

Non-Consolidated Financial Results for the Six Months Ended October 31, 2016 [Japanese GAAP]



December 9, 2016

Company name: Asukanet Co., Ltd.
 Stock exchange listing: Tokyo Stock Exchange
 Code number: 2438
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 Scheduled date of filing quarterly securities report: December 14, 2016
 Scheduled date of commencing dividend payments: -
 Availability of supplementary briefing material on quarterly financial results: Available
 Schedule of quarterly financial results briefing session: Scheduled (for institutional investors and analysts)

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

1. Non-Consolidated Financial Results for the Six Months Ended October 31, 2016 (May 1, 2016 to October 31, 2016)

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

	Net sales		Operating income		Ordinary income		Profit	
Six months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
October 31, 2016	2,505	4.7	312	17.5	314	17.0	212	21.2
October 31, 2015	2,393	2.9	266	(5.5)	268	(5.8)	175	(2.7)

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
October 31, 2016	12.73	12.66
October 31, 2015	10.50	10.40

(2) Non-Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of October 31, 2016	4,864	4,240	87.0
As of April 30, 2016	4,820	4,190	86.8

(Reference) Equity: As of October 31, 2016: ¥4,233 million

As of April 30, 2016: ¥4,183 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended April 30, 2016	-	0.00	-	10.00	10.00
Fiscal year ending April 30, 2017	-	0.00			
Fiscal year ending April 30, 2017 (Forecast)			-	10.00	10.00

(Note) Revision to the forecast for dividends announced most recently: No

**3. Non-Consolidated Financial Results Forecast for the Fiscal Year Ending April 30, 2017
(May 1, 2016 to April 30, 2017)**

(% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Profit		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	5,461	5.6	800	3.5	805	3.7	551	0.7	32.93

(Note) Revision to the financial results forecast announced most recently: No

*** Notes:**

(1) Accounting policies adopted specially for the preparation of quarterly financial statements: Yes

(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):

October 31 2016: 17,464,000 shares

April 30, 2016: 17,464,000 shares

2) Total number of treasury shares at the end of the period:

October 31, 2016: 726,541 shares

April 30, 2016: 730,141 shares

3) Average number of shares during the period:

Six months ended October 31, 2016: 16,734,113 shares

Six months ended October 31, 2015: 16,734,496 shares

*** Presentation regarding the implementation status of the quarterly review procedures**

These quarterly financial results are outside the scope of quarterly review procedures under the Financial Instruments and Exchange Act. At the time of disclosure of these quarterly financial results, quarterly review procedures for the quarterly financial statements have not been completed.

*** Explanation of the proper use of financial results forecast and other notes**

The earnings forecasts and other forward-looking statements herein are based on information currently available to the Company and certain assumptions that the Company believes are reasonable, and actual results may differ significantly from these forecasts due to a wide range of factors.

4. Qualitative Information Concerning the Business Results

(1) Explanation of business results

During the cumulative first 2 quarters of this fiscal year, the economy of Japan continued on a gradual trend towards recovery as a result of continuing economic stimulus by the government and financial measures by the Bank of Japan. However the future of the global economy is uncertain as a result of factors including the effects of Brexit and slowdowns in the economies of emerging nations.

Asukanet operates three business areas, each with different positioning and characteristics. They are (1) the memorial design service business, which adds digital processing and remote output services for photos of the deceased to a funeral business that is largely unaffected by economic trends, (2) the personal publishing business, which provides ideas for new photo output methods that allow users to create complete photo collections beginning from just a single book, and (3) the aerial imaging business, which is utilizing unique, recently-developed technologies aiming to create a new market and achieve dreams.

The results for each business segment are as follows.

(Memorial design service business)

In this business, although there was a difficult struggle for income from processing of photos of the deceased during the first quarter, there was a recovery in the second quarter. In addition to steady growth in sales related to videos and other funeral presentations, there were also strong sales of hardware devices and frames. We also worked to increase penetration of the newly launched EC service for funeral companies.

In terms of costs, although there was an increase in PR expenses due to exhibits at exhibitions and other publicity, other expenses such as travel and transportation expenses, and costs of supplies, were suitably controlled.

As a result, sales were 1,127,753 thousand yen (102.3% year-on-year) and segment income was 340,540 thousand yen (102.5% year-on-year).

(Personal publishing service business)

In this business, we focused on developing new customers and increasing sales from existing customers by means such as conducting seminars for the professional photography market in 13 locations across Japan, and releasing new products. As a result, there was steady growth in sales to professional photographers.

For ordinary consumers, in addition to exhibiting at events and conducting various campaigns, we also carried out programs such as adding new products and expanding user support. However there is a harsh competitive environment and acquiring new customers is difficult. Sales to ordinary consumers were below expectations. On the other hand, there was steady growth in sales related to OEM supply, and the operating rate also improved.

As a result, sales were 1,354,420 thousand yen (106.9% year-on-year), and segment income was 242,891 thousand yen (117.8% year-on-year).

(Aerial imaging business)

This business was launched in March 2011, aiming to create a market through new photo and video expressions utilizing aerial imaging technologies.

In this business, we are placing top priority on the AI plate which is capable of projecting images in mid-air. Although sufficient cost reductions in the glass plates have not been achieved, by pursuing multiple production routes we have been able to improve quality and are also able to produce large-size plates.

For resin plates, we are continuing to carry out trials using both a new production method and the same method as for glass plate production. Prototype resin plates made using the same method as for glass plate production is small-size plates, however they are generating sales. On the other hand, the largest issue for the new production method is the mirror-finishing (vapor deposition) process, and a technical solution to this issue has not yet been achieved. We are expanding our options and continuing with a variety of trials, however it is

requiring more time than we expected. Our plan is to decide on either the new production method or the glass plate production method by the end of this fiscal year at the latest.

In the area of marketing, we exhibited at the Tokyo Design Week exhibition in October 2016. The exhibits attracted considerable attention, and included interactive signage for designers and creators using a 1 m² large plate, as well as an aerial imaging interface that allows precision operations. We have also been preparing for planned exhibits at overseas exhibitions beginning from March 2017. In the area of research, we are continuing with improvement trials for the use of retroreflection (a technology we have already been developing) to create large-size plates with expanded fields of view.

As before, sales are restricted to sales for limited applications and small lot sales. This is primarily due to insufficient matching in the price area. We are also conducting sales of package products that include the case and sensors in addition to the plate. In terms of expenses, there were increases in R&D expenses and in personnel costs due to the addition of more employees, however because gross profit from panel sales increased, the segment loss shrunk.

As a result, sales were 23,279 thousand yen (100.4% year-on-year) and segment loss was 48,481 thousand yen (compared to a 54,304 thousand yen loss in the same period of the previous year).

As a result of the above, sales in the first 2 quarters of this fiscal year increased in each business area to reach 2,505,452 thousand yen (104.7% year-on-year). In terms of profit, primarily due to strong OEM supply growth in the personal publishing business, ordinary income was 314,196 thousand yen (117.0% year-on-year) and net income was 212,991 thousand yen (121.2% year-on-year).

(2) Explanation concerning financial status

[1] Assets, liabilities, and net assets

Assets at the end of the first 2 quarters of this fiscal year increased by 44,485 thousand yen from the end of the previous fiscal year to reach 4,864,903 thousand yen. Despite a decrease in tangible fixed assets of 66,715 thousand yen, this result was primarily due to increases of 32,423 thousand yen in notes and accounts receivable, 39,853 thousand yen in merchandise and products, and 18,022 thousand yen in intangible fixed assets.

Liabilities at the end of the first 2 quarters of this fiscal year decreased by 5,260 thousand yen from the end of the previous fiscal year to reach 624,784 thousand yen. This was primarily due to a decrease of 10,300 thousand yen in income taxes payable.

Net assets at the end of the first 2 quarters of this fiscal year increased by 49,746 thousand yen from the end of the previous fiscal year to reach 4,240,118 thousand yen. Despite recording a net profit of 212,991 thousand yen, this result was primarily due to a decrease of 167,338 thousand yen in dividends from surplus.

[2] Cash flows

Cash and cash equivalents (hereafter referred to as "funds") during the first 2 quarters of this fiscal year increased by 8,683 thousand yen from the end of the previous fiscal year to reach 1,321,826 thousand yen. The status of each cash flow during these first 2 quarters and the causes thereof are as follows.

(Cash flow due to operating activities)

Funds acquired as a result of operating activities during the first 2 quarters of this fiscal year were 249,127 thousand yen (compared to 197,547 thousand yen acquired during the same period of the previous fiscal year). Despite recording net income before taxes of 314,183 thousand yen and depreciation expenses of 148,524 thousand yen, this result was primarily due to a recorded payment of 112,710 thousand yen in corporate taxes.

(Cash flow due to investing activities)

Funds acquired as a result of investing activities during the first 2 quarters of this fiscal year were 75,353 thousand yen (compared to 140,130 thousand yen acquired during the same period of the previous fiscal year). This was primarily due to acquisition of book-binding equipment and other tangible fixed assets amounting to

34,603 thousand yen, and to the development of systems for photo collections and acquisition of other intangible fixed assets amounting to 39,724 thousand yen.

(Cash flow due to financing activities)

Funds acquired as a result of financing activities during the first 2 quarters of this fiscal year were 165,083 thousand yen (compared to 113,801 thousand yen acquired during the same period of the previous fiscal year).

This was primarily due to payment of 165,839 thousand yen in dividends.

(3) Explanation of results forecasts and other future predictions

At the present time, there has been no change to the predicted results for the year ending April 30, 2017 that were announced on June 10, 2016.

5. Financial Statements for the First 2 Quarters

(1) Balance sheet

(Units: 1,000s yen)

	Previous fiscal year (ended April 30, 2016)	First 2 quarters of the current fiscal year (ended October 31, 2016)
Assets		
Current assets		
Cash and deposits	1,918,143	1,926,826
Notes and accounts receivable-trade	610,639	643,063
Merchandise and products	123,936	163,790
Work in progress	13,423	13,264
Raw materials and supplies	50,720	57,049
Others	90,046	93,967
Allowance for doubtful accounts	(3,803)	(4,726)
Total current assets	2,803,106	2,893,235
Fixed assets		
Tangible fixed assets		
Buildings, net	514,797	508,730
Machinery and equipment, net	552,201	489,264
Land	432,702	432,702
Others, net	126,957	129,246
Total tangible fixed assets	1,626,659	1,559,943
Intangible fixed assets	196,351	214,373
Investments and other assets	194,300	197,350
Total fixed assets	2,017,310	1,971,667
Total assets	4,820,417	4,864,903
Liabilities		
Current liabilities		
Accounts payable-trade	123,714	119,820
Income taxes payable	120,200	109,900
Provision for bonuses	129,700	127,700
Others	249,796	260,880
Total current liabilities	623,410	618,301
Fixed liabilities		
Provision for retirement benefits	6,634	6,482
Total fixed liabilities	6,634	6,482
Total liabilities	630,045	624,784
Net assets		
Shareholders' equity		
Capital stock	490,300	490,300
Capital surplus	606,585	606,585
Retained earnings	3,400,136	3,445,205
Treasury stock	(315,115)	(313,562)
Total shareholders' equity	4,181,905	4,228,528
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	2,086	5,424
Total valuation and translation adjustments	2,086	5,424
Subscription rights to shares	6,380	6,166
Total net assets	4,190,372	4,240,118
Total liabilities and net assets	4,820,417	4,864,903

(2) Profit and loss statement

First 2 quarters of the fiscal year

(Units: 1,000s yen)

	First 2 quarters of the previous fiscal year (May 1, 2015 – Oct. 31, 2015)	First 2 quarters of the current fiscal year (May 1, 2016 – Oct. 31, 2016)
Net Sales	2,393,934	2,505,452
Cost of sales	1,212,538	1,255,955
Gross profit	1,181,396	1,249,496
Selling, general, and administrative expenses	915,142	936,763
Operating income	266,253	312,733
Non-operating income		
Interest received	955	540
Dividends received	545	611
Commissions received	375	279
Others	557	700
Total non-operating income	2,433	2,131
Non-operating expenses		
Foreign exchange losses	80	669
Total non-operating expenses	80	669
Ordinary income	268,607	314,196
Extraordinary losses		
Loss on retirement of fixed assets	1,323	12
Total extraordinary losses	1,323	12
Net income before taxes	267,283	314,183
Income taxes	91,605	101,192
Net income	175,677	212,991

(3) Statement of cash flows

(Units: 1,000s yen)

	First 2 quarters of the previous fiscal year (May 1, 2015 – Oct. 31, 2015)	First 2 quarters of the current fiscal year (May 1, 2016 – Oct. 31, 2016)
Cash flows resulting from operating activities		
Net income before taxes	267,283	314,183
Depreciation expenses	129,879	148,524
Stock compensation expenses	1,021	—
Increase (decrease) in allowance for doubtful accounts	1,474	921
Increase (decrease) in provision for bonuses	6,100	(2,000)
Increase (decrease) in provision for retirement benefits	—	(151)
Interest and dividends received	(1,500)	(1,151)
Foreign exchange losses (gains)	2	7
Loss on disposal of fixed assets	1,323	12
Decrease (increase) in notes and accounts receivable-trade	(47,676)	(32,423)
Decrease (increase) in inventory assets	(42,344)	(46,023)
Increase (decrease) in accounts payable-trade	24,762	(3,893)
Increase (decrease) in accrued consumption taxes	(32,665)	(11,231)
Others	(22,523)	(5,721)
Subtotal	285,136	361,050
Interest and dividends received	851	786
Income taxes paid	(88,440)	(112,710)
Cash flows due to operating activities	197,547	249,127
Cash flows due to investing activities		
Payments into time deposits	(5,000)	(5,000)
Proceeds from withdrawal of time deposits	5,000	5,000
Purchase of property, plant, and equipment	(96,811)	(34,603)
Purchase of intangible fixed assets	(44,555)	(39,724)
Collection of loans receivable	6,800	720
Others	(5,563)	(1,745)
Cash flows due to investing activities	(140,130)	(75,353)
Cash flows due to financing activities		
Cash dividends paid	(132,152)	(165,839)
Purchase of treasury stock	(48)	—
Proceeds from disposal of treasury stock	19,236	756
Others	(836)	—
Cash flows due to financing activities	(113,801)	(165,083)
Effect of exchange rate on cash and cash equivalents	(2)	(7)
Net increase (decrease) in cash and cash equivalents	(56,387)	8,683
Balance of cash and cash equivalents at beginning of year	1,105,536	1,313,143
Balance of cash and cash equivalents at end of quarter	1,049,149	1,321,826

(4) Notes regarding the financial statements

[Segment information]

Cumulative first 2 quarters of the previous fiscal year (May 1, 2015 – October 31, 2015)

Information related to the amounts of sales, income, and loss for each reporting segment

(Units: 1,000s yen)

	Reporting segment				Other	Adjustments	Amount recorded in profit and loss statement
	Memorial design service business	Personal publishing service business	Aerial imaging business	Total			
Sales							
Sales to outside customers	1,102,635	1,266,508	23,182	2,392,326	1,607	—	2,393,934
Inter-segment internal sales and transfers	—	132	—	132	—	(132)	—
Total	1,102,635	1,266,641	23,182	2,392,459	1,607	(132)	2,393,934
Segment income (loss)	332,302	206,146	(54,304)	484,144	(15,776)	(202,114)	266,253

Cumulative first 2 quarters of the current fiscal year (May 1, 2016 – October 31, 2016)

Information related to the amounts of sales, income, and loss for each reporting segment

(Units: 1,000s yen)

	Reporting segment				Adjustments	Amount recorded in profit and loss statement
	Memorial design service business	Personal publishing service business	Aerial imaging business	Total		
Sales						
Sales to outside customers	1,127,753	1,354,420	23,279	2,505,452	—	2,505,452
Inter-segment internal sales and transfers	—	—	—	—	—	—
Total	1,127,753	1,354,420	23,279	2,505,452	—	2,505,452
Segment income (loss)	340,540	242,891	(48,481)	534,950	(222,216)	312,733

This is the summarized translation of released report for your reference.
Please refer to the original Japanese financial document.