

This is the English translation of the original Japanese-language Business Results of KITO CORPORATION (the Company) for the fiscal year ending March 31, 2020 and is provided for reference purposes only. Readers are advised that the Company does not guarantee the accuracy of the content contained in this report. In the event of any discrepancy between this translation and the Japanese original, the Japanese original shall prevail.

Business Results for the First Half of the Fiscal Year Ending March 31, 2020 [Japan GAAP] (Consolidated)

November 7, 2019

Company	KITO CORPORATION	Listed on the TSE 1 st Section
Stock Code	6409	URL: https://kito.com/
Representative	Yoshio Kito, President & CEO	
Contact	Shigeki Osozawa, Managing Director, GM, Corporate Financial Management Div.	TEL: +81-3-5908-0161

Expected date of filing of annual securities report:	November 8, 2019	Scheduled date to begin dividend payments: December 3, 2019
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Preparation of supplementary financial document: Yes

Results briefing: Yes (for securities analysts)

(Figures of less than ¥1 million have been omitted.)

1. Consolidated business results for the 1H (April 1, 2019 to September 30, 2019) of fiscal 2019 (April 1, 2019 to March 31, 2020)

(1) Consolidated results of operations (% change 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	%
1H FY2019	27,548	(2.3)	2,177	(15.1)	1,795	(22.4)	1,083	(41.0)
1H FY2018	28,190	14.3	2,564	102.0	2,314	163.2	1,835	244.7

(Note) Comprehensive income (loss) 1H FY2019: 442 million yen (79.1%)
1H FY2018: 2,113 million yen 185.5%

	Net income per share		Diluted net income per share	
	Yen	Yen	Yen	Yen
1H FY2019	52.98	52.84	52.84	52.84
1H FY2018	89.95	89.50	89.50	89.50

(2) Consolidated financial position

	Total assets		Net assets		Shareholders' equity ratio	
	Million yen	Million yen	Million yen	Million yen	%	%
As of September 30, 2019	61,686	26,618	26,618	26,618	41.6	41.6
As of March 31, 2019	62,078	26,687	26,687	26,687	41.4	41.4

(Reference) Shareholders' equity As of September 30, 2019: 25,679 million As of March 31, 2019: 25,690 million

2. Dividends

	Annual dividend				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Annual
FY2018	Yen —	Yen 20.00	Yen —	Yen 24.00	Yen 44.00
FY2019	—	24.00			
FY2019 (forecast)			—	24.00	48.00

(Note) Revisions from recently announced dividend forecast: None

3. Forecast of consolidated business results for fiscal 2019 (April 1, 2019 to March 31, 2020)

(% change from the previous fiscal year)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen	Yen
FY2019	60,000	(2.0)	6,000	(6.4)	5,500	(4.3)	3,700	(9.0)	180.76	180.76

(Note) Revisions from recently announced forecast: Yes

※ **Notes:**

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in a change in the scope of consolidation): None
New: — Excluded: —
- (2) The application of special accounting treatment for the preparation of the quarterly consolidated financial statements:
None
- (3) Changes in accounting policies, accounting estimates, and restatements
(a) Changes in accounting policies due to revisions of accounting standards: Yes
(b) Changes in accounting policies other than above: None
(c) Changes of accounting estimates: None
(d) Restatements: None
- (4) Number of shares issued (common stock)
(a) Number of shares issued at the end of period (treasury stock included)
As of September 30, 2019: 27,048,200 shares
As of March 31, 2019: 27,048,200 shares
(b) Number of treasury stock at the end of period
As of September 30, 2019: 6,579,568 shares
As of March 31, 2019: 6,631,768 shares
(c) Average number of shares over the period
1H FY2019: 20,440,515 shares
1H FY2018: 20,403,602 shares

*** This Business Results Report for the First Half of the Fiscal Year Ending March 31, 2020 falls outside the scope of quarterly review procedures.**

*** Explanation regarding the appropriate use of business forecasts and other special instructions**

The performance forecasts and other forward-looking statements presented in this report are based on information currently available and certain assumptions deemed to be reasonable and are not to be read as guarantees of future performance by the Company. Actual performance, etc., may differ substantially due to various factors. For preconditions of the assumptions and special instructions regarding the appropriate use of business forecasts, please refer to “(3) Explanation of performance forecasts and other forward-looking statements, including consolidated business forecasts” on page 6 of the supplementary materials.

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1. Quarterly Business Results

(1) Results of operations

During the half year period from April 1 to September 30, 2019 of fiscal 2019 ending March 31, 2020, a cautious approach to capital investment became more widespread among companies over concerns about the direction of US-China trade policy, and the Japan-South Korea relation. The business environment for the Company was steady due to firm demand for infrastructure-related maintenance and private sector capital investment in both Japan and the US while demand continued in growing businesses for Chinese domestic market.

Fiscal 2019 marked the fourth year of the Company's five-year mid-term business plan. During this fiscal year, the Company is implementing various measures to achieve set goals like expanding its product and service offerings and steadily capturing all possibilities in global market.

During the first half year, infrastructure demand and private sector investment remained steady, with net sales amounting to ¥27,548 million (down 2.3% year on year). Operating income totaled ¥2,177 million (down 15.1%), with ordinary income of ¥1,795 million (down 22.4%), and net income attributable to owners of the parent of ¥1,083 million (down 41.0%). Demand for hoists—the Company's core business—was in line with plan, but revenue and earnings declined as a result of a rebound decline from a large project in South Korea (crane systems for clean rooms) recorded in the same period of the previous fiscal year, along with items below ordinary income, including foreign exchange loss and an increase in corporation tax.

Results by segment are as follows. The Kito Group's business activities are classified by geographical segment for the Company and its consolidated group companies.

Segment	Net Sales (YoY change in %)	Operating Income (Loss) (YoY change in %)
Japan	¥13,370 million, down 7.3%	¥2,704 million, down 14.9%
The Americas	¥12,817 million, down 1.0%	¥435 million, up 15.3%
China	¥4,037 million, up 9.7%	¥533 million, up 12.1%
Asia (excluding Japan and China)	¥1,367 million, down 40.4%	¥(18) million Ref. Q2 2018: ¥283 million
Europe	¥1,803 million, up 42.1%	¥(73) million Ref. Q2 2018: ¥10 million
Others	¥789 million, down 22.5%	¥5 million, down 69.9%

Japan

Private sector capital investment rose from the same period of the previous fiscal year, particularly component-related demand. In the area of infrastructure repair and disaster-related recovery efforts, utilization of machinery and materials remained at a high level, but in the rental industry, equipment procurement seemed to enter a lull during the middle of the term. In exports, inventory replenishment at subsidiaries completed its cycle in the previous fiscal year, suppressing the shipment amount. As a result, net sales in Japan amounted to ¥13,370 million (down 7.3% year on year), with operating income of ¥2,704 million (down 14.9%).

The Americas

Capital investment stood firm in both the private and public sectors, despite uncertainties to the government administration and international relation with China. Net sales in the Americas amounted to ¥12,817 million (down 1.0% year on year), with operating income of ¥435 million (up 15.3%).

China

Capital investment demand weakened overall in part due to trade friction with the U.S., but the Company continued to grow and increase its market share in China by taking advantage of the growing priority on safety, and steadily capturing demand in buoyant industries. As a result, net sales amounted to ¥4,037 million (up 9.7% year on year), with operating income of ¥533 million (up 12.1%).

Asia (excluding Japan and China)

Demand remained firm in the automotive-related sector in Southeast Asia, but the economic slowdown in South Korea and Taiwan had a discernible impact. Net sales in Asia amounted to ¥1,367 million (down 40.4% year on year). In terms of earnings, the Company posted an operating loss of ¥18 million (compared to operating income of ¥283 million in the same period of the previous fiscal year).

Europe

Despite a sense of economic slowdown in the European market, the Company benefited from focusing its sales promotion measures on specific industries, and the inclusion of Kito Chain Italia, an Italian manufacturer of chain-related products as a consolidated subsidiary at the end of the previous fiscal year. As a result, net sales in Europe amounted to ¥1,803 million (up 42.1% year on year). In terms of earnings, the Company posted an operating loss of ¥73 million (compared to operating income of ¥10 million in the same period of the previous fiscal year).

Others

This segment currently comprises business in Australia only. Mainly as a result of the economic slowdown in China, net sales amounted to ¥789 million (down 22.5% year on year), with operating income of ¥5 million (down 69.9%).

(2) Financial Position

1. Assets, liabilities, and net assets

Total assets at the end of the first half period, fiscal 2019 amounted to ¥61,686 million, a decrease of ¥391 million compared to the end of the previous fiscal year. The main factors were a ¥2,115 million decrease in notes and accounts receivable–trade; a ¥1,318 million increase in merchandise and finished goods; and a ¥1,627 million increase in investment securities.

Total liabilities amounted to ¥35,068 million, a decrease of ¥323 million from the end of the previous fiscal year. The main factors were a ¥653 million increase in short-term loans payable; and a ¥1,075 million decrease in accrued expenses.

Net assets amounted to ¥26,618 million, a decrease of ¥68 million from the end of the previous fiscal year. The main factors were a ¥593 million increase in retained earnings; a ¥69 million decrease in deferred gains or losses on hedges; and a ¥612 million decrease in foreign currency translation adjustment.

2. Cash Flows

Cash and cash equivalents at the end of the first half period amounted to ¥8,184 million, a decrease of ¥320 million compared with the end of the previous fiscal year.

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥1,598 million, an increase of ¥1,544 million compared to the same period of the previous fiscal year. The main factors were ¥1,763 million in income before income taxes; ¥1,821 million in decrease in trade receivables; and ¥2,052 million in increase in inventories.

Cash Flows from Investing Activities

Net cash used in investing activities amounted to ¥2,241 million, an increase of ¥1,149 million compared to the same period of the previous fiscal year. The main factors were ¥719 million in payments for the acquisition of property and equipment; and ¥1,287 million in payments for investments in capital of subsidiaries and affiliates.

Cash Flows from Financing Activities

Net cash provided by financing activities amounted to ¥396 million, a difference of ¥1,194 million as compared to the same period of the previous fiscal year. The main factors were ¥2,400 million in proceeds from long-term borrowings payable; and ¥2,036 million in repayments of long-term loans payable.

(3) Performance Forecasts and Other Forward-looking Statements, including Consolidated Business Forecasts

The results forecast for the full fiscal year ending March 31, 2020, has been revised from that released on May 13, 2019, mainly to incorporate a sense of economic weakening on a global scale due to the prolonged trade friction between the U.S. and China, and the continuing strength of the yen.

For details, see “Revisions to the Consolidated Business Forecast” released November 7, 2019.

2. Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2019	As of September 30, 2019
Assets		
Current assets		
Cash and deposits	8,678	8,194
Notes and accounts receivable-trade	12,587	10,472
Merchandise and finished goods	13,337	14,655
Work in process	1,231	1,397
Raw materials and supplies	3,356	3,447
Other current assets	1,396	1,070
Allowance for doubtful receivables	(63)	(90)
Total current assets	40,524	39,147
Fixed assets		
Property and equipment		
Buildings and structures (net)	4,385	4,188
Machinery, equipment, and vehicles (net)	4,666	4,270
Others (net)	2,232	3,330
Total property and equipment	11,283	11,789
Intangible assets		
Goodwill	1,650	1,455
Other intangible assets	4,442	4,060
Total intangible assets	6,093	5,516
Investments and other assets		
Investment securities	801	2,429
Deferred tax assets	1,805	1,618
Other investments and other assets	1,569	1,185
Total investments and other assets	4,176	5,233
Total fixed assets	21,554	22,539
Total assets	62,078	61,686

(Millions of yen)

As of March 31, 2019

As of September 30, 2019

Liabilities		
Current liabilities		
Notes and accounts payable-trade	6,483	6,818
Short-term loans payable	2,844	3,497
Current portion of long-term loans payable	3,988	4,245
Accrued expenses	3,488	2,412
Income taxes payable	1,065	299
Provision for bonuses for employees	843	811
Other provisions	394	397
Other current liabilities	1,074	1,157
Total current liabilities	20,183	19,641
Long-term liabilities		
Long-term loans payable	11,962	11,810
Provision for directors' retirement benefits	221	—
Net defined benefit liabilities	1,996	2,016
Other long-term liabilities	1,027	1,600
Total long-term liabilities	15,207	15,427
Total liabilities	35,391	35,068
Net assets		
Shareholders' equity		
Capital stock	3,976	3,976
Capital surplus	5,214	5,234
Retained earnings	21,863	22,456
Treasury stock	(5,725)	(5,680)
Total shareholders' equity	25,328	25,986
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	0	0
Deferred gains or losses on hedges	52	(17)
Foreign currency translation adjustment	552	(59)
Remeasurements of defined benefit plans	(242)	(230)
Total accumulated other comprehensive income	362	(307)
Subscription rights to shares	50	57
Non-controlling interests	945	881
Total net assets	26,687	26,618
Total liabilities and net assets	62,078	61,686

(2) Quarterly Consolidated Statements of Income/Quarterly Consolidated Statements of Comprehensive Income
Quarterly Consolidated Statements of Income

(Millions of yen)

	1H FY2018 (April 1, 2018 to September 30, 2018)	1H FY2019 (April 1, 2019 to September 30, 2019)
Net sales	28,190	27,548
Cost of sales	17,946	17,207
Gross profit	10,243	10,341
Selling, general, and administrative expenses	7,679	8,163
Operating income	2,564	2,177
Non-operating income		
Interest income	18	20
Gain on sales of scraps	24	21
Foreign exchange gains	44	—
Other	93	42
Total non-operating income	181	84
Non-operating expenses		
Interest expense	193	175
Equity in losses of affiliates	93	47
Foreign exchange losses	—	162
Other	144	81
Total non-operating expenses	430	466
Ordinary income	2,314	1,795
Extraordinary income		
Gain on sale of fixed assets	—	1
Total extraordinary income	—	1
Extraordinary loss		
Loss on sale of fixed assets	—	0
Loss on retirement of fixed assets	—	32
Total extraordinary loss	—	33
Income before income taxes	2,314	1,763
Income taxes	407	637
Net income for the period	1,907	1,126
Net income attributable to non-controlling interests	71	43
Net income attributable to owners of the parent	1,835	1,083

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	1H FY2018 (April 1, 2018 to September 30, 2018)	1H FY2019 (April 1, 2019 to September 30, 2019)
Net income for the period	1,907	1,126
Other comprehensive income		
Valuation difference on available-for-sale securities	(0)	(0)
Deferred gains or losses on hedges	39	(69)
Foreign currency translation adjustment	149	(596)
Remeasurements of defined benefit plans	9	12
Share of other comprehensive income of entities accounted for using equity method	7	(30)
Total other comprehensive income	205	(683)
Quarterly comprehensive income	2,113	442
(Comprehensive income attributable to):		
Owners of the parent	2,076	412
Non-controlling interests	36	29

(3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	1H FY2018 (April 1, 2018 to September 30, 2018)	1H FY2019 (April 1, 2019 to September 30, 2019)
Cash flows from operating activities		
Income before income taxes	2,314	1,763
Depreciation and amortization	1,177	1,346
Depreciation of goodwill	162	151
Changes in net defined benefit liabilities (decrease)	(478)	30
Interest and dividend income	(39)	(20)
Interest expense	193	175
Foreign exchange losses (gains)	(175)	79
Equity in losses (earnings) of affiliates	93	47
Changes in trade receivables (increase)	94	1,821
Changes in inventories (increase)	(1,593)	(2,052)
Changes in trade payables (decrease)	643	461
Changes in accrued expenses (decrease)	(832)	(1,070)
Changes in advances received (decrease)	(462)	(16)
Others	56	331
Subtotal	1,154	3,048
Cash received from interest and dividends	18	19
Interest paid	(190)	(183)
Income taxes paid	(928)	(1,285)
Net cash provided by operating activities	53	1,598
Cash flows from investing activities		
Payments for the acquisition of property and equipment	(532)	(719)
Payments for the acquisition of intangible fixed assets	(90)	(87)
Payments for investments in capital of subsidiaries and affiliates	—	(1,287)
Others	(469)	(145)
Net cash used in investing activities	(1,091)	(2,241)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	1,408	755
Proceeds from long-term loans payable	400	2,400
Repayments of long-term loans payable	(2,138)	(2,036)
Cash dividends paid	(366)	(489)
Cash dividends paid for non-controlling interests	(80)	(93)
Others	(21)	(140)
Net cash used in financing activities	(798)	396
Effect of exchange rate changes on cash and cash equivalents	(27)	(74)
Increase (decrease) in cash and cash equivalents	(1,863)	(320)
Cash and cash equivalents at the beginning of the period	10,769	8,504
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(40)	—
Cash and cash equivalents at the end of the period	8,865	8,184

(4) Notes on Quarterly Consolidated Financial Statements

(Notes regarding ongoing concern assumption)

There are no relevant matters to be noted.

(Notes on the event of material changes in the amount of shareholders' equity)

There are no relevant matters to be noted.

(Change in Accounting Policy)

A subsidiary of the Company that applies International Financial Reporting Standards (IFRS) has applied IFRS 16 "Leases" from the subject first quarter cumulative period. Accordingly, the lessee in principle records all leases as assets or liabilities on the balance sheet. For the application of IFRS 16, the Company follows transitional treatment, adopting a method of recognizing the cumulative amount of the financial effect from the change in accounting policy from the date of application.

As a result, at the end of the first half of fiscal 2019 the "Others (net)" item of property and equipment increased by ¥926 million, the "Other" item of current liabilities increased by ¥243 million, the "Other" item of long-term liabilities increased by ¥381 million, the "Other" item of current assets decreased by ¥3 million, and the "Other" item of investments and other assets decreased by ¥297 million. The impact on profit and loss for the subject second quarter cumulative period was negligible.

(Segment information)

First half of the fiscal year ended March 31, 2019 (April 1, 2018 to September 30, 2018)

Information on the amounts of net sales and on the income or loss of reportable segments

(Millions of yen)

	Reportable segments						Total	Adjustment (Note 1)	Consolidated financial statement amount (Note 2)
	Japan	The Americas	China	Asia	Europe	Others			
Net sales									
Net sales to outside customers	7,302	12,888	3,417	2,295	1,267	1,019	28,190	—	28,190
Net internal sales or transfers among segments	7,114	53	261	0	1	—	7,431	(7,431)	—
Total	14,416	12,942	3,679	2,295	1,269	1,019	35,622	(7,431)	28,190
Segment income	3,177	377	476	283	10	17	4,343	(1,779)	2,564

Notes: 1. The segment income adjustment of ¥(1,779) million includes transactions offset among segments of ¥(611) million and company-wide expenses that are not allocated to respective segment of ¥(1,168) million. Company-wide expenses are expenses mostly related to the general affairs, finance & accounting, and corporate planning departments of the parent company.

2. The segment income is reconciled with the operating income listed in the quarterly consolidated financial statements.

First half of the fiscal year ending March 31, 2020 (April 1, 2019 to September 30, 2019)
 Information on the amounts of net sales and on the income or loss of reportable segments

(Millions of yen)

	Reportable segments						Total	Adjustment (Note 1)	Consolidated financial statement amount (Note 2)
	Japan	The Americas	China	Asia	Europe	Others			
Net sales									
Net sales to outside customers	7,404	12,790	3,657	1,367	1,539	789	27,548	—	27,548
Net internal sales or transfers among segments	5,966	26	379	—	264	—	6,637	(6,637)	—
Total	13,370	12,817	4,037	1,367	1,803	789	34,186	(6,637)	27,548
Segment income	2,704	435	533	(18)	(73)	5	3,586	(1,409)	2,177

Notes: 1. The segment income adjustment of ¥(1,409) million includes transactions offset among segments of ¥(130) million and company-wide expenses that are not allocated to respective segment of ¥(1,278) million. Company-wide expenses are expenses mostly related to the general affairs, finance & accounting, and corporate planning departments of the parent company.

2. The segment income is reconciled with the operating income listed in the quarterly consolidated financial statements.