

Non-Consolidated Financial Results
for the Six Months Ended October 31, 2017
[Japanese GAAP]



December 8, 2017

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, 2017
 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, 2017
(May 1, 2017 to October 31, 2017)

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

	Net sales		Operating income		Ordinary income		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended								
October 31, 2017	2,787	11.2	277	(11.2)	284	(9.5)	195	(8.0)
October 31, 2016	2,505	4.7	312	17.5	314	17.0	212	21.2

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
October 31, 2017	11.69	11.64
October 31, 2016	12.73	12.66

(2) Non-Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of October 31, 2017	5,301	4,637	87.4
As of April 30, 2017	5,325	4,603	86.3

(Reference) Equity: As of October 31, 2017: ¥4,633 million
 As of April 30, 2017: ¥4,597 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, 2017	-	0.00	-	10.00	10.00
Fiscal year ending April 30, 2018	-	0.00			
Fiscal year ending April 30, 2018 (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, 2018
(May 1, 2017 to April 30, 2018)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Profit		Basic earnings per share
Full year	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
	5,696	4.7	771	(3.7)	776	(3.6)	541	(5.5)	32.31

(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, 2017: 17,464,000 shares

April 30, 2017: 17,464,000 shares

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

October 31, 2017: 688,941 shares

April 30, 2017: 717,741 shares

3) Average number of shares during the period:

Six months ended October 31, 2017: 16,764,011 shares

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

* These quarterly financial results are outside the scope of quarterly review 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 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

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 the funeral business that is largely unaffected by economic trends, (2) the personal publishing business, a challenging 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. Results figures for each segment include internal inter-segment sales.

(Memorial design service business)

In this business, although there were strong sales of equipment and frames, second quarter revenue was somewhat below expectations in our primary business area – processing of photos of the deceased. During this quarter, we worked to expand the presence of our EC services for funeral homes, and also focused on development of new services.

In terms of profits, the gross profit margin declined somewhat as a result of factors including an increase in personnel expenses in the Image Processing Division. There was also an increase in advertising and publicity expenses due to increased participation in exhibitions, and the increase in the number of support division personnel also resulted in higher personnel expenses and travel and transportation costs.

As a result, sales were 1,170,660 thousand yen (103.8% year-on-year) and segment income was 324,953 thousand yen (95.4% year-on-year).

(Personal publishing service business)

This business operates *AsukaBook* for the professional photography market in Japan, and *MyBook* for the general Japanese consumer market.

For the professional photography market in Japan, we worked to capture customers by holding seminars and workshops in 11 locations across the country, and also focused on developing new customers and increasing sales to existing customers by exhibiting at exhibitions and releasing new products. As a result, there was steady sales growth in the professional photography market.

For the general Japanese consumer market, in addition to efficient internet advertising and various campaigns, we also made use of SNS, provided information on our Photo Soken website, and released new products and new templates. However in the current harsh competitive environment, *MyBook* sales were down from the previous quarter. On the other hand, there was steady growth in sales related to OEM supply as a result of the growing presence of our services in the market.

In terms of income, although there was an increase in personnel, shipping, and other expenses, the higher operating rate caused by growth in sales, particularly in the OEM division, resulted in a steady increase in segment income.

As a result, sales were 1,559,640 thousand yen (115.2% year-on-year) and segment income was 340,078 thousand yen (140.0% year-on-year).

(Aerial imaging business)

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

In this business, we are placing top priority on achieving mass production of the AI plates which are capable of projecting images in mid-air.

For glass AI plates, although sufficient cost reduction have not yet been achieved, we are providing large-size plates that are capable of high-quality aerial imaging. Although still in small lots, sales for signage and aerial operations are increasing as a result of exhibitions in Japan and overseas.

For resin AI plates, we are continuing trials using a new production method that is well suited to mass production, and we exhibited reference prototypes at the CEATEC exhibition in October 2017. The imaging performance of the compact size prototype was well received, however we understood that improvements are needed in imaging with the medium size prototype, and the points which require correction became clear. We are conducting another trial using improved mold manufacturing, and intend to achieve a sample supply by early next year.

It terms of marketing, in addition to 1 exhibition in Japan and 2 exhibitions overseas during the first quarter, during the second quarter we also exhibited at the CEATEC exhibition on a scale larger than initially planned. In addition to reference exhibition of our resin AI plates, we also presented four exhibits combining our large size glass AI plates with unique technologies and contents, and received a particularly large reaction from the life-size aerial imaging demonstration. We are also planning to exhibit at an exhibition in Dubai during the third quarter.

In terms of expenses, there was a large increase in advertising and publicity expenses as a result of active participation in exhibitions in Japan and overseas. In addition, there was an increase in R&D expenses as a result of intensive R&D aimed at achieving mass production of resin AI plates. There were also increases in personnel expenses due to the addition of personnel, as well as in overseas travel expenses and patent-related expenses.

As a result, sales were 58,957 thousand yen (253.3% year-on-year) and segment loss was 149,960 thousand yen (compared to a loss of 48,481 thousand yen during the same quarter of the previous year).

As a result of the above segment results, overall sales in all business areas during the cumulative first 2 quarters of this fiscal year were 2,787,097 thousand yen (111.2% year-on-year). In terms of profit, despite steady growth in segment income in the personal publishing business, as a result of active advertising/publicity and R&D expenses in the aerial imaging business, ordinary income was 284,411 thousand yen (90.5% year-on-year), and net income was 195,931 thousand yen (92.0% year-on-year).

(2) Overview of the Financial Status

[1] Assets, liabilities, and net assets

(Assets)

Assets at the end of the second quarter decreased by 23,521 thousand yen from the end of the previous fiscal year to reach 5,301,725 thousand yen. Although there was an increase of 38,508 thousand yen in notes and accounts receivable (trade) and work in progress, this result was primarily due to a decrease of 31,602 thousand

yen in cash and savings and a decrease of 17,527 thousand yen in intangible fixed assets.

(Liabilities)

Liabilities at the end of the second quarter decreased by 57,760 thousand yen from the end of the previous fiscal year to reach 664,041 thousand yen. This was primarily due to a decrease of 40,970 thousand yen in income taxes payable.

(Net assets)

Net assets at the end of the second quarter increased by 34,239 thousand yen from the end of the previous fiscal year to reach 4,637,683 thousand yen. Although we recorded quarterly net income of 195,931 thousand yen, this result was primarily due to a decrease of 167,462 thousand yen in dividend payments.

[2] Overview of Cash Flows during this Fiscal Year

Cash and cash equivalents (hereafter referred to as "funds") during the cumulative first 2 quarters decreased by 36,602 thousand yen from the end of the previous fiscal year to reach 1,636,648 thousand yen. The status and causes of each cash flow during the cumulative first 2 quarters are as shown below.

(Cash flow due to operating activities)

Funds acquired as a result of operating activities during the cumulative first 2 quarters were 241,517 thousand yen (compared to acquisition of 249,127 thousand yen during the same period of the previous fiscal year). Although we recorded net income before taxes of 283,860 thousand yen and depreciation expenses of 147,691 thousand yen, this result was primarily due to the payment of 123,001 thousand yen in income taxes.

(Cash flow due to investment activities)

Funds expended as a result of investment activities during the first 2 quarters were 116,699 thousand yen (compared to expenditure of 75,353 thousand yen during the same period of the previous fiscal year). This result was primarily due to acquisition of 83,792 thousand yen of printing-related equipment and other tangible fixed assets, and acquisition of 26,209 thousand yen of software and other intangible fixed assets.

(Cash flow due to financing activities)

Funds expended as a result of financing activities during the first 2 quarters were 161,556 thousand yen (compared to expenditure of 165,083 thousand yen during the same period of the previous fiscal year). This result was primarily due to payment of 166,655 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, 2018 that were announced on June 9, 2017.

5. Financial Statements for the First 2 Quarters

(1) Balance sheet

(Units: 1,000s yen)

	Previous fiscal year (ended April 30, 2017)	First 2 quarters of the current fiscal year (ended October 31, 2017)
Assets		
Current assets		
Cash and deposits	2,278,251	2,246,648
Notes and accounts receivable-trade	686,517	725,025
Merchandise and products	166,123	176,641
Work in progress	12,038	13,735
Raw materials and supplies	56,972	60,771
Others	112,648	92,161
Allowance for doubtful accounts	(3,163)	(4,423)
Total current assets	3,309,387	3,310,560
Fixed assets		
Tangible fixed assets		
Buildings, net	499,750	503,550
Machinery and equipment, net	422,616	394,193
Land	432,702	432,702
Others, net	150,493	168,194
Total tangible fixed assets	1,505,562	1,498,640
Intangible fixed assets	211,874	194,346
Investments and other assets	298,423	298,177
Total fixed assets	2,015,859	1,991,164
Total assets	5,325,247	5,301,725
Liabilities		
Current liabilities		
Accounts payable-trade	118,905	119,664
Income taxes payable	143,270	102,300
Provision for bonuses	129,000	136,400
Others	317,028	293,027
Total current liabilities	708,204	651,392
Fixed liabilities		
Provision for retirement benefits	6,482	6,482
Others	7,115	6,166
Total fixed liabilities	13,597	12,648
Total liabilities	721,802	664,041
Net assets		
Shareholders' equity		
Capital stock	490,300	490,300
Capital surplus	606,585	606,585
Retained earnings	3,803,101	3,826,903
Treasury stock	(309,764)	(297,334)
Total shareholders' equity	4,590,222	4,626,453
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	7,579	7,301
Total valuation and translation adjustments	7,579	7,301
Subscription rights to shares	5,642	3,928
Total net assets	4,603,444	4,637,683
Total liabilities and net assets	5,325,247	5,301,725

(2) Profit and loss statement

First two quarters of the fiscal year

(Units: 1,000s yen)

	First two quarters of the previous fiscal year (May 1, 2016 – Oct. 31, 2016)	First two quarters of the current fiscal year (May 1, 2017 – Oct. 31, 2017)
Net Sales	2,505,452	2,787,097
Cost of sales	1,255,955	1,366,401
Gross profit	1,249,496	1,420,695
Selling, general, and administrative expenses	936,763	1,142,996
Operating income	312,733	277,699
Non-operating income		
Interest received	540	294
Dividends received	611	610
Commissions received	279	232
Foreign exchange income	—	736
Others	—	3,991
Total non-operating income	700	846
Interest received	2,131	6,711
Non-operating expenses		
Foreign exchange losses	669	—
Total non-operating expenses	669	—
Ordinary income	314,196	284,411
Extraordinary losses		
Loss on retirement of fixed assets	12	550
Total extraordinary losses	12	550
Net income before taxes	314,183	283,860
Income taxes	101,192	87,928
Net income	212,991	195,931

(3) Statement of cash flows

(unit:1000s yen)

	First two quarters of the previous fiscal year (May 1, 2016 – Oct. 31, 2016)	First two quarters of the current fiscal year (May 1, 2017 – Oct. 31, 2017)
Cash flows resulting from operating activities		
Net income before taxes	314,183	283,860
Depreciation expenses	148,524	147,691
Increase (decrease) in allowance for doubtful accounts	921	1,258
Increase (decrease) in provision for bonuses	(2,000)	7,400
Increase (decrease) in provision for retirement benefits	(151)	—
Interest and dividends received	(1,151)	(904)
Foreign exchange losses (gains)	7	(135)
Loss on disposal of fixed assets	12	550
Decrease (increase) in notes and accounts receivable- trade	(32,423)	(38,508)
Decrease (increase) in inventory assets	(46,023)	(16,014)
Increase (decrease) in accounts payable-trade	(3,893)	758
Increase (decrease) in accrued consumption taxes	(11,231)	(36,107)
Others	(5,721)	13,893
Subtotal	361,050	363,743
Interest and dividends received	786	775
Income taxes paid	(112,710)	(123,001)
Cash flows due to operating activities	249,127	241,517
Cash flows due to investing activities		
Payments into time deposits	(5,000)	(10,000)
Proceeds from withdrawal of time deposits	5,000	5,000
Purchase of property, plant, and equipment	(34,603)	(83,792)
Purchase of intangible fixed assets	(39,724)	(26,209)
Collection of loans receivable	720	720
Others	(1,745)	(2,417)
Cash flows due to investing activities	(75,353)	(116,699)
Cash flows due to financing activities		
Cash dividends paid	(165,839)	(166,655)
Proceeds from disposal of treasury stock	756	6,048
Others	—	(948)
Cash flows due to financing activities	(165,083)	(161,556)
Effect of exchange rate on cash and cash equivalents	(7)	135
Net increase (decrease) in cash and cash equivalents	8,683	(36,602)
Balance of cash and cash equivalents at beginning of year	1,313,143	1,673,251
Balance of cash and cash equivalents at end of quarter	1,321,826	1,636,648

[Segment information]

Cumulative first 2 quarters of the previous 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

Cumulative first 2 quarters of the current fiscal year (May 1, 2017 – October 31, 2017)

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	1,170,660	1,559,640	56,797	2,787,097	—	2,787,097
Inter-segment internal sales and transfers	—	—	2,160	2,160	(2,160)	—
Total	1,170,660	1,559,640	58,957	2,789,257	(2,160)	2,787,097
Segment income (loss)	324,953	340,078	(149,960)	515,071	(237,371)	277,699

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