

**Non-consolidated Financial Results
for the Fiscal Year Ended December 31, 2023
[Japanese GAAP]**



February 8, 2024

| | |
|--|--|
| Company name: | Kanro Inc. |
| Stock exchange listing: | Tokyo Stock Exchange |
| Code number: | 2216 |
| URL: | https://www.kanro.co.jp/en/ |
| Representative: | Tetsuya Murata, 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 Ordinary General Meeting of Shareholders: | March 28, 2024 |
| Scheduled date of commencing dividend payments: | March 11, 2024 |
| Scheduled date of filing annual securities report: | March 29, 2024 |
| 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 FY2023 (January 1, 2023 to December 31, 2023)

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

| | Net sales | | Operating profit | | Ordinary profit | | Profit | |
|-------------------|-------------|------|------------------|------|-----------------|------|-------------|------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| Fiscal year ended | | | | | | | | |
| December 31, 2023 | 29,015 | 15.5 | 3,388 | 75.3 | 3,432 | 71.5 | 2,462 | 82.9 |
| December 31, 2022 | 25,118 | 16.3 | 1,933 | 54.1 | 2,001 | 55.0 | 1,346 | 53.2 |

| | Basic earnings per share | Diluted earnings per share | Return on equity | Ordinary profit to total assets | Operating profit to net sales |
|-------------------|--------------------------|----------------------------|------------------|---------------------------------|-------------------------------|
| Fiscal year ended | Yen | Yen | % | % | % |
| December 31, 2023 | 177.09 | — | 18.2 | 14.3 | 11.7 |
| December 31, 2022 | 96.08 | — | 11.1 | 9.2 | 7.7 |

(Reference) Equity in earnings (losses) of affiliates: FY2023: ¥ - million

FY2022: ¥ - million

(Note) 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.

KANRO Financial Results for the Fiscal Year Ended December 31, 2023

(2) Non-consolidated Financial Position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|-------------------------|--------------|-------------|--------------|----------------------|
| | Million yen | Million yen | % | Yen |
| As of December 31, 2023 | 25,839 | 14,533 | 56.2 | 1,043.94 |
| As of December 31, 2022 | 22,315 | 12,555 | 56.3 | 905.23 |

(Reference) Equity: As of December 31, 2023: ¥14,533 million

As of December 31, 2022: ¥12,555 million

(Note) 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, 2023 | 3,935 | (1,839) | (585) | 3,761 |
| December 31, 2022 | 2,373 | (1,116) | (1,106) | 2,250 |

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 | % | % |
| FY2022 | — | 25.00 | — | 19.00 | — | 452 | 32.8 | 3.7 |
| FY2023 | — | 20.00 | — | 38.00 | 58.00 | 834 | 32.8 | 6.2 |
| FY2024 (Forecast) | — | 30.00 | — | 42.00 | 72.00 | | 40.1 | |

(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 the actual amount before the stock split, and the total amount of the annual cash dividend for FY2022 is indicated as “—.” The total cash dividends per share converted on the basis after the stock split are ¥31.50 for FY2022.

3. Non-consolidated Financial Results Forecast for FY2024 (January 1, 2024 to December 31, 2024)

(% of change from the previous fiscal year.)

| | Net sales | | Operating profit | | Ordinary profit | | Profit | | Basic earnings per share |
|------------|-------------|-----|------------------|-------|-----------------|-------|-------------|-------|--------------------------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Yen |
| First half | 15,000 | 5.0 | 1,660 | (6.4) | 1,670 | (6.8) | 1,230 | (0.6) | 88.35 |
| Full year | 30,300 | 4.4 | 3,450 | 1.8 | 3,470 | 1.1 | 2,500 | 1.5 | 179.57 |

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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: 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)

| | FY2023 | FY2022 |
|---|-------------------|-------------------|
| 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 | 1,393,503 shares | 1,446,176 shares |
| 3) Average number of shares during the period | 13,905,926 shares | 14,012,946 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, 2023: 471,000 shares and December 31, 2022: 523,800 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 8, 2024 as well as on the Company's website.

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1. Overview of Business Results, etc.

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

The Japanese economy during the fiscal year under review has seen a moderate recovery mainly due to the increased flow of people and recovery in inbound demand against the backdrop of the reclassification of COVID-19 as a Class V infection. Although consumer prices are trending upward, the economy is expected to continue a moderate recovery due to the improvements in the employment and income environment and the impact of various policies. However, the downturn in overseas economies, including the continued global financial tightening and concerns over the future of China's economy, poses downside risks to the economy, and the outlook remains uncertain with factors such as rising prices, the situation in the Middle East, and fluctuations in financial and capital markets.

As for the candy market, the hard candy category exceeded the previous fiscal year due to an increase in demand for throat drops, partly as a result of the rise in self-care due to the impact of the continuing spread of COVID-19, the increase in airborne pollen count, and the early spread of influenza, under expanding eating situations in line with the increase in flows of people. In addition, the strong gummy category continues to grow, and this growth, coupled with the raised product prices, significantly increased year-on-year sales, driving the growth 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 second year of the three-year Medium-term Corporate Strategy 2024. In response to a rapid increase in demand in the first half of the fiscal year, we have been taking measures to ensure stable supply, such as reducing the product lineup by suspending sales of some products since March. However, progress in improving our production system, including personnel reinforcement, has enabled us to capture further demand for both gummies and hard candies. As a result, net sales during the fiscal year under review increased by ¥3,897 million (15.5%) year on year to ¥29,015 million.

Sales of hard candy products increased by ¥1,622 million (12.1%) year on year to ¥15,046 million due to increased sales of bag-type hard candy products, especially throat drops and the fancy category's products including products for Generation Z, as well as a recovery in demand for small bags with zip type products and stick type products due to the full-scale transition to living with COVID-19. By product, sales of *Non-Sugar Kajitsu Nодоame* (ノンシュガー果実のど飴) and *Non-Sugar Super Menthol Nодоame* (ノンシュガースーパーメントールのど飴) in the *Non-Sugar Nодоame* (ノンシュガーのど飴) series as well as the *Kenko Nодоame* (健康のど飴) series, which, together with price revisions (March), was featured on TV commercials, were solid. Sales of gummy products, for which price revisions of main products were implemented (March), increased by ¥2,321 million (21.2%) year on year to ¥13,293 million, thanks to an increase in sales of the leading brand *Puré Gummy* (ピュレグミ) series, which experienced significant expansion last year for its 20th anniversary, partly due to the success of TV commercials, combined with a growth in sales of *Candemina Gummy* (カンデミーナグミ) featuring harder textures and the high value-added product *Gummi-tzel* (グミッツェル) at the Company-owned Hitotubu Kanro store and on Kanro POCKeT digital platform. Sales of healthy snacks decreased by ¥48 million (6.7%) year on year to ¥671 million. Although we will continue to reduce the product lineup, we are working to further expand our production system, including by expanding our facilities.

In terms of profits, gross profit increased by ¥2,064 million (21.3%) year on year to ¥11,738 million, as a result of price revisions and content reductions implemented for some products in response to ongoing increases in raw material prices and factory overhead costs, as well as increased sales volume and improved productivity. Operating profit increased by ¥1,455 million (75.3%) year on year to ¥3,388 million, despite an increase in advertising expenses due to the implementation of TV commercials and various product campaigns, an increase in personnel expenses resulting from an increased number of employees, higher performance-linked bonuses, and officer retirement-related expenses, and an

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increase in general expenses including expenses for measures to expand the business activities. Ordinary profit increased by ¥1,431 million (71.5%) year on year to ¥3,432 million, partly because income from loss was posted in the previous year but not in the current fiscal year, and profit for the period under review increased by ¥1,116 million (82.9%) year on year to ¥2,462 million due to a decrease in the effective tax rate following the application of tax incentives to promote wage increases (tax credits).

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

Total assets at the end of the fiscal year under review increased by ¥3,524 million (15.8%) from the end of the previous fiscal year to ¥25,839 million. The increase in total assets was mainly attributable to increases in cash and deposits by ¥1,510 million, accounts receivable - trade by ¥884 million, property, plant and equipment by ¥673 million, and merchandise and finished goods by ¥184 million.

Liabilities increased by ¥1,545 million (15.8%) from the end of the previous fiscal year to ¥11,305 million. The increase in liabilities was mainly attributable to increases in accounts payable - trade by ¥553 million, income taxes payable by ¥483 million, accrued expenses of ¥213 million, and provision for bonuses by ¥118 million.

Net assets increased by ¥1,978 million (15.8%) from the end of the previous fiscal year to ¥14,533 million. This was mainly due to the recording of ¥2,462 million in profit and the payment of ¥561 million in cash dividends.

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

Cash and cash equivalents at the end of the fiscal year under review amounted to ¥3,761 million, an increase of ¥1,510 million from the end of the previous fiscal year.

(Cash flows from operating activities)

Net cash provided by operating activities was ¥3,935 million (net cash provided of ¥2,373 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 ¥1,839 million (net cash used of ¥1,116 million in the previous fiscal year).

This was due to cash outflows for capital investment and other expenditures.

(Cash flows from financing activities)

Net cash used in financing activities was ¥585 million (net cash used of ¥1,106 million in the previous fiscal year).

This was attributable to cash outflows mainly from cash dividends paid.

(Reference) Cash flow-related indicators

| | FY2019 | FY2020 | FY2021 | FY2022 | FY2023 |
|---|--------|--------|--------|---------|---------|
| Equity ratio (%) | 56.3 | 56.3 | 55.4 | 56.3 | 56.2 |
| Equity ratio on a market value basis (%) | 58.9 | 53.5 | 53.0 | 68.4 | 112.0 |
| Cash flows to interest-bearing debt (Years) | 0.4 | 0.7 | 0.2 | – | – |
| Interest coverage ratio (Times) | 340.2 | 385.8 | 842.5 | 2,225.9 | 2,172.5 |

(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 2024, the final year of Medium-term Corporate Strategy 2024, we will promote our three business strategies of “Value Creation,” “ESG Management,” and “Expansion of our Business Domains” by pursuing cost reductions and improved profitability, and positioning sustainability at the core of our management, while working together as a company to respond flexibly to the drastic changes in the market and business environment, under our corporate purpose of “Sweeten the Future.”

The Company expects that net sales in FY2024 will increase by ¥1,284 million (4.4%) year on year to ¥30,300 million. In tandem with thorough brand-centric management, a customer-centric approach, 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, we will focus on strengthening our management base, make human resource investment and capital investment to expand our production system, and proceed with IT investment to improve productivity through DX.

In terms of profits, in addition to an increase in expenses for measures to expand business areas, among other purposes, we anticipate further steep increases in raw material prices and higher depreciation and overhead expenses due to the expansion of the gummy building at the Matsumoto Plant. In response to this, we will sequentially revise the prices and content of certain products beginning with shipments in February. As a result, although the cost-of-sales ratio is expected to rise, operating profit is projected to increase by ¥61 million (1.8%) year on year to ¥3,450 million, partly reflecting the absence of one-time expenses seen in the previous fiscal year. Ordinary profit is expected to increase by ¥37 million (1.1%) year on year to ¥3,470 million, and profit is projected to increase by ¥37 million (1.5%) year on year to ¥2,500 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 raising the payout ratio to 40% in FY2024. Based on this policy, the Company plans to pay an annual dividend of ¥72 per share (including an interim dividend of ¥30 per share) for the next fiscal year (ending December 31, 2024), an increase of ¥14 per share over the dividend amount for the fiscal year under review.

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, 2022 | As of December 31, 2023 |
|-------------------------------------|-------------------------|-------------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 2,310,808 | 3,821,803 |
| Accounts receivable - trade | 7,673,640 | 8,558,076 |
| Merchandise and finished goods | 774,996 | 959,854 |
| Work in process | 14,204 | 33,684 |
| Raw materials and supplies | 380,597 | 374,154 |
| Prepaid expenses | 185,353 | 168,807 |
| Short-term loans receivable | 1,750 | 1,050 |
| Accounts receivable - other | 9,069 | 18,116 |
| Other | 1,090 | 778 |
| Total current assets | 11,351,510 | 13,936,325 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings | 7,035,754 | 7,531,136 |
| Accumulated depreciation | (4,029,677) | (4,270,912) |
| Buildings, net | 3,006,076 | 3,260,224 |
| Structures | 1,529,537 | 1,541,162 |
| Accumulated depreciation | (1,204,089) | (1,232,180) |
| Structures, net | 325,448 | 308,981 |
| Machinery and equipment | 13,282,569 | 13,798,759 |
| Accumulated depreciation | (9,661,698) | (9,999,499) |
| Machinery and equipment, net | 3,620,870 | 3,799,259 |
| Vehicles | 52,247 | 53,236 |
| Accumulated depreciation | (44,281) | (44,023) |
| Vehicles, net | 7,966 | 9,213 |
| Tools, furniture and fixtures | 1,070,265 | 1,160,532 |
| Accumulated depreciation | (785,592) | (834,564) |
| Tools, furniture and fixtures, net | 284,673 | 325,968 |
| Land | 1,497,829 | 1,497,829 |
| Leased assets | 132,963 | 191,837 |
| Accumulated depreciation | (77,210) | (42,968) |
| Leased assets, net | 55,752 | 148,869 |
| Construction in progress | 270,261 | 392,169 |
| Total property, plant and equipment | 9,068,880 | 9,742,515 |
| Intangible assets | | |
| Trademark right | 8,990 | 12,624 |
| Software | 204,156 | 347,583 |
| Telephone subscription right | 10,411 | 10,411 |
| Right to use facilities | 4,910 | 4,389 |
| Total intangible assets | 228,469 | 375,009 |

KANRO Financial Results for the Fiscal Year Ended December 31, 2023

(Thousand yen)

| | As of December 31, 2022 | As of December 31, 2023 |
|------------------------------------|-------------------------|-------------------------|
| Investments and other assets | | |
| Investment securities | 174,451 | 226,856 |
| Investments in capital | 10 | 10 |
| Employ long-term loan | 735 | 910 |
| Long-term prepaid expenses | 18,027 | 16,786 |
| Guarantee deposits | 399,018 | 399,791 |
| Deposits on admission | 13,900 | 15,088 |
| Deferred tax assets | 1,060,218 | 1,125,951 |
| Total investments and other assets | 1,666,361 | 1,785,394 |
| Total non-current assets | 10,963,711 | 11,902,919 |
| Total assets | 22,315,222 | 25,839,244 |

KANRO Financial Results for the Fiscal Year Ended December 31, 2023

(Thousand yen)

| | As of December 31, 2022 | As of December 31, 2023 |
|---|-------------------------|-------------------------|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable - trade | 2,176,026 | 2,729,338 |
| Lease liabilities | 26,900 | 48,177 |
| Accounts payable - other | 1,082,176 | 1,123,393 |
| Accrued expenses | 2,225,694 | 2,438,952 |
| Income taxes payable | 319,477 | 803,236 |
| Accrued consumption taxes | 155,030 | 106,106 |
| Deposits received | 126,472 | 123,671 |
| Provision for bonuses | 904,368 | 1,022,376 |
| Provision for bonuses for directors (and other officers) | 121,750 | 165,500 |
| Other | 69,626 | 70,903 |
| Total current liabilities | 7,207,523 | 8,631,655 |
| Non-current liabilities | | |
| Lease liabilities | 34,415 | 115,579 |
| Provision for retirement benefits | 2,270,581 | 2,291,931 |
| Provision for share awards for directors (and other officers) | 195,347 | 205,534 |
| Other | 52,329 | 60,643 |
| Total non-current liabilities | 2,552,674 | 2,673,688 |
| Total liabilities | 9,760,198 | 11,305,344 |
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 2,864,249 | 2,864,249 |
| Capital surplus | | |
| Legal capital surplus | 2,141,805 | 2,141,805 |
| Other capital surplus | 436,087 | 436,087 |
| Total capital surplus | 2,577,892 | 2,577,892 |
| Retained earnings | | |
| Legal retained earnings | 298,600 | 298,600 |
| Other retained earnings | | |
| Reserve for tax purpose reduction entry of non-current assets | 148,184 | 136,072 |
| General reserve | 5,820,000 | 6,320,000 |
| Retained earnings brought forward | 1,677,329 | 3,090,637 |
| Total retained earnings | 7,944,113 | 9,845,310 |
| Treasury shares | (883,467) | (841,285) |
| Total shareholders' equity | 12,502,789 | 14,446,167 |
| Valuation and translation adjustments | | |
| Valuation difference on available-for-sale securities | 52,085 | 87,723 |
| Deferred gains or losses on hedges | 148 | 9 |
| Total valuation and translation adjustments | 52,234 | 87,733 |
| Total net assets | 12,555,023 | 14,533,900 |
| Total liabilities and net assets | 22,315,222 | 25,839,244 |

KANRO Financial Results for the Fiscal Year Ended December 31, 2023

(2) Non-consolidated Statements of Income

(Thousand yen)

| | FY2022 (From January 1, 2022 to December 31, 2022) | FY2023 (From January 1, 2023 to December 31, 2023) |
|--|--|--|
| Net sales | 25,118,401 | 29,015,855 |
| Cost of sales | | |
| Beginning finished goods inventory | 643,698 | 774,996 |
| Cost of products manufactured | 14,702,448 | 16,519,382 |
| Purchase of finished goods | 904,727 | 981,383 |
| Total | 16,250,873 | 18,275,762 |
| Ending finished goods inventory | 774,996 | 959,854 |
| Transfer to other account | 31,826 | 38,533 |
| Total cost of sales | 15,444,051 | 17,277,374 |
| Gross profit | 9,674,350 | 11,738,480 |
| Selling, general and administrative expenses | 7,741,156 | 8,349,669 |
| Operating profit | 1,933,193 | 3,388,810 |
| Non-operating income | | |
| Interest and dividend income | 5,595 | 6,554 |
| Income from loss | 37,705 | 6,168 |
| Electricity sale income | 10,420 | 11,294 |
| Royalty income | 3,616 | 12,394 |
| Other | 17,257 | 15,932 |
| Total non-operating income | 74,595 | 52,343 |
| Non-operating expenses | | |
| Interest expenses | 1,066 | 1,811 |
| Electricity sale expenses | 5,325 | 5,537 |
| Other | 274 | 1,017 |
| Total non-operating expenses | 6,666 | 8,366 |
| Ordinary profit | 2,001,122 | 3,432,788 |
| Extraordinary income | | |
| Gain on sale of non-current assets | 934 | — |
| Gain on sale of investment securities | 3,605 | — |
| Total extraordinary income | 4,540 | — |
| Extraordinary losses | | |
| Loss on sale of non-current assets | — | 224 |
| Loss on retirement of non-current assets | 464 | 14,920 |
| Impairment losses | 73,817 | 32,317 |
| Loss on valuation of investment securities | — | 222 |
| Loss on sale of membership | — | 200 |
| Total extraordinary losses | 74,282 | 47,885 |
| Profit before income taxes | 1,931,381 | 3,384,903 |
| Income taxes - current | 547,310 | 1,003,755 |
| Income taxes - deferred | 37,715 | (81,384) |
| Total income taxes | 585,026 | 922,370 |
| Profit | 1,346,355 | 2,462,532 |

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Statement of cost of goods manufactured

| Category | Note No. | FY2022 (From January 1, 2022 to December 31, 2022) | | FY2023 (From January 1, 2023 to December 31, 2023) | |
|-------------------------------|----------|--|-----------------|--|-----------------|
| | | Amount (Thousand yen) | Composition (%) | Amount (Thousand yen) | Composition (%) |
| I Raw material costs | | 8,681,756 | 59.2 | 10,305,394 | 62.3 |
| II Labor costs | | 3,028,423 | 20.6 | 3,157,915 | 19.1 |
| III Expenses | *1 | 2,963,798 | 20.2 | 3,075,552 | 18.6 |
| Total cost of manufacturing | | 14,673,977 | 100.0 | 16,538,862 | 100.0 |
| Beginning work in process | | 42,675 | | 14,204 | |
| Total | | 14,716,653 | | 16,553,067 | |
| Ending work in process | | 14,204 | | 33,684 | |
| Cost of products manufactured | | 14,702,448 | | 16,519,382 | |

(Note)*1 Major components are as follows.

| Item | FY2022 (Thousand yen) | FY2023 (Thousand yen) |
|---------------------------------|--------------------------|--------------------------|
| Subcontract processing expenses | 243,278 | 217,489 |
| Depreciation | 968,721 | 1,030,563 |
| Repair expenses | 360,886 | 414,499 |
| Utilities expenses | 668,624 | 701,172 |

(Method of cost accounting)

Kanro adopts process costing as a method of cost accounting.

KANRO Financial Results for the Fiscal Year Ended December 31, 2023

(3) Non-consolidated Statement of Changes in Equity

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

(Thousand yen)

| | Shareholders' equity | | | |
|---|----------------------|-----------------------|-----------------------|-----------------------|
| | Share capital | Capital surplus | | |
| | | Legal capital surplus | Other capital surplus | Total capital surplus |
| Balance at beginning of period | 2,864,249 | 2,141,805 | 419,071 | 2,560,876 |
| Changes during period | | | | |
| Reversal of reserve for tax purpose reduction entry of non-current assets | | | | |
| Dividends of surplus | | | | |
| Provision of general reserve | | | | |
| Profit | | | | |
| Purchase of treasury shares | | | | |
| Disposal of treasury shares | | | 17,016 | 17,016 |
| Net changes in items other than shareholders' equity | | | | |
| Total changes during period | — | — | 17,016 | 17,016 |
| Balance at end of period | 2,864,249 | 2,141,805 | 436,087 | 2,577,892 |

KANRO Financial Results for the Fiscal Year Ended December 31, 2023

(Thousand yen)

| | Shareholders' equity | | | | |
|---|-------------------------|-------------------------|-----------------------------------|-----------|-------------------------|
| | Retained earnings | | | | |
| | Legal retained earnings | Other retained earnings | | | Total retained earnings |
| Reserve for tax purpose reduction entry of non-current assets | | General reserve | Retained earnings brought forward | | |
| Balance at beginning of period | 298,600 | 160,191 | 5,320,000 | 1,177,703 | 6,956,494 |
| Changes during period | | | | | |
| Reversal of reserve for tax purpose reduction entry of non-current assets | | (12,007) | | 12,007 | — |
| Dividends of surplus | | | | (358,736) | (358,736) |
| Provision of general reserve | | | 500,000 | (500,000) | — |
| Profit | | | | 1,346,355 | 1,346,355 |
| Purchase of treasury shares | | | | | |
| Disposal of treasury shares | | | | | |
| Net changes in items other than shareholders' equity | | | | | |
| Total changes during period | — | (12,007) | 500,000 | 499,626 | 987,618 |
| Balance at end of period | 298,600 | 148,184 | 5,820,000 | 1,677,329 | 7,944,113 |

KANRO Financial Results for the Fiscal Year Ended December 31, 2023

(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 period | (663,536) | 11,718,084 | 32,522 | (91) | 32,431 | 11,750,515 |
| Changes during period | | | | | | |
| Reversal of reserve for tax purpose reduction entry of non-current assets | | — | | | | — |
| Dividends of surplus | | (358,736) | | | | (358,736) |
| Provision of general reserve | | — | | | | — |
| Profit | | 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 in items other than shareholders' equity | | | 19,562 | 240 | 19,803 | 19,803 |
| Total changes during period | (219,930) | 784,704 | 19,562 | 240 | 19,803 | 804,508 |
| Balance at end of period | (883,467) | 12,502,789 | 52,085 | 148 | 52,234 | 12,555,023 |

KANRO Financial Results for the Fiscal Year Ended December 31, 2023

FY2023 (From January 1, 2023 to December 31, 2023)

(Thousand yen)

| | Shareholders' equity | | | |
|---|----------------------|-----------------------|-----------------------|-----------------------|
| | Share capital | Capital surplus | | |
| | | Legal capital surplus | Other capital surplus | Total capital surplus |
| Balance at beginning of period | 2,864,249 | 2,141,805 | 436,087 | 2,577,892 |
| Changes during period | | | | |
| Reversal of reserve for tax purpose reduction entry of non-current assets | | | | |
| Dividends of surplus | | | | |
| Provision of general reserve | | | | |
| Profit | | | | |
| Purchase of treasury shares | | | | |
| Disposal of treasury shares | | | | |
| Net changes in items other than shareholders' equity | | | | |
| Total changes during period | — | — | — | — |
| Balance at end of period | 2,864,249 | 2,141,805 | 436,087 | 2,577,892 |

KANRO Financial Results for the Fiscal Year Ended December 31, 2023

(Thousand yen)

| | Shareholders' equity | | | | |
|---|-------------------------|-------------------------|-----------------------------------|-----------|-------------------------|
| | Retained earnings | | | | |
| | Legal retained earnings | Other retained earnings | | | Total retained earnings |
| Reserve for tax purpose reduction entry of non-current assets | | General reserve | Retained earnings brought forward | | |
| Balance at beginning of period | 298,600 | 148,184 | 5,820,000 | 1,677,329 | 7,944,113 |
| Changes during period | | | | | |
| Reversal of reserve for tax purpose reduction entry of non-current assets | | (12,111) | | 12,111 | — |
| Dividends of surplus | | | | (561,335) | (561,335) |
| Provision of general reserve | | | 500,000 | (500,000) | — |
| Profit | | | | 2,462,532 | 2,462,532 |
| Purchase of treasury shares | | | | | |
| Disposal of treasury shares | | | | | |
| Net changes in items other than shareholders' equity | | | | | |
| Total changes during period | — | (12,111) | 500,000 | 1,413,308 | 1,901,196 |
| Balance at end of period | 298,600 | 136,072 | 6,320,000 | 3,090,637 | 9,845,310 |

KANRO Financial Results for the Fiscal Year Ended December 31, 2023

(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 period | (883,467) | 12,502,789 | 52,085 | 148 | 52,234 | 12,555,023 |
| Changes during period | | | | | | |
| Reversal of reserve for tax purpose reduction entry of non-current assets | | — | | | | — |
| Dividends of surplus | | (561,335) | | | | (561,335) |
| Provision of general reserve | | — | | | | — |
| Profit | | 2,462,532 | | | | 2,462,532 |
| Purchase of treasury shares | (259) | (259) | | | | (259) |
| Disposal of treasury shares | 42,440 | 42,440 | | | | 42,440 |
| Net changes in items other than shareholders' equity | | | 35,637 | (139) | 35,498 | 35,498 |
| Total changes during period | 42,181 | 1,943,378 | 35,637 | (139) | 35,498 | 1,978,876 |
| Balance at end of period | (841,285) | 14,446,167 | 87,723 | 9 | 87,733 | 14,533,900 |

KANRO Financial Results for the Fiscal Year Ended December 31, 2023

(4) Non-consolidated Statement of Cash Flows

(Thousand yen)

| | FY2022 (From January 1, 2022 to December 31, 2022) | FY2023 (From January 1, 2023 to December 31, 2023) |
|--|--|--|
| Cash flows from operating activities | | |
| Profit before income taxes | 1,931,381 | 3,384,903 |
| Depreciation | 1,149,855 | 1,216,160 |
| Increase (decrease) in provision for bonuses | 191,214 | 118,007 |
| Increase (decrease) in provision for bonuses for directors (and other officers) | 38,250 | 43,750 |
| Increase (decrease) in provision for retirement benefits | 89,101 | 21,349 |
| Increase (decrease) in provision for share awards for directors (and other officers) | 30,013 | 10,186 |
| Interest and dividend income | (5,595) | (6,554) |
| Interest expenses | 1,066 | 1,811 |
| Loss on retirement of non-current assets | 464 | 14,920 |
| Impairment losses | 73,817 | 32,317 |
| Loss (gain) on sale of non-current assets | (934) | 224 |
| Loss (gain) on sale of investment securities | (3,605) | — |
| Loss (gain) on valuation of investment securities | — | 222 |
| Loss (gain) on sale of membership | — | 200 |
| Decrease (increase) in trade receivables | (824,471) | (884,435) |
| Decrease (increase) in inventories | (194,843) | (197,895) |
| Increase (decrease) in trade payables | 243,432 | 553,312 |
| Increase (decrease) in accrued expenses | 255,774 | 213,258 |
| Increase (decrease) in accrued consumption taxes | (12,839) | (48,924) |
| Other, net | 106,846 | (2,377) |
| Subtotal | 3,068,927 | 4,470,437 |
| Interest and dividends received | 5,596 | 6,555 |
| Interest paid | (1,066) | (1,811) |
| Income taxes paid | (699,662) | (539,351) |
| Net cash provided by (used in) operating activities | 2,373,795 | 3,935,829 |
| 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 | (1,034,525) | (1,628,633) |
| Proceeds from sale of property, plant and equipment | 935 | — |
| Purchase of intangible assets | (95,745) | (208,943) |
| Purchase of investment securities | (1,162) | (1,276) |
| Proceeds from sale of investment securities | 7,449 | — |
| Loan advances | — | (2,010) |
| Proceeds from collection of loans receivable | 1,750 | 2,535 |
| Collection of deposit | — | 4,500 |
| Purchase of membership | — | (10,688) |
| Proceeds from sale of membership | — | 4,800 |
| Proceeds from refund of guarantee deposits | 4,989 | — |
| Net cash provided by (used in) investing activities | (1,116,310) | (1,839,717) |

KANRO Financial Results for the Fiscal Year Ended December 31, 2023

(Thousand yen)

| | FY2022 (From January 1, 2022 to December 31, 2022) | FY2023 (From January 1, 2023 to December 31, 2023) |
|--|--|--|
| Cash flows from financing activities | | |
| Net increase (decrease) in short-term borrowings | (500,000) | — |
| Repayments of lease liabilities | (36,992) | (45,555) |
| Net decrease (increase) in treasury shares | (211,632) | 18,867 |
| Dividends paid | (357,768) | (558,428) |
| Net cash provided by (used in) financing activities | (1,106,393) | (585,117) |
| Net increase (decrease) in cash and cash equivalents | 151,091 | 1,510,995 |
| Cash and cash equivalents at beginning of period | 2,099,716 | 2,250,808 |
| Cash and cash equivalents at end of period | 2,250,808 | 3,761,803 |

KANRO Financial Results for the Fiscal Year Ended December 31, 2023

(5) Notes to Non-consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(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, 2022 | For the fiscal year ended December 31, 2023 |
|--|--|--|
| Hard candy | 13,424,665 | 15,046,773 |
| Gummies | 10,972,606 | 13,293,746 |
| Healthy snacks | 719,273 | 671,082 |
| Other | 1,856 | 4,251 |
| Revenue generated from contracts with customers | 25,118,401 | 29,015,855 |
| Sales to external customers | 25,118,401 | 29,015,855 |

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

(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, 2023

(Per share information)

| | FY2022 (From January 1, 2022 to December 31, 2022) | FY2023 (From January 1, 2023 to December 31, 2023) |
|--------------------------|--|--|
| Net assets per share | ¥905.23 | ¥1,043.94 |
| Basic earnings per share | ¥96.08 | ¥177.09 |

(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. Net assets per share and basic earnings per share are 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 FY2022 and FY2023 was 523 thousand shares and 471 thousand shares, respectively.

The average number of treasury shares during the period deducted in calculating basic earnings per share for FY2022 and FY2023 was 354 thousand shares and 487 thousand shares, respectively.

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

| | FY2022 (As of December 31, 2022) | FY2023 (As of December 31, 2023) |
|--|-------------------------------------|-------------------------------------|
| Total net assets (Thousand yen) | 12,555,023 | 14,533,900 |
| Net assets relating to common stock at year-end (Thousand yen) | 12,555,023 | 14,533,900 |
| Number of outstanding shares of common stock (Thousand shares) | 15,315 | 15,315 |
| Number of treasury shares of common stock (Thousand shares) | 1,446 | 1,393 |
| Number of shares of common stock at year-end used for calculating net assets per share (Thousand shares) | 13,869 | 13,922 |

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

| | FY2022 (From January 1, 2022 to December 31, 2022) | FY2023 (From January 1, 2023 to December 31, 2023) |
|--|--|--|
| Profit (Thousand yen) | 1,346,355 | 2,462,532 |
| Amount not attributable to common stock holders (Thousand yen) | — | — |
| Profit relating to common stock (Thousand yen) | 1,346,355 | 2,462,532 |
| Average number of outstanding shares of common stock during the period (Thousand shares) | 14,012 | 13,905 |

(Significant subsequent events)

Not applicable.