Consolidated Financial Results for the Second Quarter Ended September 30, 2018

Asahi Holdings, Inc. [IFRS]

October 25, 2018

Stock code:	5857
Shares listed:	Tokyo Stock Exchange (First Section)
URL:	https://www.asahiholdings.com
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Filing date of Quarterly Report:	November 13, 2018
Start of dividend payment:	November 26, 2018
Supplementary materials for the financial results:	Yes
Investor conference for the financial results:	Yes (for institutional investors, analysts)

(Rounded down to the nearest million yen)

1. Results of the six months ended September 30, 2018 (From April 1, 2018 to September 30, 2018)

(1) Results of operations (cumulative) (Percentage: Changes relative to corresponding previous period)

	Revenue		Operating income		Profit before tax		Profit		Profit attributable to owners of parent		Total comprehensive income	
The six months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
September 30, 2018	60,380	5.0	6,864	7.5	6,486	4.3	4,541	5.1	4,541	6.0	4,213	4.0
September 30, 2017	57,489	11.2	6,383	12.1	6,220	13.1	4,321	7.1	4,283	7.6	4,052	186.1

	Basic earnings per share	Diluted earnings per share
The six months ended	Yen	Yen
September 30, 2018	114.84	—
September 30, 2017	131.39	—

(2) Financial Position

	Total assets	Total equity	Equity attributable to owners of parent	Equity attributable to owners of parent ratio
As of	Millions of yen	Millions of yen	Millions of yen	%
September 30, 2018	132,825	66,745	66,745	50.3
March 31, 2018	131,484	64,435	64,435	49.0

2. Dividend payments

	Dividends per share				
	First quarter	Second quarter	Third quarter	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2018	–	30.00	–	33.00	63.00
Year ending March 31, 2019	–	60.00			
Year ending March 31, 2019 (Forecast)			–	60.00	120.00

(Note) Revisions in dividend forecast in the current quarter: Yes

For details, please refer to "Notice on changes in the dividend policy, dividend of surplus, and revision of dividends forecast (increase in dividends)" made public on October 25, 2018.

3. Forecast (From April 1, 2018 to March 31, 2019) (Percentage: Changes relative to corresponding previous period)

	Revenue		Operating income		Profit before tax		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Year ending March 31, 2019	120,000	3.6	14,000	1.5	13,800	2.9	9,500	0.9	239.90

(Note) Revisions in forecast in the current quarter: No

* Notes

(1) Changes in significant subsidiaries during the current quarter: No

(2) Changes in accounting policies and accounting estimates

(i) Changes in accounting policies required by IFRS: Yes

(ii) Changes other than (i) above: No

(iii) Changes in accounting estimates: No

For details, please refer to page 11 " 2. Condensed Consolidated Financial Statements (7) Notes on Condensed Consolidated Financial Statements (3.Changes in accounting policies)".

(3) Number of issued shares (common stock)

(i) Number of issued shares at the quarter end (including treasury shares)

As of September 30, 2018	39,854,344 shares
As of March 31, 2018	39,854,344 shares

(ii) Number of treasury shares at the quarter end

As of September 30, 2018	505,437 shares
As of March 31, 2018	255,287 shares

(iii) Averaged number of shares during the period (quarterly cumulative period)

Six months ended September 30, 2018	39,547,943 shares
Six months ended September 30, 2017	32,599,271 shares

*The quarterly financial statements are not subject to quarterly reviews.

(Notes on forward looking statements, etc.)

These forecast performance figures are based on the information currently available to the company's management and certain assumptions judged rational. Accordingly, these might be cases in which actual results materially differ from forecasts of this report. Please refer to page 3 "1. Qualitative Information (3) Consolidated Performance Forecasts" for the assumptions used and other notes.

【Appendix】

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1. Qualitative Information

(1) Consolidated Business Performance

In the Japanese economy during the second quarter of the current fiscal year (April 1, 2018 through September 30, 2018), expansion continued on the back of improvements in corporate performance and employment situation. On the other hand, the future prospects remain opaque due in part to the intensifying trade conflict between the U.S. and China as well as major industrialized countries that has raised concerns over its negative impact on global economic expansion. Under these conditions, the group's results in each business segment were as follows.

Precious metals business

Sales revenue from business in the precious metal recycling sector in Japan, South Korea and Malaysia expanded from the same period in the previous year. Also, the sales revenue of precious metal refining business in North America improved over the same period a year before. As a result of these accomplishments, sales revenue and operating income in this segment grew from the same period in the preceding year.

Environmental preservation business

While the volume of industrial waste discharged in Japan is on a downward trend, sales revenue in this segment increased from the same period in the preceding year, thanks to efforts to develop new customers. However, operating income in this segment was lower than in the previous year due in part to the impact of contraction of photosensitive material business that is in the stage of withdrawal.

Life & health business

The construction demand remained high primarily in the Tokyo metropolitan area, which led to a steady increase in sales revenue from fire-fighting and air-conditioning equipment. However, sales revenue from health care equipment decreased from the same period in the previous year. Consequently, sales revenue and operating income in this segment were lower than in the same period a year before.

As a result of the above, revenue during the second quarter of the current fiscal year was 60,380 million yen, a year-on-year increase of 2,890 million yen (+5.0percent). Operating income was 6,864 million yen, an increase of 481 million yen (+7.5 percent) year-on-year. Profit before tax was 6,486 million yen, a year-on-year increase of 265 million yen (+4.3 percent). Profit was 4,541 million yen, a year-on-year increase of 220 million yen (+5.1 percent). Profit attributable to owners of parent for the period was therefore 4,541 million yen, an increase of 258 million yen (+6.0 percent) year-on-year. By segment, revenue in the precious metal business was 42,445 million yen, a year-on-year increase of 4,997 million yen (+13.3 percent). Revenue in the environmental preservation business was 7,986 million yen, and increase of 143 million yen (+1.8 percent) year-on-year. Revenue in the life & health business was 9,976 million yen, and decrease of 2,265 million yen (-18.5 percent) year-on-year.

(2) Consolidated Financial Position and Cash Flows for the six months ended September 30, 2018

As of September 30, 2018, total assets amounted to 132,825 million yen, up 1,340 million yen from the previous fiscal year end. This was due mainly to the increase of 2,500 million yen in trade and other receivables and the decrease of 1,185 million yen in inventories.

Total liabilities amounted to 66,079 million yen, down 969 million yen from the previous fiscal year end. This was due mainly to the increase of 1,873 million yen in loans payable, the decrease of 1,180 million yen in other current liabilities and the decrease of 801 million yen in income tax payable.

Total equity amounted to 66,745 million yen, up 2,310 million yen from the previous fiscal year end. This was due mainly to comprehensive income of 4,213 million yen.

As a result, the equity attributable to owners of parent ratio changed to 50.3%, from 49.0% at the end of the previous fiscal year.

Net cash provided by operating activities amounted to 4,975 million yen due mainly to 6,486 million yen of profit before tax, 1,163 million yen of depreciation and amortization, 1,203 million yen of decrease in inventories, 2,427 million yen of increase in trade and other receivables, 4,191 million yen of income taxes paid.

Net cash used in investing activities amounted to 1,064 million yen due mainly to 1,176 million yen of purchase of property, plant and equipment.

Net cash used in financial activities amounted to 2,073 million yen due mainly to 1,306 million yen of cash dividends paid.

As a result, cash and cash equivalents as of September 30, 2018 increase 1,996 million yen from March 31, 2018, to 26,136 million yen.

(3) Consolidated Performance Forecasts

The Company has positioned the enhancement of shareholder returns as one of its top priority issues. To further expand its profit distribution to its shareholders, the Company decided to raise the target level of dividend payout ratio.

Regarding dividends that are paid out basically twice each fiscal year as an interim dividend and a year-end dividend, the Company will seek a consolidated dividend payout ratio of “50% and above,” instead of “30% and above” in the past.

Consequently, projections on year-end dividend for the year ending March 2019 are revised as shown below.

For details, please refer to " Notice on changes in the dividend policy, dividend of surplus, and revision of dividends forecast (increase in dividends)" made public on October 25, 2018.

Dividends forecast for the year ending on March 31, 2019

	Annual dividends		
	End of the second quarter	End of the fiscal year	Total
Previous Forecast (Released on May 8, 2018)	37.00 yen	37.00 yen	74.00 yen
Recently revised Forecast	—	60.00 yen	120.00 yen
Results for the current year	60.00 yen	—	—
Results of the previous year (Year ended March 2018)	30.00 yen	33.00 yen	63.00 yen

2. Condensed Consolidated Financial Statements

(1) Condensed Consolidated Statements of Financial Position

	As of March 31, 2018	As of September 30, 2018
	Millions of yen	Millions of yen
ASSETS		
Current assets		
Cash and cash equivalents	24,140	26,136
Trade and other receivables	36,973	39,473
Inventories	22,466	21,281
Income tax receivables	1,474	297
Other financial assets	660	0
Other current assets	2,380	1,997
Total current assets	88,096	89,187
Non-current assets		
Property, plant and equipment	32,870	32,900
Goodwill	8,243	8,243
Intangible assets	740	651
Deferred tax assets	853	1,109
Net defined benefit asset	124	202
Financial assets	537	487
Other non-current assets	18	41
Total non-current assets	43,388	43,638
Total assets	131,484	132,825

	As of March 31, 2018	As of September 30, 2018
	Millions of yen	Millions of yen
LIABILITIES and EQUITY		
Liabilities		
Current liabilities		
Trade and other payables	14,179	14,118
Loans payable	22,515	23,651
Income tax payable	3,012	2,210
Other financial liabilities	506	846
Provision	1,484	1,034
Other current liabilities	3,400	2,220
Total current liabilities	45,099	44,082
Non-current liabilities		
Loans payable	18,600	19,338
Deferred tax liabilities	1,440	1,477
Net defined benefit liability	153	158
Other financial liabilities	1,754	1,023
Total non-current liabilities	21,949	21,997
Total liabilities	67,049	66,079
Equity		
Capital stock	7,790	7,790
Capital surplus	10,381	10,353
Treasury stock	(386)	(955)
Retained earnings	50,282	53,570
Other components of equity	(3,632)	(4,013)
Total equity attributable to owners of parent	64,435	66,745
Total equity	64,435	66,745
Total liabilities and equity	131,484	132,825

(2) Condensed Consolidated Statements of Income for the six months ended September 30, 2018

	The six months ended September 30, 2017	The six months ended September 30, 2018
	Millions of yen	Millions of yen
Revenue	57,489	60,380
Cost of sales	(44,117)	(46,600)
Gross profit	13,372	13,779
Selling, general and administrative expenses	(7,142)	(6,909)
Other operating income	184	146
Other operating expenses	(30)	(152)
Operating income	6,383	6,864
Finance income	47	35
Finance cost	(210)	(413)
Profit before tax	6,220	6,486
Income tax expenses	(1,899)	(1,944)
Profit	4,321	4,541
Profit attributable to:		
Owners of parent	4,283	4,541
Non-controlling interests	37	—
Profit	4,321	4,541
Earnings per share		
Basic earnings per share (Yen)	131.39	114.84

(3) Condensed Consolidated Statements of Comprehensive Income for the six months ended September 30, 2018

	The six months ended September 30, 2017	The six months ended September 30, 2018
	Millions of yen	Millions of yen
Profit	4,321	4,541
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	16	(3)
Remeasurements of defined benefit plans	32	48
Total items that will not be reclassified to profit or loss	48	44
Items that will be reclassified to profit or loss		
Cash flow hedges	(777)	(648)
Translation adjustments of foreign operations	459	275
Total items that will be reclassified to profit or loss	(317)	(372)
Other comprehensive income, net of tax	(269)	(327)
Comprehensive income	4,052	4,213
Comprehensive income attributable to:		
Owners of parent	4,011	4,213
Non-controlling interests	40	—
Comprehensive income	4,052	4,213

(4) Condensed Consolidated Statements of Changes in Equity

(Millions of yen)

	Equity attributable to owners of parent					
					Other components of equity	
	Capital stock	Capital surplus	Treasury stock	Retained earnings	Translation adjustments of foreign operations	Cash flow hedges
Balance at April 1, 2017	4,480	6,126	(5,371)	42,783	(3,618)	(104)
Profit	—	—	—	4,283	—	—
Other comprehensive income	—	—	—	—	459	(777)
Total comprehensive income	—	—	—	4,283	459	(777)
Purchase of treasury stock	—	—	(0)	—	—	—
Dividends	—	—	—	(977)	—	—
Changes in ownership interests in subsidiaries that do not result in loss of control	—	(337)	—	—	—	—
Reclassified from other components of equity to retained earnings	—	—	—	32	—	—
Share-based payment transactions	—	21	—	—	—	—
Total transactions with owners	—	(315)	(0)	(945)	—	—
Balance at September 30, 2017	4,480	5,810	(5,372)	46,120	(3,159)	(882)

(Millions of yen)

	Equity attributable to owners of parent					
	Other components of equity					
	Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total	Total	Non-controlling interests	Total equity
Balance at April 1, 2017	7	—	(3,716)	44,303	524	44,827
Profit	—	—	—	4,283	37	4,321
Other comprehensive income	14	32	(271)	(271)	2	(269)
Total comprehensive income	14	32	(271)	4,011	40	4,052
Purchase of treasury stock	—	—	—	(0)	—	(0)
Dividends	—	—	—	(977)	—	(977)
Changes in ownership interests in subsidiaries that do not result in loss of control	3	—	3	(333)	(540)	(874)
Reclassified from other components of equity to retained earnings	—	(32)	(32)	—	—	—
Share-based payment transactions	—	—	—	21	—	21
Total transactions with owners	3	(32)	(28)	(1,290)	(540)	(1,831)
Balance at September 30, 2017	24	—	(4,016)	47,023	24	47,048

(Millions of yen)

	Equity attributable to owners of parent					
					Other components of equity	
	Capital stock	Capital surplus	Treasury stock	Retained earnings	Translation adjustments of foreign operations	Cash flow hedges
Balance at April 1, 2018	7,790	10,381	(386)	50,282	(3,624)	(34)
Profit	—	—	—	4,541	—	—
Other comprehensive income	—	—	—	—	275	(648)
Total comprehensive income	—	—	—	4,541	275	(648)
Purchase of treasury stock	—	—	(744)	—	—	—
Disposal of treasury stock	—	24	70	—	—	—
Dividends	—	—	—	(1,306)	—	—
Reclassified from other components of equity to retained earnings	—	—	—	53	—	—
Share-based payment transactions	—	(52)	104	—	—	—
Total transactions with owners	—	(27)	(568)	(1,253)	—	—
Balance at September 30, 2018	7,790	10,353	(955)	53,570	(3,348)	(683)

(Millions of yen)

	Equity attributable to owners of parent				
	Other components of equity				
	Financial assets measured at fair value through other comprehen-sive income	Remeasure-ments of defined benefit plans	Total	Total	Total equity
Balance at April 1, 2018	27	—	(3,632)	64,435	64,435
Profit	—	—	—	4,541	4,541
Other comprehensive income	(3)	48	(327)	(327)	(327)
Total comprehensive income	(3)	48	(327)	4,213	4,213
Purchase of treasury stock	—	—	—	(744)	(744)
Disposal of treasury stock	—	—	—	95	95
Dividends	—	—	—	(1,306)	(1,306)
Reclassified from other components of equity to retained earnings	(4)	(48)	(53)	—	—
Share-based payment transactions	—	—	—	52	52
Total transactions with owners	(4)	(48)	(53)	(1,903)	(1,903)
Balance at September 30, 2018	18	—	(4,013)	66,745	66,745

(5) Condensed Consolidated Statements of Cash Flows

	The six months ended September 30, 2017	The six months ended September 30, 2018
	Millions of yen	Millions of yen
Net cash provided by (used in) operating activities		
Profit before tax	6,220	6,486
Depreciation and amortization	1,117	1,163
Impairment loss	—	15
Finance income and finance cost	186	368
Decrease (increase) in inventories	(4,148)	1,203
Decrease (increase) in trade and other receivables	(1,827)	(2,427)
Increase (decrease) in trade and other payables	2,149	(218)
Other, net	1,838	1,607
Subtotal	5,536	8,199
Interest and dividends income received	12	22
Interest expenses paid	(220)	(419)
Income taxes paid	(1,912)	(4,191)
Income taxes refund	951	1,364
Net cash provided by (used in) operating activities	4,366	4,975
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(1,592)	(1,176)
Proceeds from sales of property, plant and equipment	158	196
Purchase of intangible assets	(149)	(83)
Proceeds from sales and redemption of investments	—	12
Other, net	9	(14)
Net cash provided by (used in) investing activities	(1,573)	(1,064)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	(200)	39
Repayment of long-term loans payable	(135)	(135)
Proceeds from sales of treasury stock	—	95
Purchase of treasury stock	(0)	(744)
Payment to acquire interests in subsidiaries from non-controlling interests	(874)	—
Cash dividends paid	(977)	(1,306)
Other, net	(6)	(21)
Net cash provided by (used in) financing activities	(2,194)	(2,073)
Effect of exchange rate change on cash and cash equivalents	(109)	158
Net increase (decrease) in cash and cash equivalents	489	1,996
Cash and cash equivalents at beginning of period	10,798	24,140
Cash and cash equivalents at end of period	11,287	26,136

(6) Notes on Assumptions for Going Concern

Not applicable

(7) Notes on Condensed Consolidated Financial Statements

1. Reporting entity

Asahi Holdings, Inc. (hereinafter the “Company”) is a company located in Japan. The Company’s condensed consolidated financial statements for the six months ended September 30, 2018 comprise the financial statements of the Company as well as its subsidiaries (hereinafter the “Group”).

For the main activities of the Group, please refer to Note 5. “Segment information.”

2. Basis of preparation

(1) Statement of compliance with IFRS

The condensed consolidated financial statements of the Group have been prepared based on IAS 34 “Interim Financial Reporting.”

Having met the requirements for a Specified Company under the Designated International Accounting Standards, as prescribed in Article 1-2 of the Ordinance on the Terminology, Forms, and Preparation Methods of Quarterly Consolidated Financial Statements (Cabinet Office Ordinance No. 64 of 2007), the Group adopts the provisions of Article 93 of the aforementioned rules.

(2) Basis of measurement

The condensed consolidated financial statements of the Group have been prepared based on costs of acquisition, except for the specified financial instruments that have been measured at fair value.

(3) Functional currency and presentation currency

The condensed consolidated financial statements of the Group are presented in Japanese yen, which is the functional currency of the Company, and figures less than one million yen are rounded down to the nearest million yen.

3. Changes in accounting policies

The significant accounting policies adopted for the condensed consolidated financial statements are the same as those for the consolidated financial statements for the fiscal year ended March 31, 2018, with the exception of the items described below.

The income tax for the six months ended September 30, 2018 was calculated based on the estimated average annual effective tax rate.

(Adoption of IFRS 15 “Revenue from Contracts with Customers”)

The Group has adopted IFRS 15 “Revenue from Contracts with Customers”(published in May 2014) and “Clarifications to IFRS 15” (published in April 2016)(hereinafter, collectively referred to as ”IFRS 15”) from the first quarter ended June 30, 2018. When applying IFRS 15, as a transition measure the Group applies this standard retrospectively with the cumulative effects of initially applying this standard recognized at the date of initial application.

In accordance with IFRS 15, except for interests and dividend income stipulated by IFRS 9 “ Financial instruments”, revenue is recognizes based on the following five-step model.

Step 1: Identify the contract with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when the entity satisfies a performance obligation

Our group is engaged in the sales of precious metals, massage chairs, electrolytic hydrogen water generator, hearing aids, heating equipment and other items. Regarding these products, revenue is recognized when the goods are transferred to the customer, a point at which the customer has control of the goods and performance obligation is deemed to have been satisfied. As for revenue pertaining to intermediate treatment or other processing of industrial wastes, revenue is recognized when the treatment of the said industrial waste is completed, a point at which the customer has control and performance obligation is deemed to have been satisfied.

Regarding revenues pertaining to the design, construction and other works on fire-fighting, air conditioning and sanitary equipment, revenue is recognized in accordance with the progress of performance obligation. Progress is measured according to input method based on the costs incurred and other means.

Also, revenue is measured at a value derived by deducting discounts, rebates, returns, etc. from the consideration undertaken in the contract with the customer.

The application of IFRS 15 does not have a significant impact on the performance or financial conditions of our group.

4. Significant accounting estimates and associated judgments

In preparing condensed consolidated financial statements, the management is required to make judgment, estimates and assumptions that affect the adoption of accounting policies and the amounts of assets, liabilities, revenues and expenses. Actual results may differ from such estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. The effect of a change in accounting estimates is recognized as the accounting period in which such change occurs as well as the accounting periods to be affected in the future.

The estimates and judgments made by the management that may have material impacts on the figures in the condensed consolidated financial statements are the same as those for the consolidated financial statements for the fiscal year ended March 31, 2018.

5. Segment information

(1) Overview of reporting segments

The Group's reporting segments are those Group constituent units for which separate financial information is obtainable, and which the Board of Directors subjects to regular examination in order to decide the allocation of management resources and evaluate business results.

As a pure holding company, the Company is in charge of overall strategic function for the Group, whereas operating companies of the Group engage in the precious and rare metals recycling business and the refining and processing business, industrial waste management and other environmental preservation business, and life & health business including manufacturing and selling of health equipment.

Therefore, the Group is composed of product and service segments based on business sectors. The three reporting segments are the precious metal business, the environmental preservation business, and the life & health business. Meanwhile, these reporting segments are not be aggregated.

The precious metals business engages mainly in recycling and selling of precious and rare metals such as gold, silver, palladium, and platinum, as well as refining and processing of precious metals such as gold and silver. The main work of environmental preservation business is the collection, transport and intermediate processing of industrial waste. In the life & health business, the main work is the manufacture and sales of massagers, hearing aids, and other health equipment, the manufacture and sales of electric heaters, the design and installation of radiant heating and air conditioning systems, and the design and installation of disaster prevention equipment.

(2) Segment revenue and performance

Accounting policies of the reporting segments are the same as those of the Group stated in "Note 3. Changes in accounting policies."

Revenue and other performance of each reportable segment of the Group are as follows.

For the six months ended September 30, 2017 (from April 1, 2017 to September 30, 2017)

(Millions of yen)

	Reporting segment				Adjustment	Consolidated
	Precious metals business	Environmental preservation business	Life & health business	Total		
Revenue						
External revenue	37,448	7,799	12,242	57,489	—	57,489
Intersegment revenue	—	43	0	43	(43)	—
Total	37,448	7,843	12,242	57,533	(43)	57,489
Operating income by business segment	5,143	1,669	733	7,546	(1,162)	6,383
Finance income						47
Finance costs						(210)
Profit before tax						6,220

(Note) 1. Intersegment transactions are based on prevailing market prices.

2. Adjustments of operating income by business segment are mainly corporate expenses that are not allocated to each reporting segment.

For the six months ended September 30, 2018 (from April 1, 2018 to September 30, 2018)

(Millions of yen)

	Reporting segment					
	Precious metals business	Environmental preservation business	Life & health business	Total	Adjustment	Consolidated
Revenue						
External revenue	42,445	7,959	9,976	60,380	—	60,380
Intersegment revenue	—	27	0	27	(27)	—
Total	42,445	7,986	9,976	60,408	(27)	60,380
Operating income by business segment	6,495	1,441	254	8,191	(1,327)	6,864
Finance income						35
Finance costs						(413)
Profit before tax						6,486

(Note) 1. Intersegment transactions are based on prevailing market prices.

2. Adjustments of operating income by business segment are mainly corporate expenses that are not allocated to each reporting segment.

6. Subsequent events

Not applicable