Member of the Financial Accounting Standards Foundation

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January 12, 2022

Consolidated Financial Results for the First Half of the Fiscal Year Ending May 31, 2022
<Japanese GAAP>

Listed company: INTER ACTION Corporation
Listed stock exchange: Tokyo
Securities code: 7725
URL: https://www.inter-action.co.jp/
Representative: Nobuo Kiji, CEO & President
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Submission of quarterly report: January 13, 2022
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, 2022 (June 1, 2021 to November 30, 2021)

(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, 2021	2,999	(11.2)	594	(32.3)	611	(30.7)	386	(34.1)
Six months ended November 30, 2020	3,379	(11.7)	877	(4.1)	882	(3.8)	586	(3.2)

(Note) Comprehensive income: Six months ended November 30, 2021: ¥386 million / -35.1%
Six months ended November 30, 2020: ¥595 million / -0.0%

	Profit per share	Profit per share–diluted
	Yen	Yen
Six months ended November 30, 2021	35.19	—
Six months ended November 30, 2020	53.50	—

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Millions of yen	Millions of yen	%
As of November 30, 2021	11,300	9,248	81.8
As of May 31, 2021	11,564	9,038	78.2

(Reference) Shareholders' equity: As of November 30, 2021: ¥9,248 million
As of May 31, 2021: ¥9,038 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, 2021	–	0.00	–	20.00	20.00
Fiscal year ending May 31, 2022	–	0.00			
Fiscal year ending May 31, 2022 (Forecast)			–	20.00	20.00

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

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending May 31, 2022 (June 1, 2021 to May 31, 2022)

(% 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	6,803	2.6	1,871	6.8	1,806	3.3	1,189	2.6	108.20

(Note) 1. Amendment to forecasts of dividends recently announced: None

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, 2021 (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: Yes
(ii) Changes in accounting policies other than item (i) above: None
(iii) Changes in accounting estimates: None
(iv) Retrospective restatements: None

(Note) For details, refer to “(4) Note regarding the quarterly consolidated financial statements (Changes in accounting policies)” under “2. Quarterly Consolidated Financial Statements and Notes” (page 11) of the Attached Materials.

(4) Number of shares issued (common stock)

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

As of November 30, 2021	11,510,200 shares
As of May 31, 2021	11,510,200 shares

(ii) Number of treasury shares at end of period

As of November 30, 2021	508,864 shares
As of May 31, 2021	514,513 shares

(iii) Average number of shares during period

For the six months ended November 30, 2021	10,978,059 shares
For the six months ended November 30, 2020	10,957,609 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 5) 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.

Currently, in the image sensor market, there are a dozen or so manufacturers of image sensors, of which Japanese and Korean companies account for over 60% of the market share. Aside from these existing makers, there have recently been moves by Chinese manufacturers to enter the business. Judging from the trends of image sensor manufacturers, we anticipate that the image sensor market will continue to expand.

The market for image sensors tends to hinge on the manufacturing and selling situation of smartphones, as such devices currently account for about 60–70% of image sensor applications. Demand for smartphones remains firm compared with the previous fiscal year, driven in particular by increased time spent at home amid the COVID-19 pandemic and the spread of 5G-compatible devices. However, a shortage of semiconductors and other parts is affecting the production and shipment of smartphones, in volume terms, calling for close monitoring of the market trend in the period ahead.

The increasing number of image sensors (cameras) installed per smartphone and the growing popularity of smartphones equipped with multiple image sensors (cameras) in recent years means that image sensor manufacturers will probably need to continue increasing production capacity.

In the short-term, demand for image sensors remains focused on conventional imaging devices that capture visible light in order to take photos and videos.

In the medium to long term, we anticipate the demand trend to shift from imaging to sensing needs, driving up demand for image sensors that can capture three-dimensional information needed for self-driving vehicles, industrial applications (machine-vision, surveillance cameras, etc.), and IoT devices equipped with image sensors as deployment of 5G mobile communication expands.

Specific devices envisaged are ToF (time-of-flight) sensors and LiDAR (light detection and ranging) sensors, which aim to capture three-dimensional information such as the distance between objects. Use of these sensors in smartphones is gaining momentum and a further increase in demand is anticipated with the development of various applications.

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. Due to the COVID-19 pandemic, customers' appetite for capital investment in new and large-scale projects remains subdued, but there has been a gradual recovery in companies' equipment replacement activities that look ahead to a post-COVID-19 future.

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 are of the shape designed and sell them to gear manufacturers. In addition, as new businesses for the Group, we are actively working on businesses related to FA (factory automation) image processing and laser processing equipment.

Currently, in the flat panel and OLED display industries, although appetite for capital investment is showing signs of gradual recovery particularly among overseas customers, uncertainties persist including the impact of the COVID-19 pandemic.

Moreover, the gear testing systems market has essentially conformed to conditions of the machine tools market and is susceptible to economic fluctuations. While the COVID-19 pandemic led to a plunge in market conditions which at one point went deeper than that observed during the global financial crisis, a recovery trend is emerging notably among domestic auto manufacturers and 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 process of manufacturing metal gears. We began selling it through our subsidiary Tokyo Technical Instruments in November 2020, and have received high praise and numerous inquiries from customers. In the future, with the intention of completely automating gear inspections, we will introduce robots that pick up gears through to inspection systems, and continue to expand product sales while investigating use in applications outside the gear field.

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. While continuing to approach companies that handle ceramics and other hard-to-process materials, we launched a joint study with Nagasaki University in August 2021, as part of our program to conduct tests with a view to applying semiconductor manufacturing to a range of processing applications. In recent years, attention has been drawn to next-generation power semiconductors using such materials as SiC (silicon carbide) that can reduce power losses and control at high speed. In the joint research, the focus is to conduct research on efficient methods of processing SiCs and other highly brittle materials with the objective of developing new processing equipment. The research period is scheduled to run until March 31, 2024.

As a result, consolidated net sales in the first half of the fiscal year under review decreased by 11.2% year on year to 2,999 million yen (compared with 3,379 million yen in the previous fiscal year), and gross profit declined by 18.1% year-on-year to 1,389 million yen (compared with 1,697 million yen in the previous fiscal year) due to the fall in sales and other factors. Operating income declined 32.3% year-on-year to 594 million yen (compared with 877 million yen in the previous fiscal year), ordinary income fell 30.7% year-on-year to 611 million yen (compared with 882 million yen in the previous fiscal year), and profit attributable to owners of parent excluding income taxes decreased 34.1% year-on-year to 386 million yen (compared with 586 million yen in the previous fiscal year).

The overall performance of each business segment was as follows.

(Internet of things related works)

The segment recorded year-on-year decreases in both net sales and profits. This is attributable to a year-on-year decline in sales of products for overseas customers although sales of products for domestic customers remained firm.

With respect to sales of inspection illuminators to Japanese customers, a substantial year-on-year increase in net sales was recorded due to recovery in customers' capital investment appetite reflecting easing of uncertainties that were caused by trade frictions between the US and China. Looking ahead, we anticipate that customers will implement large-scale capital investment in the inspection process at their new factories, and that orders will remain firm.

Sales of pupil lens modules for domestic customers increased in a year-on-year comparison, but the pace was calmer in the second quarter (three-month period) under review. This is presumably due to customers temporarily turning cautious toward investment in pupil lens modules in the face of sluggish smartphone production volume at some smartphone manufacturers that were affected by the semiconductor supply shortage. Looking ahead, we anticipate demand for pupil lens modules to resume its growth along with large-scale capital investment in the inspection process at customers' new factories.

Regarding the status of sales of inspection illuminators to overseas customers, net sales recorded a year-on-year decrease. We believe this is a result primarily of large-scale capital investment that customers had carried out in the same period of the previous fiscal year, and pandemic-induced factory shutdown by customers in the period under review, which led to postponement of their capital investment. Looking ahead, as it is anticipated that overseas customers will also be implementing large-scale capital investment in the inspection process, sales of inspection illuminators to overseas customers are expected to show a firm trend.

With respect to full-scale introduction of pupil lens modules at major overseas customers, verification by customers continues. We are working toward an early introduction through proactive proposals of our product samples and other measures.

In view of ongoing active business discussions regarding our products with both domestic and overseas customers for the second half through to the next fiscal year, we see no change in the plan among customers to continue strengthening their production capacity, and therefore believe that their capital investment appetite will remain robust.

During the first half of the consolidated fiscal year under review, net sales to this segment’s external customers decreased by 11.5% year-on-year to 1,971 million yen (compared with 2,227 million yen in the previous fiscal year), and segment income decreased by 22.5% to 950 million yen (compared with 1,226 million yen in the previous fiscal year).

(Environmental energy related works)

Although net sales of maintenance projects maintained the level of the previous fiscal year, year-on-year decreases were recorded in both segment net sales and profits as customers remained reluctant toward making new capital investment in printing press-related drying deodorizers in the face of continued sluggish advertising demand amid the pandemic. While orders and order backlog both showed year-on-year increases, a shortage of parts and other materials is likely to cause delivery delays or other issues in some projects, including those relating to exhaust gas treatment systems.

Steady progress is being made in the development of a new failure prediction system that uses acoustic emission sensors (sensors that detect sound and vibration waves).

During the first half of the consolidated fiscal year under review, net sales to this segment's external customers fell by 37.1% year-on-year to 340 million yen (compared with 540 million yen in the previous fiscal year), and segment income fell by 68.9% to 13 million yen (compared with 42 million yen in the previous fiscal year).

(Promotion business of Industry 4.0)

In precision vibration isolation systems, although we proceeded to rebuild the sales structure of overseas subsidiaries, net sales were sluggish and both sales and profits decreased year on year. Meanwhile, for the highly profitable products, inquiries are increasing from both domestic and overseas contacts.

Development of new products is steadily making progress as planned, and is currently in the trial production and evaluation stage of the mass-production model. We will step up our efforts in the development of new products and strengthening our sales activities, while paying attention to the parts procurement situation and to overseas customers’ capital investment trend.

In gear testing systems, market conditions for the gear manufacturing industry showed signs of recovery, supported by rising demand for machine tools particularly for manufacturers in China where the economy saw strong performance. This led to strong capital investment appetite of both domestic and overseas customers, and resulted in year-on-year increases in net sales, orders and order backlog.

Regarding the new FA image processing system business, we completed delivery of the devices for which orders were newly received. The devices are operating smoothly. With increased inquiries coming from automakers and several other companies, we will continue to focus efforts on expanding sales of new products and enhancing product competitiveness.

During the first half of the consolidated fiscal year under review, net sales to this segment’s external customers increased by 12.4% to 687 million yen (compared with 611 million yen in the previous fiscal year), and the segment recorded a loss of 19 million yen (compared with 56 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 11,300 million yen, a decrease of 263 million yen compared with the end of the previous consolidated fiscal year.

Current assets amounted to 9,996 million yen, a fall of 150 million yen compared with the end of the previous consolidated fiscal year. This is mainly due to a 286 million yen decline in cash and deposits and a 116 million yen decline in notes and accounts receivable - trade, despite an 86 million yen rise in electronically recorded monetary claims - operating and a 108 million yen rise in work in process.

Non-current assets amounted to 1,304 million yen, a decrease of 113 million yen compared with 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 2,051 million yen, a decrease of 474 million yen compared with the end of the previous consolidated fiscal year. This is mainly attributable to a decrease of 294 million yen in income taxes payable and a 126 million yen decrease in provision for share awards for directors (and other officers).

As of the end of the first half of the consolidated fiscal year under review, net assets amounted to 9,248 million yen, an increase of 210 million yen compared with the end of the previous consolidated fiscal year. This is mainly due to booking of 386 million yen in profit attributable to owners of parent, while year-end dividends in the previous fiscal year came to 225 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 6,926 million yen, a fall of 284 million yen compared with 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 186 million yen (compared with inflows of 1,385 million yen in the same period of the previous fiscal year). This was mainly because profit before income taxes of 606 million yen was booked, while income taxes paid came to 452 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 54 million yen (compared with outflows of 22 million yen in the same period of the previous fiscal year). This was mainly due to 56 million yen in expenditures for the purchase of property, plant and equipment.

(Cash flow from financing activities)

Net cash used in financing activities during the first half of the fiscal year under review amounted to 424 million yen (compared with inflows of 10 million yen in the same period of the previous fiscal year). This is mainly the result of dividends paid of 225 million yen and 135 million yen in purchase of treasury shares.

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

There is no amendment to consolidated earnings forecasts disclosed on July 12, 2021.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly consolidated balance sheets

(Unit: Thousands of yen)

	As of May 31, 2021	As of November 30, 2021
Assets		
Current assets		
Cash and deposits	7,224,091	6,937,746
Notes and accounts receivable - trade	675,519	558,921
Electronically recorded monetary claims - operating	754,129	840,134
Operational investment securities	38,077	36,090
Merchandise and finished goods	148,305	165,136
Work in process	797,317	905,643
Raw materials and supplies	466,966	499,129
Other	69,290	81,247
Allowance for doubtful accounts	(27,308)	(27,799)
Total current assets	10,146,389	9,996,250
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	283,370	272,761
Land	165,149	165,149
Other, net	220,138	198,382
Total property, plant and equipment	668,658	636,293
Intangible assets		
Goodwill	234,725	210,303
Other	37,392	30,843
Total intangible assets	272,117	241,146
Investments and other assets		
Investment securities	130,423	130,417
Other	427,901	378,180
Allowance for doubtful accounts	(80,967)	(81,637)
Total investments and other assets	477,356	426,960
Total non-current assets	1,418,133	1,304,401
Total assets	11,564,522	11,300,652

(Unit: Thousands of yen)

	As of May 31, 2021	As of November 30, 2021
Liabilities		
Current liabilities		
Notes and accounts payable - trade	360,701	443,820
Short-term borrowings	210,000	190,000
Current portion of bonds payable	60,000	60,000
Current portion of long-term borrowings	144,815	103,030
Income taxes payable	476,487	181,686
Provision for product warranties	23,887	21,204
Provision for share awards for directors (and other officers)	194,300	68,000
Other	304,022	309,069
Total current liabilities	1,774,214	1,376,811
Non-current liabilities		
Bonds payable	30,000	－
Long-term borrowings	593,856	552,418
Provision for share awards	3,842	4,191
Retirement benefit liability	97,941	91,200
Asset retirement obligations	10,150	10,150
Other	16,515	17,184
Total non-current liabilities	752,305	675,144
Total liabilities	2,526,520	2,051,955
Net assets		
Shareholders’ equity		
Share capital	1,760,299	1,760,299
Capital surplus	3,352,855	3,352,855
Retained earnings	4,826,850	4,987,954
Treasury shares	(892,028)	(842,786)
Total shareholders’ equity	9,047,977	9,258,323
Accumulated other comprehensive income		
Foreign currency translation adjustment	(9,976)	(9,627)
Total accumulated other comprehensive income	(9,976)	(9,627)
Total net assets	9,038,001	9,248,696
Total liabilities and net assets	11,564,522	11,300,652

(2) Quarterly consolidated statements of income and consolidated statements of comprehensive income
(Quarterly consolidated statements of income)
(June 1, 2021 – November 30, 2021)

(Unit: Thousands of yen)

	Six months ended November 30, 2020	Six months ended November 30, 2021
Net sales	3,379,826	2,999,600
Cost of sales	1,682,418	1,609,975
Gross profit	1,697,407	1,389,625
Selling, general and administrative expenses	819,454	795,243
Operating income	877,953	594,381
Non-operating income		
Interest income	326	174
Dividend income	50	50
Income from assets for rent	6,457	4,763
Foreign exchange gains	—	13,077
Subsidy income	3,712	3,255
Other	10,320	7,707
Total non-operating income	20,867	29,028
Non-operating expenses		
Interest expenses	4,082	4,438
Expenses of assets for rent	5,257	5,050
Foreign exchange losses	5,566	—
Share of loss of entities accounted for using equity method	557	520
Other	997	1,814
Total non-operating expenses	16,461	11,824
Ordinary income	882,359	611,586
Extraordinary income		
Gain on sale of non-current assets	—	96
Total extraordinary income	—	96
Extraordinary loss		
Loss on retirement of non-current assets	7,496	5,095
Total extraordinary losses	7,496	5,095
Profit before income taxes	874,862	606,587
Income taxes - current	279,896	172,706
Income taxes - deferred	8,704	47,572
Total income taxes	288,600	220,279
Profit	586,262	386,308
Profit attributable to owners of parent	586,262	386,308

(Quarterly consolidated statements of comprehensive income)
(June 1, 2021 – November 30, 2021)

(Unit: Thousands of yen)

	Six months ended November 30, 2020	Six months ended November 30, 2021
Profit	586,262	386,308
Other comprehensive income		
Foreign currency translation adjustment	9,412	465
Share of other comprehensive income of entities accounted for using equity method	(159)	(116)
Total other comprehensive income	9,252	348
Comprehensive income	595,515	386,657
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	595,515	386,657
Comprehensive income attributable to non-controlling interests	―	―

(3) Consolidated statement of cash flows

(Unit: Thousands of yen)

	2Q ended November 30, 2020 (June 1, 2020 to November 30, 2020)	2Q ended November 30, 2021 (June 1, 2021 to November 30, 2021)
Cash flows from operating activities		
Profit before income taxes	874,862	606,587
Depreciation	65,984	71,253
Amortization of goodwill	24,421	24,421
Increase (decrease) in allowance for doubtful accounts	(7,523)	1,170
Increase (decrease) in provision for product warranties	(210)	(2,691)
Increase (decrease) in provision for share awards	404	348
Increase (decrease) in provision for share awards for directors (and other officers)	(101,300)	(126,300)
Increase (decrease) in retirement benefit liability	4,468	(5,076)
Interest and dividend income	(376)	(224)
Interest expenses and guarantees	4,257	4,530
Foreign exchange losses (gains)	7,056	(9,088)
Loss on retirement of property, plant and equipment	7,496	5,095
Loss (gain) on sales of property, plant and equipment	－	(96)
Loss on valuation of inventories	15,386	12,088
Decrease (increase) in trade receivables	392,239	20,602
Decrease (increase) in inventories	111,955	(167,281)
Decrease (increase) in investment securities for sale	4,440	1,986
Increase (decrease) in trade payables	(19,861)	80,818
Other, net	120,166	124,293
Subtotal	1,503,869	642,438
Interest and dividends received	376	224
Interest and guarantees paid	(4,556)	(4,518)
Income taxes paid	(114,602)	(452,018)
Net cash provided by (used in) operating activities	1,385,086	186,126
Cash flows from investing activities		
Payments into time deposits	－	(1,300)
Proceeds from withdrawal of time deposits	23,000	3,000
Purchase of property, plant and equipment	(49,959)	(56,156)
Proceeds from sales of property, plant and equipment	－	97
Purchase of other intangible assets	(7,446)	(1,943)
Payments of leasehold deposits	(913)	(136)
Proceeds from refund of leasehold deposits	628	1,505
Proceeds from cancellation of insurance funds	12,523	－
Other, net	－	146
Net cash provided by (used in) investing activities	(22,168)	(54,787)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	40,000	(20,000)
Proceeds from long-term borrowings	293,388	－
Repayments of long-term borrowings	(129,598)	(83,223)
Redemption of bonds	(30,000)	(30,000)
Repayments of finance lease obligations	(4,649)	(5,359)
Purchase of treasury shares	－	(135,124)
Proceeds from sales of treasury shares	43,891	74,049
Dividends paid	(202,141)	(225,073)
Net cash provided by (used in) financing activities	10,889	(424,730)
Effect of exchange rate change on cash and cash equivalents	287	8,747
Net increase (decrease) in cash and cash equivalents	1,374,095	(284,644)
Cash and cash equivalents at beginning of period	4,873,325	7,211,083
Cash and cash equivalents at end of period	6,247,420	6,926,439

(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)

A major change in the second quarter of the consolidated fiscal year under review is acquisition of treasury shares through repurchase of 58,200 shares (134,986,000 yen) in accordance with the resolution of the Board of Directors passed at its meeting held on July 12, 2021. Further, from the directors' compensation stock benefit trust, 27,000 shares of the Company's stock (77,900,000 yen) were sold for cash distribution to the eligible directors and a distribution of 36,900 shares (106,464,000 yen) was made to the eligible directors.

As a result, treasury shares decreased by 49,241,000 yen to 842,786,000 yen as of the end of the second quarter of the consolidated fiscal year under review.

(Changes in accounting policies)

(Application of accounting standard for revenue recognition and related guidance)

The Group has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020; hereinafter, "Accounting Standard for Revenue Recognition") from the beginning of the first quarter of the consolidated fiscal year under review. Accordingly, revenue is recognized at a point in time when control of promised goods or services is transferred to customers, at the amount that is expected to be received in exchange for the goods or services. There is no change in accounting treatment associated with the foregoing.

Therefore, the adoption of the Accounting Standard for Revenue Recognition and related guidance has no impact on the quarterly consolidated financial statements.

Furthermore, as permitted by the transitional treatment set forth in Paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020), disaggregated information on revenue from contracts with customers during the second quarter of the previous consolidated fiscal year has not been disclosed.

(Application of accounting standard for fair value measurement and related guidance)

The Group has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019; hereinafter, "Accounting Standard for Fair Value Measurement") and related guidance from the beginning of the first quarter of the consolidated fiscal year under review. In accordance with the transitional treatment set forth in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), the new accounting policy prescribed by the Accounting Standard for Fair Value Measurement and related guidance will be applied into the future.

This will have no impact on the quarterly consolidated financial statements.

(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 684,166,000 yen (237,128 shares). 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 499,801,000 yen (173,228 shares).

(Implications of COVID-19 for accounting estimates)

We have made no significant change in our assumptions regarding when the COVID-19 pandemic might subside from those announced in “Implications of COVID-19 for accounting estimates” in the “Additional information” section of our full-year financial results for the fiscal year ended May 31, 2021.

(Segment information)

I. For the second quarter of the fiscal year ended 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	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.

II. For the second quarter of the fiscal year ending May 31, 2022 (June 1, 2021 to November 30, 2021)

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	1,971,577	340,316	687,705	2,999,600
Intra-segment internal sales and transfer amount	-	-	-	-
Total	1,971,577	340,316	687,705	2,999,600
Segment income (loss)	950,161	13,213	(19,679)	943,695

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	943,695
Company-wide expenses(Note)	(337,434)
Inter-segment eliminations	209
Adjustment of inventories	(12,088)
Operating income in the quarterly consolidated statements of income	594,381

(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.

(Revenue recognition-related information)

Disaggregated information on revenue from contracts with customers

For the second quarter of the fiscal year ending May 31, 2022 (June 1, 2021 to November 30, 2021)

(Unit: Thousands of yen)

	Internet of things related works	Environmental energy related works	Promotion business of Industry 4.0	Total
Goods transferred at a point in time	1,971,577	340,303	687,705	2,999,587
Goods transferred over time	—	—	—	—
Revenue from contracts with customers	1,971,577	340,303	687,705	2,999,587
Other revenue	—	13	—	13
Sales to external customers	1,971,577	340,316	687,705	2,999,600

(Note) Other revenue is that recognized in "Accounting Standard for Financial Instruments" (Accounting Standards Board of Japan (ASBJ) Statement No. 10).

3. Supplementary Explanation of Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending May 31, 2022

(1) Status of orders

In the first half of the consolidated fiscal year under review, there were no significant year-on-year changes in the sales results of the Group as a whole, but the amount of orders received and backlog of orders both recorded increases.

The increase in the amount of orders received is presumably due to gradual mitigation of pandemic-induced market uncertainty and a recovery trend in customers' capital investment demand mainly in the environmental energy related works and promotion business of Industry 4.0.

The increase in backlog of orders is due to the timing that sales were posted notably in the internet of things related works, with concentration in the third and subsequent quarters, whereas sales recorded in the period up to the second quarter were low.

Looking ahead, we expect net sales to show an upward trend, as it is anticipated that both Japanese and overseas customers will be implementing large-scale capital investment.

Orders received

Segment	2Q of the previous consolidated fiscal year (June 1, 2020 to November 30, 2020)		2Q of the current consolidated fiscal year (June 1, 2021 to November 30, 2021)		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	2,272,462	1,418,495	2,248,919	1,992,492	(23,543)	573,997
Environmental energy related works	278,663	132,648	383,663	326,164	105,000	193,516
Promotion business of Industry 4.0	497,515	104,176	697,073	257,167	199,558	152,990
Total	3,048,641	1,655,320	3,329,656	2,575,825	281,014	920,504

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