (currently, KYOCERA Document Solutions, Inc.)
2012 April Managing Executive Officer, Corporate Control Division, Japan Airlines Co., Ltd.
2015 April Senior Managing Director & General Manager, Administration Division, KYOCERA Communication Systems Co., Ltd.
2016 March Joined Legs Company, Ltd. (currently, CL Holdings Inc.)
2017 March Representative Director, SIP Company, Ltd. (currently, REET Inc.)
2020 June Director, CDG Co., Ltd. (to present)
2020 July Director, Legs (Shanghai) Trading Company, Ltd. (to present)
2020 July Director, Legs (Shanghai) Cultural And Creative Company, Ltd. (to present)
2021 September Director, Legs (Shenzhen) Trading Company, Ltd. (to present)
2022 March Director in charge of Business Administration, Legs Company, Ltd. (to present)
2022 March Director in charge of Business Administration, CL Holdings Inc., (to present)

3 Satoshi Yamashita
Director

2002 April Joined Legs Company, Ltd. (currently, CL Holdings Inc.)
2020 July Director, Legs (Shanghai) Trading Company, Ltd. (to present)
2020 July Director, Legs (Shanghai) Cultural And Creative Company, Ltd. (to present)
2022 March Executive Vice President, Legs Company, Ltd. In charge of Marketing Service Business (to present)
2022 March Director, CL Holdings Inc. (to present)

4 Hideo Konishi
Director

1996 April Joined CDG Co., Ltd.
2019 April CEO, CDG Co., Ltd. (to present)
2021 March Director, Legs Company, Ltd. (currently, CL Holdings Inc.) (to present)

5 Mitsuru Ishimura
Director

1983 April Joined The Bank of Tokyo, Ltd. (currently MUFG Bank, Ltd.) International Division, BOT Lease Co., Ltd.
1988 January Joined Paribas Capital Markets (currently BNP Paribas Securities (Japan) Limited)
2000 April Managing Director in charge of Investment Banking Division, HSBC Securities (Japan) Limited
2006 March Advisor, Strategic Scenario Co., Ltd.
2013 May Executive Director, Japan Association for Securities Learning (to present)
2015 June Outside Director, MARUHAN Corporation
2016 April Independent Outside Director, SATHAPANA Bank PLC.
2019 January Advisor, Kanie JAPAN Co., Ltd. (to present)
2021 March Director, Legs Company, Ltd. (currently, CL Holdings Inc.) (to present)

6 Hiroshi Sonobe
Outside Director

1992 April Entered the Legal Training and Research Institute of the Supreme Court of Japan
1994 April Joined Kiyoshi Suda Law Office
2001 October Established Hayashi, Sonobe & Fujigasaki Law Office (currently HS & Co.), Representative Attorney-at-Law (to present)
2016 March Outside Director, PALTEK CORPORATION
2016 March Outside Director, Japan Property Management Center Co., Ltd. (Audit and Supervisory Committee Member)
2016 June Outside Audit & Supervisory Board Member, Care Service Co., Ltd. (to present)
2016 June Outside Director, Tokyo Teikoku Co., Ltd. (Audit and Supervisory Committee Member) (to present)
2017 March Outside Director, Legs Company, Ltd. (currently, CL Holdings Inc.) (to present)

7 Takashi Watanabe
Outside Director

1989 April Joined Temporary Center Inc. (currently, Pasona Inc.)
1997 April Representative Director and President, Pasona career assets Inc. (currently, Pasona Inc.)
2021 November Retired as Executive Officer and Vice President, Pasona Group Inc.
2022 March Outside Director, CL Holdings Inc. (to present)

8 Sachiyo Yasuda
Outside Director

1992 April Joined Recruit Co., Ltd. (currently, Recruit Holdings Co., Ltd.)
2014 April Executive Officer in charge of New-graduates Recruiting Operation Division, Recruit Career Co., Ltd. (currently, Recruit Co., Ltd.)
2019 May Joined ExaWizards Inc., Executive Officer
2021 May Director, ExaWizards Inc. Practical AI & DX Research Center (to present)
2022 March Outside Director, CL Holdings Inc. (to present)

9 Hajime Kusuda
Full-time Corporate Auditor

1988 April Joined Legs Company, Ltd. (currently CL Holdings Inc.)
2012 March Director, Legs (Shenzhen) Trading Company, Ltd.
2014 March Representative Director, SIP Company, Ltd. (currently, REET Inc.)
2020 April Director and Deputy General Manager, Sales Division, BONMAX CO., LTD.
2021 March Auditor, Legs Company, Ltd. (to present)
2021 August Auditor, Legs Company, Ltd. Successor Preparatory Company (currently, Legs Company, Ltd.) (to present)
2021 September Auditor, Legs (Shanghai) Trading Company, Ltd. (to present)
2021 September Auditor, Legs (Shanghai) Cultural And Creative Company, Ltd. (to present)
2021 September Auditor, Legs (Shenzhen) Trading Company, Ltd. (to present)

10 Hiroshi Magaribuchi
Outside Auditor

1984 April Joined SHINKO ELECTRIC INDUSTRIES CO., LTD.
1992 September Joined Mio Certified Public Accountant Office
1995 December Established Hiroshi Magaribuchi Certified Public Tax Accountant Office, Head (to present)
2008 December Outside Auditor, GLOBALPOWER Inc. (to present)
2009 May Outside Auditor, Kofu Soko Co., Ltd. (to present)
2014 March Outside Audit & Supervisory Board Member, Legs Company, Ltd. (currently, CL Holdings Inc.) (to present)
2015 June Outside Auditor, Youji Corporation (to present)

11 Motoo Kobayashi
Outside Auditor

1978 April Joined KYOCERA Corporation
2008 April President & Representative Director, KYOCERA Communication Systems Co., Ltd.
2015 December Retired as Chairman & Representative Director, KYOCERA Communication Systems Co., Ltd.
2018 March Outside Audit & Supervisory Board Member, Legs Company, Ltd. (currently, CL Holdings Inc.) (to present)

Corporate Outline

Corporate name	CL Holdings Inc.
Representative	President & CEO Junichiro Uchikawa
Head office	Tokyo, Minato Ward, Minami Aoyama 2 chome, 26-1 D-LIFE PLACE MINAMIAOYAMA 11f & 12f
Established	Established in March 1988* <small>*Establishment day of Legs Company, Ltd. before changing its corporate name to CL Holdings Inc. (January 1, 2022)</small>
Capital	350 million yen
Business field	Managing of group companies and activities related to the above

Major Subsidiaries

Corporate name	Business field
LEGS COMPANY, LTD.	Planning, development, and production for promotional services and the entertainment business
CDG Co., Ltd.	Offering of marketing communication plans, planning and implementation of promotional marketing solutions, planning and implementation of client's overall business operation solutions
LTR inc.	Food entertainment service through collaboration cafe which utilizes IP content
LEGS (SHANGHAI) CULTURAL AND CREATIVE COMPANY, LTD.	Entertainment production, new business construction support
LEGS (SHANGHAI) TRADING COMPANY, LTD.	Planning and implementation of various campaign types, development, production and sales of premium and OEM products
LEGS (SHENZHEN) TRADING COMPANY, LTD.	Quality control and production management for a range of goods and OEM products, product planning and sales for the Chinese domestic market
REET Inc.	Promotion planning, development, and implementation

Glossary

Term	Meaning
IP	Intellectual Property.
Content	Animation, games, movies, characters, artists, etc.
Promotional Services	Services that support a company's sales promotion activities.
Premiums	Premium goods, premium prizes, and giveaways offered in promotional activities.
VMD	Visual Merchandising. A sales method that emphasizes the visual impression of products. It involves comprehensive planning of a store's design, displays, and POP to make products look better.
OEM	Original Equipment Manufacturing. The production of a product under the client's brand, or a manufacturer that produces a product under the client's brand.
BPO	Business Process Outsourcing. Outsourcing of a company's own business processes to an outside specialist.

Term	Meaning
PMD Service (Promotional Product Sales)	Promotion & Merchandising Services. A service that combines sales promotion and product sales.
Limited Distribution Services	A distribution service that creates intangible goods demand and intangible goods consumption by offering limited edition services, such as limited time, limited area, and limited product.
Digital Promotion Services	A promotional service that utilizes social networking and digital premiums.
Platform	Networks of stores in Japan and overseas run by retail distribution clients.
Ex-Tainment	A term coined by combining the words "experience" and "entertainment," referring to the experiential value felt by consumers when consuming entertainment.
GMS	General Merchandise Store.

Shareholder Memo

Stock Information

Fiscal Year	From January 1 to December 31	
Ordinary General Meeting of Shareholders	March	
Shares	Total number of authorized shares	39,200,000
(As of December 31, 2021)	Total number of shares issued	10,840,000 (includes 303,701 shares of treasury stock)
	Number of shareholders	4,498
	Stock exchange listing	First Section of the Tokyo Stock Exchange (currently, the Prime Market)
	Stock trading unit	100 shares

Shareholder Register Administrator

Mizuho Trust & Banking Co., Ltd.
3-3, Marunouchi 1-chome, Chiyoda-ku, Tokyo

Method of Public Notice

Public notices shall be made electronically. However, in the event that the Company is unable to make electronic public notices due to an accident or other unavoidable reason, public notices shall be published in the Nihon Keizai Shimbun.

Accounting Auditors

PricewaterhouseCoopers Kyoto (Assurance)
8 Naginatahokomachi, Shijo-dori Karasuma Higashi-iru, Shimogyo-ku, Kyoto-shi, Kyoto

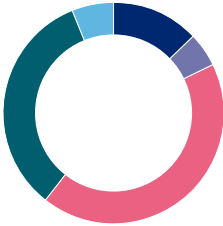
Major Shareholders

* As of December 31, 2021

Major Shareholders (Top 10)		Number of shares held	Percentage of total number of shares issued (%)
1	JU Co., Ltd.	4,321,200	41.01
2	Legs Company, Ltd. (currently, CL Holdings Inc.) Employees' Stockholding Association	648,100	6.15
3	The Master Trust Bank of Japan, Ltd. (Trust Account)	529,500	5.03
4	Custody Bank of Japan, Ltd. (Trust Account)	505,600	4.80
5	BNP PARIBAS SECURITIES SERVICES LUXEMBOURG	302,500	2.87
6	Junichiro Uchikawa	295,400	2.80
7	Meiji Yasuda Life Insurance Company	224,000	2.13
7	Kofu Soko Co., Ltd.	224,000	2.13
9	Norio Kabasawa	213,000	2.02
10	SMBC Nikko Securities Inc.	141,400	1.34

* The Company owns 303,701 shares of treasury stock.
* The percentage of shareholding is calculated based on the total number of shares issued, excluding treasury stock.

Ownership Status



Share Distribution by Shareholder	Number of shares held	Breakdown of shareholders by type
Financial institutions	1,400,000	12.91 %
Financial instruments firms	557,100	5.14 %
Other domestic corporations	4,621,100	42.64 %
Individuals and others (including treasury stock)	3,598,100	33.20 %
Foreign corporations, etc. (including foreign individuals)	660,800	6.09 %
Total	10,837,100	100.00 %

* Excluding 2,900 shares which are held in various accounts but in each account are less than one unit