

Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending June 30, 2022
(Six Months Ended December 31, 2021)

[Japanese GAAP]

February 14, 2022

Company name: HIRAYAMA HOLDINGS Co., Ltd.

Listing: Tokyo Stock Exchange (JASDAQ)

Securities code: 7781

URL: <https://www.hirayamastaff.co.jp/>

Representative: Yoshikazu Hirayama, President

Contact: Shingo Tsukahara, Executive officer, General Manager of Group Strategy Division

Tel: +81-(0)3-5769-4680

Scheduled date of filing of Quarterly Report:

February 14, 2022

Scheduled date of payment of dividend:

-

Preparation of supplementary materials for quarterly financial results: None

Holding of quarterly financial results meeting:

Yes (for analysts)

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

1. Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending June 30, 2022

(July 1, 2021 to December 31, 2021)

(1) Consolidated results of operations

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended Dec. 31, 2021	13,411	23.1	390	88.5	404	51.7	212	30.5
Six months ended Dec. 31, 2020	10,897	(7.6)	207	(30.5)	266	(15.6)	162	-

Note: Comprehensive income (millions of yen) Six months ended Dec. 31, 2021: 223 (up 36.2%)

Six months ended Dec. 31, 2020: 163 (-%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Dec. 31, 2021	62.02	57.16
Six months ended Dec. 31, 2020	47.63	44.00

Note: Beginning with the first quarter of the fiscal year ending June 30, 2022, Hirayama Holdings has applied Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 31, 2020). All figures for the six months ended December 31, 2021 incorporate this accounting standard.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of Dec. 31, 2021	8,262	3,295	39.9	955.69
As of Jun. 30, 2021	8,174	3,190	39.0	931.33

Reference: Shareholders' equity (millions of yen) As of Dec. 31, 2021: 3,294 As of Jun. 30, 2021: 3,189

Note: Beginning with the first quarter of the fiscal year ending June 30, 2022, Hirayama Holdings has applied Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020). All figures as of December 31, 2021 incorporate this accounting standard.

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Jun. 30, 2021	-	-	-	38.00	38.00
Fiscal year ending Jun. 30, 2022	-	-	-	-	-
Fiscal year ending Jun. 30, 2022 (forecasts)	-	-	-	38.00	38.00

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

3. Consolidated Earnings Forecast for the Fiscal Year Ending June 30, 2022 (July 1, 2021 to June 30, 2022)

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	26,000	12.8	680	27.8	680	5.3	420	1.6	116.40

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

*** Notes**

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

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

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

1) Changes in accounting policies due to revisions in accounting standards, others: Yes

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

3) Changes in accounting estimates: None

4) Restatements: None

(4) Number of shares outstanding (common shares)

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

As of Dec. 31, 2021:	3,632,200 shares	As of Jun. 30, 2021:	3,608,400 shares
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2) Number of treasury shares as of the end of the period

As of Dec. 31, 2021:	185,270 shares	As of Jun. 30, 2021:	183,870 shares
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3) Average number of outstanding shares during the period

Six months ended Dec. 31, 2021:	3,428,492 shares	Six months ended Dec. 31, 2020:	3,420,711 shares
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* The current quarterly financial results are not subject to the quarterly review by certified public accountants or auditing firms.

* Explanation of appropriate use of earnings forecasts, and other special items

Forecasts of future performance in these materials are based on assumptions judged to be valid and information available to Hirayama Holdings at the time these materials were prepared. These materials are not promises by Hirayama Holdings regarding future performance. Actual results may differ significantly from these forecasts for a number of reasons. Please refer to the section “1. Qualitative Information on Quarterly Consolidated Financial Performance, (3) Explanation of Consolidated Earnings Forecast and Other Forward-looking Statements” of the attachments regarding preconditions or other related matters for the forecasts.

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

In the first half of the current fiscal year, manufacturing sector business sentiment (DI) at large companies, which was announced on December 13, 2021 in the Bank of Japan *Tankan*, was 18, the same as in the previous survey in September. Although the number of COVID-19 cases decreased, there are challenges due to the rising cost of energy and many other items as supply chain disruptions continue worldwide. Non-manufacturing business sentiment at large companies was 9, an improvement for six consecutive quarters. The number of customers at stores, restaurants and other businesses is recovering because of the end of states of emergency.

Japan's unemployment rate increased to 2.8% in November 2021, which was 0.1 percentage point higher than in October. The pandemic has prompted more people to reassess their career paths. People who voluntarily leave their jobs are accounting for an increasing share of the unemployment rate. There was no change from October at 480,000 in the number of people who lost their jobs due to a restructuring or other event forced them to leave. The jobs-to-applicants ratio was 1.15, the same as in October. There was a small increase from October to November in the number of job openings and job seekers as economic activity resumes.

In the automobile sector, companies pushed back some production because of the semiconductor shortage. The medical devices and food categories posted strong performances. The performance of the home equipment, agricultural machinery and logistics sectors was also strong. As a result, sales in the first half were generally as planned. Earnings in the first half were higher than planned. This is attributable to Genba Kaizen (improving how work is performed) at outsourcing job sites, the receipt of orders with high rates, and the utilization of DX and RPA to efficiently use selling, general and administrative expenses.

Net sales increased 23.1% year-on-year to 13,411 million yen and operating profit increased 88.5% year-on-year to 390 million yen. Ordinary profit increased 51.7% to 404 million yen, which includes non-operating income of 48 million yen mainly because of subsidy income of 29 million yen and non-operating expenses of 34 million yen mainly because of foreign exchange losses of 31 million yen. Profit attributable to owners of parent increased 30.5% to 212 million yen after income taxes of 191 million yen.

Business segment performance was as follows.

From the first quarter of the current financial year, the methods for calculating segment profit or loss and segment classifications have been changed. Year-on-year comparisons are based on the figures for the same period of the previous year after these changes.

1) In-sourcing & temp staffing services

Sales were generally as planned in the first half despite the negative effect on some production pushed back in the automobile sector in the first quarter due to the semiconductor shortage. One reason was strong demand for services as automakers stepped up production in the second quarter to offset the first quarter decline. Sales were also supported by higher output of medical devices, which required more people at manufacturers, and by the addition of new customers. Furthermore, the food sector continued to perform well as there was no downturn following the Tokyo Olympics and Paralympics. The home equipment, agricultural machinery and logistics sectors also posted strong sales. Earnings increased because of improved profitability due to ongoing Genba Kaizen measures, the addition of many new employees due to the large volume of orders from current and new customer, and the use of the Hirayama Group's resources for training programs.

Recently hired new college graduates have quickly acquired skills and are making contributions to the stability of production. However, the environment for mid-career recruitment is starting to become difficult as the Japanese economy recovers. This business has successfully increased its workforce by diversifying the channels used for hiring people.

Segment sales in the first half increased 21.1% year-on-year to 11,023 million yen and segment profit increased 32.6% to 764 million yen.

2) Engineer placement services

Industry realignments to adapt to challenges created by the pandemic have been taking place involving some of the large manufacturers that are the main users of engineer placement services. These activities have been accompanied by a recovery in technology development investments. As a result, orders in this business recovered, primarily for services for IT engineers.

Although recruiting activities increased due to the outlook for medium- to long-term growth for the placement of engineers, hiring people for engineering jobs was difficult for both people with and without experience as labor shortages became even more severe. To recruit these people, the Hirayama Group has started using new ways to maintain the number of engineers we require. Activities include education and training programs for people with no engineering experience and shifting Hirayama Group employees with no technical background to engineering positions. Due to these measures, we were able to meet some of the requirements for engineering personnel at client companies.

There was a small increase in earnings from one year earlier despite expenses for hiring people to meet expected growth in demand after the pandemic and higher expenses for training programs. One contributor to earnings growth was the IT engineer temporary staffing business, which became profitable in the previous fiscal year.

Segment sales increased 23.8% year-on-year to 1,050 million yen and segment profit increased 4.7% year-on-year to 24 million yen.

3) Overseas operations

In Thailand, the primary location of operations outside Japan, the manufacturing production index was up from one year earlier by 0.8% in the first quarter, 20.6% in the second quarter and down by 0.2% in the third quarter. Although manufacturing in Thailand has started to recover from the downturn, production is currently flat because of a wave of infections caused by the Delta variant. To meet the needs of client companies, the number of temporary staffing employees of the Hirayama Group in Thailand as of September 2021 was 56.8% higher than one year earlier.

This segment returned to profitability because of higher rates for temporary staffing services, emphasis on receiving projects with high profit margins, and the establishment of a framework for operating efficiently.

Segment sales increased 63.2% year-on-year to 1,024 million yen and the segment profit was 24 million yen, compared with a loss of 49 million yen one year earlier.

Note: There is a three-month delay in the disclosure of results of operations in the overseas operations segment. The sales and earnings reported for the first half of the current fiscal year are for overseas operations in the period from April to September.

4) Others

In the Others business segment, Genba Kaizen consulting service and study tours to Japan from other countries are still limited by Japan's border restrictions and other international travel restrictions because of the pandemic. Despite these difficulties, there are good prospects for stable sales. Since September, the number of calls and inquiries from prospective customers in Japan and other countries has been increasing steadily because of web seminar and remote support activities. In the Genba Kaizen consulting business, consulting provided to manufacturers in Japan as well as an increase in the number of clients in the Middle East, Africa and Southeast Asia, which are regions where there was not much progress with establishing a presence, started to contribute to sales in this segment. Consulting services also includes consulting for assisting client companies start operations at new factories to meet the demand for support involving new factories.

Although Japan's restrictions on the entry of foreign nationals limits the activities of the employment management support business for foreign nationals, this business has established a base for becoming profitable due to a revision of its business strategy, cost cutting and other measures. Sales of the on-site Genba Kaizen consulting business,

which has high profit margins, started to recover in September following a steady decline in sales that ended during the summer. As a result, this business posted a profit in the first half.

Segment sales decreased 2.6% year-on-year to 313 million yen and the segment profit increased 300.0% year-on-year to 19 million yen.

(2) Explanation of Financial Position

1) Analysis of Financial Position

Total assets increased 88 million yen from the end of the previous fiscal year to 8,262 million yen at the end of the second quarter of the current fiscal year. This was mainly due to increases in notes and accounts receivable-trade of 192 million yen, property, plant and equipment of 136 million yen and investments and other assets of 196 million yen, which were partially offset by a decrease in cash and deposits of 536 million yen.

Total liabilities decreased 16 million yen to 4,967 million yen. This was mainly attributable to decreases in current portion of long-term borrowings of 96 million yen and long-term borrowings of 78 million yen, which were partially offset by increases in accounts payable-other of 156 million yen and income taxes payable of 217 million yen.

Net assets increased 104 million yen to 3,295 million yen. The main reason was an increase in retained earnings of 81 million yen resulting from booking of profit attributable to owners of parent of 212 million yen, which was partially offset by dividends paid of 130 million yen.

2) Cash flows

Cash and cash equivalents (hereinafter referred to as “net cash”) decreased 551 million yen from the end of the previous fiscal year to 3,296 million yen at the end of the first half of the current fiscal year.

The cash flow components during the first half of the current fiscal year and the main reasons for changes are as described below.

Cash flows from operating activities

Net cash provided by operating activities was 50 million yen, compared with net cash provided of 587 million yen one year earlier. Positive factors include profit before income taxes of 403 million yen, and increases in accounts payable-other of 154 million yen and deposits received of 299 million yen, while there were negative factors including a 205 million yen increase in trade receivables and a 598 million yen decrease in accrued consumption taxes.

Cash flows from investing activities

Net cash used in investing activities amounted to 302 million yen, compared with net cash used of 22 million yen one year earlier. The main factors include purchase of property, plant and equipment of 150 million yen and purchase of investment securities of 135 million yen.

Cash flows from financing activities

Net cash used in financing activities was 296 million yen, compared with net cash used of 236 million yen one year earlier. The main factors include repayments of long-term borrowings of 174 million yen and dividends paid of 129 million yen.

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

The revised outlook for the global economy announced on January 25, 2022 by the International Monetary Fund raised the forecast for real growth in 2022 to 4.4%, 0.5 percentage point lower than the forecast announced in October. For Japan, the forecast was raised 0.1 percentage point to 3.3% because of the expected benefits of government measures to support the economy.

The Hirayama Group's outlook is positive despite the impact of the semiconductor shortage on manufacturing activity in some sectors. We expect an increase in opportunities for the growth of our businesses as orders remain strong due to the recovery of manufacturing in Japan and as we continue to hire new graduates.

We will continue to recruit a large number of people and provide education and other training for jobs requiring specialized skills, such as facility maintenance and welding. These activities are expected to increase the number of people we can send to client companies for technical tasks that demand highly trained workers.

First half sales and earnings were mostly in line with the plan for the fiscal year. Sales of 13,411 million yen were 51.6% of the initial fiscal year plan, operating profit of 390 million yen and ordinary profit of 404 million yen were 57.5% and 59.6 of the plan, respectively. Profit attributable to owners of parent of 212 million yen was 50.6% of the plan. Consequently, there are no revisions to the forecast that was announced on August 16, 2021 for the fiscal year ending in June 2022. An announcement will be made promptly if this forecast is revised.

* Forecasts are based on information currently available to Hirayama Holdings. Actual performance may differ from these forecasts for a number of reasons.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheet

	(Thousands of yen)	
	FY6/21 (As of Jun. 30, 2021)	Second Quarter of FY6/22 (As of Dec. 31, 2021)
Assets		
Current assets		
Cash and deposits	3,882,058	3,345,413
Notes and accounts receivable-trade	2,798,643	2,990,988
Income taxes receivable	206,432	265,239
Other	307,868	373,063
Allowance for doubtful accounts	(40,744)	(45,172)
Total current assets	7,154,258	6,929,531
Non-current assets		
Property, plant and equipment	276,996	413,406
Intangible assets	134,056	113,913
Investments and other assets		
Other	720,269	806,184
Allowance for doubtful accounts	(110,792)	(218)
Total investments and other assets	609,477	805,965
Total non-current assets	1,020,530	1,333,286
Total assets	8,174,788	8,262,818
Liabilities		
Current liabilities		
Current portion of long-term borrowings	348,024	251,356
Accounts payable-other	1,945,668	2,102,060
Income taxes payable	20,276	237,439
Provision for bonuses	132,357	151,485
Other	1,318,169	1,038,189
Total current liabilities	3,764,495	3,780,531
Non-current liabilities		
Long-term borrowings	217,831	139,663
Retirement benefit liability	621,764	672,287
Provision for retirement benefits for directors (and other officers)	313,363	313,363
Other	66,985	61,877
Total non-current liabilities	1,219,944	1,187,191
Total liabilities	4,984,439	4,967,722
Net assets		
Shareholders' equity		
Share capital	440,578	447,897
Capital surplus	360,509	367,828
Retained earnings	2,545,250	2,626,801
Treasury shares	(157,021)	(158,826)
Total shareholders' equity	3,189,317	3,283,700
Accumulated other comprehensive income		
Foreign currency translation adjustment	61	10,494
Total accumulated other comprehensive income	61	10,494
Share acquisition rights	960	889
Non-controlling interests	9	12
Total net assets	3,190,348	3,295,096
Total liabilities and net assets	8,174,788	8,262,818

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

(Thousands of yen)

	First six months of FY6/21 (Jul. 1, 2020 – Dec. 31, 2020)	First six months of FY6/22 (Jul. 1, 2021 – Dec. 31, 2021)
Net sales	10,897,128	13,411,827
Cost of sales	9,002,500	11,011,368
Gross profit	1,894,628	2,400,459
Selling, general and administrative expenses	1,687,252	2,009,513
Operating profit	207,376	390,946
Non-operating income		
Foreign exchange gains	1,797	-
Subsidy income	49,942	29,027
Other	15,364	19,765
Total non-operating income	67,104	48,792
Non-operating expenses		
Interest expenses	6,373	1,800
Foreign exchange losses	-	31,682
Other	1,208	1,276
Total non-operating expenses	7,581	34,759
Ordinary profit	266,898	404,978
Extraordinary income		
Consumption taxes differential	44,221	-
Gain on sale of investment securities	236	-
Total extraordinary income	44,458	-
Extraordinary losses		
Loss on retirement of non-current assets	-	982
Loss on valuation of shares of subsidiaries and associates	12,955	-
Total extraordinary losses	12,955	982
Profit before income taxes	298,400	403,996
Income taxes-current	150,958	274,687
Income taxes-deferred	(11,793)	(83,291)
Total income taxes	139,165	191,396
Profit	159,235	212,600
Loss attributable to non-controlling interests	(3,703)	(47)
Profit attributable to owners of parent	162,939	212,648

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

	(Thousands of yen)	
	First six months of FY6/21 (Jul. 1, 2020 – Dec. 31, 2020)	First six months of FY6/22 (Jul. 1, 2021 – Dec. 31, 2021)
Profit	159,235	212,600
Other comprehensive income		
Foreign currency translation adjustment	4,467	10,635
Share of other comprehensive income of entities accounted for using equity method	224	-
Total other comprehensive income	4,692	10,635
Comprehensive income	163,927	223,236
Comprehensive income attributable to:		
Owners of parent	168,804	223,080
Non-controlling interests	(4,877)	155

(3) Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

	First six months of FY6/21 (Jul. 1, 2020 – Dec. 31, 2020)	First six months of FY6/22 (Jul. 1, 2021 – Dec. 31, 2021)
Cash flows from operating activities		
Profit before income taxes	298,400	403,996
Depreciation	26,103	32,246
Amortization of goodwill	12,765	3,637
Increase (decrease) in allowance for doubtful accounts	1,402	(106,144)
Increase (decrease) in provision for bonuses	30,419	19,212
Increase (decrease) in retirement benefit liability	41,173	50,523
Increase (decrease) in provision for retirement benefits for directors (and other officers)	(2,100)	-
Interest and dividend income	(323)	(118)
Interest expenses	6,373	1,800
Foreign exchange losses (gains)	(249)	31,682
Loss on retirement of non-current assets	-	982
Loss on valuation of shares of subsidiaries and associates	12,955	-
Decrease (increase) in trade receivables	(110,744)	(205,834)
Decrease (increase) in accounts receivable-other	67,394	(45,675)
Decrease (increase) in distressed receivables	(218)	110,573
Increase (decrease) in accrued expenses	(3,120)	9,600
Increase (decrease) in accounts payable-other	26,986	154,861
Increase (decrease) in accrued consumption taxes	205,884	(598,087)
Increase (decrease) in deposits received	264,366	299,553
Other, net	(28,441)	5,348
Subtotal	849,028	168,159
Interest and dividends received	139	80
Interest paid	(6,316)	(1,848)
Income taxes paid	(334,036)	(181,670)
Income taxes refund	78,204	65,298
Net cash provided by (used in) operating activities	587,018	50,018
Cash flows from investing activities		
Net decrease (increase) in time deposits	(18,000)	(15,000)
Purchase of property, plant and equipment	(6,077)	(150,745)
Purchase of intangible assets	(2,390)	-
Purchase of investment securities	-	(135,000)
Proceeds from sale of shares of subsidiaries and associates	-	10,109
Proceeds from refund of leasehold and guarantee deposits	10,561	18,121
Payments of leasehold and guarantee deposits	(7,271)	(27,835)
Other, net	962	(1,805)
Net cash provided by (used in) investing activities	(22,217)	(302,156)
Cash flows from financing activities		
Proceeds from long-term borrowings	40,000	-
Repayments of long-term borrowings	(174,836)	(174,836)
Purchase of treasury shares	(48)	(1,805)
Dividends paid	(102,324)	(129,912)
Proceeds from issuance of shares resulting from exercise of share acquisition rights	4,074	14,565
Other, net	(3,296)	(4,579)
Net cash provided by (used in) financing activities	(236,431)	(296,566)
Effect of exchange rate change on cash and cash equivalents	127	(2,939)
Net increase (decrease) in cash and cash equivalents	328,497	(551,644)
Cash and cash equivalents at beginning of period	3,280,030	3,848,058
Cash and cash equivalents at end of period	3,608,528	3,296,413

(4) Notes to Quarterly Consolidated Financial Statements**Going Concern Assumption**

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Changes in Accounting Policies

1. Application of the Accounting Standard for Revenue Recognition

Hirayama Holdings has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) from the beginning of the first quarter of the current fiscal year. Based on this standard, revenue expected to be received in exchange for the promised provision of goods and services is recognized when the control of the goods and services is transferred to customers. Due to the application of this standard, the method used for revenue received for permanent placements of individuals has changed. These placements include a contractual provision for a refund when an individual placed by the Hirayama Group resigns within a short time. In accordance with this new standard, the expected refunds of payments received as consideration for goods and services are not recognized as revenue at the time of the sale and are instead treated as a refund liability, based on the rule concerning variable payments for goods and services.

For the application of the Accounting Standard for Revenue Recognition, in accordance with the transitional treatment prescribed in Paragraph 84 of this standard, the cumulative effect of the retrospective application of the new accounting policies, if it is applied prior to the first quarter of the current fiscal year, is added to or subtracted from retained earnings at the beginning of the first quarter of the current fiscal year. The new accounting policies are then applied beginning with this amount of retained earnings.

In accordance with the transitional treatment prescribed in Paragraph 89-2 of this new standard, no reclassification has been made to the prior year's consolidated financial statements to conform to the new presentation.

The effect of the application of this standard on the quarterly consolidated financial statements is insignificant.

2. Application of the Accounting Standard for Fair Value Measurement

Hirayama Holdings has applied the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019) from the beginning of the first quarter of the current fiscal year, and has applied the new accounting policies set forth in the Accounting Standard for Fair Value Measurement prospectively in accordance with the transitional treatment prescribed 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). There is no effect of the application of these standards on the quarterly consolidated financial statements.

Additional Information

Hirayama Holdings currently owns stock of Nissetsu Kogyo Co., Ltd. that accounts for 20% or more of the voting rights of this company. Nissetsu Kogyo is not classified as an affiliated company at this time because Hirayama Holdings does not have a significant influence on decisions by Nissetsu Kogyo concerning its finances and business operations.

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.