



Consolidated Financial Results for the First Six Months of FY 3/2022 [Japanese GAAP]

November 8, 2021

Company Name NISSO CORPORATION

Stock Exchange Listing: Tokyo

Securities Code 6569 URL <https://www.nisso.co.jp/>

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Scheduled date of filing November 12, 2021 Scheduled date of payment of dividend —

Preparation of supplementary materials for quarterly financial results: Yes (Scheduled to be posted on the Company's website on November 8, 2021 (Mon.))

Holding of quarterly financial results meeting: Yes (Scheduled to be held for institutional investors and analysts on November 11, 2021 (Thu.))

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the First Six Months of the Fiscal Year Ending March 31, 2022 (April 1, 2021 – September 30, 2021)

(1) Consolidated results of operations (Percentages represent year-on-year changes)

| | Net sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of parent | |
|---|-------------|--------|------------------|--------|-----------------|--------|---|--------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| First six months ended September 30, 2021 | 36,694 | 11.3 | 824 | 12.7 | 908 | (8.2) | 587 | (1.6) |
| September 30, 2020 | 32,972 | (10.4) | 731 | (35.2) | 989 | (14.3) | 596 | (24.0) |

(Note) Comprehensive income For the first six months ended September 30, 2021: 581 Million yen (-2.7%)
For the first six months ended September 30, 2020: 598 Million yen (-19.4%)

| | Net income per share | Diluted net income per share |
|------------------------|----------------------|------------------------------|
| First six months ended | Yen | Yen |
| September 30, 2021 | 17.30 | 17.28 |
| September 30, 2020 | 17.65 | 17.58 |

(2) Consolidated financial position

| | Total assets | Net assets | Equity ratio |
|--------------------|--------------|-------------|--------------|
| As of | Million yen | Million yen | % |
| September 30, 2021 | 22,055 | 12,444 | 56.4 |
| March 31, 2021 | 21,631 | 12,763 | 59.0 |

(Reference) Equity capital As of September 30, 2021: 12,444 Million yen
As of March 31, 2021: 12,763 Million yen

2. Dividends

| | Dividend per share | | | | |
|---------------------------|--------------------|--------|--------|----------|-------|
| | 1Q-end | 2Q-end | 3Q-end | Year-end | Total |
| Fiscal year ended | Yen | Yen | Yen | Yen | Yen |
| March 31, 2021 | — | 0.00 | — | 20.10 | 20.10 |
| Fiscal year ending | — | 0.00 | | | |
| March 31, 2022 | | | | | |
| Fiscal year ending | | | — | 18.00 | 18.00 |
| March 31, 2022 (Forecast) | | | | | |

(Note) Revisions to the most recently announced dividend forecast: None

3. Consolidated Forecast for the Fiscal Year Ending March 31, 2022
(April 1, 2021 - March 31, 2022)

(Percentages represent year-on-year changes)

| | Net sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of parent | | Net income per share |
|-----------|-------------|------|------------------|-------|-----------------|--------|---|-----|----------------------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Yen |
| Full year | 78,000 | 14.3 | 2,400 | (7.7) | 2,600 | (11.9) | 1,750 | 9.9 | 51.51 |

(Note) 1. Revisions to the most recently announced consolidated earnings forecast: Yes

2. For details regarding the Consolidated Forecast, please refer to the "Notice of Revisions of Full-year Consolidated Forecast for the Fiscal Year Ending March 31, 2022" announced today (Monday, November 8, 2021).

※ Notes

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in the scope of consolidation): None

Newly added: (Co. name) , Excluded: (Co. name)

(2) Application of special accounting methods for the presentation of quarterly consolidated financial statements: None

(3) Changes in accounting policies and accounting estimates, and restatements

① Changes in accounting policies due to revisions in accounting standards, etc.: None

② Changes in accounting policies other than ① above: None

③ Changes in accounting estimates: None

④ Restatements: None

(Note) For details, please refer to "2. Quarterly Consolidated Financial Statements and Notes (4) Notes regarding Quarterly Consolidated Financial Statements (Changes of Accounting Policies)" on page 10 of the attached documents.

(4) Number of outstanding shares (Common stock)

| | | | | |
|---|--------------------------------------|-------------------|--------------------------------------|-------------------|
| ① Number of shares outstanding at the end of the period (including treasury shares) | As of Sep. 30, 2021 | 34,327,600 Shares | As of Sep. 30, 2020 | 34,320,400 Shares |
| ② Number of treasury shares at the end of the period | As of Sep. 30, 2021 | 348,444 Shares | As of Sep. 30, 2020 | 366,381 Shares |
| ③ Average number of shares outstanding during the period (Quarterly total) | First six months ended Sep. 30, 2021 | 33,963,598 Shares | First six months ended Sep. 30, 2020 | 33,818,504 Shares |

※ The quarterly financial statement is not subject to the quarterly review procedures of certified public accountants or auditing corporations

※ Cautionary statement on the appropriate use of earning forecasts, and other special items (Notes on forward-looking statements, etc.)

- Earnings forecasts regarding future performance and other forward-looking statements in this material are based on certain assumptions judged to be valid and on information that is currently available to the Company, and do not represent promises by the Company that these figures will be achieved. In addition, actual results may differ significantly due to a variety of factors. For prerequisite conditions, etc. regarding the earnings forecasts, please refer to "1. Qualitative Information on Quarterly Financial Results, (4) Description of Future Forecast Information such as Consolidated Forecasts, etc." on P. 5 of the attachments.

(Supplementary materials for quarterly financial results and method of obtaining content for quarterly financial results meeting)

The Company is planning to hold a briefing session for institutional investors and analysts on Thursday, November 11, 2021.

Quarterly financial results briefing materials to be used on that day will be posted on the Company's website on the day of the announcement of financial results (Monday, November 8, 2021).

(Reference) Summary of Non-consolidated Financial Results

**Non-consolidated Financial Results for the First Six Months of the Fiscal Year Ending March 31, 2022
(April 1, 2021 - September 30, 2021)**

(1) Non-consolidated results of operations

(Percentages represent year-on-year changes)

| | Net sales | | Operating profit | | Ordinary profit | | Quarterly net profit | |
|------------------------|-------------|--------|------------------|--------|-----------------|--------|----------------------|--------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| First six months ended | | | | | | | | |
| September 30, 2021 | 33,981 | 12.7 | 863 | 13.5 | 888 | (9.1) | 571 | (5.7) |
| September 30, 2020 | 30,155 | (11.2) | 760 | (32.8) | 977 | (14.0) | 605 | (22.0) |

| | Net income per share | Diluted net income per share |
|------------------------|----------------------|------------------------------|
| | Yen | Yen |
| First six months ended | | |
| September 30, 2021 | 16.82 | 16.80 |
| September 30, 2020 | 17.92 | 17.84 |

(2) Non-consolidated financial position

| | Total assets | Net assets | Equity ratio |
|--------------------|--------------|-------------|--------------|
| | Million yen | Million yen | % |
| As of | | | |
| September 30, 2021 | 20,010 | 11,859 | 59.3 |
| March 31, 2021 | 19,811 | 11,955 | 60.3 |

(Reference) Equity capital

As of September 30, 2021:

11,859 Million yen

As of March 31, 2021:

11,955 Million yen

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1. Qualitative Information on Quarterly Financial Results

(1) Description of Results of Operations

Japan's economy during the current consolidated cumulative second quarter (hereinafter, the "period under review") showed signs of a gradual recovery, due in part to the decrease in the number of people infected with the new coronavirus (hereinafter, "COVID-19") and the promotion of vaccinations. On the other hand, it is necessary to pay close attention to the impact on domestic and overseas economies, such as the stagnation of supply chains caused by lockdowns mainly in Southeast Asia, as well as the effects of fluctuations in financial and capital markets.

As for the business environment surrounding the Nisso Group (hereinafter, the "Group"), although auto-body manufacturers, who are important clients, experienced operational adjustments due to the effects of shortages of semiconductors and parts, in the electronic devices-related industry, production has increased as a result of strong demand for semiconductors. On the other hand, in terms of employment conditions, there is a growing need for external human resources utilization at NISSO CORPORATION's (hereinafter, the "Company") client's manufacturers, such as hiring human resources with an eye on the future in the manufacturing industry.

In this environment, based on its mission of "Creating opportunities and hopes for people to work", the Group aims to create workplaces where workers can feel motivated and grow, with Human Resources Solution Services that support the growth of companies and people, and "to transform into a corporate group with high-growth potential", which is the goal of the Medium-term Management Plan. With the aim of providing services that can respond to social changes and changes in industrial structures, the Group is promoting the following initiatives.

During the period under review, net sales in the existing areas of manufacturing dispatching and contracting, and administrative human resources services amounted to 32,654 million yen, up 3.3% from the first quarter consolidated accounting period (hereinafter, the "first quarter").

Based on the strategy of strengthening its service provision system, increasing the market share of Account Companies, expanding recruitment, providing more educational opportunities, and assigning skilled staff to Account Company Groups, which the Group positions as important clients, the number of skilled staff amounted to 5,123 (up 128 from the first quarter), and net sales at Account Companies for the second quarter consolidated accounting period (hereinafter, the "second quarter") amounted to 8,091 million yen (up 217 million yen from the first quarter). On the other hand, due to the adjustments in the operation of auto-body manufacturers as a result of shortages of semiconductor and parts, although the share of net sales of Account Companies decreased to 46.8% (which was 47.2% in the first quarter), the Company is working to secure human resources in order to start recovery production from the second half of the third quarter consolidated accounting period (hereinafter, the "third quarter").

In addition, as the first step in the growth strategy for expanding the existing areas outlined in the Medium-term Management Plan, on August 31, 2021, the Company acquired all shares of Vector Shinwa Co., Ltd., a company that is mainly engaged in contracting operations in the manufacturing industry of semiconductors and precision equipment. Since the deemed acquisition date of Vector Shinwa was September 30, 2021, only the balance sheet is consolidated for the current second quarter, and the financial results of the acquired company are not included in the Quarterly Consolidated Statement of Income for the period under review.

In the engineering area, net sales for the period under review were 2,545 million yen, an increase of 4.9% from the first quarter.

In order to increase the number of engineers, the Company will utilize its unique recruitment site "engineer works", which specializes in engineers, to increase the number of engineers by expanding recruitment and promoting the reassignment of manufacturing human resources to engineers. The number of engineers amounted to 901 (up 40 from the first quarter), and the average monthly net sales per capita for the period under review was 509 thousand yen (which was 523 thousand yen in the first quarter). In order to achieve the targets of the Medium-term Management Plan, the Group is promoting M&A and alliances, and is making efforts to create a structure to expand the existing areas of engineers and to provide new services.

Net sales in the new business area for the period under review were insignificant.

In order to create new businesses, the Company is strengthening its cooperation with partnerships, and have participated into the "TASUKI" project, which has an annotation platform operated by SB Innoventure Corp. (Head office: Minato-ku, Tokyo) which has built an annotation platform that creates efficient and high-quality using AI technology, and started annotation operations, and is continuing its efforts to create new businesses.

Net sales in the nursing care business for the period under review amounted to 1,494 million yen, an increase of 1.3% from the first quarter.

As a result of measures to improve the quality of services provided at the "Sweetpea" nursing care facilities located in 6 locations in Yokohama, the occupancy rate of the nursing care facility "Sweetpea Higashi Totsuka (Bldg. 6)" has remained high at 92.6%. In addition, the Group is working to build a stable revenue base by continuing its efforts to improve its management structure, such as promoting operational efficiency.

As a result, the results of operations for the period under review are as follows: net sales of 36,694 million yen (up 11.3% year-on-year), operating profit of 824 million yen (up 12.7% year-on-year), ordinary profit of 908 million yen (down 8.2% year-on-year), and profit attributable to owners of parent amounted to 587 million yen (down 1.6% year-on-year).

Based on its policy of putting the safety of its clients and employees as a top priority, the Group has established the "COVID-19 Countermeasures Headquarters", and is promoting business activities that strengthen measures to prevent the spread of COVID-19 infections. Despite production adjustments due to the impact of the supply chain, it is believed that the Group's business performance is expected to remain firm going forward as economic activities of clients related to the Company recover. On the other hand, in the event of an occurrence where individuals are affected by the virus at its clients, workplaces or nursing care facilities, the Group may be affected.

The results of operations by segment are as follows:

(Human Resources Services Business)

(Unit: Million yen)

| | FY 3/2022 Net sales Cons. cumulative 2nd Qtr. | | FY 3/2022 Operating profit Cons. cumulative 2nd Qtr. | |
|---|--|------------|---|------------|
| | Amount (YoY) | YoY Amount | Amount (YoY) | YoY Amount |
| Manufacturing-related Human Resources Services | 34,004 (up 12.7%) | 30,171 | 807 (up 11.3%) | 725 |
| Administrative Human Resources Services | 1,216 (down 10.4%) | 1,357 | (2) (-) | 46 |
| Adjustment amount | (17) (-) | (13) | 0 (-) | (0) |
| Total | 35,204 (up 11.7%) | 31,515 | 805 (up 4.4%) | 771 |

Manufacturing-related Human Resources Services (NISSO CORPORATION, Nisso Pure Co., Ltd.)

For clients of manufacturing-related human resources serves, the core business which accounted for 92.5% of consolidated net sales during the period under review, production adjustments occurred in the automobiles-related industry, while production by semiconductor equipment manufacturers in the electronic devices-related industry performed well. From the second half of the third quarter, the Group will be strengthening its efforts to secure personnel aimed at contributing to recovery production, mainly for auto-body manufacturers, and has been actively investing in manufacturing staff recruitment measures, such as starting the broadcasting of TV commercials from October 1, 2021, in order to improve the visibility of the Company's recruitment website "Kojo Kyujin Navi".

During the period under review, the Company expanded recruitment interview opportunities through the use of on-line interviews, and promoted efforts such as compensating for the decrease in operations due to production adjustments, in order to improve the retention rate of manufacturing staff. The turnover rate of manufacturing staff remained at a low level of 3.7% (which was at 4.2% in the previous consolidated fiscal year), and the number of enrolled manufacturing staff was 14,225 (up 1,079 from the previous consolidated fiscal year).

As a result, the Company implemented education for manufacturing staff to increase added value, including the utilization of not only its own educational facilities but also the use of the Web. However, due to the decrease in the hours of operation as a result of the impact of operational adjustments by major clients, the average monthly net sales per capita was 406 thousand yen (a decrease of 3 thousand yen from the first quarter), and although the growth of business performance slowed due to the recovery of investment costs such recruitment measures, revenue and profits increased year-on-year.

Nisso Pure Co., Ltd., a special-purpose subsidiary of the Company, promotes the employment of

persons with disabilities. With the aim of creating a workplace environment where diverse human resources can flourish, the Group not only hires employees with disabilities, but also promotes activities that take advantage of each individual's characteristics, such as being entrusted with light work operations from external clients, and promotes coexistence with local communities, including those related to schools, support organizations, and the government. As a result, the number of employees with disabilities as of the end of September 2021 was 196.

Administrative Human Resources Services (Nisso Brain Co., Ltd.)

The administrative human resources services carry out general office work dispatching and BPO (Business Process Outsourcing: the outsourcing of operations and processes of specific business-related tasks to a [third-party] specialized company).

In the period under review, in order to stabilize existing businesses, although the Company engaged in recruitment activities centered on public relations and customer attraction activities, due to the stagnation of business activities caused by the declaration of the state of emergency, the number of employees dispatched for administrative work was 628 (down 62 from the end of the previous fiscal year). As a result, the decrease in sales did not absorb personnel expenses and operating expenses, resulting in a decrease in sales and profits.

(Other Businesses)

(Unit: Million yen)

| | FY 3/2022 Net sales Cons. cumulative 2nd Qtr. | | FY 3/2022 Operating profit Cons. cumulative 2nd Qtr. | |
|-------------------------------|--|------------|---|------------|
| | Amount (YoY) | YoY Amount | Amount (YoY) | YoY Amount |
| Nursing care・welfare business | 1,494 (up 2.2%) | 1,461 | 20 (-) | (39) |

Nursing care・welfare services business (Nisso Nifty Co., Ltd.)

In the facilities nursing care business, which is the core business of this business segment, during the period under review, as a result of promoting on-line facility preview events and other activities on the premise of preventing the spread of COVID-19 infections, the occupancy rate of nursing care facilities was maintained at a high level of 95.0%, and revenues and profits increased through efforts to improve profitability such as improving the efficiency of personnel and operating expenses.

(2) Description of Financial Position

(Assets)

Current assets at the end of the current second quarter amounted to 13,846 million yen, which was a decrease of 967 million yen from the end of the previous consolidated fiscal year. This was mainly due to decreases of 818 million yen in cash and deposits, and 117 million yen in notes and accounts receivable (trade).

Non-current assets at the end of the current second quarter amounted to 8,208 million yen, which was an increase of 1,391 million yen from the end of the previous consolidated fiscal year. This was mainly due to an increase of 1,345 million yen in goodwill.

As a result, total assets amounted to 22,055 million yen, which was an increase of 423 million yen from the end of the previous consolidated fiscal year.

(Liabilities)

Current liabilities at the end of the current second quarter amounted to 8,692 million yen, which was an increase of 514 million yen from the end of the previous consolidated fiscal year. This was mainly due to increases of 169 million yen in accrued expenses and 93 million yen in provision for bonuses.

Non-current liabilities at the end of the current second quarter amounted to 917 million yen, which was an increase of 227 million yen from the end of the previous consolidated fiscal year. This was mainly due to an increase of 86 million yen in net defined benefit liability.

As a result, total liabilities amounted to 9,610 million yen, which was an increase of 742 million yen from the end of the previous consolidated fiscal year.

(Net assets)

Total net assets at the end of the current second quarter amounted to 12,444 million yen, which was a decrease of 318 million yen from the end of the previous consolidated fiscal year. This was mainly due to the 587 million yen in profit attributable to owners of parent, and 682 million yen in dividends of surplus.

As a result, the equity ratio was at 56.4% (which was at 59.0% at the end of the previous consolidated fiscal year).

(3) Description of Cash Flows

Cash and cash equivalents for the period under review decreased by 824 million yen from the end of the previous consolidated fiscal year to 5,048 million yen.

The status of each cash flow for the period under review and their factors thereof are as follows:
(Cash flows from operating activities)

Cash flows from operating activities amounted to proceeds of 1,191 million yen (compared to proceeds of 547 million yen in the same quarter of the previous fiscal year) due to proceeds of 901 million yen for profit before income taxes, etc.

(Cash flows from investing activities)

Cash flows from investing activities amounted to expenditures of 1,302 million yen (compared to expenditures of 398 million yen in the same quarter of the previous fiscal year) due to expenditures of 1,212 million yen for purchase of shares of subsidiaries resulting in change in scope of consolidation, etc.

(Cash flows from financing activities)

Cash flows from financing activities amounted to expenditures of 713 million yen (compared to expenditures of 944 million yen in the same quarter of the previous fiscal year) due to expenditures of 682 million yen for cash dividends paid, etc.。

(4) Description of Future Forecast Information such as Consolidated Forecasts, etc.

Based on the results of the period under review, the Full-year Consolidated Forecast and Dividend Forecast announced on May 12, 2021 has been revised.

For details, please refer to the "Notice of Revisions of Full-year Consolidated Forecast for the Fiscal Year Ending March 31, 2022" announced today (Monday, November 8, 2021).

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheet

(Unit: Million yen)

| | FY 3/21 (As of Mar. 31, 2021) | 2Q of FY 3/22 (As of Sep. 30, 2021) |
|---|----------------------------------|--|
| Assets | | |
| Current assets | | |
| Cash and deposits | 5,873 | 5,054 |
| Notes and accounts receivable - trade | 8,094 | 7,977 |
| Other | 850 | 818 |
| Allowance for doubtful accounts | (5) | (4) |
| Total current assets | 14,813 | 13,846 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures, net | 1,799 | 1,818 |
| Land | 2,704 | 2,710 |
| Other, net | 150 | 148 |
| Total property, plant and equipment | 4,654 | 4,677 |
| Intangible assets | | |
| Goodwill | - | 1,345 |
| Other | 305 | 257 |
| Total intangible assets | 305 | 1,603 |
| Investments and other assets | | |
| Other | 1,876 | 1,956 |
| Allowance for doubtful accounts | (19) | (28) |
| Total investments and other assets | 1,857 | 1,928 |
| Total non-current assets | 6,817 | 8,208 |
| Total assets | 21,631 | 22,055 |
| Liabilities | | |
| Current liabilities | | |
| Current portion of long-term loans payable | - | 26 |
| Accrued expenses | 4,541 | 4,710 |
| Income taxes payable | 494 | 497 |
| Provision for bonuses | 950 | 1,044 |
| Other | 2,191 | 2,413 |
| Total current liabilities | 8,178 | 8,692 |
| Non-current liabilities | | |
| Long-term loans payable | - | 71 |
| Net defined benefit liability | 345 | 431 |
| Other | 344 | 414 |
| Total non-current liabilities | 689 | 917 |
| Total liabilities | 8,868 | 9,610 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 2,015 | 2,015 |
| Capital surplus | 2,368 | 2,368 |
| Retained earnings | 8,674 | 8,345 |
| Treasury shares | (313) | (298) |
| Total shareholders' equity | 12,744 | 12,431 |
| Accumulated other comprehensive income | | |
| Foreign currency translation adjustment | 1 | 1 |
| Remeasurements of defined benefit plans | 17 | 12 |
| Total accumulated other comprehensive income | 18 | 13 |
| Total net assets | 12,763 | 12,444 |
| Total liabilities and net assets | 21,631 | 22,055 |

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
(Quarterly Consolidated Statement of Income)
(For the First Six Months ended September 30, 2021)

(Unit: Million yen)

| | First six months of FY 3/21 (Apr. 1, 2020 - Sep. 30, 2020) | First six months of FY 3/22 (Apr. 1, 2021 - Sep. 30, 2021) |
|---|---|---|
| Net sales | 32,972 | 36,694 |
| Cost of sales | 27,879 | 30,659 |
| Gross profit | 5,093 | 6,035 |
| Selling, general and administrative expenses | 4,361 | 5,211 |
| Operating profit | 731 | 824 |
| Non-operating income | | |
| Interest income | 1 | 1 |
| Dividend income | 0 | 0 |
| Share of profit of entities accounted for using equity method | - | 6 |
| Subsidy income | 274 | 65 |
| House rent income | 20 | 20 |
| Other | 12 | 22 |
| Total non-operating income | 309 | 116 |
| Non-operating expenses | | |
| Interest expenses | 6 | - |
| Share of loss of entities accounted for using equity method | 4 | - |
| Rent expenses | 10 | 8 |
| Other | 30 | 23 |
| Total non-operating expenses | 51 | 32 |
| Ordinary profit | 989 | 908 |
| Extraordinary losses | | |
| Loss on sales of non-current assets | - | 7 |
| Directors' retirement benefits | 50 | - |
| Total extraordinary losses | 50 | 7 |
| Profit before income taxes | 938 | 901 |
| Income taxes - current | 388 | 369 |
| Income taxes - deferred | (47) | (55) |
| Total income taxes | 341 | 313 |
| Profit | 596 | 587 |
| Profit attributable to non-controlling interests | - | - |
| Profit attributable to owners of parent | 596 | 587 |

(Quarterly Consolidated Statement of Comprehensive Income)
(For the First Six Months ended September 30, 2021)

(Unit: Million yen)

| | First six months of FY 3/21 (Apr. 1, 2020 - Sep. 30, 2020) | First six months of FY 3/22 (Apr. 1, 2021 - Sep. 30, 2021) |
|---|---|---|
| Profit | 596 | 587 |
| Other comprehensive income | | |
| Remeasurements of defined benefit plans, net of tax | 1 | (5) |
| Share of other comprehensive income of entities accounted for using equity method | (0) | (0) |
| Total other comprehensive income | 1 | (5) |
| Comprehensive income | 598 | 581 |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | 598 | 581 |
| Comprehensive income attributable to non-controlling interests | - | - |

(3) Quarterly Consolidated Statements of Cash Flows

(Unit: Million yen)

| | First six months of FY 3/21 (Apr. 1, 2020 - Sep. 30, 2020) | First six months of FY 3/22 (Apr. 1, 2021 - Sep. 30, 2021) |
|--|---|---|
| Cash flows from operating activities | | |
| Profit before income taxes | 938 | 901 |
| Depreciation | 141 | 137 |
| Increase (decrease) in allowance for doubtful accounts | 7 | 7 |
| Increase (decrease) in provision for directors' bonuses | 14 | - |
| Increase (decrease) in provision for bonuses | 113 | 88 |
| Decrease (increase) in net defined benefit asset | - | (3) |
| Increase (decrease) in net defined benefit liability | 89 | 86 |
| Loss (gain) on sales of non-current assets | - | 7 |
| Interest and dividend income | (2) | (1) |
| Interest expenses | 6 | - |
| Share of (profit) loss of entities accounted for using equity method | 4 | (6) |
| Decrease (increase) in notes and accounts receivable - trade | 1,192 | 182 |
| Decrease (increase) in lease and guarantee deposits | 10 | 6 |
| Increase (decrease) in accrued expenses | (329) | 142 |
| Increase (decrease) in accrued consumption taxes | (939) | 81 |
| Other | 8 | (34) |
| Subtotal | 1,257 | 1,595 |
| Interest and dividend income received | 2 | 1 |
| Interest expenses paid | (6) | - |
| Income taxes refund | 3 | 2 |
| Income taxes paid | (708) | (407) |
| Cash flows from operating activities | 547 | 1,191 |
| Cash flows from investing activities | | |
| Purchase of securities | (300) | - |
| Purchase of property, plant and equipment | (53) | (72) |
| Proceeds from sales of property, plant and equipment | - | 1 |
| Purchase of intangible assets | (45) | (19) |
| Purchase of shares of subsidiaries resulting in change in scope of consolidation | - | (1,212) |
| Other | 0 | 0 |
| Cash flows from investing activities | (398) | (1,302) |
| Cash flows from financing activities | | |
| Repayments of long-term loans payable | (58) | - |
| Repayments of lease obligations | (40) | (31) |
| Proceeds from issuance of common shares | - | 0 |
| Cash dividends paid | (845) | (682) |
| Cash flows from financing activities | (944) | (713) |
| Effect of exchange rate change on cash and cash equivalents | - | - |
| Net increase (decrease) in cash and cash equivalents | (794) | (824) |
| Cash and cash equivalents at beginning of period | 6,365 | 5,873 |
| Cash and cash equivalents at end of period | 5,570 | 5,048 |

(4) Notes regarding Quarterly Consolidated Financial Statements

(Notes regarding the Going Concern Assumption)

Not applicable.

(Notes on Significant Changes in the Amount of Shareholders' Equity)

Not applicable.

(Changes in Accounting Policies)

(Application of Accounting Standards for Revenue Recognition)

"Accounting Standards for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020. Hereinafter, the "Revenue Recognition Accounting Standards") etc., have been applied from the beginning of the first quarter, and revenue was recognized at the amount expected to be received in exchange for the promised goods or services when the control of those goods or services is transferred to clients.

The main changes resulting from the application of Revenue Recognition Accounting Standards are as follows:

(Human Resources Services Business)

Previously, although consideration paid to clients, such as rent, was treated as cost of sales, it has been changed to a method of reducing it from the transaction price.

(Other Businesses)

In the past, the lump-sum payment received from a client in a nursing care facility's occupancy contract was recognized as revenue after the expiration of the amortization period under the occupancy contract. However, the method has been changed to recognize revenue over the period of residence in which the service is expected to be provided.

The application of the Revenue Recognition Accounting Standards is in accordance with the transitional treatment set forth in the Revenue Recognition Accounting Standards No. 84. The cumulative effect of retroactively applying the new accounting policy prior to the beginning of the first quarter was added to or subtracted from retained earnings at the beginning of the first quarter, and the new accounting policy was applied from the beginning balance.

As a result, net sales for the period under review decreased by 127 million yen, cost of sales decreased by 131 million yen, and operating profit, ordinary profit, and profit before income taxes each increased by 4 million yen. In addition, the balance at the beginning of current period of retained earnings decreased by 233 million yen. Furthermore, "other" under the current liabilities category increased by 230 million yen at the end of the current second quarter.。

In accordance with the transitional treatment set forth in Paragraph 28-15 of the "Accounting Standard for Quarterly Financial Statements" (ASBJ Statement No. 12, March 31, 2020), the revenue generated from contracts with clients for the previous year's consolidated cumulative second quarter is not presented.

(Additional Information)

(Accounting Estimates Associated with the Spread of COVID-19 Infections)

There are no significant changes to the assumptions, including the timing of the convergence of the effects of COVID-19 infections, as described in the (Additional Information) section of the Notes regarding Quarterly Consolidated Financial Statements for the previous period under review (first quarter consolidated accounting period).

(Business Combinations, etc.)

Business Combination by Acquisition

At the Board of Directors' Meeting held on August 10, 2021, the Company resolved to acquire all shares of Vector Shinwa Co., Ltd., which is based on contracting operations in the manufacturing industry of semiconductors and precision equipment, and made it a subsidiary. In addition, the Company concluded a share transfer agreement on the same day, and acquired all shares on August 31 of the same year.

1. Overview of Business Combination

(1) Name of acquired company and its description of business

| | |
|--------------------------|---|
| Name of Acquired Company | Vector Shinwa Co., Ltd. |
| Description of Business | General Human Resources Services Business |

(2) Main reasons for business combination

Based on the mission of "Creating opportunities and hopes for people to work", the Group aims to create workplaces where employees can feel motivated and grow with Human Resources Solution Services that support the growth of companies and people, and to provide services that can respond to social changes and changes in industrial structures.

As the first step in the growth strategy for the expansion of existing areas announced in the Medium-term Management Strategy, the Company has decided to acquire all shares of Vector Shinwa Co., Ltd. and make it a subsidiary. Based in Aichi Prefecture, Hiroshima Prefecture, and Fukuoka Prefecture, Vector Shinwa Co., Ltd. focuses on human resources development with a slogan of "Minority Elite", and engages in a wide range of operations such as designing, developing and manufacturing jigs and various production equipment, dispatching human resources, and recruitment. The main pillar of Vector Shinwa's business is contracting operations in the manufacturing industry, such as for semiconductors and precision equipment. With Vector Shinwa Co., Ltd. joining the Group, the Company believes that it will be able to grow together as a group by strengthening its business foundation and expanding its business in existing areas such as manufacturing dispatching and contracting, which are the core businesses of the Group.

Vector Shinwa will be able to utilize the resources of the Group, such as its client base, recruitment base, and education base, and by having the Company combine its resources with the technology and human resources development expertise that Vector Shinwa has cultivated so far, the Company will be able to strengthen its service supply system and expand its business, enabling it to respond to the needs of not only existing clients of both companies, but also to a wider range of clients. By doing so, the Company will contribute to the future of Japanese *MONOZUKURI* (manufacturing) in a wide variety of ways.

(3) Date of business combination

| | |
|--------------------|------------------------------|
| August 31, 2021 | (Date of Share Acquisition) |
| September 30, 2021 | (Date of Deemed Acquisition) |

(4) Legal form of business combination

Acquisition of shares with cash as consideration

(5) Name of Company after combination

There is no change.

(6) Percentage of voting rights acquired

100%

(7) Main reasons for determining acquisition of company

The Company acquired the shares in consideration for cash.

2. Period of Business Performance of the Acquired Company included in the Quarterly Consolidated Statement of Income for the Quarterly Consolidated Cumulative Period

Since the date of deemed acquisition is September 30, 2021, only the balance sheet is consolidated for the current second quarter, and the financial results of the acquired company are not included in the Quarterly Consolidated Statement of Income for the period under review.

3. Breakdown by Acquisition Cost and Consideration by Type of Acquired Company

| | | |
|-------------------------------|------|-------------------|
| Consideration for acquisition | Cash | 1,700 Million yen |
| Acquisition cost | | 1,700 Million yen |

4. Breakdown and Amount of Major Acquisition-related Expenses

| | |
|---|---------------|
| Remuneration for financial and legal investigations | 7 Million yen |
|---|---------------|

5. Amount of Goodwill Generated, Cause of Occurrence, Amortization Method and Amortization Period

(1) Amount of Goodwill Generated

1,345 Million yen

The above amounts are provisionally calculated because the period from the business combination date to the closing date is short, and the identification of identifiable assets and liabilities as of the business combination date and the estimate of market value have not been completed, and in addition, the allocation of acquisition costs has not been completed.

(2) Cause of Occurrence

This was mainly due to a reasonable estimate of future excess earning power expected from future business development.

(3) Amortization Method and Amortization Period

Amortization will be made regularly by the straight-line method over the effective period. The amortization period is under calculation.