

Non-consolidated Financial Results for the Fiscal Year Ended December 31, 2022 [Japanese GAAP]



February 7, 2023

Company name: Kanro Inc.
 Stock exchange listing: Tokyo Stock Exchange
 Code number: 2216
 URL: <https://www.kanro.co.jp/en/>
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 Scheduled date of Ordinary General Meeting of Shareholders: March 28, 2023
 Scheduled date of commencing dividend payments: March 10, 2023
 Scheduled date of filing annual securities report: March 29, 2023
 Supplementary materials prepared for annual financial results: Yes
 Schedule of annual financial results briefing session: Yes (for institutional investors and financial analysts)

(Amounts are rounded down to the nearest million yen)

1. Non-consolidated Financial Results for FY2022 (January 1, 2022 to December 31, 2022)

(1) Non-consolidated Operating Results (% of change from the previous fiscal year.)

	Net sales		Operating income		Ordinary income		Net income	
Fiscal year ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
December 31, 2022	25,118	16.3	1,933	54.1	2,001	55.0	1,346	53.2
December 31, 2021	21,589	—	1,254	—	1,291	—	879	—

	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, 2022	96.08	—	11.1	9.2	7.7
December 31, 2021	62.33	—	7.7	6.3	5.8

(Reference) Equity in earnings (losses) of affiliates: FY2022: ¥ - million

FY2021: ¥ - million

- (Notes) 1. The “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020), etc. have been applied from the beginning of the fiscal year ended December 31, 2022. Figures for the fiscal year ended December 31, 2021 are the amounts after retrospectively applying the said standard, etc. Accordingly, the percentage changes from the previous corresponding period are not provided for the fiscal year ended December 31, 2021.
2. The Company conducted a stock split of its common stock at a two-for-one ratio with the effective date of July 1, 2022. Basic earnings per share is calculated on the assumption that the stock split was conducted at the beginning of the previous fiscal year.

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(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2022	22,315	12,555	56.3	905.23
As of December 31, 2021	21,200	11,750	55.4	833.23

(Reference) Equity: As of December 31, 2022: ¥12,555 million

As of December 31, 2021: ¥11,750 million

- (Notes) 1. The “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020), etc. have been applied from the beginning of the fiscal year ended December 31, 2022. Figures as of December 31, 2021 are the amounts after retrospectively applying the said standard, etc.
2. The Company conducted a stock split of its common stock at a two-for-one ratio with the effective date of July 1, 2022. 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

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Million yen	Million yen	Million yen	Million yen
Fiscal year ended December 31, 2022	2,373	(1,116)	(1,106)	2,250
December 31, 2021	2,620	(1,002)	(770)	2,099

2. Cash Dividends

	Annual cash dividends per share					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	%	%
FY2021	—	15.00	—	25.00	40.00	286	32.0	2.5
FY2022	—	25.00	—	19.00	—	452	32.8	3.7
FY2023 (Forecast)	—	18.00	—	18.00	36.00		36.4	

(Notes) 1. Breakdown of the year-end dividend for FY2022: Ordinary dividend of ¥14.00, Commemorative dividend of ¥5.00 (commemorative dividend for 110th anniversary)

2. The Company conducted a stock split of its common stock at a two-for-one ratio with the effective date of July 1, 2022. Accordingly, the cash dividend per share for the 2nd quarter-end of FY2022 shows actual amount before the stock split, and the total amount of the annual cash dividend for FY2022 is indicated as “—.” The year-end and the total cash dividends per share for FY2022 converted on the basis before the stock-split are ¥38.00 and ¥63.00, respectively.

3. Non-consolidated Financial Results Forecast for FY2023 (January 1, 2023 to December 31, 2023)

(% of change from the previous fiscal year.)

	Net sales		Operating income		Ordinary income		Net income		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	13,300	10.2	810	(21.2)	820	(23.8)	540	(26.1)	38.93
Full year	26,900	7.1	1,980	2.4	2,000	(0.1)	1,370	1.8	98.78

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*** 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: Yes
 - 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)

	FY2022	FY2021
1) Total number of issued shares at the end of the period (including treasury shares)	15,315,604 shares	15,315,604 shares
2) Total number of treasury shares at the end of the period	1,446,176 shares	1,213,268 shares
3) Average number of shares during the period	14,012,946 shares	14,102,485 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, 2022, 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 Custody Bank of Japan, Ltd. (Trust Account) (December 31, 2022: 523,800 shares and December 31, 2021: 247,200 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 material on financial results)

Supplementary material on financial results is disclosed on TDnet on February 7, 2023 as well as on the Company's website.

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1. Overview of Business Results, etc.

“Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020), etc. have been applied from the beginning of the fiscal year ended December 31, 2022, and comparisons and analysis with the full previous fiscal year are made using figures after retrospective application of that standard, etc.

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

The Japanese economy during the fiscal year under review experienced the normalization of economic and social activities as well as a gradual pickup in personal consumption, along with the transition to a new stage of living with COVID-19, despite being hit by a growing number of infections from mutant strains of COVID-19. Furthermore, the increase in flows of people owing primarily to the easing of restrictions on the entry of foreign nationals and the implementation of nationwide travel support measures helped boost economic recovery. Nevertheless, the outlook remains uncertain, as evidenced by rising raw material prices, which were triggered mainly by the prolonged situation with Russia and Ukraine, as well as rapid depreciation of the yen under global financial tightening and other intensifying inflationary pressures.

As for the candy market, the hard candy category turned to a year-on-year increase on a recovery in the movement of people that had decreased due to the COVID-19 pandemic, and rising demand for throat-care products. The gummy category, which has returned to a growth trend, experienced significant expansion over the previous year, and the growth of imported products also invigorated the market, driving the expansion of the entire candy market.

In such a business environment, Kanro has steadily strived to advance the three business strategies of “Value Creation,” “ESG Management,” and “Expansion of our Business Domains,” under our corporate purpose “Sweeten the Future” in the first year of Medium-term Corporate Strategy 2024, on the path to realize Kanro Vision 2030. As a result, net sales during the fiscal year under review increased by ¥3,528 million (16.3%) year on year to ¥25,118 million.

Sales of hard candy products increased ¥1,356 million (11.2%) year on year to ¥13,424 million. In combination with price revisions from September, this was on account of a significant increase in sales of bag-type hard candy products owing to the growth of the throat drops category as a result of rising demand, in addition to products in the strong-performing gourmet category, and an upturn in sales of small bags with zip type and stick type products, which had been stagnant due to a decrease in office and outing consumption. By product, sales of *Kinno Milk candy* (金のミルクキャンデー), which added a new Café Latte flavor from September 2021, and *Non-Sugar Nodame* (ノンシュガーのど飴) series were solid. In gummy products, sales of the leading brand *Puré Gummy* (ピュレグミ), which celebrated its 20th anniversary and was featured on TV commercials, grew substantially, and sales increased for *Candemina Gummy* (カンデミーナグミ) and *Marosh* (マロッシュ), a marshmallow product launched in 2021. In addition, sales of the high-value-added product *Gummitzel* (グミッツェル) were favorable at Company-owned stores and online sales on Kanro POCKeT, the Company’s proprietary digital platform. In addition, price revisions introduced from October increased net sales of gummy products by ¥2,150 million (24.4%) to ¥10,972 million. Although sales of healthy snacks continued to struggle, sales increased by ¥19 million (2.8%) year on year to ¥719 million, with the ongoing product line refresh as the *Karoyakashi* (かろやかし) series.

In terms of profits, gross profit increased by ¥1,321 million (15.8%) year on year to ¥9,674 million, due to improved productivity resulting from having achieved a significant increase in sales and the price revisions implemented in stages from September, which minimized the higher cost-of-sales ratio under the severe situation of ever-increasing raw material prices and factory overhead costs.

Operating income increased by ¥678 million (54.1%) year on year to ¥1,933 million, despite an increase in advertising expenses due to the implementation of TV and Web commercials, and an increase in personnel expenses, mainly due to business expansion, including in new business areas. Ordinary income increased by ¥709 million (55.0%) year on year to ¥2,001 million, due to one-time

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income from loss.

In addition, net income for the period under review increased by ¥467 million (53.2%) year on year to ¥1,346 million, as it exceeded the decrease in impairment loss due to the absence of gain on sale of investment securities recorded in the previous fiscal year.

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

Total assets at the end of the fiscal year under review increased by ¥1,114 million (5.3%) from the end of the previous fiscal year to ¥22,315 million. The increase in total assets was mainly attributable to increases in accounts receivable – trade of ¥824 million, cash and deposits of ¥151 million, and merchandise and finished goods of ¥131 million, despite a decrease in property, plant and equipment of ¥102 million.

Liabilities increased by ¥310 million (3.3%) from the end of the previous fiscal year to ¥9,760 million. The increase in liabilities was mainly attributable to increases in accrued expenses of ¥255 million, accounts payable – trade of ¥243 million, provision for bonuses of ¥191 million, and accounts payable – other of ¥129 million, despite a decrease of ¥500 million in short-term loans payable.

Net assets increased by ¥804 million (6.8%) from the end of the previous fiscal year to ¥12,555 million. This was mainly due to the recording of ¥1,346 million in net income, the payment of ¥358 million in cash dividends, and an increase of ¥219 million in treasury shares.

(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 ¥2,250 million, an increase of ¥151 million from the end of the previous fiscal year.

(Cash flows from operating activities)

Net cash provided by operating activities was ¥2,373 million (net cash provided of ¥2,620 million in the previous fiscal year), despite an increase in working capital, income taxes paid and other factors.

(Cash flows from investing activities)

Net cash used in investing activities was ¥1,116 million (net cash used of ¥1,002 million in the previous fiscal year).

This was due to the fact that cash outflows for capital investment and other expenditures exceeded proceeds from sale of investment securities.

(Cash flows from financing activities)

Net cash used in financing activities was ¥1,106 million (net cash used of ¥770 million in the previous fiscal year).

This was attributable to cash outflows mainly from a net decrease in short-term loans payable, cash dividends paid, and purchase of treasury shares.

(Reference) Cash flow-related indicators

	FY2018	FY2019	FY2020	FY2021	FY2022
Equity ratio (%)	53.1	56.3	56.3	55.4	56.3
Equity ratio on a market value basis (%)	61.7	58.9	53.5	53.0	68.4
Cash flows to interest-bearing debt (Years)	1.9	0.4	0.7	0.2	–
Interest coverage ratio (Times)	170.0	340.2	385.8	842.5	2,225.9

(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.

(4) Future Outlook

In the year 2023, the second year of our three-year plan Medium-term Corporate Strategy 2024, we will promote our three business strategies of “Expansion of our Business Domains,” “Value Creation,” and “ESG Management,” while, under our corporate purpose of “Sweeten the Future,” flexibly adapting to the soaring costs of raw materials and energy, depreciation of the yen, inflation, and changes in consumer behavior.

The Company expects that net sales in FY2023 will increase by ¥1,781 million (7.1%) year on year to ¥26,900 million. In core business, in tandem with thorough brand-centric management and expansion of the market share of existing mainstay brands of hard candy and gummies, we will accelerate proprietary product development with an eye toward generation Z and address the needs of consumers. In addition, in the global business and digital commerce business, we will focus on expanding business scale and will also promote the development of forward-looking proprietary products in the future design business.

In terms of profits, in addition to investments in human capital (increased personnel expenses) and rising general expenses to expand business areas, among other purposes, we anticipate further steep increases in raw material prices and higher overhead expenses, as well as an increase in advertising expenses for mainstay brands. In response to this, we are continuing efforts that include improving production efficiency and rationalization, and reducing various costs. However, since it is difficult to sell at the current prices, we will sequentially revise the prices and content of certain products beginning with shipments in March. As a result, although the cost-of-sales ratio is expected to rise, operating income is projected to increase by ¥46 million (2.4%) year on year to ¥1,980 million. Ordinary income is expected to decrease by ¥1 million (0.1%) year on year to ¥2,000 million due to the absence of income from loss in the previous fiscal year, while net income is projected to increase by ¥23 million (1.8%) year on year to ¥1,370 million. We will continue our endeavors to raise productivity and achieve sustainable growth as a purpose-driven company toward the realization of “Kanro Vision 2030.”

With regard to the dividends of surplus, Medium-term Corporate Strategy 2024 sets forth an enhanced shareholder return policy of gradually raising the payout ratio to 40% by FY2024. Based on this policy, the Company plans to pay an annual dividend of ¥36 per share (including an interim dividend of ¥18 per share) for the next fiscal year (ending December 31, 2023), an increase of ¥4.5 per share over the dividend amount for the fiscal year under review, which was calculated after the stock split executed on July 1, 2022.

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, 2021	As of December 31, 2022
Assets		
Current assets		
Cash and deposits	2,159,716	2,310,808
Accounts receivable - trade	6,849,168	7,673,640
Merchandise and finished goods	643,698	774,996
Work in process	42,675	14,204
Raw materials and supplies	288,581	380,597
Prepaid expenses	149,990	185,353
Short-term loans receivable	1,750	1,750
Accounts receivable - other	7,773	9,069
Other	565	1,090
Total current assets	10,143,919	11,351,510
Non-current assets		
Property, plant and equipment		
Buildings	6,928,107	7,035,754
Accumulated depreciation	(3,767,034)	(4,029,677)
Buildings, net	3,161,072	3,006,076
Structures	1,521,277	1,529,537
Accumulated depreciation	(1,180,304)	(1,204,089)
Structures, net	340,972	325,448
Machinery and equipment	12,976,990	13,282,569
Accumulated depreciation	(9,198,081)	(9,661,698)
Machinery and equipment, net	3,778,909	3,620,870
Vehicles	52,527	52,247
Accumulated depreciation	(42,012)	(44,281)
Vehicles, net	10,515	7,966
Tools, furniture and fixtures	1,008,164	1,070,265
Accumulated depreciation	(715,155)	(785,592)
Tools, furniture and fixtures, net	293,009	284,673
Land	1,497,662	1,497,829
Leased assets	157,357	132,963
Accumulated depreciation	(100,956)	(77,210)
Leased assets, net	56,400	55,752
Construction in progress	32,366	270,261
Total property, plant and equipment	9,170,910	9,068,880
Intangible assets		
Trademark right	10,565	8,990
Software	176,352	204,156
Telephone subscription right	10,411	10,411
Right of using facilities	5,432	4,910
Total intangible assets	202,761	228,469

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(Thousand yen)

	As of December 31, 2021	As of December 31, 2022
Investments and other assets		
Investment securities	148,944	174,451
Investments in capital	10	10
Long-term loans receivable from employees	2,485	735
Long-term prepaid expenses	7,683	18,027
Guarantee deposits	402,972	399,018
Deposits on admission	13,900	13,900
Deferred tax assets	1,106,665	1,060,218
Total investments and other assets	1,682,661	1,666,361
Total non-current assets	11,056,333	10,963,711
Total assets	21,200,252	22,315,222

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(Thousand yen)

	As of December 31, 2021	As of December 31, 2022
Liabilities		
Current liabilities		
Accounts payable - trade	1,932,594	2,176,026
Short-term loans payable	500,000	—
Lease obligations	33,654	26,900
Accounts payable - other	952,293	1,082,176
Accrued expenses	1,969,919	2,225,694
Income taxes payable	472,912	319,477
Accrued consumption taxes	167,869	155,030
Deposits received	127,751	126,472
Provision for bonuses	713,154	904,368
Provision for directors' bonuses	83,500	121,750
Other	71,683	69,626
Total current liabilities	7,025,333	7,207,523
Non-current liabilities		
Lease obligations	28,328	34,415
Provision for retirement benefits	2,181,480	2,270,581
Provision for directors' share benefits	165,334	195,347
Other	49,260	52,329
Total non-current liabilities	2,424,403	2,552,674
Total liabilities	9,449,737	9,760,198
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	419,071	436,087
Total capital surplus	2,560,876	2,577,892
Retained earnings		
Legal retained earnings	298,600	298,600
Other retained earnings		
Reserve for advanced depreciation of non-current assets	160,191	148,184
General reserve	5,320,000	5,820,000
Retained earnings brought forward	1,177,703	1,677,329
Total retained earnings	6,956,494	7,944,113
Treasury shares	(663,536)	(883,467)
Total shareholders' equity	11,718,084	12,502,789
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	32,522	52,085
Deferred gains or losses on hedges	(91)	148
Total valuation and translation adjustments	32,431	52,234
Total net assets	11,750,515	12,555,023
Total liabilities and net assets	21,200,252	22,315,222

KANRO Financial Results for the Fiscal Year Ended December 31, 2022

(2) Non-consolidated Statements of Income

(Thousand yen)

	FY2021 (From January 1, 2021 to December 31, 2021)	FY2022 (From January 1, 2022 to December 31, 2022)
Net sales	21,589,811	25,118,401
Cost of sales		
Beginning finished goods	614,102	643,698
Cost of products manufactured	12,584,798	14,702,448
Purchase of finished goods	714,161	904,727
Total	13,913,062	16,250,873
Ending finished goods	643,698	774,996
Transfer to other account	32,884	31,826
Total cost of sales	13,236,479	15,444,051
Gross profit	8,353,331	9,674,350
Selling, general and administrative expenses	7,098,431	7,741,156
Operating income	1,254,900	1,933,193
Non-operating income		
Interest and dividend income	5,775	5,595
Subsidy income	4,875	4,517
Income from loss	12,474	37,705
Sold power income	11,025	10,420
Other	12,189	16,356
Total non-operating income	46,339	74,595
Non-operating expenses		
Interest expenses	3,110	1,066
Sold power expenses	5,674	5,325
Other	1,009	274
Total non-operating expenses	9,794	6,666
Ordinary income	1,291,445	2,001,122
Extraordinary income		
Gain on sale of non-current assets	—	934
Gain on sale of investment securities	94,905	3,605
Total extraordinary income	94,905	4,540
Extraordinary losses		
Loss on sale of non-current assets	46	—
Loss on retirement of non-current assets	5,540	464
Impairment loss	132,700	73,817
Total extraordinary losses	138,287	74,282
Income before income taxes	1,248,064	1,931,381
Income taxes - current	563,314	547,310
Income taxes - deferred	(194,267)	37,715
Total income taxes	369,046	585,026
Net income	879,017	1,346,355

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Statement of cost of goods manufactured

		FY2021 (From January 1, 2021 to December 31, 2021)		FY2022 (From January 1, 2022 to December 31, 2022)	
Category	Note No.	Amount (Thousand yen)	Composition (%)	Amount (Thousand yen)	Composition (%)
I Raw material costs	*1	7,293,816	57.8	8,681,756	59.2
II Labor costs		2,740,296	21.7	3,028,423	20.6
III Expenses		2,585,541	20.5	2,963,798	20.2
Total cost of manufacturing		12,619,653	100.0	14,673,977	100.0
Beginning work in process		7,820		42,675	
Total		12,627,473		14,716,653	
Ending work in process		42,675		14,204	
Cost of products manufactured		12,584,798		14,702,448	

(Note)*1 Major components are as follows.

Item	FY2021 (Thousand yen)	FY2022 (Thousand yen)
Subcontract processing expenses	191,888	243,278
Depreciation	939,831	968,721
Repair expenses	288,563	360,886
Utilities expenses	451,292	668,624

(Method of cost accounting)

Kanro adopts process costing as a method of cost accounting.

KANRO Financial Results for the Fiscal Year Ended December 31, 2022

(3) Non-consolidated Statement of Changes in Equity

FY2021 (From January 1, 2021 to December 31, 2021)

(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
Cumulative effects of changes in accounting policies				
Restated balance	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			9,892	9,892
Net changes of items other than shareholders' equity				
Total changes of items during period	—	—	9,892	9,892
Balance at end of current period	2,864,249	2,141,805	419,071	2,560,876

KANRO Financial Results for the Fiscal Year Ended December 31, 2022

(Thousand yen)

	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	172,397	14,170	5,020,000	824,712	6,329,880
Cumulative effects of changes in accounting policies					(23,146)	(23,146)
Restated balance	298,600	172,397	14,170	5,020,000	801,566	6,306,734
Changes of items during period						
Reversal of reserve for advanced depreciation of non-current assets		(12,205)			12,205	—
Reversal of reserve for special depreciation			(14,170)		14,170	—
Dividends of surplus					(229,257)	(229,257)
Provision of general reserve				300,000	(300,000)	—
Net income					879,017	879,017
Purchase of treasury shares						
Disposal of treasury shares						
Net changes of items other than shareholders' equity						
Total changes of items during period	—	(12,205)	(14,170)	300,000	376,136	649,760
Balance at end of current period	298,600	160,191	—	5,320,000	1,177,703	6,956,494

KANRO Financial Results for the Fiscal Year Ended December 31, 2022

(Thousand yen)

	Shareholders' equity		Valuation and translation adjustments			Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments	
Balance at beginning of current period	(653,296)	11,091,818	83,234	10	83,245	11,175,063
Cumulative effects of changes in accounting policies		(23,146)				(23,146)
Restated balance	(653,296)	11,068,672	83,234	10	83,245	11,151,917
Changes of items during period						
Reversal of reserve for advanced depreciation of non-current assets		—				—
Reversal of reserve for special depreciation		—				—
Dividends of surplus		(229,257)				(229,257)
Provision of general reserve		—				—
Net income		879,017				879,017
Purchase of treasury shares	(30,344)	(30,344)				(30,344)
Disposal of treasury shares	20,104	29,996				29,996
Net changes of items other than shareholders' equity			(50,711)	(102)	(50,814)	(50,814)
Total changes of items during period	(10,240)	649,412	(50,711)	(102)	(50,814)	598,598
Balance at end of current period	(663,536)	11,718,084	32,522	(91)	32,431	11,750,515

KANRO Financial Results for the Fiscal Year Ended December 31, 2022

FY2022 (From January 1, 2022 to December 31, 2022)

(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	419,071	2,560,876
Cumulative effects of changes in accounting policies				
Restated balance	2,864,249	2,141,805	419,071	2,560,876
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			17,016	17,016
Net changes of items other than shareholders' equity				
Total changes of items during period	—	—	17,016	17,016
Balance at end of current period	2,864,249	2,141,805	436,087	2,577,892

KANRO Financial Results for the Fiscal Year Ended December 31, 2022

(Thousand yen)

	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	160,191	—	5,320,000	1,177,703	6,956,494
Cumulative effects of changes in accounting policies						
Restated balance	298,600	160,191	—	5,320,000	1,177,703	6,956,494
Changes of items during period						
Reversal of reserve for advanced depreciation of non-current assets		(12,007)			12,007	—
Reversal of reserve for special depreciation						—
Dividends of surplus					(358,736)	(358,736)
Provision of general reserve				500,000	(500,000)	—
Net income					1,346,355	1,346,355
Purchase of treasury shares						
Disposal of treasury shares						
Net changes of items other than shareholders' equity						
Total changes of items during period	—	(12,007)	—	500,000	499,626	987,618
Balance at end of current period	298,600	148,184	—	5,820,000	1,677,329	7,944,113

KANRO Financial Results for the Fiscal Year Ended December 31, 2022

(Thousand yen)

	Shareholders' equity		Valuation and translation adjustments			Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments	
Balance at beginning of current period	(663,536)	11,718,084	32,522	(91)	32,431	11,750,515
Cumulative effects of changes in accounting policies		—				—
Restated balance	(663,536)	11,718,084	32,522	(91)	32,431	11,750,515
Changes of items during period						
Reversal of reserve for advanced depreciation of non-current assets		—				—
Reversal of reserve for special depreciation		—				—
Dividends of surplus		(358,736)				(358,736)
Provision of general reserve		—				—
Net income		1,346,355				1,346,355
Purchase of treasury shares	(241,985)	(241,985)				(241,985)
Disposal of treasury shares	22,055	39,072				39,072
Net changes of items other than shareholders' equity			19,562	240	19,803	19,803
Total changes of items during period	(219,930)	784,704	19,562	240	19,803	804,508
Balance at end of current period	(883,467)	12,502,789	52,085	148	52,234	12,555,023

KANRO Financial Results for the Fiscal Year Ended December 31, 2022

(4) Non-consolidated Statement of Cash Flows

(Thousand yen)

	FY2021 (From January 1, 2021 to December 31, 2021)	FY2022 (From January 1, 2022 to December 31, 2022)
Cash flows from operating activities		
Income before income taxes	1,248,064	1,931,381
Depreciation	1,115,617	1,149,855
Increase (decrease) in provision for bonuses	158,187	191,214
Increase (decrease) in provision for directors' bonuses	18,300	38,250
Increase (decrease) in provision for retirement benefits	76,382	89,101
Increase (decrease) in provision for directors' share benefits	37,961	30,013
Interest and dividend income	(5,775)	(5,595)
Interest expenses	3,110	1,066
Loss on retirement of non-current assets	5,540	464
Impairment loss	132,700	73,817
Loss (gain) on sale of non-current assets	46	(934)
Loss (gain) on sale of investment securities	(94,905)	(3,605)
Decrease (increase) in notes and accounts receivable - trade	(758,362)	(824,471)
Decrease (increase) in inventories	(116,561)	(194,843)
Increase (decrease) in notes and accounts payable - trade	334,617	243,432
Increase (decrease) in accrued expenses	303,684	255,774
Increase (decrease) in accrued consumption taxes	168,367	(12,839)
Decrease (increase) in consumption taxes refund receivable	150,252	—
Other, net	173,624	106,846
Subtotal	2,950,851	3,068,927
Interest and dividend income received	5,774	5,596
Interest expenses paid	(3,110)	(1,066)
Income taxes paid	(333,206)	(699,662)
Net cash provided by (used in) operating activities	2,620,309	2,373,795
Cash flows from investing activities		
Payments into time deposits	(60,000)	(60,000)
Proceeds from withdrawal of time deposits	60,000	60,000
Purchase of property, plant and equipment	(1,090,640)	(1,034,525)
Proceeds from sale of property, plant and equipment	—	935
Purchase of intangible assets	(67,141)	(95,745)
Purchase of investment securities	(1,134)	(1,162)
Proceeds from sale of investment securities	156,875	7,449
Payments of loans receivable	(4,960)	—
Collection of loans receivable	4,270	1,750
Proceeds from refund of guarantee deposits	—	4,989
Net cash provided by (used in) investing activities	(1,002,731)	(1,116,310)

KANRO Financial Results for the Fiscal Year Ended December 31, 2022

(Thousand yen)

	FY2021 (From January 1, 2021 to December 31, 2021)	FY2022 (From January 1, 2022 to December 31, 2022)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(500,000)	(500,000)
Repayments of lease obligations	(42,962)	(36,992)
Net decrease (increase) in treasury shares	(348)	(211,632)
Cash dividends paid	(227,581)	(357,768)
Net cash provided by (used in) financing activities	(770,892)	(1,106,393)
Net increase (decrease) in cash and cash equivalents	846,685	151,091
Cash and cash equivalents at beginning of period	1,253,031	2,099,716
Cash and cash equivalents at end of period	2,099,716	2,250,808

(5) Notes to Non-consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Changes in accounting policies)

(Application of accounting standard for revenue recognition, etc.)

The Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020; hereinafter, "Revenue Recognition Accounting Standard"), etc. from the beginning of the fiscal year ended December 31, 2022, and thereby revenue is recognized when the control of promised goods or services is transferred to a customer at an amount to which the Company expects to be entitled in exchange for transferring the goods or services to the customer.

Due to the application of the Revenue Recognition Accounting Standard, etc., the Company has changed its method of accounting for agent fees, etc., which were previously recorded as selling, general and administrative expenses, to methods such as deducting such fees from net sales.

The changes in accounting policies are in principle applied retrospectively, and the financial statements for the fiscal year ended December 31, 2021 are presented after retrospective application.

As a result, compared to before the retrospective application, net sales for the previous fiscal year decreased by ¥4,074,105 thousand, cost of sales decreased by ¥4,546 thousand, selling, general and administrative expenses decreased by ¥4,064,874 thousand, and operating income, ordinary income and income before income taxes each decreased by ¥4,684 thousand. In addition, the balance of retained earnings on January 1, 2021 decreased by ¥23,146 thousand due to the amount of cumulative effect reflected in net assets on January 1, 2021.

(Application of accounting standard for fair value measurement, etc.)

The Company has applied the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019; hereinafter "Fair Value Measurement Accounting Standard"), etc. from the beginning of the fiscal year ended December 31, 2022, and thereby the new accounting policy stipulated in the Fair Value Measurement Accounting Standard, etc. will be applied prospectively in accordance with the transitional treatment stipulated in Paragraph 19 of the Fair Value Measurement Accounting Standard and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019). There is no impact on the non-consolidated financial statements.

(Revenue recognition)

Information on disaggregation of revenue generated from contracts with customers

Kanro operates in the single business category of confectionery and food business, and the following information breaks down the revenue generated from contracts with customers.

(Thousand yen)

	For the fiscal year ended December 31, 2021	For the fiscal year ended December 31, 2022
Hard candy	12,067,758	13,424,665
Gummies	8,822,121	10,972,606
Healthy snacks	699,931	719,273
Other	—	1,856
Revenue generated from contracts with customers	21,589,811	25,118,401
Sales to external customers	21,589,811	25,118,401

Note: "Other" refers to miscellaneous products other than foods.

KANRO Financial Results for the Fiscal Year Ended December 31, 2022

(Segment information, etc.)

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.

KANRO Financial Results for the Fiscal Year Ended December 31, 2022

(Per share information)

	FY2021 (From January 1, 2021 to December 31, 2021)	FY2022 (From January 1, 2022 to December 31, 2022)
Net assets per share	¥833.23	¥905.23
Basic earnings per share	¥62.33	¥96.08

(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 with the effective date of July 1, 2022. 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 FY2021 and FY2022 was 247 thousand shares and 523 thousand shares, respectively.

The average number of treasury shares during the period deducted in calculating basic earnings per share for FY2021 and FY2022 was 243 thousand shares and 354 thousand shares, respectively.

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

	FY2021 (As of December 31, 2021)	FY2022 (As of December 31, 2022)
Total net assets (Thousand yen)	11,750,515	12,555,023
Net assets relating to common stock at year-end (Thousand yen)	11,750,515	12,555,023
Number of outstanding shares of common stock (Thousand shares)	15,315	15,315
Number of treasury shares of common stock (Thousand shares)	1,213	1,446
Number of shares of common stock at year-end used for calculating net assets per share (Thousand shares)	14,102	13,869

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

	FY2021 (From January 1, 2021 to December 31, 2021)	FY2022 (From January 1, 2022 to December 31, 2022)
Net income (Thousand yen)	879,017	1,346,355
Amount not attributable to common stock holders (Thousand yen)	—	—
Net income relating to common stock (Thousand yen)	879,017	1,346,355
Average number of outstanding shares of common stock during the period (Thousand shares)	14,102	14,012

(Significant subsequent events)

Not applicable.