Consolidated Financial Results for the Six Months Ended June 30, 2018 [Japanese GAAP]

August 2, 2018

Company name: KANRO CO., LTD.
Stock exchange listing: Tokyo Stock Exchange
Code number: 2216
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Scheduled date of filing quarterly securities report: August 9, 2018
Scheduled date of commencing dividend payments: August 29, 2018
Availability of supplementary briefing material on quarterly financial results: No
Schedule of quarterly financial results briefing session: No

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

1. Consolidated Financial Results for the Six Months Ended June 30, 2018 (January 1, 2018 to June 30, 2018)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
Six months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
June 30, 2018	11,274	8.2	602	26.7	618	28.2	671	118.5
June 30, 2017	10,418	4.4	475	24.6	482	23.2	307	26.5

(Note) Comprehensive income: Six months ended June 30, 2018: ¥706 million [86.7%]
Six months ended June 30, 2017: ¥378 million [84.0 %]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
June 30, 2018	187.43	―
June 30, 2017	85.14	―

* The Company conducted a share consolidation of common stock at a ratio of one share for five shares with July 1, 2017 as the effective date. Accordingly, the figures for basic earnings per share have been calculated assuming that the share consolidation had been conducted at the beginning of the previous fiscal year.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2018	18,505	10,599	57.3
As of December 31, 2017	18,275	10,003	54.7

(Reference) Equity: As of June 30, 2018: ¥10,599 million
As of December 31, 2017: ¥10,003 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2017	—	6.00	—	30.00	—
Fiscal year ending December 31, 2018	—	30.00			
Fiscal year ending December 31, 2018 (Forecast)			—	35.00	65.00

(Note) Revision to the forecast for dividends announced most recently: No

* Kanro conducted a share consolidation of common stock at a ratio of one share for five shares with July 1, 2017 as the effective date. Accordingly, the year-end dividend per share for the fiscal year ended December 31, 2017 show the amount after taking into consideration the consolidation of shares. The total amount of annual dividends is indicated as "—." The annual dividend per share converted on the basis after the share consolidation is ¥60 for the fiscal year ended December 31, 2017.
* Breakdown of the year-end dividend for the fiscal year ending December 31, 2018 (forecast)
  Ordinary dividend: ¥30, Special dividend: ¥5

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2018 (January 1, 2018 to December 31, 2018)

* Kanro merged its consolidated subsidiary, Hikari Seika Co., Ltd. on July 1, 2018. Consolidated financial results forecast for the fiscal year ending December 31, 2018 is not disclosed since the Company's financial results will be disclosed on a non-consolidated basis from the third quarter of the fiscal year ending December 31, 2018.
* Please refer to "(3) Explanation of Non-consolidated Financial Results Forecast and Other Forward-looking Information" on page 3 of the Appendix for detail.

*** Notes:**

(1) Changes in significant subsidiaries during the three months ended June 30, 2018 (changes in specified subsidiaries resulting in changes in scope of consolidation): No

(2) Accounting policies adopted specially for the preparation of quarterly consolidated financial statements: No

(3) Changes in accounting policies, changes in accounting estimates and retrospective restatement
  1) Changes in accounting policies due to the revision of accounting standards: No
  2) Changes in accounting policies other than 1) above: No
  3) Changes in accounting estimates No
  4) Retrospective restatement: No

(4) Total number of issued shares (common shares)
  1) Total number of issued shares at the end of the period (including treasury shares):
    June 30, 2018: 3,828,901 shares
    December 31, 2017: 3,828,901 shares

  2) Total number of treasury shares at the end of the period:
    June 30, 2018: 246,172 shares
    December 31, 2017: 245,955 shares

  3) Average number of shares during the period:
    Six months ended June 30, 2018: 3,582,843 shares
    Six months ended June 30, 2017: 3,610,235 shares

  *1. The Company conducted a share consolidation of common stock at a ratio of one share for five shares

with July 1, 2017 as the effective date. Accordingly, the figures for the total number of issued shares at the end of the period, total number of treasury shares at the end of the period and average number of shares during the period have been calculated assuming that the share consolidation had been conducted at the beginning of the previous fiscal year.

2. Total number of treasury shares at the end of the period includes the Company's treasury shares owned by Japan Trustee Services Bank, Ltd. (Trust Account) (June 30, 2018: 55,000 shares and December 31, 2017: 55,000 shares).

* These quarterly financial results are outside the scope of the quarterly review by a certified public accountant or audit firm.

* Explanation of the proper use of financial results forecast and other notes

The earnings forecasts and other forward-looking statements herein are based on currently available information and certain assumptions deemed reasonable. Actual results may differ significantly from these forecasts due to a wide range of factors. Please refer to "(3) Explanation of Non-consolidated Financial Results Forecast and Other Forward-looking Information" on page 3 of the Appendix for assumptions on financial results forecasts and notes on the use of such forecasts.

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1. Qualitative Information on Quarterly Financial Results for the Period under Review

(1) Explanation of Business Results

The Japanese economy during the six months ended June 30, 2018 followed a moderate recovery trend as the employment and income environment continued to improve. While the personal consumption has recovered, consumer sentiment is at a standstill due to an increase in consumer prices, the future outlook remains uncertain.

In the candy market, the consumption of hard candies remained unchanged from the previous fiscal year while the consumption of gummies has grown steadily. As a result, sales in the overall candy market increased slightly year on year.

In such a business environment, based on the new medium-term management plan “New KANRO 2021”, Kanro strove to conduct further measures to improve quality, expand net sales through proposal-based sales activities, and reduce manufacturing costs by integrating manufacturing lines. In addition to relocation of the head office and enhancement of operating efficiency through the development of an information system environment, Kanro also actively worked to enhance diversity promotion system.

Net sales by category for the six months ended June 30, 2018, both of hard candies and gummies increased by 9.7% and 7.6% respectively year on year owing to factors including greater sales of its mainstay brand products. As a result, net sales increased by ¥855 million (8.2%) year on year to ¥11,274 million.

Gross profit increased by ¥632 million (13.2%) year on year to ¥5,426 million as a result of increases in net sales of mainstay brand products and reduction in cost of sales from factors including reduction in manufacturing costs by integrating manufacturing lines and improvement of yield by conducting further measures to improve quality.

Operating income increased by ¥127 million (26.7%) year on year to ¥602 million, despite higher selling expenses in line with greater net sales and temporary expenses due to relocation of the head office, change of CI (Corporate Identity) and absorption-type merger with Hikari Seika Co., Ltd.

Ordinary profit increased by ¥136 million (28.2%) year on year to ¥618 million in line with greater operating income.

Net income attributable to owners of parent increased by ¥364 million (118.5%) year on year to ¥671 million due mainly to the recording of extraordinary income of ¥501 million including gain on sales of non-current assets associated with the sale of the former headquarters building (including land), and the recording of extraordinary losses including a loss on retirement of non-current assets of ¥32 million caused by renovations of factories to construct new gummy production lines, an impairment loss of ¥35 million from inactive assets, and a special retirement expenses and a loss on retirement of non-current assets of ¥41 million caused by an absorption-type merger with Hikari Seika Co., Ltd.

(2) Explanation of Financial Position

Total assets at the end of the second quarter of the fiscal year under review increased by ¥230 million (1.3%) from the end of the previous fiscal year to ¥18,505 million.

This is mainly attributable to a decrease in *notes and accounts receivable* by ¥733 million, despite increases in *cash and deposits* by ¥708 million as well as *merchandise and finished goods*, and *property, plant and equipment* by ¥138 million and ¥108 million, respectively.

Liabilities decreased by ¥365 million (4.4%) from the end of the previous fiscal year to ¥7,906 million.

This is mainly attributable to decreases in *provision for bonuses*, *current liabilities – other*, and *long-term loans payable* by ¥237 million, ¥267 million, and ¥245 million, respectively, despite increases in *accounts payable - other* and *accrued expenses* by ¥259 million and ¥152 million, respectively.

Net assets increased by ¥596 million (6.0%) from the end of the previous fiscal year to ¥10,599 million. This is mainly due to the recording of ¥671 million in *net income attributable to owners of parent* and the payment of ¥109 million in *dividends*.

(3) Explanation of Non-consolidated Financial Results Forecast and Other Forward-looking Information

Full-year non-consolidated financial results forecast for the fiscal year ending December 31, 2018 was revised upward on August 2, 2018. The full-year non-consolidated financial results forecast for the fiscal year ending December 31, 2018 is as follows:

	Net sales		Operating income		Ordinary income		Net income		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	22,500	―	860	―	900	―	920	―	256.79

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Thousand yen)

	As of December 31, 2017	As of June 30, 2018
Assets		
Current assets		
Cash and deposits	2,202,534	2,911,260
Notes and accounts receivable - trade	5,442,866	4,708,968
Merchandise and finished goods	419,280	557,834
Work in process	5,508	26,026
Raw materials and supplies	196,565	186,083
Other	409,227	356,414
Total current assets	8,675,981	8,746,587
Non-current assets		
Property, plant and equipment		
Buildings and structures	8,367,339	7,304,275
Accumulated depreciation	(5,183,164)	(4,567,648)
Buildings and structures, net	3,184,174	2,736,627
Machinery, equipment and vehicles	12,007,254	10,945,617
Accumulated depreciation	(9,604,385)	(8,461,634)
Machinery, equipment and vehicles, net	2,402,868	2,483,982
Land	1,736,712	1,695,009
Construction in progress	382,781	819,117
Other	899,781	930,797
Accumulated depreciation	(685,733)	(636,163)
Other, net	214,047	294,633
Total property, plant and equipment	7,920,585	8,029,369
Intangible assets	149,540	160,896
Investments and other assets		
Investment securities	649,798	694,327
Other	879,188	874,568
Total investments and other assets	1,528,986	1,568,896
Total non-current assets	9,599,111	9,759,162
Total assets	18,275,093	18,505,750

(Thousand yen)

	As of December 31, 2017	As of June 30, 2018
Liabilities		
Current liabilities		
Notes and accounts payable - trade	1,591,585	1,494,347
Short-term loans payable	490,000	490,000
Accounts payable - other	660,082	919,663
Accrued expenses	1,628,128	1,780,804
Income taxes payable	182,562	264,418
Provision for bonuses	482,385	245,010
Provision for directors' bonuses	34,700	16,900
Other	365,988	98,487
Total current liabilities	5,435,431	5,309,632
Non-current liabilities		
Long-term loans payable	757,500	512,500
Net defined benefit liability	1,926,246	1,934,185
Provision for directors' share benefits	23,801	42,265
Other	128,754	107,617
Total non-current liabilities	2,836,302	2,596,568
Total liabilities	8,271,733	7,906,200
Net assets		
Shareholders' equity		
Capital stock	2,864,249	2,864,249
Capital surplus	2,550,983	2,550,983
Retained earnings	4,795,421	5,357,808
Treasury shares	(472,806)	(473,561)
Total shareholders' equity	9,737,849	10,299,481
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	270,268	300,743
Remeasurements of defined benefit plans	(4,758)	(675)
Total accumulated other comprehensive income	265,509	300,068
Total net assets	10,003,359	10,599,549
Total liabilities and net assets	18,275,093	18,505,750

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Six Months Ended June 30

(Thousand yen)

	For the six months ended June 30, 2017	For the six months ended June 30, 2018
Net sales	10,418,985	11,274,933
Cost of sales	5,624,647	5,848,092
Gross profit	4,794,338	5,426,841
Selling, general and administrative expenses	4,319,129	4,824,564
Operating income	475,209	602,276
Non-operating income		
Interest income	97	72
Dividend income	6,027	6,444
Income from loss	—	5,784
Sold power income	5,566	5,051
Other	5,720	6,486
Total non-operating income	17,412	23,838
Non-operating expenses		
Interest expenses	4,143	2,924
Sold power expenses	3,309	2,997
Other	2,472	1,407
Total non-operating expenses	9,926	7,328
Ordinary income	482,695	618,787
Extraordinary income		
Gain on sales of non-current assets	21	501,418
Total extraordinary income	21	501,418
Extraordinary losses		
Loss on sales of non-current assets	—	1,780
Loss on retirement of non-current assets	2,744	70,700
Impairment loss	3,800	35,802
Special retirement expenses	—	22,753
Total extraordinary losses	6,545	131,036
Income before income taxes	476,171	989,169
Income taxes - current	41,365	229,797
Income taxes - deferred	127,442	87,847
Total income taxes	168,808	317,644
Net income	307,363	671,525
Net income attributable to owners of parent	307,363	671,525

Quarterly Consolidated Statements of Comprehensive Income

Six Months Ended June 30

(Thousand yen)

	For the six months ended June 30, 2017	For the six months ended June 30, 2018
Net income	307,363	671,525
Other comprehensive income		
Valuation difference on available-for-sale securities	66,091	30,475
Remeasurements of defined benefit plans, net of tax	4,722	4,083
Total other comprehensive income	70,813	34,558
Comprehensive income	378,177	706,084
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	378,177	706,084

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Notes in the case of significant changes in shareholders' equity)

Not applicable.

(Significant subsequent events)

(Absorption-type merger with consolidated subsidiary)

In the Board of Directors meeting held on November 9, 2017, the Company made a resolution to conduct an absorption-type merger with the Company's consolidated subsidiary Hikari Seika Co., Ltd., and conducted absorption-type merger on July 1, 2018.

1. Overview of transaction

(1) Name of company, which was absorbed, and its business activities

Name of company, which was absorbed	Hikari Seika Co., Ltd.
Business activities	Manufacturing and sales of confectionery and food products

(2) Date of business combination

July 1, 2018

(3) Legal form of business combination

The business combination was conducted through an absorption-type merger wherein the Company was the surviving company and Hikari Seika Co., Ltd. was the absorbed company.

(4) Name of company after business combination

KANRO CO., LTD.

(5) Overview of transaction including purpose of transaction

As part of the initiatives of the mid-term management plan "New KANRO 2021" that began in 2017, the aim of the business combination was to significantly reinforce profitability by raising the production efficiency of all facilities held by the Group as well as by further reducing cost of sales.

2. Overview of accounting treatment to be implemented

Based on the Revised Accounting Standard for Business Combinations (ASBJ Statement No.21, September 13, 2013) and the Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No.10, September 13, 2013), the business combination is accounted for as a transaction under common control.