

Consolidated Financial Results for the Fiscal Year Ended December 31, 2017 [Japanese GAAP]



February 8, 2018

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 29, 2018

Scheduled date of commencing dividend payments: March 9, 2018

Scheduled date of filing annual securities report: March 30, 2018

Availability of supplementary briefing material on annual financial results: No

Schedule of annual financial results briefing session: No

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

1. Consolidated Financial Results for the Fiscal Year Ended December 31, 2017 (January 1, 2017 to December 31, 2017)

(1) Consolidated Operating Results

(% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended December 31, 2017	21,303	8.0	935	58.1	999	63.4	447	(10.6)
December 31, 2016	19,716	0.2	591	77.4	612	104.2	500	476.0

(Note) Comprehensive income: Fiscal year ended December 31, 2017: ¥602 million [11.7%]

Fiscal year ended December 31, 2016: ¥539 million [291.3%]

	Basic earnings per share	Diluted earnings per share	Return on equity	Ordinary income to total assets	Operating income to net sales
	Yen	Yen	%	%	%
Fiscal year ended December 31, 2017	124.38	—	4.5	5.5	4.4
December 31, 2016	138.12	—	5.2	3.5	3.0

(Reference) Equity in earnings (losses) of affiliates: Fiscal year ended December 31, 2017: ¥ - million

Fiscal year ended December 31, 2016: ¥ - million

* 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 figures for basic earnings per share have been calculated assuming that the share consolidation had been conducted at the beginning of the previous fiscal year.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2017	18,275	10,003	54.7	2,791.94
As of December 31, 2016	17,947	9,736	54.3	2,686.79

(Reference) Equity: As of December 31, 2017: ¥10,003 million

As of December 31, 2016: ¥9,736 million

* 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 figures for net assets per share have been calculated assuming that the share consolidation had been conducted at the beginning of the previous fiscal year.

(3) 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
Fiscal year ended	Million yen	Million yen	Million yen	Million yen
December 31, 2017	1,512	(830)	(855)	2,132
December 31, 2016	1,970	(213)	(486)	2,305

2. Dividends

	Annual dividends					Total dividends	Payout ratio (consolidated)	Dividends to net assets (consolidated)
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Fiscal year ended December 31, 2016	—	6.00	—	6.00	12.00	217	43.4	2.3
Fiscal year ended December 31, 2017	—	6.00	—	30.00	—	218	48.2	2.2
Fiscal year ending December 31, 2018 (Forecast)	—	30.00	—	35.00	65.00		—	

* Kanro conducted a share consolidation of common stock at a ratio of one share for five shares with July 1, 2017 as the effective date. Accordingly, the year-end dividend per share for the fiscal year ended December 31, 2017 show the amount after taking into consideration the consolidation of shares. The total amount of annual dividends is indicated as “—.” The annual dividend per share converted on the basis after the share consolidation is ¥60 for the fiscal year ended December 31, 2016 and ¥60 for the fiscal year ended December 31, 2017.

* Breakdown of the year-end dividend for the fiscal year ending December 31, 2018 (forecast)

Ordinary dividend: ¥30, Special dividend: ¥5

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

Kanro will merge its consolidated subsidiary, Hikari Seika Co., Ltd. on July 1, 2018 as notified on November 9, 2017. Consolidated financial results forecast for the fiscal year ending December 31, 2018 is not disclosed since the Company's financial results will be disclosed on a non-consolidated basis from the third quarter of the fiscal year ending December 31, 2018. Please refer to the non-consolidated financial results forecast for the full year financial results forecast.

* Notes:

- (1) Changes in significant subsidiaries during the period under review (changes in specified subsidiaries resulting in changes in scope of consolidation): No
- (2) 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
- (3) Total number of issued shares (common shares)
 - 1) Total number of issued shares at the end of the period (including treasury shares):
 - December 31, 2017: 3,828,901 shares
 - December 31, 2016: 3,828,901 shares
 - 2) Total number of treasury shares at the end of the period:
 - December 31, 2017: 245,955 shares
 - December 31, 2016: 205,013 shares

3) Average number of shares during the period:

Fiscal year ended December 31, 2017: 3,596,638 shares

Fiscal year ended December 31, 2016: 3,624,332 shares

- * 1. 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 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 include the Company's treasury shares owned by Japan Trustee Services Bank, Ltd. (Trust Account) (December 31, 2017: 55,000 shares and December 31, 2016: — shares).

(Reference) Summary of Non-consolidated Financial results

1. Non-consolidated Financial Results for the Fiscal Year Ended December 31, 2017 (January 1, 2017 to December 31, 2017)

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

	Net sales		Operating income		Ordinary income		Net income	
Fiscal year ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
December 31, 2017	21,301	8.1	947	53.9	1,001	49.9	593	8.1
December 31, 2016	19,714	0.1	615	128.9	668	162.2	549	796.6

	Basic earnings per share	Diluted earnings per share
Fiscal year ended	Yen	Yen
December 31, 2017	165.15	—
December 31, 2016	151.57	—

- * 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 figures for basic earnings per share have been calculated assuming that the share consolidation had been conducted at the beginning of the previous fiscal year.

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2017	18,064	9,935	55.0	2,773.13
As of December 31, 2016	17,651	9,533	54.0	2,630.80

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

As of December 31, 2016: ¥9,533 million

- * 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 figures for net assets per share have been calculated assuming that the share consolidation had been conducted at the beginning of the previous fiscal year.

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

Kanro will merge its consolidated subsidiary, Hikari Seika Co., Ltd. on July 1, 2018 as notified on November 9, 2017.

Financial results forecast for the first half of the fiscal year ending December 31, 2018 is not disclosed since Kanro's financial results will be disclosed on a non-consolidated basis from the third quarter of the fiscal year ending December 31, 2018.

(% indicates changes from the previous corresponding period.)

	Net sales		Ordinary income		Net income		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	21,500	—	640	—	730	—	203.74

* These financial results are outside the scope of audit procedures

* 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 "Outlook for the next fiscal year" on page 2 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

(i) Business results for the fiscal year

The Japanese economy during the fiscal year under review continued a moderate recovery trend owing to the continuous improvement in employment environment and wage increases, and a sign of a recovery was seen in domestic consumer sentiment.

However, in the candy market, the consumption of hard candies remained on a decreasing trend while the consumption of gummies was robust. As a result, sales in the overall candy market decreased slightly year on year, and the conditions remained harsh.

In such a business environment, Kanro started the first year of the new medium-term management plan “New KANRO 2021” by making efforts to further improve the quality assurance system while attempting to increase sales by strengthening its proposal capabilities, and reduce costs through efficient operation of production facilities. In addition, Kanro also actively worked to strengthen its operating performance, including the development of an information system environment with the aim of enhancing operating efficiency.

In addition, in order to respond to recent significant changes in the business environment, Kanro reviewed its corporate mission for the first time in 40 years. Kanro positioned itself as “the Group working only with the sweet things,” formulated a long-term vision with the mission statement of “we support people’s healthy living through doing business that’s founded on sugar” and renewed its corporate identity.

For the fiscal year, net sales of candies increased by 9.1% year on year despite its declining consumption owing to factors including greater sales of its mainstay brands, Kinno Milk Candy series (金のミルクキャンディシリーズ), Kenko Nodame series (健康のど飴シリーズ) and Non-sugar Super Menthol Nodame (ノンシュガースーパーメントールのど飴). Net sales of gummies increased by 8.9% year on year, owing to greater sales of the mainstay brand, Puré Gummy series (ピュレグミシリーズ). For healthy snacks, net sales decreased by 5.7% year on year. As a result, net sales increased by ¥1,587 million (8.0%) year on year to ¥21,303 million.

In terms of profits, as a result of stable operations of manufacturing lines due to increased sales of mainstay brand products, Kaizen activity (Improvement project) in factory facility, and a reduction in cost of sales from factors including a reduction in loss on abandonment, gross profit increased by ¥1,040 million (11.9%) year on year to ¥9,791 million.

Operating income increased by ¥343 million (58.1%) year on year to ¥935 million, despite greater selling expenses in line with greater net sales, and increased expenses in research and development for business expansion. Ordinary profit increased by ¥387 million (63.4%) year on year to ¥999 million. Net income attributable to owners of parent decreased by ¥53 million (10.6%) year on year to ¥447 million due mainly to extraordinary losses including an impairment loss of ¥152 million owing to an absorption-type merger with Kanro’s consolidated subsidiary Hikari Seika Co., Ltd. and special retirement benefits of ¥66 million, as well as the absence of income tax adjustments of ¥360 million which was recorded as deferred tax assets in the previous fiscal year.

(ii) Outlook for the next fiscal year

We will keep on achieving our goal “New KANRO 2021 project” through sales expansion strategy and strengthening operating performance. Net sales are expected to increase by ¥196 million (0.9%) year on year to ¥21,500 million by proactively increasing sales of candies. Operating income is expected to decrease by ¥315 million (33.7%) year on year to ¥620 million due to implementing various measures for further growth, including increasing advertising expenses to expand sales of mainstay brand products and enhance the corporate brand, relocating the Head Office, introducing a new corporate identity, promoting information systemization, and relocating the facilities associated with the absorption-type merger with Hikari Seika Co., Ltd. Ordinary profit is projected to decrease by ¥359 million (36.0%) to ¥640 million, and net income is projected to increase by ¥282 million (63.2%) to ¥730 million due mainly to recording of extraordinary gains including ¥502 million of gain on sale of non-current assets associated with the sale of the former headquarters building(including land)

and ¥42 million of gain from a merger due to the absorption-type merger with Hikari Seika Co., Ltd.

*As a result of the absorption-type merger with Hikari Seika Co., Ltd., a consolidated subsidiary, on July 1, 2018, financial statements will be prepared on a non-consolidated basis from the third quarter of the fiscal year ending December 31, 2018. Therefore, the outlook for the fiscal year ending December 31, 2018 is forecast on a non-consolidated basis. Year-over-year changes in value and percentage terms are comparison with the consolidated financial results for the fiscal year ended December 31, 2017.

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

(i) Assets, liabilities and net assets

Total assets at the end of the fiscal year under review increased by ¥327 million (1.8%) from the end of the previous fiscal year to ¥18,275 million.

This is mainly attributable to a decrease in property, plant and equipment by ¥489 million, despite increases in notes and accounts receivable – trade as well as investment securities by ¥612 million and ¥206 million, respectively.

Liabilities increased by ¥60 million (0.7%) from the end of the previous fiscal year to ¥8,271 million.

This is mainly attributable to a decrease in long-term loans payable by ¥490 million, despite increases in notes and accounts payable – trade, accounts payable – other, accrued expenses, and provision for bonuses by ¥137 million, ¥181 million, ¥120 million and ¥157 million, respectively.

Net assets increased by ¥266 million (2.7%) from the end of the previous fiscal year to ¥10,003 million. This is mainly attributable to an increase in retained earnings by ¥229 million resulting from the recording of ¥447 million in net income attributable to owners of parent and the payment of ¥217 million in dividends, as well as an increase in valuation difference on available-for-sale securities by ¥144 million, in addition to an increase in treasury shares by ¥136 million, including shares contributed to the trust in line with the introduction of the share compensation system for Directors, etc.

(ii) Cash flow status

Cash and cash equivalents at the end of the fiscal year under review decreased by ¥173 million from the end of the previous fiscal year to ¥2,132 million.

(Cash flows from operating activities)

Net cash provided by operating activities was ¥1,512 million (a decrease by ¥457 million compared to the previous fiscal year).

This was mainly attributable to cash outflows from an increase in notes and accounts receivable – trade of ¥612 million and income taxes paid of ¥491 million despite cash inflows from income before income taxes of ¥743 million, depreciation of ¥962 million, an increase in provision for bonuses of ¥157 million, an impairment loss of ¥170 million and a decrease in inventories of ¥160 million.

(Cash flows from investing activities)

Net cash used in investing activities was ¥830 million (an increase by ¥617 million compared to the previous fiscal year).

This was mainly attributable to cash outflows from purchase of property, plant and equipment of ¥661 million and payments for guarantee deposits of ¥372 million despite cash inflows from proceeds from sales of property, plant and equipment of ¥145 million.

(Cash flows from financing activities)

Net cash used in financing activities was ¥855 million (an increase by ¥368 million compared to the previous fiscal year).

This was mainly attributable to cash outflows from repayment of long-term loans payable of ¥490 million, net purchase of treasury shares of ¥118 million, and cash dividend paid of ¥216 million.

(Reference) Cash flow-related indicators

	FY2014	FY2015	FY2016	FY2017
Equity ratio (%)	53.8	54.3	54.3	54.7
Equity ratio on a market value basis (%)	45.0	51.8	59.3	63.6
Cash flows to interest-bearing debt (Years)	4.5	1.3	0.9	0.8
Interest coverage ratio (Times)	51.6	129.8	199.1	189.1

(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) 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 consolidated balance sheets that incur interest payments. Interest payments represent the interest payments recorded in the consolidated statement of cash flows.

(3) Basic Policy regarding Profit Sharing and Dividend for the Fiscal Year Under Review and the Next Fiscal Year

Kanro recognizes profit distribution to shareholders as one of its crucial management tasks and aims at paying stable dividends on a continuing basis.

Kanro has a basic policy of paying distribution of surpluses twice a year by interim and year-end dividends.

The year-end dividend for the fiscal year under review is ¥30 per share. Kanro conducted a share consolidation of common stock at a ratio of one share for five shares as of July 1, 2017. Since Kanro paid an interim dividend of ¥6 per share with the record date of June 30, 2017 before the share consolidation, the annual dividend prior to the share consolidation for the fiscal year under review is ¥12 per share comprising an interim dividend of ¥6 and a year-end dividend of ¥6, which is equivalent to ¥60 per share comprising an interim dividend of ¥30 and a year-end dividend of ¥30 taking into consideration share consolidation.

The total dividend for the next fiscal year (ending December 31, 2018) is scheduled to be ¥65 per share comprising an interim dividend of ¥30 and a year-end dividend of ¥30 plus a special dividend of ¥5 per share due to the steady growth in the business and the recording of extraordinary income of ¥502 million, including gain on sale of non-current assets associated with the sale of the former headquarters building (including land).

2. Basic Concept Regarding Selection of Accounting Standards

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

3. Consolidated Financial Statements and Primary Notes

(1) Consolidated Balance Sheets

(Thousand yen)

	As of December 31, 2016	As of December 31, 2017
Assets		
Current assets		
Cash and deposits	2,375,943	2,202,534
Notes and accounts receivable - trade	4,829,981	5,442,866
Merchandise and finished goods	559,463	419,280
Work in process	3,998	5,508
Raw materials and supplies	218,565	196,565
Deferred tax assets	342,881	319,519
Other	87,000	89,707
Total current assets	8,417,834	8,675,981
Non-current assets		
Property, plant and equipment		
Buildings and structures	8,667,258	8,367,339
Accumulated depreciation	(5,207,570)	(5,183,164)
Buildings and structures, net	3,459,687	3,184,174
Machinery, equipment and vehicles	12,688,805	12,007,254
Accumulated depreciation	(9,880,195)	(9,604,385)
Machinery, equipment and vehicles, net	2,808,609	2,402,868
Land	1,909,312	1,736,712
Leased assets	146,095	108,579
Accumulated depreciation	(97,263)	(43,965)
Leased assets, net	48,832	64,613
Construction in progress	15,547	382,781
Other	811,129	791,202
Accumulated depreciation	(643,319)	(641,768)
Other, net	167,809	149,433
Total property, plant and equipment	8,409,799	7,920,585
Intangible assets	148,149	149,540
Investments and other assets		
Investment securities	443,052	649,798
Deferred tax assets	447,612	404,218
Other	80,964	474,969
Total investments and other assets	971,628	1,528,986
Total non-current assets	9,529,577	9,599,111
Total assets	17,947,411	18,275,093

(Thousand yen)

	As of December 31, 2016	As of December 31, 2017
Liabilities		
Current liabilities		
Notes and accounts payable - trade	1,454,317	1,591,585
Short-term loans payable	490,000	490,000
Lease obligations	25,322	22,124
Accounts payable - other	478,853	660,082
Accrued expenses	1,507,601	1,628,128
Income taxes payable	348,642	182,562
Accrued consumption taxes	199,067	141,826
Provision for bonuses	325,128	482,385
Provision for directors' bonuses	31,200	34,700
Other	91,425	202,036
Total current liabilities	4,951,559	5,435,431
Non-current liabilities		
Long-term loans payable	1,247,500	757,500
Lease obligations	27,357	47,894
Net defined benefit liability	1,884,252	1,926,246
Provision for directors' retirement benefits	90,050	—
Provision for directors' share benefits	—	23,801
Other	10,080	80,860
Total non-current liabilities	3,259,239	2,836,302
Total liabilities	8,210,798	8,271,733
Net assets		
Shareholders' equity		
Capital stock	2,864,249	2,864,249
Capital surplus	2,532,550	2,550,983
Retained earnings	4,565,929	4,795,421
Treasury shares	(336,050)	(472,806)
Total shareholders' equity	9,626,679	9,737,849
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	125,798	270,268
Remeasurements of defined benefit plans	(15,864)	(4,758)
Total accumulated other comprehensive income	109,933	265,509
Total net assets	9,736,613	10,003,359
Total liabilities and net assets	17,947,411	18,275,093

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

(Thousand yen)

	Fiscal year ended December 31, 2016	Fiscal year ended December 31, 2017
Net sales	19,716,781	21,303,921
Cost of sales	10,966,289	11,512,676
Gross profit	8,750,491	9,791,245
Selling, general and administrative expenses	8,158,989	8,856,240
Operating income	591,502	935,004
Non-operating income		
Interest income	305	191
Dividend income	8,690	8,861
Damages income	4,688	44,877
Sold power income	12,583	13,602
Miscellaneous income	14,593	14,142
Total non-operating income	40,862	81,675
Non-operating expenses		
Interest expenses	9,683	7,589
Sold power expenses	6,533	6,525
Miscellaneous expenses	4,038	2,621
Total non-operating expenses	20,255	16,736
Ordinary income	612,109	999,943
Extraordinary income		
Gain on sales of non-current assets	—	371
Gain on donation of non-current assets	3,037	—
Gain on sales of investment securities	—	958
Insurance income	100,000	—
Total extraordinary income	103,037	1,330
Extraordinary losses		
Loss on retirement of non-current assets	6,916	20,394
Impairment loss	217,616	170,693
Special retirement expenses	—	66,400
Total extraordinary losses	224,533	257,489
Income before income taxes	490,613	743,784
Income taxes - current	350,794	297,734
Income taxes - deferred	(360,772)	(1,308)
Total income taxes	(9,977)	296,426
Net income	500,590	447,358
Net income attributable to owners of parent	500,590	447,358

Consolidated Statements of Comprehensive Income

(Thousand yen)

	Fiscal year ended December 31, 2016	Fiscal year ended December 31, 2017
Net income	500,590	447,358
Other comprehensive income		
Valuation difference on available-for-sale securities	2,561	144,470
Remeasurements of defined benefit plans, net of tax	36,466	11,106
Total other comprehensive income	39,027	155,576
Comprehensive income	539,617	602,934
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	539,617	602,934

(3) Consolidated Statement of Changes in Equity

Fiscal year ended December 31, 2016 (From January 1, 2016 to December 31, 2016)

(Thousand yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	2,864,249	2,532,550	4,282,815	(333,719)	9,345,896
Changes of items during period					
Dividends of surplus			(217,476)		(217,476)
Net income attributable to owners of parent			500,590		500,590
Purchase of treasury shares				(2,330)	(2,330)
Disposal of treasury shares					—
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	283,114	(2,330)	280,783
Balance at end of current period	2,864,249	2,532,550	4,565,929	(336,050)	9,626,679

	Accumulated other comprehensive income			Total net assets
	Valuation difference on available-for-sale securities	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance at beginning of current period	123,236	(52,330)	70,905	9,416,802
Changes of items during period				
Dividends of surplus				(217,476)
Net income attributable to owners of parent				500,590
Purchase of treasury shares				(2,330)
Disposal of treasury shares				—
Net changes of items other than shareholders' equity	2,561	36,466	39,027	39,027
Total changes of items during period	2,561	36,466	39,027	319,810
Balance at end of current period	125,798	(15,864)	109,933	9,736,613

Fiscal year ended December 31, 2017 (From January 1, 2017 to December 31, 2017)

(Thousand yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	2,864,249	2,532,550	4,565,929	(336,050)	9,626,679
Changes of items during period					
Dividends of surplus			(217,865)		(217,865)
Net income attributable to owners of parent			447,358		447,358
Purchase of treasury shares				(161,373)	(161,373)
Disposal of treasury shares		18,433		24,617	43,051
Net changes of items other than shareholders' equity					
Total changes of items during period	—	18,433	229,492	(136,756)	111,169
Balance at end of current period	2,864,249	2,550,983	4,795,421	(472,806)	9,737,849

	Accumulated other comprehensive income			Total net assets
	Valuation difference on available-for-sale securities	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance at beginning of current period	125,798	(15,864)	109,933	9,736,613
Changes of items during period				
Dividends of surplus				(217,865)
Net income attributable to owners of parent				447,358
Purchase of treasury shares				(161,373)
Disposal of treasury shares				43,051
Net changes of items other than shareholders' equity	144,470	11,106	155,576	155,576
Total changes of items during period	144,470	11,106	155,576	266,745
Balance at end of current period	270,268	(4,758)	265,509	10,003,359

(4) Consolidated Statement of Cash Flows

(Thousand yen)

	Fiscal year ended December 31, 2016	Fiscal year ended December 31, 2017
Cash flows from operating activities		
Profit before income taxes	490,613	743,784
Depreciation	999,348	962,749
Increase (decrease) in provision for bonuses	176,515	157,256
Increase (decrease) in provision for directors' bonuses	31,200	3,500
Increase (decrease) in net defined benefit liability	83,280	57,997
Increase (decrease) in provision for directors' retirement benefits	20,850	(90,050)
Increase (decrease) in provision for directors' share benefits	—	23,801
Interest and dividend income	(8,996)	(9,053)
Interest expenses	9,683	7,589
Gain on donation of non-current assets	(3,037)	—
Insurance income	(100,000)	—
Loss on retirement of non-current assets	6,916	20,394
Impairment loss	217,616	170,693
Loss (gain) on sales of property, plant and equipment	—	(371)
Loss (gain) on sales of investment securities	—	(958)
Special retirement expenses	—	66,400
Decrease (increase) in notes and accounts receivable trade	(17,275)	(612,884)
Decrease (increase) in inventories	(77,018)	160,673
Increase (decrease) in notes and accounts payable - trade	10,839	137,267
Increase (decrease) in accrued expenses	20,064	120,936
Other, net	118,187	73,819
Subtotal	1,978,788	1,993,548
Interest and dividend income received	8,996	9,053
Interest expenses paid	(9,892)	(7,999)
Proceeds from insurance income	100,000	—
Income taxes paid	(107,848)	(491,437)
Income taxes refund	—	9,721
Net cash provided by (used in) operating activities	1,970,044	1,512,885
Cash flows from investing activities		
Payments into time deposits	(70,000)	(70,000)
Proceeds from withdrawal of time deposits	70,000	70,000
Purchase of property, plant and equipment	(414,780)	(661,147)
Proceeds from sales of property, plant and equipment	240,485	145,812
Proceeds from initial fees for sales of property, plant and equipment	—	106,697
Purchase of intangible assets	(38,518)	(53,344)
Purchase of investment securities	(1,853)	(1,886)
Proceeds from sales of investment securities	—	3,735
Payments of loans receivable	(3,200)	(2,200)
Collection of loans receivable	4,388	3,407
Payments for guarantee deposits	—	(372,042)
Net cash provided by (used in) investing activities	(213,478)	(830,970)

(Thousand yen)

	Fiscal year ended December 31, 2016	Fiscal year ended December 31, 2017
Cash flows from financing activities		
Repayments of long-term loans payable	(227,500)	(490,000)
Repayments of lease obligations	(40,475)	(30,236)
Net purchase of treasury shares	(2,330)	(118,322)
Cash dividends paid	(216,190)	(216,765)
Net cash provided by (used in) financing activities	(486,496)	(855,324)
Net increase (decrease) in cash and cash equivalents	1,270,068	(173,408)
Cash and cash equivalents at beginning of period	1,035,874	2,305,943
Cash and cash equivalents at end of period	2,305,943	2,132,534

(5) Notes to Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Additional information)

(Application of Revised Implementation Guidance on Recoverability of Deferred Tax Assets)

Kanro has applied the “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (Accounting Standards Board of Japan (“ASBJ”) Guidance No. 26, March 28, 2016) from the fiscal year under review.

(Segment information, etc.)

For the fiscal year under review (from January 1, 2017 to December 31, 2017)

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

(Per share information)

	FY 2016 (From January 1, 2016 to December 31, 2016)	FY 2017 (From January 1, 2017 to December 31, 2017)
Net assets per share	¥2,686.79	¥2,791.94
Basic earnings per share	¥138.12	¥124.38

(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 consolidated fiscal year under review was 36,000 shares.

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

	FY 2016 (As of December 31, 2016)	FY 2017 (As of December 31, 2017)
Total net assets (Thousand yen)	9,736,613	10,003,359
Net assets relating to common stock at year-end (Thousand yen)	9,736,613	10,003,359
Number of outstanding shares of common stock (Thousand shares)	3,828	3,828
Number of treasury shares of common stock (Thousand shares)	205	245
Number of shares of common stock at year-end used for calculating net assets per share (Thousand shares)	3,623	3,582

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

	FY 2016 (From January 1, 2016 to December 31, 2016)	FY 2017 (From January 1, 2017 to December 31, 2017)
Net income attributable to owners of parent (Thousand yen)	500,590	447,358
Amount not attributable to common stock holders (Thousand yen)	—	—
Net income attributable to owners of parent relating to common stock (Thousand yen)	500,590	447,358
Average number of outstanding shares of common stock during the period (Thousand shares)	3,624	3,596

(Significant subsequent events)

Not applicable.