Non-consolidated Financial Results for the Fiscal Year Ended December 31, 2019 [Japanese GAAP]

February 12, 2020

Company name: Kanro Inc.
Stock exchange listing: Tokyo Stock Exchange
Code number: 2216
URL: https://www.kanro.co.jp/en/
Representative: Kazuyasu Misu, President and CEO
Contact person: Kazuhiro Abe, Director, Managing Executive Officer and CFO, and Division COO, Finance & Accounting Div.
Phone: +81-3-3370-8811
Scheduled date of Annual General Meeting of Shareholders: March 27, 2020
Scheduled date of commencing dividend payments: March 6, 2020
Scheduled date of filing annual securities report: March 30, 2020
Availability of supplementary briefing material on annual financial results: Yes
Schedule of annual financial results briefing session: Yes (for institutional investors and financial analysts)

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

(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, 2019	24,039	4.7	923	(8.0)	1,007	(3.6)	651	(35.6)
December 31, 2018	22,949	7.7	1,003	5.9	1,045	4.4	1,011	70.3

	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, 2019	92.36	—	6.1	5.1	3.8
December 31, 2018	141.19	—	9.8	5.5	4.4

(Reference) Equity in earnings (losses) of affiliates: FY2019: ¥ - million
FY2018: ¥ - million

* The Company conducted a stock split of its common stock at a two-for-one ratio with the effective date of July 1, 2019. Basic earnings per share is calculated on the assumption that the stock split was conducted at the beginning of the previous fiscal year.

(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, 2019	19,169	10,827	56.5	1,535.52
As of December 31, 2018	19,997	10,656	53.3	1,487.26

(Reference) Equity: As of December 31, 2019: ¥10,827 million
As of December 31, 2018: ¥10,656 million

* The Company conducted a stock split of its common stock at a two-for-one ratio with the effective date of July 1, 2019. Net assets per share is calculated on the assumption that the stock split was conducted at the beginning of the previous fiscal year.

(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, 2019	2,013	(971)	(1,411)	1,430
December 31, 2018	949	(1,743)	271	1,800

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	%	%
FY2018	—	30.00	—	35.00	65.00	236	23.0	2.3
FY2019	—	30.00	—	15.00	—	214	32.5	2.0
FY2020 (Forecast)	—	15.00	—	17.00	32.00		30.5	

(Notes) 1. The Company conducted a stock split of its common stock at a two-for-one ratio with the effective date of July 1, 2019. Accordingly, the cash dividend for the 2nd quarter-end shows actual amount before the stock split, and total amount of annual cash dividends is indicated as "—." The annual cash dividends per share converted on the basis after the stock split is ¥32.50 for FY2018 and ¥30.00 for FY2019.

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

3. Non-consolidated Financial Results Forecast for FY2020 (January 1, 2020 to December 31, 2020)

(% 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	12,200	3.5	400	(20.0)	400	(21.0)	250	5.4	35.45
Full year	25,000	4.0	1,080	16.9	1,100	9.2	740	13.5	104.94

*** 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)

	FY2019	FY2018
1) Total number of issued shares at the end of the period (including treasury shares)	7,657,802 shares	7,657,802 shares
2) Total number of treasury shares at the end of the period	606,250 shares	492,566 shares
3) Average number of shares during the period	7,059,439 shares	7,165,520 shares

*1. As the Company conducted a stock split of its common stock at a two-for-one ratio with the effective date of July 1, 2019, the total number of issued shares at the end of the period, the total number of treasury shares at the end of the period and average number of shares during the period are calculated on the assumption that the stock split was 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, 2019: 103,600 shares and December 31, 2018: 110,000 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.

(Method of obtaining supplementary briefing material on financial results)
Supplementary briefing material on financial results is disclosed on TDnet on February 12, 2020 as well as on the Company's website.

Table of Contents (Appendix)

1. Overview of Business Results, etc. 2
(1) Overview of Business Results for the Fiscal Year Under Review 2
(2) Overview of Financial Position for the Fiscal Year Under Review 2
(3) Overview of Cash Flows for the Fiscal Year Under Review 3
(4) Future Outlook 4

2. Basic Concept Regarding Selection of Accounting Standards 4

3. Non-consolidated Financial Statements and Primary Notes 5
(1) Non-consolidated Balance Sheets 5
(2) Non-consolidated Statements of Income 8
(3) Non-consolidated Statement of Changes in Equity 10
(4) Non-consolidated Statement of Cash Flows 14
(5) Notes to Non-consolidated Financial Statements 16
(Notes on going concern assumption) 16
(Changes in accounting policy and presentation) 16
(Segment information, etc.) 16
(Equity in earnings or losses of affiliates, etc.) 16
(Per share information) 17
(Significant subsequent events) 17

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 on the back of a consumer spending rebound thanks to an improvement in the employment and income environments, although the manufacturing sector in particular became increasingly weak amid softness in markets, especially for exports. As for the candy market, the gummy category, which had continued to grow in recent years, saw a year-on-year decline due to the standstill in growth, and the hard candy category, which had been on a downtrend until the year before last, achieved better results than the previous corresponding period like last year.

In such a business environment, toward achieving the medium-term management plan “New KANRO 2021,” Kanro strived to expand net sales through further promoting proposal-based sales activities using IT and further developing finely tuned promotions customized for each channel. In addition, Kanro put a new gummy production line into full operation at the Matsumoto Plant in February, and acquired FSSC22000 certification, an international standard for Food Safety System Certification, following the certification of its Asahi Plant and Hikari Plant, as it expanded its production system and bolstered its quality management system.

For the fiscal year, sales of the traditional bag/stick type hard candy products decreased, but sales of products in new, small bags with zip increased significantly, so net sales of candies increased slightly year on year. By product, while products of mainstay hard candy brands such as *Kinno Milk* (金のミルク), *Kenko Nodoame Tatakau Manuka Honey* (健康のど飴たたかうマヌカハニー), and *Non-Sugar Super Menthol Nodoame* (ノンシュガースーパーメントールのど飴) performed steadily in sales, there were some products with sluggish sales including *Morimoriyama-no-Kudamono Ame* (もりもり山のくだもの飴), resulting in mixed results overall. In the gummy category for which the production system was expanded, *Candemina Gummy* (カンデミーナグミ), which has become a leading brand after *Puré Gummy* (ピュレグミ), continued to increase in sales, and this along with other factors resulted in a more than 10% year on year increase. Healthy snacks were also strong, owing to an increase in sales of *Puchi Pori Natto* (プチポリ納豆) and the *Nori-no-Hasamiyaki* (海苔のはさみ焼き) series. As a result, net sales increased by ¥1,089 million (4.7%) year on year to ¥24,039 million, setting a new record high in net sales.

In terms of profits, although manufacturing costs increased mainly due to a rise in labor costs and investments in production facilities, gross profit increased by ¥424 million (3.9%) year on year to ¥11,358 million, mainly due to an increase in net sales of mainstay brand products. Operating income decreased by ¥79 million (8.0%) year on year to ¥923 million. This was because of a rise in personnel expenses caused by the introduction of a new personnel system and additional staffing, as well as an increase in sales promotion expenses, which exceeded the growth in gross profit. Meanwhile, ordinary income decreased by ¥37 million (3.6%) year on year to ¥1,007 million, as some of the decline in income was offset by the income from loss related to the delay in the construction period of the new gummy production line and other factors. Net income declined ¥359 million (35.6%) year on year to ¥651 million, mainly as a result of the absence of extraordinary income posted in the previous fiscal year, including the ¥501 million of gain on sales of non-current assets associated with the sales of the former headquarters building, as well as the posting of ¥136 million in impairment loss, including for land leased to the former Hikari Seika Co., Ltd., under extraordinary losses.

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

Total assets at the end of the fiscal year under review decreased by ¥827 million (4.1%) from the end of the previous fiscal year to ¥19,169 million. The decrease in total assets was mainly attributable to a decrease in cash and deposits by ¥369 million, a ¥111 million decline in accounts receivable - other,

a ¥519 million decline in property, plant and equipment, and a ¥117 million decrease in investment securities, despite a ¥231 million increase in accounts receivable – trade.

Liabilities decreased by ¥998 million (10.7%) from the end of the previous fiscal year to ¥8,341 million. The decrease in liabilities was mainly attributable to a ¥500 million decline in short-term loans payable, a ¥380 million decrease in accounts payable - other, a ¥207 million decline in income taxes payable, and a ¥465 million decline in long-term loans payable, despite a ¥215 million increase in accrued consumption taxes, a ¥103 million increase in accrued expenses, and a ¥116 million increase in provision for retirement benefits.

Net assets increased by ¥171 million (1.6%) from the end of the previous fiscal year to ¥10,827 million. This is mainly due to a ¥417 million increase in retained earnings resulting from the recording of ¥651 million in net income and the payment of ¥234 million in cash dividends, the ¥179 million increase in treasury shares due to the purchase of treasury shares and other factors, and the ¥67 million decline in valuation difference on available-for-sale securities.

(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 ¥1,430 million, a decline of ¥369 million from the end of the previous fiscal year.

(Cash flows from operating activities)

Net cash provided by operating activities was ¥2,013 million (up ¥1,064 million year on year).

This was attributable to a decline in working capital in addition to the inflow of operating revenues, despite income taxes paid and other factors.

(Cash flows from investing activities)

Net cash used in investing activities was ¥971 million (¥772 million decrease year on year).

This was due to the fact that cash outflows for capital investment and other expenditures exceeded proceeds from sales of property, plant and equipment.

(Cash flows from financing activities)

Net cash used in financing activities was ¥1,411 million (¥1,683 million decrease year on year).

This was mainly attributable to the net decrease in short-term loans payable, repayments of long-term loans payable, purchase of treasury shares, and cash dividends paid.

(Reference) Cash flow-related indicators

	FY2018	FY2019
Equity ratio (%)	53.3	56.5
Equity ratio on a market value basis (%)	61.8	59.0
Cash flows to interest-bearing debt (Years)	1.9	0.4
Interest coverage ratio (Times)	170.0	340.2

(Notes) Equity ratio: Equity / Total assets

Equity ratio on a market value basis: Market capitalization / 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 calculations above.

(Note 2) Aggregate market value of shares is calculated based on issued and outstanding shares excluding treasury shares.

(Note 3) Operating cash flows are used for “cash flows” in the above calculations.

(Note 4) Interest-bearing debt 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 “NewKANRO 2021” through the “Growth strategy” and “Reinforcement of management base.”

We expect that net sales in FY2020 will increase by ¥960 million (4.0%) year on year to ¥25,000 million by promoting our brand strategy in both hard candy and gummy products, centered on revamping our existing mainstay brand products to adapt to the changing times and developing and nurturing new brand products that will lead the way in the future.

In terms of profits, we will make capital investment for future growth, including aggressive IT investment and increasing quality and productivity at our manufacturing sites, while continuing to promote medium-term R&D investment. As a result of the foregoing, operating income is expected to increase by ¥156 million (16.9%) year on year to ¥1,080 million, and ordinary income is expected to increase by ¥92 million (9.2%) year on year to ¥1,100 million. Net income is projected to increase by ¥88 million (13.5%) year on year to ¥740 million due to the increase associated with the non-recurrence of the impairment loss on land and other assets of the former Hikari Seika Co., Ltd. posted in the previous fiscal year.

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, 2018	As of December 31, 2019
Assets		
Current assets		
Cash and deposits	1,860,539	1,490,990
Accounts receivable - trade	6,018,776	6,250,709
Merchandise and finished goods	588,198	637,370
Work in process	20,908	3,332
Raw materials and supplies	210,257	213,949
Prepaid expenses	112,857	134,042
Short-term loans receivable	1,490	1,050
Accounts receivable - other	114,990	3,809
Other	700	840
Total current assets	8,928,718	8,736,095
Non-current assets		
Property, plant and equipment		
Buildings	5,623,802	6,596,442
Accumulated depreciation	(3,085,283)	(3,271,141)
Buildings, net	2,538,518	3,325,300
Structures	1,307,244	1,431,186
Accumulated depreciation	(1,099,174)	(1,125,697)
Structures, net	208,069	305,489
Machinery and equipment	11,188,051	11,754,578
Accumulated depreciation	(8,633,593)	(8,911,306)
Machinery and equipment, net	2,554,457	2,843,272
Vehicles	44,632	47,107
Accumulated depreciation	(38,150)	(36,629)
Vehicles, net	6,481	10,477
Tools, furniture and fixtures	875,209	910,287
Accumulated depreciation	(620,081)	(639,204)
Tools, furniture and fixtures, net	255,128	271,082
Land	1,689,030	1,497,709
Leased assets	91,498	161,836
Accumulated depreciation	(50,614)	(66,135)
Leased assets, net	40,883	95,701
Construction in progress	1,717,930	142,127
Total property, plant and equipment	9,010,500	8,491,160
Intangible assets		
Trademark right	6,271	9,399
Software	200,565	176,749
Telephone subscription right	10,411	10,411
Right of using facilities	1,140	969
Total intangible assets	218,389	197,530

(Thousand yen)

	As of December 31, 2018	As of December 31, 2019
Investments and other assets		
Investment securities	548,803	431,054
Investments in capital	510	10
Long-term loans receivable from employees	2,595	1,545
Long-term prepaid expenses	8,263	8,287
Guarantee deposits	432,279	429,061
Deposits on admission	16,900	16,900
Deferred tax assets	830,286	857,862
Total investments and other assets	1,839,637	1,744,721
Total non-current assets	11,068,527	10,433,411
Total assets	19,997,246	19,169,506

(Thousand yen)

	As of December 31, 2018	As of December 31, 2019
Liabilities		
Current liabilities		
Accounts payable - trade	1,698,537	1,692,176
Short-term loans payable	1,000,000	500,000
Current portion of long-term loans payable	465,000	292,500
Lease obligations	18,609	36,483
Accounts payable - other	1,013,078	632,351
Accrued expenses	1,703,173	1,806,627
Income taxes payable	283,629	75,631
Accrued consumption taxes	—	215,006
Deposits received	98,040	119,726
Provision for bonuses	589,128	608,183
Provision for directors' bonuses	71,100	67,300
Other	477	30
Total current liabilities	6,940,773	6,046,016
Non-current liabilities		
Long-term loans payable	292,500	—
Lease obligations	25,544	68,401
Provision for retirement benefits	1,943,827	2,060,659
Provision for directors' share benefits	60,729	90,444
Other	77,281	76,178
Total non-current liabilities	2,399,883	2,295,684
Total liabilities	9,340,657	8,341,700
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	196,806	184,602
Reserve for special depreciation	42,512	28,341
General reserve	3,720,000	4,420,000
Retained earnings brought forward	1,258,746	1,002,476
Total retained earnings	5,516,664	5,934,020
Treasury shares	(474,080)	(653,088)
Total shareholders' equity	10,457,818	10,696,165
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	198,770	131,640
Total valuation and translation adjustments	198,770	131,640
Total net assets	10,656,588	10,827,806
Total liabilities and net assets	19,997,246	19,169,506

(2) Non-consolidated Statements of Income

(Thousand yen)

	FY2018 (From January 1, 2018 to December 31, 2018)	FY2019 (From January 1, 2019 to December 31, 2019)
Net sales	22,949,928	24,039,072
Cost of sales		
Beginning finished goods	415,442	588,198
Cost of products manufactured	11,062,969	11,832,305
Purchase of finished goods	1,164,050	935,534
Total	12,642,462	13,356,038
Ending finished goods	588,198	637,370
Transfer to other account	38,714	38,427
Total cost of sales	12,015,549	12,680,240
Gross profit	10,934,379	11,358,832
Selling, general and administrative expenses	9,930,491	10,434,890
Operating income	1,003,887	923,941
Non-operating income		
Interest and dividend income	9,800	10,170
Income from loss	5,784	64,273
Sold power income	11,647	10,768
Other	30,915	12,172
Total non-operating income	58,148	97,385
Non-operating expenses		
Interest expenses	5,526	5,178
Sold power expenses	5,418	5,587
Other	5,736	2,957
Total non-operating expenses	16,681	13,723
Ordinary income	1,045,354	1,007,604
Extraordinary income		
Gain on sales of non-current assets	501,388	1,725
Gain on donation of non-current assets	9,303	—
Gain on sales of investment securities	278	10,786
Gain on extinguishment of tie-in shares	56,178	—
Total extraordinary income	567,149	12,511
Extraordinary losses		
Loss on sales of non-current assets	1,780	—
Loss on retirement of non-current assets	55,203	1,378
Impairment loss	226,351	136,944
Loss on disaster	10,542	—
Loss on sales of investment securities	—	884
Total extraordinary losses	293,879	139,207
Income before income taxes	1,318,625	880,908
Income taxes - current	384,379	226,681
Income taxes - deferred	(77,419)	2,227
Total income taxes	306,959	228,909
Net income	1,011,665	651,999

Statement of cost of goods manufactured

Category	Note No.	FY2018 (From January 1, 2018 to December 31, 2018) Amount (Thousand yen)	Composition (%)	FY2019 (From January 1, 2019 to December 31, 2019) Amount (Thousand yen)	Composition (%)
Ⅰ Raw material costs		6,683,725	60.3	6,829,044	57.8
Ⅱ Labor costs		2,300,213	20.8	2,591,643	21.9
Ⅲ Expenses	*1	2,095,112	18.9	2,394,040	20.3
Total cost of manufacturing		11,079,051	100.0	11,814,729	100.0
Beginning work in process		4,826		20,908	
Total		11,083,878		11,835,638	
Ending work in process		20,908		3,332	
Cost of products manufactured	*2	11,062,969		11,832,305	

(Notes)*1 Major components are as follows.

Item	FY2018 (Thousand yen)	FY2019 (Thousand yen)
Subcontract processing expenses	171,497	112,245
Depreciation	780,223	937,769
Repair expenses	269,783	283,196
Utilities expenses	404,999	447,376

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

Category	FY2018 (Thousand yen)	FY2019 (Thousand yen)
Cost of products manufactured	11,062,969	11,832,305
Beginning finished goods	415,442	588,198
Purchase of finished goods	1,164,050	935,534
Total	12,642,462	13,356,038
Ending finished goods	588,198	637,370
Transfer to other account	38,714	38,427
Cost of sales	12,015,549	12,680,240

(Method of cost accounting)

Kanro adopts process costing as a method of cost accounting.

(3) Non-consolidated Statement of Changes in Equity

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

FY2019 (From January 1, 2019 to December 31, 2019)

(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	196,806	42,512	3,720,000	1,258,746	5,516,664
Changes of items during period						
Reversal of reserve for advanced depreciation of non-current assets		(12,203)			12,203	—
Reversal of reserve for special depreciation			(14,170)		14,170	—
Dividends of surplus					(234,643)	(234,643)
Provision of general reserve				700,000	(700,000)	—
Net income					651,999	651,999
Purchase of treasury shares						
Disposal of treasury shares						
Net changes of items other than shareholders' equity						
Total changes of items during period	—	(12,203)	(14,170)	700,000	(256,269)	417,355
Balance at end of current period	298,600	184,602	28,341	4,420,000	1,002,476	5,934,020

(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	(474,080)	10,457,818	198,770	10,656,588
Changes of items during period				
Reversal of reserve for advanced depreciation of non-current assets		–		–
Reversal of reserve for special depreciation		–		–
Dividends of surplus		(234,643)		(234,643)
Provision of general reserve		–		–
Net income		651,999		651,999
Purchase of treasury shares	(188,239)	(188,239)		(188,239)
Disposal of treasury shares	9,232	9,232		9,232
Net changes of items other than shareholders' equity			(67,130)	(67,130)
Total changes of items during period	(179,007)	238,347	(67,130)	171,217
Balance at end of current period	(653,088)	10,696,165	131,640	10,827,806

(4) Non-consolidated Statement of Cash Flows

(Thousand yen)

	FY2018 (From January 1, 2018 to December 31, 2018)	FY2019 (From January 1, 2019 to December 31, 2019)
Cash flows from operating activities		
Income before income taxes	1,318,625	880,908
Depreciation	933,824	1,102,334
Increase (decrease) in provision for bonuses	113,042	19,055
Increase (decrease) in provision for directors' bonuses	36,400	(3,800)
Increase (decrease) in provision for retirement benefits	67,912	116,831
Increase (decrease) in provision for directors' share benefits	36,928	29,715
Interest and dividend income	(9,800)	(10,170)
Interest expenses	5,526	5,178
Gain on donation of non-current assets	(9,303)	—
Loss on retirement of non-current assets	55,203	1,378
Impairment loss	226,351	136,944
Loss (gain) on sales of non-current assets	(499,608)	(1,725)
Loss (gain) on sales of investment securities	(278)	(9,901)
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)	(231,933)
Decrease (increase) in inventories	(213,987)	(35,287)
Increase (decrease) in notes and accounts payable - trade	90,422	(6,360)
Increase (decrease) in accrued expenses	89,854	104,194
Increase (decrease) in accrued consumption taxes	(137,057)	223,125
Decrease (increase) in consumption taxes refund receivable	(114,314)	114,314
Other, net	(150,292)	5,294
Subtotal	1,217,660	2,440,097
Interest and dividend income received	9,798	10,170
Interest expenses paid	(5,585)	(5,920)
Income taxes paid	(272,390)	(430,484)
Net cash provided by (used in) operating activities	949,483	2,013,863
Cash flows from investing activities		
Payments into time deposits	(60,000)	(60,000)
Proceeds from withdrawal of time deposits	70,000	60,000
Purchase of property, plant and equipment	(2,517,172)	(1,943,318)
Proceeds from sales of property, plant and equipment	928,626	1,071,553
Purchase of intangible assets	(88,985)	(79,725)
Payments for removal of non-current assets	(75,100)	(52,200)
Purchase of investment securities	(1,942)	(2,013)
Proceeds from sales of investment securities	393	32,729
Payments of loans receivable	(2,400)	—
Collection of loans receivable	2,650	1,490
Net cash provided by (used in) investing activities	(1,743,929)	(971,484)

(Thousand yen)

	FY2018 (From January 1, 2018 to December 31, 2018)	FY2019 (From January 1, 2019 to December 31, 2019)
Cash flows from financing activities		
Repayments of long-term loans payable	(490,000)	(465,000)
Net increase (decrease) in short-term loans payable	1,000,000	(500,000)
Repayments of lease obligations	(20,761)	(28,431)
Net purchase of treasury shares	(1,274)	(185,274)
Cash dividends paid	(216,822)	(233,221)
Net cash provided by (used in) financing activities	271,141	(1,411,928)
Net increase (decrease) in cash and cash equivalents	(523,304)	(369,548)
Cash and cash equivalents at beginning of period	2,013,590	1,800,539
Increase in cash and cash equivalents resulting from merger	310,253	—
Cash and cash equivalents at end of period	1,800,539	1,430,990

(5) Notes to Non-consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Changes in accounting policy and presentation)

(Changes with the adoption of the Partial Amendments to Accounting Standard for Tax Effect Accounting)

Partial Amendments to Accounting Standard for Tax Effect Accounting (ABSJ Statement No. 28 issued on February 16, 2018) have been adopted from the beginning of the fiscal year under review. Accordingly, the presentation method has been changed so that deferred tax assets are included in investments and other assets.

As a result, deferred tax assets of ¥370,069 thousand under current assets in the balance sheets for the previous fiscal year have been included in ¥830,286 thousand in deferred tax assets under investments and other assets.

(Segment information, etc.)

For the fiscal year under review (from January 1, 2019 to December 31, 2019)

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)

	FY2018 (From January 1, 2018 to December 31, 2018)	FY2019 (From January 1, 2019 to December 31, 2019)
Net assets per share	¥1,487.26	¥1,535.52
Basic earnings per share	¥141.19	¥92.36

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

2. The Company conducted a stock split of its common stock at a two-for-one ratio as of July 1, 2019. Net assets per share and basic earnings per share is calculated on the assumption that the stock split was conducted 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. In addition, these shares are included in treasury shares deducted from total number of issued shares at the end of the period in calculating net assets per share.

   The number of deducted treasury shares at the end of the period in calculating net assets per share for FY2018 and FY2019 was 110 thousand shares and 103 thousand shares, respectively.

   The average number of treasury shares during the period deducted in calculating basic earnings per share for FY2018 and FY2019 was 110 thousand shares and 105 thousand shares, respectively.

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

	FY2018 (As of December 31, 2018)	FY2019 (As of December 31, 2019)
Total net assets (Thousand yen)	10,656,588	10,827,806
Net assets relating to common stock at year-end (Thousand yen)	10,656,588	10,827,806
Number of outstanding shares of common stock (Thousand shares)	7,657	7,657
Number of treasury shares of common stock (Thousand shares)	492	606
Number of shares of common stock at year-end used for calculating net assets per share (Thousand shares)	7,165	7,051

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

	FY2018 (From January 1, 2018 to December 31, 2018)	FY2019 (From January 1, 2019 to December 31, 2019)
Net income (Thousand yen)	1,011,665	651,999
Amount not attributable to common stock holders (Thousand yen)	—	—
Net income relating to common stock (Thousand yen)	1,011,665	651,999
Average number of outstanding shares of common stock during the period (Thousand shares)	7,165	7,059

(Significant subsequent events)

Not applicable.