Non-consolidated Financial Results for the Fiscal Year Ended December 31, 2018 [Japanese GAAP]

February 7, 2019

Company name: KANRO CO., LTD.
Stock exchange listing: Tokyo Stock Exchange
Code number: 2216
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Scheduled date of Annual General Meeting of Shareholders: March 28, 2019
Scheduled date of commencing dividend payments: March 8, 2019
Scheduled date of filing annual securities report: March 29, 2019
Creation of supplementary results materials: Yes
Results briefing for analysts: No

1. Non-consolidated Financial Results for FY2018 (January 1, 2018 to December 31, 2018)

(1) Non-consolidated Operating Results (% indicates changes from the previous period.)

(Millions yen, rounded down)

	Net sales		Operating income		Ordinary income		Net income	
Fiscal year ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
December 31, 2018	22,949	7.7	1,003	5.9	1,045	4.4	1,011	70.3
December 31, 2017	21,301	8.1	947	53.9	1,001	49.9	593	8.1

	Basic earnings per share	Diluted earnings per share	Return on equity	Ordinary income to total assets	Operating income to net sales
Fiscal year ended	Yen	Yen	%	%	%
December 31, 2018	282.37	—	9.8	5.5	4.4
December 31, 2017	165.15	—	—	—	—

(Reference) Equity in earnings (losses) of affiliates: FY2018: ¥ - million
FY2017: ¥ - million

(Note) Kanro disclosed consolidated financial results for FY2017, but the merger of its consolidated subsidiary, Hikari Seika Co., Ltd., was carried out on July 1, 2018. Accordingly, financial results are disclosed on a non-consolidated basis from the third quarter of FY2018. Therefore, return on equity, ordinary income to total assets and operating income to net sales for FY2017 are not disclosed.

(2) Non-consolidated Financial Position

(Millions yen, rounded down)

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2018	19,997	10,656	53.3	2,974.53
As of December 31, 2017	18,064	9,935	55.0	2,773.13

(Reference) Equity: As of December 31, 2018: ¥10,656 million
As of December 31, 2017: ¥9,935 million

(3) Non-consolidated Cash Flows

(Millions yen, rounded down)

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
Fiscal year ended	Million yen	Million yen	Million yen	Million yen
December 31, 2018	949	(1,743)	271	1,800
December 31, 2017	—	—	—	—

(Note) For FY2017, Kanro created consolidated financial statements. Therefore, cash flows for FY2017 are not disclosed.

2. Dividends

	Annual dividends					Total dividends	Payout ratio	Dividends to net assets
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Fiscal year ended December 31, 2017	—	6.00	—	30.00	—	218	—	—
Fiscal year ended December 31, 2018	—	30.00	—	35.00	65.00	236	23.0	2.3
Fiscal year ending December 31, 2019 (Forecast)	—	30.00	—	30.00	60.00		28.7	

(Notes) 1. For FY2017, Kanro created consolidated financial statements. Therefore, payout ratio and dividends to net assets for FY2017 are not disclosed.

2. 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 FY2017 show the amount after taking the consolidation of shares into consideration. 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 FY2017.

3. Breakdown of the year-end dividend for FY2018
Ordinary dividend: ¥30, Special dividend: ¥5

3. Non-consolidated Financial Results Forecast for FY2019 (January 1, 2019 to December 31, 2019)

(% indicates changes from the previous period.)

	Net sales		Operating income		Ordinary income		Net income		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	12,100	—	580	—	580	—	380	—	106.07
Full year	24,600	7.2	1,100	9.6	1,100	5.2	750	(25.9)	209.34

(Note) For the first half of FY2018, Kanro created quarterly consolidated financial statements. Therefore, percentage changes from the previous corresponding period are not disclosed.

*** Notes:**

(1) 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

(2) Total number of issued shares (common shares)

	FY2018	FY2017
1) Total number of issued shares at the end of the period (including treasury shares)	3,828,901 shares	3,828,901 shares
2) Total number of treasury shares at the end of the period	246,283 shares	245,955 shares
3) Average number of shares during the period	3,582,760 shares	3,596,638 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) (December 31, 2018: 55,000 shares and December 31, 2017: 55,000 shares).

* These financial results are outside the scope of audit procedures 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 "(4) Future Outlook" on page 4 of the Appendix for assumptions on financial results forecasts and notes on the use of such forecasts.

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1. Overview of Business Results, etc.

(1) Overview of Business Results for the Fiscal Year under Review

The Japanese economy during the fiscal year under review remained on a moderate recovery trend, despite some concerns such as international trade frictions and instability in the financial market. In the candy market, hard candy market that had been on a downward trend until 2017 took an upturn, while gummy market has grown steadily. As a result, sales in the overall market increased year on year.

In such a business environment, toward achieving the medium-term management plan “New KANRO 2021,” Kanro strived to expand net sales through promoting proposal-based sales activities using IT and developing finely tuned promotions customized for each channel, in addition to the strengthening of its brand with aggressive marketing investments. In terms of quality, Kanro acquired FSSC 22000 certification, a standard for food safety at its Hikari Plant, following the certification acquisition at Asahi Plant, with a view to further enhancing the quality management system. Moreover, we worked to reduce manufacturing costs by improving production efficiency through the merger with Hikari Seika Co., Ltd., which was a consolidated subsidiary, and increasing productivity through improvement activities at manufacturing sites, in addition to actively undertaking initiatives to strengthen our business foundation, including IT investment toward enhancing operating efficiency.

For the fiscal year, net sales of candies increased by 8.0% YOY, owing to factors including greater sales of its mainstay brand products such as *Kinno Milk* series (金のミルクシリーズ) and *Kenko Nodoame* series (健康のど飴シリーズ), as well as favorable sales of those in new, small-sized packages. Net sales of gummies increased by 7.1% YOY, mainly thanks to *Candemina Gummy* (カンデミーナグミ), which has grown into a mainstay brand next to *Puré Gummy* (ピュレグミ). As a result, net sales increased by ¥1,648 million (7.7%) year on year to ¥22,949 million.

In terms of profits, despite rising crude oil prices as a cause for higher manufacturing costs, gross profit increased by ¥1,214 million (12.5%) year on year to ¥10,934 million owing to a decrease in fixed cost rate in line with greater sales of mainstay brands, and effects of initiatives to reduce costs.

Operating income increased by ¥56 million (5.9%) YOY to ¥1,003 million, despite negative factors on earnings including advertisement and other aggressive marketing investments, as well as temporary expenses due to relocation of the head office, introduction of a new CI (Corporate Identity) and merger with Hikari Seika Co., Ltd. Ordinary income increased by ¥43 million (4.4%) year on year to reach ¥1,045 million.

In terms of net income, ¥501 million of gain on sales of non-current assets associated with the sale of the former headquarters building (including land and building), ¥56 million of gain on extinguishment of tie-in shares due to the merger with Hikari Seika Co., Ltd., and other profits were recorded under extraordinary income. While ¥32 million of a loss on retirement of non-current assets caused by renovations of factories to construct new gummy production lines, ¥35 million of impairment loss from dormant assets, and ¥179 million of impairment and removal costs of buildings utilized by Hikari Seika Co., Ltd. were recorded under extraordinary losses. As a result, net income for the fiscal year under review increased by ¥417 million (70.3%) year on year to ¥1,011 million.

(2) Overview of Financial Position for the Fiscal Year under Review

Total assets at the end of the fiscal year under review increased by ¥1,933 million (10.7%) from the end of the previous fiscal year to ¥19,997 million.

The increase in total assets was mainly attributable to an increase in notes and accounts receivable by ¥576 million and an increase in property, plant and equipment by ¥1,294 million, despite a decrease in cash and deposits by ¥223 million

Liabilities increased by ¥1,212 million (14.9%) from the end of the previous fiscal year to ¥9,340 million.

The increase in liabilities was mainly attributable to an increase in short-term loans payable by ¥1,000 million and an increase in accounts payable - other by ¥420 million, despite a decrease in long-term loans payable by ¥490 million and a decrease in accrued consumption taxes by ¥137 million.

Net assets increased by ¥720 million (7.3%) from the end of the previous fiscal year to ¥10,656 million. This is mainly due to an increase in retained earnings by ¥793 million resulting from the recording of ¥1,011 million in net income and the payment of ¥218 million in dividends.

(3) Overview of Cash Flows for the Fiscal Year under Review

Cash and cash equivalents at the end of the fiscal year under review amounted to ¥1,800 million.

(Cash flows from operating activities)

Net cash provided by operating activities was ¥949 million.

This was attributable to increased operating revenues, despite increased operating capital requirements and income taxes paid.

(Cash flows from investing activities)

Net cash used in investing activities was ¥1,743 million.

This was mainly attributable to cash outflows as a result of capital investment and other expenditures, despite cash inflows from gain on sales of the former headquarters building (including land and building).

(Cash flows from financing activities)

Net cash provided by financing activities was ¥271 million.

The net cash inflow was mainly attributable to cash inflows from a net increase of ¥1,000 million in short-term loans payable, despite cash outflows from repayment of long-term loans payable of ¥490 million and cash dividend paid of ¥216 million.

(Reference) Cash flow-related indicators

	FY2018
Equity ratio (%)	53.3
Equity ratio on a market value basis (%)	61.8
Cash flows to interest-bearing debt (Years)	1.9
Interest coverage ratio (Times)	170.0

(Notes) Equity ratio: Equity / Total asset
Equity ratio on a market value basis: Aggregate market value of shares / Total assets
Cash flows to interest-bearing debt ratio: Interest-bearing debt / Cash flows
Interest coverage ratio: Cash flows / Interest payments
(Note 1) Non-consolidated financial figures were used in all of the calculation above.
(Note 2) Aggregate market value of shares is calculated based on issued and outstanding shares excluding treasury stock.
(Note 3) Operating cash flows are used for “cash flows” in the above calculations.
(Note 4) Interest-bearing debts include all liabilities (short-term loans payable and long-term loans payable) reflected on the non-consolidated balance sheets that incur interest payments. Interest payments represent the interest payments recorded in the non-consolidated statement of cash flows.
(Note 5) Figures prior to FY2017 are not disclosed as Kanro created consolidated financial statements.

(4) Future Outlook

We will keep on achieving our Medium-Term Management Plan “New KANRO 2021” through sales expansion strategy and strengthening operating performance. We expect that Net sales in FY2021 will be to increase by ¥1,650 million (7.2%) year on year to ¥24,600 million by further refining our mainstay brand products both in hard candies and gummies, and promoting brand strategies that focus on developing and nurturing new brand products.

In terms of profits, we will make capital investment for future growth including aggressive IT investment toward increasing company-wide productivity, while actively promoting medium-term R&D investment. As a result of the foregoing, operating income is expected to increase by ¥96 million (9.6%) year on year to ¥1,100 million and ordinary income is expected to increase by ¥54 million (5.2%) year on year to ¥1,100 million. Net income is projected to decrease by ¥261 million (25.9%) year on year to ¥750 million due to the absence of gain on sale of non-current assets associated with the sale of the former headquarters building (including land) and gain on extinguishment of tie-in shares due to the merger with Hikari Seika Co., Ltd in the previous period.

2. Basic Concept Regarding Selection of Accounting Standards

In consideration of comparability across periods and across companies for the non-consolidated financial statements, the Company will prepare non-consolidated financial statements under Japanese accounting standards for the time being. Concerning the application of International Financial Reporting Standards, the Company will take appropriate measures in consideration of trends in Japan and overseas.

3. Non-consolidated Financial Statements and Primary Notes

(1) Non-consolidated Balance Sheets

(Thousand yen)

	As of December 31, 2017	As of December 31, 2018
Assets		
Current assets		
Cash and deposits	2,083,590	1,860,539
Accounts receivable - trade	5,442,622	6,018,776
Merchandise and finished goods	415,442	588,198
Work in process	4,826	20,908
Raw materials and supplies	185,108	210,257
Prepaid expenses	77,550	112,857
Short-term loans receivable	1,770	1,490
Short-term loans receivable from subsidiaries and associates	70,000	—
Accounts receivable - other	11,178	114,990
Deferred tax assets	319,519	370,069
Other	205	700
Total current assets	8,611,814	9,298,787
Non-current assets		
Property, plant and equipment		
Buildings	6,922,208	5,623,802
Accumulated depreciation	(3,983,477)	(3,085,283)
Buildings, net	2,938,730	2,538,518
Structures	1,328,010	1,307,244
Accumulated depreciation	(1,103,048)	(1,099,174)
Structures, net	224,962	208,069
Machinery and equipment	11,147,661	11,188,051
Accumulated depreciation	(8,921,978)	(8,633,593)
Machinery and equipment, net	2,225,683	2,554,457
Vehicles	43,330	44,632
Accumulated depreciation	(35,286)	(38,150)
Vehicles, net	8,043	6,481
Tools, furniture and fixtures	764,721	875,209
Accumulated depreciation	(621,973)	(620,081)
Tools, furniture and fixtures, net	142,747	255,128
Land	1,736,712	1,689,030
Leased assets	99,255	91,498
Accumulated depreciation	(42,633)	(50,614)
Leased assets, net	56,621	40,883
Construction in progress	382,781	1,717,930
Total property, plant and equipment	7,716,282	9,010,500
Intangible assets		
Trademark right	—	6,271
Software	137,514	200,565
Telephone subscription right	10,411	10,411
Right of using facilities	1,311	1,140
Total intangible assets	149,237	218,389

(Thousand yen)

	As of December 31, 2017	As of December 31, 2018
Investments and other assets		
Investment securities	649,798	548,803
Shares of subsidiaries and associates	60,000	—
Investments in capital	510	510
Long-term loans receivable from employees	2,565	2,595
Long-term prepaid expenses	14,371	8,263
Guarantee deposits	440,622	432,279
Deposits on admission	16,900	16,900
Deferred tax assets	402,120	460,217
Total investments and other assets	1,586,888	1,469,568
Total non-current assets	9,452,408	10,698,458
Total assets	18,064,223	19,997,246

(Thousand yen)

	As of December 31, 2017	As of December 31, 2018
Liabilities		
Current liabilities		
Accounts payable - trade	1,608,114	1,698,537
Short-term loans payable	—	1,000,000
Current portion of long-term loans payable	490,000	465,000
Lease obligations	20,686	18,609
Accounts payable - other	592,689	1,013,078
Accrued expenses	1,613,378	1,703,173
Income taxes payable	182,355	283,629
Accrued consumption taxes	137,340	—
Deposits received	87,666	98,040
Provision for bonuses	476,085	589,128
Provision for directors' bonuses	34,700	71,100
Other	106,701	477
Total current liabilities	5,349,718	6,940,773
Non-current liabilities		
Long-term loans payable	757,500	292,500
Lease obligations	40,462	25,544
Provision for retirement benefits	1,875,915	1,943,827
Provision for directors' share benefits	23,801	60,729
Other	80,860	77,281
Total non-current liabilities	2,778,538	2,399,883
Total liabilities	8,128,257	9,340,657
Net assets		
Shareholders' equity		
Capital stock	2,864,249	2,864,249
Capital surplus		
Legal capital surplus	2,141,805	2,141,805
Other capital surplus	409,178	409,178
Total capital surplus	2,550,983	2,550,983
Retained earnings		
Legal retained earnings	298,600	298,600
Other retained earnings		
Reserve for advanced depreciation of non-current assets	207,242	196,806
Reserve for special depreciation	56,622	42,512
General reserve	3,320,000	3,720,000
Retained earnings brought forward	840,805	1,258,746
Total retained earnings	4,723,269	5,516,664
Treasury shares	(472,806)	(474,080)
Total shareholders' equity	9,665,697	10,457,818
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	270,268	198,770
Total valuation and translation adjustments	270,268	198,770
Total net assets	9,935,965	10,656,588
Total liabilities and net assets	18,064,223	19,997,246

(2) Non-consolidated Statements of Income

(Thousand yen)

	FY2017 (From January 1, 2017 to December 31, 2017)	FY2018 (From January 1, 2018 to December 31, 2018)
Net sales	21,301,794	22,949,928
Cost of sales		
Beginning finished goods	560,845	415,442
Cost of products manufactured	9,833,871	11,062,969
Purchase of finished goods	1,650,733	1,164,050
Total	12,045,450	12,642,462
Ending finished goods	415,442	588,198
Transfer to other account	47,684	38,714
Total cost of sales	11,582,323	12,015,549
Gross profit	9,719,471	10,934,379
Selling, general and administrative expenses	8,771,876	9,930,491
Operating income	947,594	1,003,887
Non-operating income		
Interest and dividend income	9,403	9,800
Income from loss	42,420	5,784
Sold power income	11,452	11,647
Other	44,000	30,915
Total non-operating income	107,276	58,148
Non-operating expenses		
Interest expenses	7,589	5,526
Sold power expenses	5,654	5,418
Other	40,153	5,736
Total non-operating expenses	53,397	16,681
Ordinary income	1,001,473	1,045,354
Extraordinary income		
Gain on sales of non-current assets	361	501,388
Gain on donation of non-current assets	—	9,303
Gain on sales of investment securities	958	278
Gain on extinguishment of tie-in shares	—	56,178
Total extraordinary income	1,320	567,149
Extraordinary losses		
Loss on sales of non-current assets	—	1,780
Loss on retirement of non-current assets	19,551	55,203
Impairment loss	126,596	226,351
Loss on disaster	—	10,542
Total extraordinary losses	146,147	293,879
Income before income taxes	856,645	1,318,625
Income taxes - current	297,634	384,379
Income taxes - deferred	(34,962)	(77,419)
Total income taxes	262,671	306,959
Net income	593,974	1,011,665

Statement of cost of goods manufactured

Category	Note No.	FY2017 (From January 1, 2017 to December 31, 2017) Amount (Thousand yen)	Composition (%)	FY2018 (From January 1, 2018 to December 31, 2018) Amount (Thousand yen)	Composition (%)
Ⅰ Raw material costs		5,879,544	59.8	6,683,725	60.3
Ⅱ Labor cost		2,082,173	21.2	2,300,213	20.8
Ⅲ Expenses	*1	1,873,047	19.0	2,095,112	18.9
Total cost of manufacturing		9,834,765	100.0	11,079,051	100.0
Beginning work in process		3,932		4,826	
Total		9,838,698		11,083,878	
Ending work in process		4,826		20,908	
Cost of products manufactured	*2	9,833,871		11,062,969	

(Notes)*1 Major components are as follows.

Item	FY2017 (Thousand yen)	FY2018 (Thousand yen)
Subcontract processing expenses	108,303	171,497
Depreciation	758,354	780,223
Repair expenses	257,365	269,783
Utilities expenses	341,025	404,999

*2 Reconciliation of cost of products manufactured and cost of sales

Category	FY2017 (Thousand yen)	FY2018 (Thousand yen)
Cost of products manufactured	9,833,871	11,062,969
Beginning finished goods	560,845	415,442
Purchase of finished goods	1,650,733	1,164,050
Total	12,045,450	12,642,462
Ending finished goods	415,442	588,198
Transfer to other account	47,684	38,714
Cost of sales	11,582,323	12,015,549

(Method of cost accounting)

Kanro adopts process costing as a method of cost accounting.

(3) Non-consolidated Statement of Changes in Equity

FY2017 (From January 1, 2017 to December 31, 2017)

(Thousand yen)

	Shareholders' equity			
	Capital stock	Capital surplus		
		Legal capital surplus	Other capital surplus	Total capital surplus
Balance at beginning of current period	2,864,249	2,141,805	390,745	2,532,550
Changes of items during period				
Reversal of reserve for advanced depreciation of non-current assets				
Reversal of reserve for special depreciation				
Dividends of surplus				
Provision of general reserve				
Net income				
Purchase of treasury shares				
Disposal of treasury shares			18,433	18,433
Net changes of items other than shareholders' equity				
Total changes of items during period	—	—	18,433	18,433
Balance at end of current period	2,864,249	2,141,805	409,178	2,550,983

	Shareholders' equity					
	Retained earnings					
	Legal retained earnings	Other retained earnings				Total retained earnings
		Reserve for advanced depreciation of non-current assets	Reserve for special depreciation	General reserve	Retained earnings brought forward	
Balance at beginning of current period	298,600	218,472	70,731	3,120,000	639,357	4,347,161
Changes of items during period						
Reversal of reserve for advanced depreciation of non-current assets		(11,230)			11,230	—
Reversal of reserve for special depreciation			(14,109)		14,109	—
Dividends of surplus					(217,865)	(217,865)
Provision of general reserve				200,000	(200,000)	—
Net income					593,974	593,974
Purchase of treasury shares						
Disposal of treasury shares						
Net changes of items other than shareholders' equity						
Total changes of items during period	—	(11,230)	(14,109)	200,000	201,448	376,108
Balance at end of current period	298,600	207,242	56,622	3,320,000	840,805	4,723,269

(Thousand yen)

	Shareholders' equity		Valuation and translation adjustments	Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	
Balance at beginning of current period	(336,050)	9,407,911	125,798	9,533,709
Changes of items during period				
Reversal of reserve for advanced depreciation of non-current assets		—		—
Reversal of reserve for special depreciation		—		—
Dividends of surplus		(217,865)		(217,865)
Provision of general reserve		—		—
Net income		593,974		593,974
Purchase of treasury shares	(161,373)	(161,373)		(161,373)
Disposal of treasury shares	24,617	43,051		43,051
Net changes of items other than shareholders' equity			144,470	144,470
Total changes of items during period	(136,756)	257,785	144,470	402,255
Balance at end of current period	(472,806)	9,665,697	270,268	9,935,965

FY2018 (From January 1, 2018 to December 31, 2018)

(Thousand yen)

	Shareholders' equity			
	Capital stock	Capital surplus		
		Legal capital surplus	Other capital surplus	Total capital surplus
Balance at beginning of current period	2,864,249	2,141,805	409,178	2,550,983
Changes of items during period				
Reversal of reserve for advanced depreciation of non-current assets				
Reversal of reserve for special depreciation				
Dividends of surplus				
Provision of general reserve				
Net income				
Purchase of treasury shares				
Disposal of treasury shares				
Net changes of items other than shareholders' equity				
Total changes of items during period		—	—	—
Balance at end of current period	2,864,249	2,141,805	409,178	2,550,983

	Shareholders' equity					
	Retained earnings					
	Legal retained earnings	Other retained earnings				Total retained earnings
		Reserve for advanced depreciation of non-current assets	Reserve for special depreciation	General reserve	Retained earnings brought forward	
Balance at beginning of current period	298,600	207,242	56,622	3,320,000	840,805	4,723,269
Changes of items during period						
Reversal of reserve for advanced depreciation of non-current assets		(10,436)			10,436	—
Reversal of reserve for special depreciation			(14,109)		14,109	—
Dividends of surplus					(218,270)	(218,270)
Provision of general reserve				400,000	(400,000)	—
Net income					1,011,665	1,011,665
Purchase of treasury shares						
Disposal of treasury shares						
Net changes of items other than shareholders' equity						
Total changes of items during period	—	(10,436)	(14,109)	400,000	417,940	793,395
Balance at end of current period	298,600	196,806	42,512	3,720,000	1,258,746	5,516,664

(Thousand yen)

	Shareholders' equity		Valuation and translation adjustments	Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	
Balance at beginning of current period	(472,806)	9,665,697	270,268	9,935,965
Changes of items during period				
Reversal of reserve for advanced depreciation of non-current assets		—		—
Reversal of reserve for special depreciation		—		—
Dividends of surplus		(218,270)		(218,270)
Provision of general reserve		—		—
Net income		1,011,665		1,011,665
Purchase of treasury shares	(1,274)	(1,274)		(1,274)
Disposal of treasury shares		—		—
Net changes of items other than shareholders' equity			(71,497)	(71,497)
Total changes of items during period	(1,274)	792,120	(71,497)	720,622
Balance at end of current period	(474,080)	10,457,818	198,770	10,656,588

(4) Non-consolidated Statement of Cash Flows

(Thousand yen)

	FY2018
Cash flows from operating activities	
Income before income taxes	1,318,625
Depreciation	933,824
Increase (decrease) in provision for bonuses	113,042
Increase (decrease) in provision for directors' bonuses	36,400
Increase (decrease) in provision for retirement benefits	67,912
Increase (decrease) in provision for directors' share benefits	36,928
Interest and dividend income	(9,800)
Interest expenses	5,526
Gain on donation of non-current assets	(9,303)
Loss on retirement of non-current assets	55,203
Impairment loss	226,351
Loss (gain) on sales of non-current assets	(499,608)
Loss (gain) on sales of investment securities	(278)
Loss (gain) on extinguishment of tie-in shares	(56,178)
Loss on disaster	10,542
Decrease (increase) in notes and accounts receivable trade	(576,153)
Decrease (increase) in inventories	(213,987)
Increase (decrease) in notes and accounts payable - trade	90,422
Increase (decrease) in accrued expenses	89,854
Increase (decrease) in accrued consumption taxes	(137,057)
Decrease (increase) in consumption taxes refund receivable	(114,314)
Other, net	(150,292)
Subtotal	1,217,660
Interest and dividend income received	9,798
Interest expenses paid	(5,585)
Income taxes paid	(272,390)
Net cash provided by (used in) operating activities	949,483
Cash flows from investing activities	
Payments into time deposits	(60,000)
Proceeds from withdrawal of time deposits	70,000
Purchase of property, plant and equipment	(2,517,172)
Proceeds from sales of property, plant and equipment	928,626
Purchase of intangible assets	(88,985)
Payments for removal of non-current assets	(75,100)
Purchase of investment securities	(1,942)
Proceeds from sales of investment securities	393
Payments of loans receivable	(2,400)
Collection of loans receivable	2,650
Net cash provided by (used in) investing activities	(1,743,929)

(Thousand yen)

	FY2018
Cash flows from financing activities	
Repayments of long-term loans payable	(490,000)
Net increase (decrease) in short-term loans payable	1,000,000
Repayments of lease obligations	(20,761)
Net purchase of treasury shares	(1,274)
Cash dividends paid	(216,822)
Net cash provided by (used in) financing activities	271,141
Net increase (decrease) in cash and cash equivalents	(523,304)
Cash and cash equivalents at beginning of period	2,013,590
Increase in cash and cash equivalents resulting from merger	310,253
Cash and cash equivalents at end of period	1,800,539

(5) Notes to Non-consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Segment information, etc.)

For the fiscal year under review (from January 1, 2018 to December 31, 2018)

This information has been omitted because the entire business of Kanro falls under the single business category of confectionery and food business.

(Equity in earnings or losses of affiliates, etc.)

Equity method is not applied as the Company has no affiliated companies.

(Per share information)

	FY 2017 (From January 1, 2017 to December 31, 2017)	FY 2018 (From January 1, 2018 to December 31, 2018)
Net assets per share	¥2,773.13	¥2,974.53
Basic earnings per share	¥165.15	¥282.37

(Notes) 1. Diluted earnings per share is not indicated as there are no residual shares outstanding.

2. Kanro conducted a share consolidation of common stock at a ratio of one share for five shares as of July 1, 2017. Basic earnings per share is calculated based on the assumption that the share consolidation was executed at the beginning of the previous fiscal year.

3. The Company's own shares that remain in the trust recorded as treasury shares in shareholders' equity are included in treasury shares which were deducted in calculating the average number of shares during the period for the calculation of basic earnings per share. The average number of treasury shares deducted in calculating basic earnings per share during the fiscal year under review was 55,000 shares.

4. Net assets per share were calculated based on the following data.

	FY 2017 (As of December 31, 2017)	FY 2018 (As of December 31, 2018)
Total net assets (Thousand yen)	9,935,965	10,656,588
Net assets relating to common stock at year-end (Thousand yen)	9,935,965	10,656,588
Number of outstanding shares of common stock (Thousand shares)	3,828	3,828
Number of treasury shares of common stock (Thousand shares)	245	246
Number of shares of common stock at year-end used for calculating net assets per share (Thousand shares)	3,582	3,582

5. Basic earnings per share was calculated based on the following data.

	FY 2017 (From January 1, 2017 to December 31, 2017)	FY 2018 (From January 1, 2018 to December 31, 2018)
Net income (Thousand yen)	593,974	1,011,665
Amount not attributable to common stock holders (Thousand yen)	—	—
Net income relating to common stock (Thousand yen)	593,974	1,011,665
Average number of outstanding shares of common stock during the period (Thousand shares)	3,596	3,582