Financial Results for the Second Quarter of FY 2017 [Based on the Japanese Accounting Standards] (Consolidated)

November 2, 2017

Name of the company:	Takachiho Koheki Co., Ltd.	Stock Market:	Tokyo Stock Exchange First Section
Code No.:	2676	URL:	http://www.takachiho-kk.co.jp
Representative (job title):	Hideo Toda (President and CEO)		
Contact person (job title):	Masazumi Uematsu (Director, Executive Officer, General Manager of the Corporate Management Division)		
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Registration date of quarterly report: November 9, 2017
Date of dividends payment: December 5, 2017

(Amounts less than one million yen are rounded down.)

1. Consolidated Financial Results for the Second Quarter of FY 2017 (from April 1, 2017 to September 30, 2017)

(1) Consolidated Operating Results (Cumulative) (Percent figures represent changes from the same period last year)

	Net sales		Operating income		Ordinary income		Quarterly net income attributable to the shareholders of the parent company	
	million yen	%	million yen	%	million yen	%	million yen	%
Second quarter of FY 2017	9,415	7.2	211	66.7	252	29.0	123	60.2
Second quarter of FY 2016	8,780	(15.6)	126	(47.6)	196	10.8	77	-

Note: Comprehensive income: 328 million yen －% for the second quarter of FY 2017
(227) million yen －% for the second quarter of FY 2016

	Quarterly net income per share	Fully diluted quarterly net income per share
	yen	yen
Second quarter of FY 2017	13.23	13.22
Second quarter of FY 2016	8.10	-

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	million yen	million yen	%	yen
Second quarter of FY 2017	18,485	14,051	76.0	1,503.80
FY 2016	18,561	13,834	74.5	1,480.61

Reference: Owner's equity: 14,042 million yen for the second quarter of FY 2017
13,825 million yen for FY 2016

2. Dividends

	Annual cash dividends per share				
	At 1st quarter end	At 2nd quarter end	At 3rd quarter end	At fiscal year end	Total
	yen	yen	yen	yen	yen
FY 2016	-	12.00	-	12.00	24.00
FY 2017	-	12.00			
FY 2017 forecast			-	12.00	24.00

Note: Revisions to the most recently disclosed dividend forecasts: None

3. Forecast of Consolidated Operating Results for FY 2017 (from April 1, 2017 to March 31, 2018)

(Percent figures represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income attributable to the shareholders of the parent company		Net income per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
FY 2017	21,000	10.3	1,000	99.8	1,000	42.8	650	132.4	69.61

Note: Revisions to the most recently disclosed forecast of operating results: None

* Notes:

(1) Changes to principal subsidiaries for the current consolidated cumulative quarter (changes to specified subsidiary companies accompanying changes to the scope of consolidation): None

(2) Application of special accounting treatment to the preparation of quarterly consolidated financial statements: None

(3) Changes in accounting policies and estimates, and retrospective restatement:
- (i) Changes in accounting policies due to amendments of accounting standards: None
- (ii) Changes in accounting policies other than (i) above: None
- (iii) Changes in accounting estimates: None
- (iv) Retrospective restatement: None

(4) Number of shares issued (common stock)

(i) Number of shares issued at the end of the period (including treasury shares)	FY 2017 2Q	10,171,800	FY 2016	10,171,800
(ii) Number of treasury shares at the end of the period	FY 2017 2Q	833,957	FY 2016	833,957
(iii) Average number of shares issued during the period (QTD)	FY 2017 2Q	9,337,843	FY 2016 2Q	9,524,970

* This quarterly financial summary is not subject to audit quarter review.

* Appropriate use of forecasts and other items warranting special mention:

(Notes to the forecasts)

The operating result forecast and other forward-looking statements contained in this report are based on the information currently available to the Company and certain assumptions the Company considers reasonable, and the Company by no means guarantees such achievement. In addition, final results may differ significantly from forecasts due to a variety of factors.

○Table of Contents to the Attached Materials

1. Qualitative information on financial results for the current quarter..... 2
(1) Explanation of Operating Results..... 2
(2) Explanation of Financial Position..... 3
(3) Explanation of the Future Outlook, including Forecast of Consolidated Operating Results..... 3
2. Quarterly Consolidated Financial Statements..... 4
(1) Quarterly Consolidated Balance Sheet..... 4
(2) Quarterly Consolidated Income Statements and Statements of Comprehensive Income..... 6
(Quarterly Consolidated Income Statement)
(Consolidated cumulative second quarter) 6
(Quarterly Consolidated Statements of Comprehensive Income)
(Consolidated cumulative second quarter) 7
(3) Notes on the quarterly consolidated financial statements..... 8
(Note on going-concern assumption) 8
(Note in case of remarkable changes in amount of shareholders' equity) 8
(Segment Information, etc.) 8
3. Supplementary Information..... 9
Actual results of sales..... 9

1. Qualitative information on financial results for the current quarter

(1) Explanation of Operating Results

For the current consolidated cumulative second quarter, the economy in Japan showed a continuing recovery trend with an increasing trend in exports and improvement in capital investment. It also experienced a gradual recovery in consumer spending backed by steady improvement in the employment/income environment.

For the outlook, amid the continuing improvement trend in the employment/income environment, the economy is expected to recover gradually due to various economic countermeasures. But it is necessary to note the overseas situations, such as geopolitical risk, BREXIT, and the operation of economic policies in the United States.

Although the market environment for our Group remains harsh due to increasingly fierce competition, we are striving to improve profitability by creating original added value to achieve further growth and expand our global business by entering growing markets primarily in Asia.

In the System Segment, we have made efforts to increase the added value of our flagship products, Electronic Article Surveillance Systems and Access Control Systems, to develop new markets for RFID Systems, Retail Security Solutions, and Cloud-based Wireless LAN Systems, and to expand the Fire Protection System Business, which is operated in Thailand and the ASEAN region.

In the Device Segment Semiconductor Business, we have promoted sales in the telecom infrastructure area and increasing added value, such as unique board designs using a variety of semiconductors. In the Industrial Systems Business, we have focused on sales of Mechanical Components for residential equipment in North America, the ASEAN region and China, in addition to conventional sales of Mechanical Components for ATMs, as well as the development of the automobile interior components market in Japan and overseas.

For operating results in the current consolidated cumulative second quarter, sales increased by 7.2 percent YOY to 9,415 million yen due to solid performance in the System Segment despite, weak performance in the Device Segment. In terms of profit/loss status, operating income increased 66.7 percent YOY to 211 million yen due to a 92 million yen decrease in selling, general and administrative expenses. Ordinary income increased 29.0 percent YOY to 252 million yen. Quarterly net income attributable to owners of parent increased 60.2 percent YOY to 123 million yen.

The Operating results of each Segment are as follows:

(System Segment)

System Segment sales increased 17.5 percent YOY to 5,893 million yen and operating income increased 221 million yen YOY to 226 million yen.

For Security Solution Products, sales increased 22.2 percent YOY to 3,806 million yen, with a sales increase resulting from obtaining replacement demand for the Electronic Article Surveillance Systems, solid sales of the Display Security Systems for major cellphone carriers and the Access Control Systems for foreign companies, and a YOY sales increase of the Fire Protection Systems in Thailand.

For Other System Solution Products, sales increased 12.7 percent YOY to 734 million yen due to solid sales in cloud-based wireless LAN Systems and RFID tags.

For Customer Service Products, sales increased 8.5 percent YOY to 1,351 million yen due to an increase in revenues from installation and maintenance services associated with a sales increase in retail security products and business solution products.

(Device Segment)

Device Segment sales decreased 6.5 percent YOY to 3,521 million yen and operating income decreased 140 million yen YOY, resulting in a loss of 17 million yen.

For Semiconductor products, sales increased 3.8% YOY to 1,581 million yen due to solid sales of electronic parts for semiconductor manufacturing equipment and IP-PBX (Private Branch eXchange), despite weak sales of products for the amusement market, smartphones and digital cameras.

For Mechanical component products, sales decreased 13.4 percent YOY to 1,940 million yen due to weak sales of products for the ATM and amusement markets, despite solid sales of products for office furniture and residential equipment.

(2) Explanation of Financial Position

Total assets as of the end of the current consolidated cumulative second quarter decreased 75 million yen from the end of the previous consolidated fiscal year to 18,485 million yen. This is because securities decreased by 500 million yen due to cancellation of a certificate of deposit while investment securities and cash and deposits increased 402 million yen and 167 million yen.

Liabilities decreased 292 million yen from the end of the previous consolidated fiscal year to 4,433 million yen. This is because notes and accounts payable – trade and income taxes payable decreased 206 million yen and 61 million yen, respectively.

Net assets increased 217 million yen from the end of the previous consolidated fiscal year to 14,051 million yen. This is because quarterly net income attributable to owners of parent amounted to 123 million yen, while the valuation difference on available-for-sale securities increased 122 million yen. The equity ratio increased 1.5 percent from the end of the previous consolidated fiscal year to 76.0 percent.

(3) Explanation of the Future Outlook, including Forecast of Consolidated Operating Results

Consolidated operating result forecasts for the full year published in the summary of financial statements for the fiscal year ended March 2017 on May 10, 2017, are unchanged.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheet

(Unit : Millions of yen)

	Previous consolidated fiscal year (as of March 31, 2017)	Second quarter of the current consolidated fiscal year (as of September 30, 2017)
Assets		
Current assets		
Cash and deposits	6,163	6,331
Notes and accounts receivable - trade	5,989	5,954
Securities	500	—
Merchandise and finished goods	2,330	2,370
Raw materials	80	87
Other	642	619
Allowance for doubtful accounts	(7)	(17)
Total current assets	15,699	15,347
Non-current assets		
Property, plant and equipment	304	304
Intangible assets		
Goodwill	1,058	1,002
Other	88	79
Total intangible assets	1,147	1,081
Investments and other assets		
Investment securities	835	1,238
Other	574	514
Allowance for doubtful accounts	(0)	(1)
Total investments and other assets	1,409	1,751
Total non-current assets	2,861	3,137
Total assets	18,561	18,485

(Unit : Millions of yen)

	Previous consolidated fiscal year (as of March 31, 2017)	Second quarter of the current consolidated fiscal year (as of September 30, 2017)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	2,749	2,543
Income taxes payable	193	132
Provision for bonuses	245	238
Provision for directors' bonuses	11	12
Other	834	803
Total current liabilities	4,034	3,729
Non-current liabilities		
Net defined benefit liability	631	643
Other	60	61
Total non-current liabilities	691	704
Total liabilities	4,726	4,433
Net assets		
Shareholders' equity		
Capital stock	1,209	1,209
Capital surplus	1,170	1,170
Retained earnings	12,237	12,249
Treasury shares	(783)	(783)
Total shareholders' equity	13,833	13,844
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	219	341
Foreign currency translation adjustment	(210)	(129)
Remeasurements of defined benefit plans	(16)	(14)
Total accumulated other comprehensive income	(7)	197
Subscription rights to shares	8	9
Non-controlling interests	0	0
Total net assets	13,834	14,051
Total liabilities and net assets	18,561	18,485

(2) Quarterly Consolidated Income Statements and Statements of Comprehensive Income

(Quarterly Consolidated Income Statement)

(Consolidated cumulative second quarter)

(Unit : Millions of yen)

	Previous consolidated cumulative second quarter (From April 1, 2016 to September 30, 2016)	Current consolidated cumulative second quarter (From April 1, 2017 to September 30, 2017)
Net sales	8,780	9,415
Cost of sales	6,474	7,118
Gross profit	2,305	2,297
Selling, general and administrative expenses	2,178	2,085
Operating profit	126	211
Non-operating income		
Interest income	0	0
Dividend income	8	8
Foreign exchange gains	31	22
Insurance income	2	0
Share of profit of entities accounted for using equity method	0	0
Gain on adjustment of account payable	25	－
Other	3	10
Total non-operating income	71	43
Non-operating expenses		
Interest expenses	1	0
Other	1	1
Total non-operating expenses	2	1
Ordinary profit	196	252
Extraordinary income		
Gain on sales of investment securities	0	－
Gain on reversal of subscription rights to shares	11	－
Total extraordinary income	11	－
Extraordinary losses		
Loss on retirement of non-current assets	－	1
Total extraordinary losses	－	1
Profit before income taxes	207	251
Income taxes - current	129	122
Income taxes - deferred	0	5
Total income taxes	130	128
Profit	77	123
Profit attributable to owners of parent	77	123

(Quarterly Consolidated Statements of Comprehensive Income)
(Consolidated cumulative second quarter)

(Unit : Millions of yen)

	Previous consolidated cumulative second quarter (From April 1, 2016 to September 30, 2016)	Current consolidated cumulative second quarter (From April 1, 2017 to September 30, 2017)
Profit	77	123
Other comprehensive income		
Valuation difference on available-for-sale securities	(0)	122
Foreign currency translation adjustment	(307)	81
Remeasurements of defined benefit plans, net of tax	3	1
Total other comprehensive income	(304)	205
Comprehensive income	(227)	328
(Breakdown)		
Comprehensive income attributable to owners of parent	(227)	328

(3) Notes on the quarterly consolidated financial statements

(Note on going-concern assumption)

Not applicable

(Note in case of remarkable changes in amount of shareholders' equity)

No changes in the applicable matter

(Segment Information, etc.)

[Segment Information]

I Previous consolidated cumulative second quarter (From April 1, 2016 to September 30, 2016)

Information concerning amounts of sales and profit or loss for each reporting segment

(Unit : Millions of yen)

	System	Device	Total	Adjustments (Note) 1	Amount stated on the quarterly consolidated income statements (Note) 2
Sales					
Sales to external customers	5,014	3,765	8,780	—	8,780
Internal sales and transfers between segments	—	—	—	—	—
Total	5,014	3,765	8,780	—	8,780
Segment profit	5	123	129	(2)	126

(Notes) 1. Adjustments to segment profit or loss of (2) million yen are consolidated adjustments.

2. Segment profit or loss is reconciled to operating income on the quarterly consolidated income statements.

II Current consolidated cumulative second quarter (From April 1, 2017 to September 30, 2017)

1. Information concerning amounts of sales and profit or loss for each reporting segment

(Unit : Millions of yen)

	System	Device	Total	Adjustments (Note) 1	Amount stated on the quarterly consolidated income statements (Note) 2
Sales					
Sales to external customers	5,893	3,521	9,415	—	9,415
Internal sales and transfers between segments	—	—	—	—	—
Total	5,893	3,521	9,415	—	9,415
Segment profit(loss)	226	(17)	209	2	211

(Notes) 1. Adjustments to segment profit or loss of 2 million yen are consolidated adjustments.

2. Segment profit is reconciled to operating income on the quarterly consolidated income statements.

4. Supplementary Information

Actual results of sales

(Unit : Millions of yen)

Segment		Previous quarter (Second quarter of FY 2016)	Current quarter (Second quarter of FY 2017)
System	Security Solution Products	3,116	3,806
	Other System Solution Products	652	734
	Customer Service Products	1,245	1,351
	Total	5,014	5,893
Device	Semiconductors Products	1,524	1,581
	Mechanical Component Products	2,240	1,940
	Total	3,765	3,521
Total		8,780	9,415