Member of the Financial Accounting Standards Foundation

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January 12, 2021

Consolidated Financial Results for the First Half of the Fiscal Year Ending May 31, 2021 <Japanese GAAP>

Listed company: INTER ACTION Corporation
Listed stock exchange: Tokyo
Securities code: 7725
URL: http://www.inter-action.co.jp
Representative: Nobuo Kiji, CEO & President
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Telephone number: +81-45-263-9220
Submission of quarterly report: January 13, 2021
Dividend payment commencement date: –
Preparation of explanatory materials for quarterly financial results: Yes
Holding of a briefing on quarterly financial results: Yes (For Institutional Investors, Analysts)

(Amounts of less than one million yen are truncated)

1. Consolidated Financial Results for the Cumulative First Half of the Fiscal Year Ending May 31, 2021 (June 1, 2020 to November 30, 2020)

(1) Consolidated operating results (Cumulative) (% figures show year-on-year change)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended November 30, 2020	3,379	(11.7)	877	(4.1)	882	(3.8)	586	(3.2)
Six months ended November 30, 2019	3,826	(0.2)	915	6.0	916	8.7	605	8.1

(Note) Comprehensive income: Six months ended November 30, 2020: ¥595 million / -0.0%
Six months ended November 30, 2019: ¥595 million / 9.0%

	Profit per share	Profit per share–diluted
	Yen	Yen
Six months ended November 30, 2020	53.50	—
Six months ended November 30, 2019	55.45	—

(2) Consolidated financial position

	Total assets	Net assets	Shareholders’ equity ratio
	Millions of yen	Millions of yen	%
As of November 30, 2020	10,835	8,448	78.0
As of May 31, 2020	10,005	7,872	78.7

(Reference) Shareholders’ equity: As of November 30, 2020: ¥8,448 million
As of May 31, 2020: ¥7,872 million

2. Dividends

	Annual dividends				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended May 31, 2020	–	0.00	–	18.00	18.00
Fiscal year ending May 31, 2021	–	0.00			
Fiscal year ending May 31, 2021 (Forecast)			–	18.00	18.00

(Note) Amendment to forecasts of dividends recently announced: None

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending May 31, 2021 (June 1, 2020 to May 31, 2021)

(% figures show year-on-year change for the full year and quarter)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Profit per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	6,587	(7.0)	1,707	9.7	1,697	9.8	1,122	11.7	102.26

(Note) 1. Amendment to forecasts of dividends recently announced: Yes

2. The Company has implemented an ESOP and Directors' stock compensation plan both in the form of stock benefit trusts. Accordingly, profit per share is calculated based on the average number of shares during the fiscal year, excluding the number of treasury shares, which includes Inter Action stock held by the stock benefit ESOP trust accounts and Directors' compensation stock benefit trust accounts.

* **Notes**

(1) Change in significant subsidiaries during six months ended November 30, 2020 (changes in specified subsidiaries affecting the scope of consolidation): None

New: - (Company name:) Excluded: - (Company name:)

(2) Application of special accounting for preparing quarterly consolidated financial statements: None

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

(i) Changes in accounting policies in accordance with revision of accounting standards: None
(ii) Changes in accounting policies other than item (i) above: None
(iii) Changes in accounting estimates: None
(iv) Retrospective restatements: None

(4) Number of shares issued (common stock)

(i) Number of shares outstanding at end of period (including treasury shares)

As of November 30, 2020	11,510,200 shares
As of May 31, 2020	11,510,200 shares

(ii) Number of treasury shares at end of period

As of November 30, 2020	514,483 shares
As of May 31, 2020	577,783 shares

(iii) Average number of shares during period

For the six months ended November 30, 2020	10,957,609 shares
For the six months ended November 30, 2019	10,923,038 shares

(Note) The Company has implemented an ESOP and Directors’ stock compensation plan both in the form of stock benefit trusts. Accordingly, treasury shares, as stated, include Inter Action stock held by the stock benefit ESOP trust accounts and Directors’ compensation stock benefit trust accounts.

* Quarterly financial results are not subject to auditing by a certified public accountant or an audit firm.

* Proper use of earnings forecasts, and other special matters

The above forecasts of consolidated financial results are based on certain assumptions on economic situation, market trends, etc. deemed to be reasonable when the forecasts were made. Consequently, actual results may differ from the forecasts due to a variety of future factors. Consequently, actual results may differ from the forecasts due to a variety of future factors. For details of the above forecasts, refer to“(3) Explanation of forward-looking information including consolidated earnings forecasts” under “1. Qualitative Information on Quarterly Results” (page 4) of the Attached Materials.

[Attached Materials]

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1. Qualitative Information on Quarterly Result

(1) Explanation of operating results

The Inter Action Group conducts business in three segments: Internet of things related works; environmental energy related works; and promotion business of Industry 4.0. The business environment in each segment is as described below.

In the Internet of things related works segment, we manufacture inspection illuminators and pupil lens modules used for quality inspections in the image sensor production process and sell them to image sensor manufacturers.

The market for image sensors tends to hinge on the smartphone market since smartphones account for about 60-70% of image sensor applications. Currently, consumer spending has been depressed by the COVID-19 pandemic and global smartphone shipment volumes are expected to decline year on year. In addition, the impact of trade friction between the US and China on smartphone manufacturers and other factors continue to make the situation uncertain.

Nevertheless, the growing popularity of smartphones equipped with multiple cameras means that image sensor manufacturers will probably need to increase production capacity. We therefore expect market growth over the medium- to long-term to return to pre-pandemic levels, although such expansion may be slightly delayed.

In the short-term, demand is focused on conventional image sensors that capture visible light in order to take photos and videos. In addition, the use of image sensors for ToF (Time of Flight) sensors in smartphones to capture three-dimensional information such as the distance between objects has increased recently, and we believe this to be a potential source of new demand. The launch of 5G services has driven a degree of smartphone replacement demand, although some argue that this is unlikely to outstrip the slump caused by the pandemic, and it looks unlikely to have a major impact on demand at present.

Over the medium- to long-term, demand is expected to increase for image sensors that can capture three-dimensional information needed for self-driving vehicles and for industrial applications (factory automation (FA), surveillance cameras, etc.).

In the environmental energy related works segment, we manufacture and sell drying deodorizers used together with rotary presses (commercial printing presses) for large-volume printing and exhaust gas treatment systems for factories.

In the printing machinery industry, although new capital investment is diminishing due to the growing prevalence of information technologies, a certain number of rotary presses are replaced every year due to age-related degradation, and there is also demand for periodic maintenance. As there is minimal competition, the Inter Action Group is able to stably accommodate this demand at present. However, the COVID-19 pandemic has continued to slow progress in new projects and depressed appetite for capital investment among customers.

In the promotion business of Industry 4.0 segment, we mainly manufacture precision vibration isolation systems for removing vibrations that are a hindrance in the production process for displays and sell the systems to display manufacturers. We also manufacture testing systems for investigating whether gears confirm to the shape designed and sell them to gear manufacturers. In addition, as a new business for the Group, we are actively working to commercialize FA image processing and laser processing equipment-related businesses.

In the current flat panel and OLED display industries, customers' capital expenditures have been sluggish due to the impact of the COVID-19 pandemic, and the outlook remains uncertain.

Moreover, the gear testing systems market has essentially conformed to conditions of the machine tools market and is thereby susceptible to economic fluctuations. Market conditions temporarily fell to an extent exceeding the global financial crisis due to the COVID-19 pandemic, but there have been signs of a gradual recovery centered on domestic auto manufacturers and in overseas (emerging country) industries.

In our new business related to FA image processing, we have developed and commercialized a gear inspection device that can automatically detect defective products based on images taken of small scratches that occur during the manufacturing process of metal gears, and begun selling it through our subsidiary Tokyo Technical Instruments from November 2020. In the future, we will promote sales expansion of products while examining applications in fields other than gears.

As for the laser processing machines-related business, which is also a new business, in the field of micromachining using lasers, we have proposed short-pulse laser ablation technology (processing that reduces thermal damage to materials by irradiating light for short periods of time) to businesses involved in ceramic processing, and have received inquiries from multiple companies. We therefore anticipate a high degree of usefulness in ablation processing for ceramics and other hard-to-process materials.

As a result, consolidated net sales in first the half of the fiscal year under review decreased by 11.7% year-on-year to 3,379 million yen, and gross profit declined by 14.0% year-on-year to 1,697 million yen due to the fall in sales and other factors. Operating income declined 4.1% year-on-year to 877 million yen, ordinary income fell 3.8% year-on-year to 882 million yen, and profit attributable to owners of parent excluding income taxes decreased 3.2% year-on-year to 586 million yen.

The overall performance of each business segment was as follows.

(Internet of things related works)

Against a backdrop of social conditions framed mainly by trade friction between the US and China, image sensor manufacturers' capital investment trends in Japan differed from those in other countries. Sales and orders were solid, primarily for products for overseas customers.

Japanese customers remained cautious about investment decisions as trends at smartphone manufacturers, the main business partners, were uncertain, and demand for inspection illuminators, which have a high correlation with capital investment, remained weak. On the other hand, sales of pupil lens modules were firm compared to illuminators due to their high correlation with manufacturing equipment operating rates.

Among overseas customers, we believe demand for image sensors mainly for smartphone manufacturers in China to be increasing, and sales of illuminators were strong. We expect sales to be driven by products for overseas customers from the third quarter of the fiscal year amid continued elevated appetite for investment. In addition, customers have made steady progress in verifying the adoption of pupil lens modules. We also received new orders for illuminators from companies in China that are moving semiconductor production in-house. We think this could lead to further orders, but we are unsure of their timing or size since it will be up to the customers to decide.

During the first half of the consolidated fiscal year under review, net sales to this segment's external customers decreased by 13.3% year-on-year to 2,227 million yen (in comparison with 2,567 million yen in the previous fiscal year), and segment income decreased by 11.7% to 1,226 million yen (in comparison with 1,388 million yen in the previous fiscal year).

(Environmental energy related works)

New large-scale orders have stalled due to the impact of the COVID-19 pandemic and the shrinking size of the printing machinery market. However, sales and profits rose year on year due to the booking of orders received before the pandemic.

Nevertheless, the downtrend in the amount of orders received and the backlog of orders suggest that customers have become more cautious about deciding on new capital investment. We therefore plan to focus on the highly profitable maintenance works business by talking to customers about upgrades to existing facilities and other items.

During the first half of the consolidated fiscal year under review, net sales to this segment's external customers rose by 17.3% year-on-year to 540 million yen (in comparison with 461 million yen in the previous fiscal year), and segment income rose by 228.5% to 42 million yen (in comparison with 12 million yen in the previous fiscal year).

(Promotion business of Industry 4.0)

Sales and orders were soft for the segment as a whole because appetite for investment in capital equipment across all industries remained depressed, without full recovery from the slump following the pandemic. In this situation, we have set our sights on growth over the medium- to long-term, and promoted the improvement of existing products and the development of new products.

In precision vibration isolation systems, appetite for capital investment among customers remained subdued, making it difficult to secure sales both in Japan and overseas.

In Japan, we aim to improve the performance of existing products and develop new products, and overseas we plan to develop human resources and improve technology to establish a technology base over the medium- to long-term.

In gear testing systems, sales and orders declined year on year.

Some companies in Japan have yet to implement production adjustments, and the market conditions in the gear-related industry have yet to recover. However, we see signs of a recovery in the production systems and market conditions, mainly for auto manufacturers, from the third quarter.

In the FA image processing business, we began selling gear-defect testing systems in November 2020. The system has been well received by customers, and we plan to expand product sales while examining use in applications outside the gear field.

During the first half of the consolidated fiscal year under review, net sales to this segment's external customers decreased by 23.4% to 611 million yen (in comparison with 798 million yen in the previous fiscal year), and the segment recorded a loss of 56 million yen (in comparison with profit of 32 million yen in the previous fiscal year).

(2) Explanation of financial position

1) Assets, Liabilities and Net Assets

As of the end of the first half of the consolidated fiscal year under review, net assets amounted to 10,835 million yen, an increase of 830 million yen in comparison to the end of the previous consolidated fiscal year.

Current assets amounted to 9,452 million yen, a rise of 876 million yen in comparison to the end of the previous consolidated fiscal year. This is mainly attributable to a 1,351 million yen rise in cash and deposits, despite a 455 million yen decline in notes and accounts receivable–trade.

Non-current assets amounted to 1,383 million yen, a decrease of 46 million yen in comparison to the end of the previous consolidated fiscal year.

As of the end of the first half of the consolidated fiscal year under review, liabilities amounted to 2,387 million yen, a rise of 254 million yen in comparison to the end of the previous consolidated fiscal year. This is mainly attributable to an increase of 173 million yen in bonds and loans payable including the current portions thereof and a 170 million yen increase in income taxes payable, despite a 101 million yen decline in provision for director stock benefits.

As of the end of the first half of the consolidated fiscal year under review, net assets amounted to 8,448 million yen, an increase of 575 million yen in comparison to the end of the previous consolidated fiscal year. This is mainly due to booking of 586 million yen in profit attributable to owners of parent and 182 million yen in the transfer of treasury stock by trust, while year-end dividends in the previous fiscal year came to 202 million yen.

2) Cash flows

As of the end of the first half of the consolidated fiscal year under review, cash and cash equivalents amounted to 6,247 million yen, a rise of 1,374 million yen in comparison to the end of the previous consolidated fiscal year.

The status of each type of cash flow for the first half of the fiscal year under review is as follows.

(Cash flow from operating activities)

Net cash provided by operating activities during the first half of the fiscal year under review amounted to 1,385 million yen (in comparison to inflows of 1,249 million yen in the same period of the previous fiscal year). This was mainly because although provision for director stock benefits declined by 101 million yen and income taxes paid fell by 114 million yen, profit before income taxes of 874 million yen was booked, sales receivables declined by 392 million yen, and inventory assets fell by 111 million yen.

(Cash flow from investing activities)

Net cash used in investing activities during the first half of the fiscal year under review amounted to 22 million yen (compared to outflows of 111 million yen in the same period of the previous fiscal year). This was mainly due to 49 million yen in expenditures for the purchase of property, plant and equipment.

(Cash flow from financing activities)

Net cash provided by financing activities during the first half of the fiscal year under review amounted to 10 million yen (compared to outflows of 667 million yen in the same period of the previous fiscal year). This is mainly the result of cash dividends paid of 202 million yen, 173 million yen in net income from bonds and loans including the current portions thereof, and 43 million yen in proceeds from the sale of treasury shares.

(3) Explanation of forward-looking information including consolidated earnings forecasts

In the Consolidated Financial Results for the First Quarter of the Fiscal Year Ending May 31, 2021 <Japanese GAAP> published on October 12, 2020, we stated that the COVID-19 pandemic and trade frictions between the US and China had made it difficult to reasonably estimate future earnings trends and therefore left as undecided our consolidated earnings forecasts for the fiscal year ending in May 2021. However, we are now able to more accurately estimate market trends for final products and capital investment by customers, and have therefore published figures based on the information currently available and our forecasts.

For details, please refer to the “Notice of Publication of Consolidated Earnings Forecasts for the Fiscal Year Ending May 31, 2021,” released on January 12, 2021.

Note that these full-year earnings forecasts could change depending on factors such as social conditions and market trends in Japan and overseas, and actual results could differ from forecasts depending on a range of factors.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly consolidated balance sheets

(Unit: Thousands of yen)

	As of May 31, 2020	As of November 30, 2020
Assets		
Current assets		
Cash and deposits	4,906,332	6,257,427
Notes and accounts receivable - trade	1,610,612	1,154,632
Electronically recorded monetary claims-operating	489,357	572,496
Operational investment securities	45,223	40,783
Merchandise and finished goods	151,980	132,619
Work in process	861,327	761,764
Raw materials and supplies	505,257	501,033
Other	43,581	62,393
Allowance for doubtful accounts	(38,291)	(30,791)
Total current assets	8,575,381	9,452,359
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	304,925	294,179
Land	165,149	165,149
Other, net	212,808	209,095
Total property, plant and equipment	682,883	668,424
Intangible assets		
Goodwill	283,568	259,146
Other	43,765	41,872
Total intangible assets	327,334	301,019
Investments and other assets		
Investment securities	130,399	130,397
Other	299,662	293,683
Allowance for doubtful accounts	(10,045)	(10,051)
Total investments and other assets	420,017	414,029
Total non-current assets	1,430,234	1,383,473
Total assets	10,005,615	10,835,832
Liabilities		
Current liabilities		
Notes and accounts payable - trade	457,258	443,319
Short-term loans payable	190,000	230,000
Current portion of bonds	60,000	60,000
Current portion of long-term loans payable	255,101	245,714
Income taxes payable	132,553	303,153
Provision for product warranties	26,300	26,089
Provision for director stock benefits	199,400	98,100
Other	324,744	352,958
Total current liabilities	1,645,357	1,759,335
Non-current liabilities		
Bonds payable	90,000	60,000
Long-term loans payable	211,171	384,348
Provision for stock benefits	3,020	3,425
Provision for loss on guarantees	58,000	58,000
Net defined benefit liability	89,662	94,206
Asset retirement obligations	10,150	10,150
Other	25,285	17,932
Total non-current liabilities	487,289	628,062
Total liabilities	2,132,647	2,387,398

(Unit: Thousands of yen)

	As of May 31, 2020	As of November 30, 2020
Net assets		
Shareholders’ equity		
Capital stock	1,760,299	1,760,299
Capital surplus	3,352,855	3,352,855
Retained earnings	3,870,244	4,253,822
Treasury shares	(1,074,588)	(891,954)
Total shareholders’ equity	7,908,811	8,475,024
Accumulated other comprehensive income		
Foreign currency translation adjustment	(35,842)	(26,589)
Total accumulated other comprehensive income	(35,842)	(26,589)
Total net assets	7,872,968	8,448,434
Total liabilities and net assets	10,005,615	10,835,832

(2) Quarterly consolidated statements of income and consolidated statements of comprehensive income

(Quarterly consolidated statements of income)

(June 1, 2020 – November 30, 2020)

(Unit: Thousands of yen)

	Six months ended November 30, 2019	Six months ended November 30, 2020
Net sales	3,826,821	3,379,826
Cost of sales	1,852,963	1,682,418
Gross profit	1,973,858	1,697,407
Selling, general and administrative expenses	1,058,253	819,454
Operating income	915,604	877,953
Non-operating income		
Interest income	1,182	326
Dividend income	180	50
Income from assets for rent	6,508	6,457
Foreign exchange gains	2,590	—
Other	4,235	14,033
Total non-operating income	14,696	20,867
Non-operating expenses		
Interest expenses	4,676	4,082
Expenses of assets for rent	6,811	5,257
Foreign exchange losses	—	5,566
Share of loss of entities accounted for using equity method	667	557
Other	1,320	997
Total non-operating expenses	13,475	16,461
Ordinary income	916,824	882,359
Extraordinary losses		
Loss on retirement of non-current assets	495	7,496
Loss on sales of non-current assets	219	—
Total extraordinary losses	714	7,496
Profit before income taxes	916,110	874,862
Income taxes - current	251,287	279,896
Income taxes - deferred	59,136	8,704
Total income taxes	310,424	288,600
Profit	605,686	586,262
Profit attributable to owners of parent	605,686	586,262

(Quarterly consolidated statements of comprehensive income)
(June 1, 2020 – November 30, 2020)

(Unit: Thousands of yen)

	Six months ended November 30, 2019	Six months ended November 30, 2020
Profit	605,686	586,262
Other comprehensive income		
Foreign currency translation adjustment	(10,059)	9,412
Share of other comprehensive income of entities accounted for using equity method	(45)	(159)
Total other comprehensive income	(10,105)	9,252
Comprehensive income	595,581	595,515
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	595,581	595,515
Comprehensive income attributable to non-controlling interests	—	—

(3) Consolidated statement of cash flows

(Unit: Thousands of yen)

	2Q ended November 30, 2019 (June 1, 2019 to November 30, 2019)	2Q ended November 30, 2020 (June 1, 2020 to November 30, 2020)
Cash flows from operating activities		
Profit before income taxes	916,110	874,862
Depreciation	61,966	65,984
Amortization of goodwill	26,917	24,421
Increase (decrease) in allowance for doubtful accounts	(15,319)	(7,523)
Increase (decrease) in provision for product warranties	(14,458)	(210)
Increase (decrease) in provision for stock benefits	601	404
Increase (decrease) in provision for director stock benefits	(4,900)	(101,300)
Increase (decrease) in net defined benefit liability	894	4,468
Interest and dividend income	(1,362)	(376)
Interest expenses and guarantees	4,934	4,257
Foreign exchange losses (gains)	(304)	7,056
Loss on retirement of property, plant and equipment	495	7,496
Loss (gain) on sales of property, plant and equipment	219	－
Loss on valuation of inventories	6,802	15,386
Decrease (increase) in notes and accounts receivable - trade	667,711	392,239
Decrease (increase) in inventories	166,055	111,955
Decrease (increase) in investment securities for sale	4,472	4,440
Increase (decrease) in notes and accounts payable - trade	(162,499)	(19,861)
Other, net	104,300	120,166
Subtotal	1,762,638	1,503,869
Interest and dividend income received	1,362	376
Interest and guarantees paid	(4,926)	(4,556)
Income taxes paid	(509,679)	(114,602)
Net cash provided by (used in) operating activities	1,249,394	1,385,086
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	－	23,000
Purchase of property, plant and equipment	(109,413)	(49,959)
Proceeds from sales of property, plant and equipment	9	－
Purchase of other intangible assets	(3,304)	(7,446)
Payments for lease	(2,298)	(913)
Proceeds from collection of lease	3,338	628
Proceeds from cancellation of insurance funds	－	12,523
Net cash provided by (used in) investing activities	(111,669)	(22,168)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	30,000	40,000
Proceeds from long-term loans payable	30,000	293,388
Repayments of long-term loans payable	(186,773)	(129,598)
Redemption of bonds	(30,000)	(30,000)
Repayments of finance lease obligations	(3,272)	(4,649)
Purchase of treasury shares	(418,405)	－
Proceeds from sales of treasury shares	110,115	43,891
Cash dividends paid	(199,038)	(202,141)
Net cash provided by (used in) financing activities	(667,373)	10,889
Effect of exchange rate change on cash and cash equivalents	(5,537)	287
Net increase (decrease) in cash and cash equivalents	464,813	1,374,095
Cash and cash equivalents at beginning of period	4,766,280	4,873,325
Cash and cash equivalents at end of period	5,231,094	6,247,420

(4) Note regarding the quarterly consolidated financial statements

(Notes on premise of going concern)

No items to report.

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

In the first half of the current consolidated fiscal year, the directors' compensation stock benefit trust sold 24,600 shares (70,976,000 yen) to provide cash benefits to eligible members and also allocated 38,700 shares (111,658,000 yen) to eligible members.

As a result, treasury shares decreased by 182,634,000 yen to 891,954,000 yen as of the end of the first half of the consolidated fiscal year under review.

(Additional information)

(Stock benefit trust system that delivers company shares to employees through the trust)

1. Overview of transactions

The Company has adopted an incentive plan "Employee Stock Ownership Plan (J-ESOP)" (hereinafter, "the System") for employees that offers them a stake in the Company's shares. We hope this will help to enhance employee motivation and morale, and thereby the Company's stock price and performance, by increasing the correlation between our stock price, business performance, and the treatment of employees, and sharing the economic effects with our shareholders.

The system is a mechanism for distributing the Company's shares to employees that meet certain criteria in accordance with the stock benefit regulations established in advance by the Company. The Company will award employees points according to their personal contribution, etc. and distribute shares equivalent to the points awarded when the entitlement is gained under certain conditions.

2. Shares of the company remaining in trust

Company shares remaining in trust are to be recorded at book value as "treasury shares" (excluding the amount of incidental costs) under net assets. At the end of the previous fiscal year and at the end of the second quarter of the consolidated fiscal year under review, the treasury shares in question had a book value of 13,736,000 yen (27,400 shares).

(A performance-linked stock compensation system that distributes the company's shares via a trust to the directors)

1. Overview of transactions

We have adopted a "Board Benefit Trust" (hereinafter, "BBT") that awards the Company's shares to directors. The purpose of the BBT is to further clarify the correlation between the remuneration of directors and the Company's performance and stock value. We hope this will not only contribute to boosting the stock price, but also contribute to increasing awareness of the importance of improving earnings and expanding corporate value over the longer term by sharing the risk of stock price downside with shareholders.

In the BBT system, the Company's stock is acquired through a trust using funds contributed by the Company. The BBT is a performance-based stock compensation plan in which the Company's stock is paid annually through a trust based on points granted to directors in accordance with their position and performance based on the director stock benefit regulations established by the Board of Directors.

2. Shares of the company remaining in trust

Company shares remaining in trust are to be recorded at book value as "treasury shares" (excluding the amount of incidental costs) under net assets. At the end of the previous fiscal year the treasury shares in question had a book value of 866,801,000 yen (300,428 shares), and at the end of the first half of the consolidated fiscal year under review their book value was 684,166,000 yen (237,128 shares).

(Implications of COVID-19 for accounting estimates)

We have made no significant change in our assumptions including for when the COVID-19 pandemic might be contained from those announced in "Implications of COVID-19 for accounting estimates" in the "Additional information" section of our securities report for the fiscal year ended May 31, 2020.

(Segment information)

I. For the second quarter of the fiscal year ended May 31, 2020 (June 1, 2019 to November 30, 2019)

1. Information on net sales and the amount of profits (losses) by reportable segment

(Unit: Thousands of yen)

	Internet of things related works	Environmental energy related works	Promotion business of Industry 4.0	Total
Net sales				
Sales to external customers	2,567,501	461,004	798,315	3,826,821
Intra-segment internal sales and transfer amount	-	-	-	-
Total	2,567,501	461,004	798,315	3,826,821
Segment income	1,388,859	12,941	32,102	1,433,903

2. Difference between total amount of income or loss of reportable segments and the corresponding amount reported in the quarterly consolidated statements of income, and the key components of such difference (reconciliation)

(Unit: Thousands of yen)

Income	Amount
Total of reportable segments	1,433,903
Company-wide expenses (Note)	(512,121)
Inter-segment eliminations	625
Adjustment of inventories	(6,802)
Operating income in the quarterly consolidated statements of income	915,604

(Note) Company-wide expenses mainly consist of expenses incurred by the Company's head office administrative operations that are not attributable to the reportable segments.

3. Information on impairment loss for non-current assets or goodwill of each reportable segment

No items to report.

II. For the second quarter of the fiscal year ending May 31, 2021 (June 1, 2020 to November 30, 2020)

1. Information on net sales and the amount of profits (losses) by reportable segment

(Unit: Thousands of yen)

	Internet of things related works	Environmental energy related works	Promotion business of Industry 4.0	Total
Net sales				
Sales to external customers	2,227,213	540,806	611,806	3,379,826
Intra-segment internal sales and transfer amount	-	-	-	-
Total	2,227,213	540,806	611,806	3,379,826
Segment income (loss)	1,226,086	42,517	(56,358)	1,212,245

2. Difference between total amount of income or loss of reportable segments and the corresponding amount reported in the quarterly consolidated statements of income, and the key components of such difference (reconciliation)

(Unit: Thousands of yen)

Income	Amount
Total of reportable segments	1,212,245
Company-wide expenses(Note)	(319,334)
Inter-segment eliminations	428
Adjustment of inventories	(15,386)
Operating income in the quarterly consolidated statements of income	877,953

(Note) Company-wide expenses mainly consist of expenses incurred by the Company's head office administrative operations that are not attributable to the reportable segments.

3. Information on impairment loss for non-current assets or goodwill of each reportable segment

No items to report.

3. Supplementary explanation of consolidated financial results for the second quarter of the fiscal year ending May 31, 2021

(1) Status of orders

Orders received

Segment	2Q of the previous consolidated fiscal year (June 1, 2019 to November 30, 2019)		2Q of the current consolidated fiscal year (June 1, 2020 to November 30, 2020)		Change	
	Amount of orders received (Thousands of Yen)	Backlog of orders (Thousands of Yen)	Amount of orders received (Thousands of Yen)	Backlog of orders (Thousands of Yen)	Amount of orders received (Thousands of Yen)	Backlog of orders (Thousands of Yen)
Internet of things related works	2,056,946	681,982	2,272,462	1,418,495	215,516	736,513
Environmental energy related works	421,117	316,517	278,663	132,648	(142,454)	(183,869)
Promotion business of Industry 4.0	651,842	177,376	497,515	104,176	(154,327)	(73,199)
Total	3,129,906	1,175,876	3,048,641	1,655,320	(81,265)	479,444

(Notes) 1. Consumption taxes are not included in the above amounts.

2. The above amounts do not include results of the operations which engage in make-to-stock production.