

Summary of Consolidated Financial Results
for the Third Quarter of Fiscal Year Ending March 31, 2021
(Nine Months Ended December 31, 2020)

[Japanese GAAP]

Company name: Japan System Techniques Co., Ltd. Listing: Tokyo Stock Exchange, First Section
 Stock code: 4323 URL: <https://www.jast.jp>
 Representative: Takeaki Hirabayashi, President and CEO
 Contact: Noboru Nishida, General Manager of General Administration Division Tel: +81-6-4560-1000
 Scheduled date of filing of Quarterly Report: February 12, 2021
 Scheduled date of payment of dividend: -
 Preparation of supplementary materials for quarterly financial results: None
 Holding of quarterly financial results meeting: None

Note: The original disclosure in Japanese was released on February 10, 2021 at 16:00 (GMT +9).

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

1. Consolidated Financial Results for the Third Quarter Ended December 31, 2020

(April 1, 2020 – December 31, 2020)

(1) Consolidated results of operations

(Percentages represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended Dec. 31, 2020	12,142	(3.0)	86	(39.2)	144	(22.2)	(246)	-
Nine months ended Dec. 31, 2019	12,512	6.7	141	(43.7)	186	(26.4)	(584)	-

Note: Comprehensive income (million yen) Nine months ended Dec. 31, 2020: (193) (-%)

Nine months ended Dec. 31, 2019: (637) (-%)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended Dec. 31, 2020	(45.94)	-
Nine months ended Dec. 31, 2019	(109.94)	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Dec. 31, 2020	11,403	5,873	51.2	1,088.85
As of Mar. 31, 2020	12,988	6,218	47.7	1,154.07

Reference: Shareholders' equity (million yen) As of Dec. 31, 2020: 5,838 As of Mar. 31, 2020: 6,189

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Mar. 31, 2020	-	0.00	-	28.00	28.00
Fiscal year ending Mar. 31, 2021	-	0.00	-		
Fiscal year ending Mar. 31, 2021 (forecasts)				28.00	28.00

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

3. Consolidated Earnings Forecasts for the Fiscal Year Ending March 31, 2021 (April 1, 2020 – March 31, 2021)

(Percentages represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	18,500	2.7	980	0.1	1,025	0.0	300	-	55.95

Note: Revisions to the most recently announced consolidated earnings forecasts: None

*** Notes**

(1) Changes in consolidated subsidiaries during the period (changes in scope of consolidation): None

Newly added: -

Excluded: -

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

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

1) Changes in accounting policies due to revisions in accounting standards, others: None

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting-based estimates: None

4) Restatements: None

(4) Number of outstanding shares (common shares)

1) Number of shares outstanding at the end of the period (including treasury shares)

As of Dec. 31, 2020:	5,612,230 shares	As of Mar. 31, 2020:	5,612,230 shares
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2) Number of treasury shares at the end of the period

As of Dec. 31, 2020:	250,523 shares	As of Mar. 31, 2020:	248,984 shares
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3) Average number of shares outstanding during the period

Nine months ended Dec. 31, 2020:	5,362,125 shares	Nine months ended Dec. 31, 2019:	5,311,874 shares
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Note 1: The current quarterly summary report is not subject to quarterly review by certified public accountants or auditing firms.

Note 2: Cautionary statement with respect to forward-looking statements

Forecasts of future performance in these materials are based on assumption judged to be valid and information available to the Company's management at the time the materials were prepared, but are not promises by the Company regarding future performance. Actual results may differ materially from the forecasts. Please refer to "1. Qualitative Information on Quarterly Consolidated Financial Performance, (3) Explanation of Consolidated Forecasts and Other Forward-looking Statements" on page 3 for forecast assumptions and notes of caution for usage.

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

In the first nine months of the current fiscal year, COVID-19 had a severe impact on consumer spending, corporate activities and many other categories of the economy, resulting in sharp downturn of the Japanese economy. This crisis is still limiting a broad range of activities, particularly due to the state of emergency in many large cities. Furthermore, there are still no signs of an end to this crisis and the business environment continues to be challenging.

In the IT industry in Japan, according to the latest statistics in the “Survey of Selected Service Industries” by the Ministry of Economy, Trade and Industry (the final November figures), net sales continued to climb, rising 4.0% year on year in fiscal 2019 compared with 1.5% annual growth in fiscal 2018. However, due to the current increase in the impact of COVID-19 and other reasons, monthly sales have decreased from one year earlier for four consecutive months since August 2020. Moreover, the outlook for the IT industry is extremely uncertain.

COVID-19 had a negative effect on the Japan Systems Techniques Group (Japan System Techniques Co., Ltd. (JAST) and its consolidated subsidiaries). Nevertheless, the receipt of new orders remained steady due to the use of the internet for sales activities and for other reasons and the workforce utilization rate was steady because of teleworking. Net sales in the first nine months were 12,142 million yen (down 3.0% year on year), operating income was 86 million yen (down 39.2% year on year), ordinary income was 144 million yen (down 22.2% year on year), and there was a loss attributable to owners of parent of 246 million yen (vs. loss of 584 million yen in the same period of the previous fiscal year) due to an impairment loss of 313 million yen as an extraordinary loss. Business segment performance was as follows.

In the software business (individualized contracted software development), there was an increase in orders from the finance/insurance/brokerage industry and the manufacturing and telecommunications industries but orders from the service/retail industries and educational institutions decreased. As a result, net sales in this business totaled 8,593 million yen (down 2.1% year on year) and the operating loss was 122 million yen (vs. an operating loss of 102 million yen in the same period of the previous fiscal year).

In the GAKUEN business (development, sale and related services of operational reform packages for schools), there was an increase in sales of program products (PP) to universities and of maintenance services but IT equipment sales and end user computing (EUC: individualized contracted development of related systems) sales decreased. Net sales in this business totaled 1,690 million yen (down 5.0% year on year) and the operating income was 135 million yen (down 10.6% year on year).

In the system sales business (IT equipment sales and IT/telecom infrastructure construction), sales in the public sector categories decreased. Net sales in this business totaled 1,031 million yen (down 13.6% year on year) and the operating income was 111 million yen (down 10.4% year on year).

In the medical big data business (inspections, analysis and related services for medical information data), sales were much higher mainly because of an increase in support services for health insurance organizations. However, R&D and other expenses increased. Net sales in this business totaled 827 million yen (up 8.5% year on year) and the operating loss totaled 39 million yen (vs. an operating loss of 26 million yen in the same period of the previous fiscal year).

Characteristics of quarterly performance

In the JAST Group’s software, GAKUEN and systems sales businesses, the delivery inspection period of most customers is in March, the last month of the fiscal year for most companies, followed by September, the last month of the second quarter. Consequently, first and third quarter earnings are usually much smaller than earnings in the second and fourth quarters.

(2) Explanation of Financial Position

1) Balance sheet

Current assets at the end of the third quarter were 8,428 million yen, down 1,174 million yen from the end of the previous fiscal year. This was mainly due to a decrease in accounts receivable-trade and an increase in work in process. Non-current assets were 2,975 million yen, down 410 million yen from the end of the previous fiscal year. This was mainly due to decreases in goodwill and customer-related assets.

Current liabilities at the end of the third quarter were 3,935 million yen, down 1,232 million yen from the end of the previous fiscal year. This was mainly due to decreases in short-term borrowings, provision for bonuses and income taxes payable, and an increase in advances received. Non-current liabilities were 1,595 million yen, down 6 million yen from the end of the previous fiscal year.

Net assets at the end of the third quarter were 5,873 million yen, down 345 million yen from the end of the previous fiscal year.

2) Cash flows

Cash and cash equivalents increased 220 million yen from 3,908 million yen at the beginning of the current fiscal year to 4,129 million yen at the end of the first nine months of the current fiscal year (vs. 4,308 million yen at the end of the same period of the previous fiscal year). Cash flows by category were as follows.

Net cash provided by operating activities totaled 1,001 million yen, an increase of 573 million yen from 428 million yen provided in the same period of the previous fiscal year. This increase was mainly due to a decrease in payments of other payables, primarily accounts payable, and an increase in proceeds from the collection of trade receivables.

Net cash provided by investing activities totaled 103 million yen, an increase of 533 million yen from 429 million yen used in the same period of the previous fiscal year. This was due to a decrease in payment for the purchase of shares of subsidiaries and proceeds from redemption of investment securities.

Net cash used in financing activities totaled 853 million yen, compared with 127 million yen provided in the same period of the previous fiscal year. The decrease in cash flows of 980 million yen was mainly due to a decrease in short-term borrowings.

(3) Explanation of Consolidated Forecasts and Other Forward-looking Statements

Results of operations in the first nine months are generally consistent with our initial plan for the fiscal year. Consequently, there are no revisions to the November 10, 2020 forecasts for the fiscal year ending March 31, 2021: net sales of 18,500 million yen (up 2.7% year on year), operating income of 980 million yen (up 0.1% year on year), ordinary income of 1,025 million yen (up 0.0% year on year), and profit attributable to owners of parent of 300 million yen (vs. loss attributable to owners of parent of 30 million yen in the previous fiscal year).

These projections are based on information available at the time of release of this report. Actual results may differ from projections due to a variety of factors.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheet

	(Thousands of yen)	
	FY3/20 (As of Mar. 31, 2020)	Third quarter of FY3/21 (As of Dec. 31, 2020)
Assets		
Current assets		
Cash and deposits	3,909,343	4,130,067
Notes and accounts receivable-trade	4,502,676	2,606,317
Securities	200,644	-
Merchandise and finished goods	71,634	195,519
Work in process	698,017	1,316,527
Raw materials and supplies	1,516	2,150
Other	238,579	190,129
Allowance for doubtful accounts	(19,471)	(12,241)
Total current assets	9,602,941	8,428,471
Non-current assets		
Property, plant and equipment		
Buildings and structures	763,597	780,542
Accumulated depreciation	(462,594)	(491,390)
Buildings and structures, net	301,002	289,152
Land	142,361	142,361
Other	487,040	510,405
Accumulated depreciation	(358,559)	(386,931)
Other, net	128,480	123,473
Total property, plant and equipment	571,845	554,987
Intangible assets		
Goodwill	437,343	183,641
Customer-related assets	181,063	110,181
Trademark right	37,348	7,759
Technology assets	66,303	13,775
Software	64,545	67,277
Other	7,626	7,626
Total intangible assets	794,230	390,262
Investments and other assets		
Investment securities	558,208	675,181
Retirement benefit asset	465,943	466,674
Deferred tax assets	436,814	352,789
Guarantee deposits	443,489	439,749
Other	162,906	110,679
Allowance for doubtful accounts	(48,036)	(15,098)
Total investments and other assets	2,019,325	2,029,975
Total non-current assets	3,385,400	2,975,225
Total assets	12,988,341	11,403,697

	(Thousands of yen)	
	FY3/20 (As of Mar. 31, 2020)	Third quarter of FY3/21 (As of Dec. 31, 2020)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	990,491	810,748
Short-term borrowings	1,500,000	807,734
Current portion of long-term borrowings	8,400	5,600
Income taxes payable	307,068	36,839
Advances received	823,126	975,994
Provision for bonuses	774,631	408,851
Provision for bonuses for directors (and other officers)	30,676	23,479
Provision for loss on construction contracts	-	17,065
Other	733,742	849,295
Total current liabilities	5,168,137	3,935,606
Non-current liabilities		
Long-term borrowings	2,800	-
Provision for share-based remuneration for directors (and other officers)	47,643	74,659
Provision for retirement benefits for directors (and other officers)	1,845	3,646
Retirement benefit liability	992,271	1,000,257
Deferred tax liabilities	61,062	33,430
Other	496,364	483,085
Total non-current liabilities	1,601,987	1,595,079
Total liabilities	6,770,124	5,530,686
Net assets		
Shareholders' equity		
Share capital	1,076,669	1,076,669
Capital surplus	1,113,912	1,113,912
Retained earnings	4,178,503	3,780,668
Treasury shares	(233,240)	(233,303)
Total shareholders' equity	6,135,844	5,737,946
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	113,396	203,717
Foreign currency translation adjustment	(30,713)	(79,062)
Remeasurements of defined benefit plans	(28,978)	(24,501)
Total accumulated other comprehensive income	53,704	100,153
Non-controlling interests	28,668	34,910
Total net assets	6,218,217	5,873,011
Total liabilities and net assets	12,988,341	11,403,697

(2) Quarterly Consolidated Statements of Income and Comprehensive Income**Quarterly Consolidated Statement of Income
(For the Nine-month Period)**

(Thousands of yen)

	First nine months of FY3/20 (Apr. 1, 2019 – Dec. 31, 2019)	First nine months of FY3/21 (Apr. 1, 2020 – Dec. 31, 2020)
Net sales	12,512,223	12,142,877
Cost of sales	9,826,555	9,515,273
Gross profit	2,685,667	2,627,603
Selling, general and administrative expenses	2,544,253	2,541,555
Operating income	141,413	86,048
Non-operating income		
Interest income	10,316	14,357
Dividend income	6,777	6,867
Rental income	3,832	2,065
Foreign exchange gains	-	5,121
Subsidy income	22,709	15,833
Other	13,555	17,890
Total non-operating income	57,192	62,134
Non-operating expenses		
Interest expenses	3,107	2,591
Foreign exchange losses	6,978	-
Rental expenses	135	133
Other	2,154	602
Total non-operating expenses	12,375	3,327
Ordinary income	186,230	144,854
Extraordinary losses		
Impairment loss	715,904	313,252
Loss on valuation of investment securities	-	29,535
Total extraordinary losses	715,904	342,788
Loss before income taxes	(529,673)	(197,933)
Income taxes	61,633	40,185
Loss	(591,306)	(238,118)
Profit (loss) attributable to non-controlling interests	(7,298)	8,206
Loss attributable to owners of parent	(584,008)	(246,325)

Quarterly Consolidated Statement of Comprehensive Income
(For the Nine-month Period)

(Thousands of yen)

	First nine months of FY3/20 (Apr. 1, 2019 – Dec. 31, 2019)	First nine months of FY3/21 (Apr. 1, 2020 – Dec. 31, 2020)
Loss	(591,306)	(238,118)
Other comprehensive income		
Valuation difference on available-for-sale securities	22,563	90,321
Foreign currency translation adjustment	(59,880)	(50,305)
Remeasurements of defined benefit plans, net of tax	(9,295)	4,477
Total other comprehensive income	(46,612)	44,492
Comprehensive income	(637,919)	(193,625)
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	(630,960)	(199,876)
Comprehensive income attributable to non-controlling interests	(6,958)	6,250

(3) Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

	First nine months of FY3/20 (Apr. 1, 2019 – Dec. 31, 2019)	First nine months of FY3/21 (Apr. 1, 2020 – Dec. 31, 2020)
Cash flows from operating activities		
Loss before income taxes	(529,673)	(197,933)
Depreciation	59,845	79,902
Amortization of software	20,281	12,533
Amortization of goodwill	56,500	37,789
Amortization of customer-related assets	37,044	18,088
Amortization of trademark	947	2,097
Amortization of technology assets	1,681	3,723
Impairment loss	715,904	313,252
Increase (decrease) in provision for bonuses	(343,947)	(365,735)
Increase (decrease) in retirement benefit liability	28,657	10,392
Decrease (increase) in retirement benefit asset	(15,577)	(731)
Interest and dividend income	(17,094)	(21,224)
Interest expenses	3,107	2,591
Decrease (increase) in trade receivables	1,396,313	1,876,710
Increase (decrease) in advances received	421,605	154,352
Decrease (increase) in inventories	(377,939)	(743,232)
Increase (decrease) in trade payables	(319,656)	(177,395)
Other, net	(522,894)	259,715
Subtotal	615,106	1,264,898
Interest and dividends received	17,823	21,869
Interest paid	(3,069)	(2,607)
Income taxes paid	(201,830)	(282,384)
Net cash provided by (used in) operating activities	428,029	1,001,774
Cash flows from investing activities		
Decrease (increase) in time deposits	56,480	-
Purchase of property, plant and equipment	(55,842)	(66,107)
Purchase of software	(15,417)	(21,203)
Purchase of investment securities	(2,043)	(20,399)
Proceeds from sales of investment securities	-	9,909
Proceeds from redemption of investment securities	-	200,000
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(416,822)	-
Payments of guarantee deposits	(24,704)	(1,166)
Proceeds from refund of guarantee deposits	867	4,431
Other, net	28,086	(1,486)
Net cash provided by (used in) investing activities	(429,397)	103,977
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	257,815	(692,266)
Repayments of lease obligations	(12,821)	(3,814)
Repayments of long-term borrowings	(33,881)	(5,600)
Dividends paid	(149,982)	(151,509)
Purchase of treasury shares	(80)	(62)
Proceeds from disposal of treasury shares	69,999	-
Dividends paid to non-controlling interests	(3,759)	-
Net cash provided by (used in) financing activities	127,289	(853,252)
Effect of exchange rate change on cash and cash equivalents	(22,396)	(31,689)
Net increase (decrease) in cash and cash equivalents	103,525	220,810
Cash and cash equivalents at beginning of period	4,204,722	3,908,254
Cash and cash equivalents at end of period	4,308,248	4,129,065

(4) Notes to Quarterly Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Additional Information

Effect of COVID-19 on accounting estimates

There are no significant changes to the assumptions used for accounting estimates, including the assumptions concerning the further spread of COVID-19, the end of this crisis and other related items that are explained in "Section 5 1. (1) Notes to the Consolidated Financial Statements (Supplementary Information)" of the Securities Report for the fiscal year that ended in March 2020.

Board Benefit Trust (BBT)

Based on the resolution of the 46th Annual General Meeting of Shareholders, JAST on June 26, 2018 terminated the directors' retirement benefit system and established a Board Benefit Trust (BBT) for the purpose of increasing motivation for contributing to the medium to long-term growth of sales and earnings and an increase in corporate value. The BBT plan clearly links the compensation of directors with the JAST stock price. Furthermore, directors share with shareholders the benefits of a higher stock price as well as the risk of a lower stock price.

1) Overview

This is a stock compensation plan in which directors receive stock compensation through a BBT. The BBT acquires JAST stock using cash contributions from JAST as the source of funds. Directors (excluding external directors; same afterward unless indicated otherwise) receive stock compensation or a monetary amount equivalent to the market value of the stock in lieu of stock compensation in accordance with the rules on the stock compensation plan for directors. In principle, a director becomes eligible for stock compensation only after the individual is no longer a JAST director.

2) JAST stock held by the BBT

The book value (excluding associated expenses) of JAST stock held by the BBT is shown as treasury shares in the net assets section of the consolidated balance sheet. As of the end of the third quarter, the BBT held 47,800 shares of JAST stock with a book value of 87,713 thousand yen.

Segment and Other Information

Segment information

I. First nine months of FY3/20 (Apr. 1, 2019 – Dec. 31, 2019)

1. Information related to net sales and profit or loss for each reportable segment (Thousands of yen)

	Software business	GAKUEN business	System sales business	Medical big data business	Total	Adjustment (Note 1)	Amounts shown on quarterly consolidated statement of income (Note 2)
Net sales							
1. External sales	8,775,626	1,779,214	1,194,174	763,207	12,512,223	-	12,512,223
2. Inter-segment sales and transfers	39,509	11,513	26,972	-	77,995	(77,995)	-
Total	8,815,135	1,790,728	1,221,147	763,207	12,590,219	(77,995)	12,512,223
Segment profit (loss)	(102,530)	151,905	124,515	(26,044)	147,846	(6,432)	141,413

Notes: 1. Segment profit (loss) adjustment is eliminations of inter-segment transactions.

2. Segment profit (loss) is consistent with operating income shown on the quarterly consolidated statement of income.

2. Information related to impairment losses on non-current assets, goodwill, etc. for each reportable segment

Significant impairment losses related to non-current assets

In the software business, there was an impairment loss for goodwill and customer-related assets.

The amount of this loss in the first nine months of FY3/20 was 715,904 thousand yen.

Significant change in goodwill

In the software business, there was an impairment loss for goodwill.

The amount of this loss in the first nine months of FY3/20 was 395,830 thousand yen.

In the first quarter of FY3/20, there was a business combination due to the acquisition of the stock of AG NET PTE. LTD. A provisional amount of goodwill in the software business resulting from this acquisition was used initially because the allocation of the acquisition cost had not been completed. The allocation of the acquisition cost was completed at the end of FY3/20, resulting in the finalization of the provisional accounting treatment and a revision in the amount of goodwill. The revised goodwill resulting from this acquisition is 303,284 thousand yen. For more information, please see “Notes, Business Combinations.”

II. First nine months of FY3/21 (Apr. 1, 2020 – Dec. 31, 2020)

1. Information related to net sales and profit or loss for each reportable segment (Thousands of yen)

	Software business	GAKUEN business	System sales business	Medical big data business	Total	Adjustment (Note 1)	Amounts shown on quarterly consolidated statement of income (Note 2)
Net sales							
1. External sales	8,593,054	1,690,835	1,031,248	827,738	12,142,877	-	12,142,877
2. Inter-segment sales and transfers	42,568	7,942	998	-	51,509	(51,509)	-
Total	8,635,623	1,698,778	1,032,247	827,738	12,194,387	(51,509)	12,142,877
Segment profit (loss)	(122,393)	135,865	111,519	(39,924)	85,067	980	86,048

Notes: 1. Segment profit (loss) adjustment is eliminations of inter-segment transactions.

2. Segment profit is consistent with operating income shown on the quarterly consolidated statement of income.

2. Information related to impairment losses on non-current assets, goodwill, etc. for each reportable segment

Significant impairment losses related to non-current assets

In the software business, there was an impairment loss for goodwill, customer-related assets, trademark rights and technology assets. The amount of this loss in the first nine months of FY3/21 was 313,252 thousand yen.

Significant change in goodwill

In the software business, there was an impairment loss for goodwill.

The amount of this loss in the first nine months of FY3/21 was 196,841 thousand yen.

Business Combinations

Effect of significant revision of initial allocation of acquisition cost on comparative information

A provisional accounting treatment was used in the first quarter of the previous fiscal year for the JAST Group's acquisition of AG NET PTE. LTD. on May 31, 2019. The accounting treatment was finalized at the end of the previous fiscal year.

Due to the finalization of the provisional accounting treatment, comparative information included in the first half consolidated financial statements reflects a significant revision of the initial acquisition cost allocation. On the acquisition date (June 30, 2019 for accounting purposes), the acquisition cost was allocated as follows: 73,537 thousand yen to customer-related assets, 39,716 thousand yen to trademark rights, 70,507 thousand yen to technology assets, and 31,239 thousand yen to deferred tax liabilities. As a result, provisional goodwill of 455,805 thousand yen was reduced by 152,521 thousand yen to 303,284 thousand yen.

As a result, operating income and ordinary income decreased 1,827 thousand yen each and profit attributable to owners of parent decreased 921 thousand yen in the quarterly consolidated statement of income for the first nine months of FY3/20.

This financial report is solely a translation of "Kessan Tanshin" (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.