Summary of the Consolidated Financial Statements (IFRS) for the Fiscal Year Ended June 30, 2020

August 7, 2020

Listed Company Name TechnoPro Holdings, Inc. Listed Stock Exchange: Tokyo
TSE Code 6028 URL https://www.technoproholdings.com/en/
Representative (Title) President, Representative Director & CEO (Name) Yasuji Nishio
In charge of inquiries (Title) Director & CFO (Name) Toshihiro Hagiwara TEL 03-6385-7998
Scheduled date of the general meeting of shareholders September 29, 2020
Scheduled commencement date for dividend payment September 30, 2020
Scheduled date of submission of securities report September 29, 2020
Supplementary materials for financial results: Yes
Briefing session for financial results: Yes (For institutional investors and analysts)

(Amounts less than one million yen are omitted)

1. Consolidated Financial Results for the Fiscal Year Ended June 30, 2020 (July 1, 2019 – June 30, 2020)

(1) Consolidated Operating Results

(% represents the change from the same period of the previous fiscal year)

	Revenue		Operating profit		Profit before income taxes		Net profit		Net profit attributable to owners of the parent company		Comprehensive income for the period	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY ended June 30, 2020	158,407	9.9	15,772	14.8	15,843	15.4	10,966	16.7	10,825	11.8	10,269	17.8
FY ended June 30, 2019	144,176	23.7	13,739	22.3	13,727	23.0	9,400	10.5	9,683	13.9	8,717	1.8

	Basic earnings per share	Diluted earnings per share	Ratio of profit to equity attributable to the owners of the parent company	Ratio of profit before income taxes to total assets	Ratio of operating profit to revenue
	Yen	Yen	%	%	%
FY ended June 30, 2020	299.97	–	23.3	15.7	10.0
FY ended June 30, 2019	266.86	266.79	22.4	15.1	9.5

(Ref.) Equity in net income of affiliates: FY ended June 30, 2020: (¥4 million); FY ended June 30, 2019: (¥7 million)

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to the owners of the parent company	Percentage of equity attributable to the owners of the parent company	Equity attributable to the owners of the parent company per share
	Million yen	Million yen	Million yen	%	Yen
FY ended June 30, 2020	107,967	49,509	48,229	44.7	1,343.11
FY ended June 30, 2019	93,771	46,065	44,803	47.8	1,234.13

(3) Consolidated Cash Flows

	Net cash from operating activities	Net cash from (used in) investing activities	Net cash from (used in) financing activities	Cash and cash equivalents at end of period
	Million yen	Million yen	Million yen	Million yen
FY ended June 30, 2020	18,059	(1,498)	(14,927)	22,797
FY ended June 30, 2019	11,270	(4,429)	(7,184)	21,230

2. Dividends

	Annual dividends per share					Total Dividends	Dividend payout ratio (Consolidated)	Ratio of dividends to net assets (Consolidated)
	End of first quarter	End of second quarter	End of third quarter	End of fiscal year	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
FY ended June 30, 2019	–	50.00	–	84.00	134.00	4,864	50.2	11.2
FY ended June 30, 2020	–	50.00	–	100.00	150.00	5,397	50.0	11.6
FY ending June 30, 2021 (forecast)	–	–	–	–	–		–	

(Notes) The dividend forecasts for FY ending June 30, 2021 have not yet been determined, but at present the Group aims to maintain a dividend payout ratio of 50%.

3. Consolidated Financial Results Forecast for the Fiscal Year Ending June 30, 2021 (July 1, 2020 – June 30, 2021)

(% represents the change from the same period of the previous year)

	Revenue		Operating profit		Profit before income taxes		Net profit attributable to owners of the parent company		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Second quarter (accumulated)	74,000	(6.4)	5,500	(33.1)	5,400	(34.1)	3,700	(34.6)	103.03
Full year	–	–	–	–	–	–	–	–	–

(Notes) Due to the difficulties at this time in making rational estimates of the impact of the spread of COVID-19 on the Group's business over the full year, the Group is disclosing consolidated financial results forecasts only for the second quarter period (consolidated) of the fiscal year ending June 30, 2021. When it becomes possible to make rational estimates of COVID-19's full-year impact, the Group will promptly disclose full-year results forecasts. For details, please see page 5 "1. Analysis of Business Performance and Financial Position; (4) Business performance forecasts."

* Notes

(1) Changes to important subsidiaries during the period (changes to "Specified Subsidiaries" that involve changes made to scope of consolidation): None

(2) Changes to accounting policies and accounting estimates
- i. Changes to accounting policies as required by IFRS: Yes
- ii. Changes to accounting policies other than i.: None
- iii. Changes to accounting estimates: None

(3) Number of outstanding shares (ordinary shares)

i. Number of outstanding shares at the end of the period (including treasury shares)	FY ended June 30, 2020	36,140,388 shares	FY ended June 30, 2019	36,304,029 shares
ii. Number of treasury shares at the end of the period	FY ended June 30, 2020	231,681 shares	FY ended June 30, 2019	498 shares
iii. Average number of shares during the period	FY ended June 30, 2020	36,088,272 shares	FY ended June 30, 2019	36,287,445 shares

* This Summary of Financial Statements is not subject to audit by CFAs or an audit corporation.

* Explanation regarding proper use of financial results forecasts, and other notes

Forward-looking statements in this document about future performance are based on information currently available and certain assumptions that are considered reasonable. Due to unforeseen circumstances, actual results may differ from such estimates.

The Company plans to hold a briefing on business results for institutional investors and analysts on August 7, 2020. The Company plans to post supplementary and other materials for the briefing on the Company's website at the same time that the information is disclosed to the Tokyo Stock Exchange.

Contents

1. Analysis of Business Performance and Financial Position

(1) Summary of business performance

During the consolidated fiscal year under review (July 1, 2019 to June 30, 2020), the global economy significantly deteriorated as a result of a stagnation of business activities resulting from the spread of COVID-19 infections in 2020 to a global level, in addition to U.S.-China trade friction. In Japan, which had been showing positive economic indicators, business sentiment rapidly worsened as a result of the impact of the sales tax increase and spread of COVID-19. Depending on the development and availability of a vaccine or new medicines for COVID-19, as well as the financial and monetary policies of the government, there is the risk that the current economic circumstances will be prolonged, increasing sense of caution about the future of the economy.

In this economic environment, the Group's core business area of Engineer Dispatching and Contract Assignment continued to grow. Demand for engineers in IT and construction industries remained strong, but since the consolidated fourth quarter there have been restrictions in terms of services supply due to working from home policies and a decline in demand in machinery, automotive and other industries due to the impact of the spread of COVID-19. There is an increasing sense of uncertainty towards the business environment ahead.

The main initiatives (pre-COVID-19) implemented by the Group during the period under review were as follows:

Implementation of "Shift up" and "Charge up" initiatives

The Group, continued from the previous fiscal year to implement the "Shift up" (increase contract unit prices through changes in place of assignment), and "Charge up" (increase contract unit prices at the time of contract renewal at the same place of assignment) initiatives as a means of increasing the amount of sales per engineer. In addition to raising contract unit prices in line with engineer skills, these initiatives also continue to promote price revisions that support the realization of equal pay for equal work (equal or balanced treatment) in terms of work style reform.

Securing engineers

The Group made continued efforts with recruitment activities, a source of its growth, and strengthened measures to curtail resignations. Specifically, the Group trialed a system to predict resignations at certain subsidiaries, monitored those employees at the risk of retirement, and began new measures for employee retention. The Group is also continuing to improve labor conditions.

Adding value to engineers

To add value to engineers, the Group leveraged an ecosystem including collaboration with the cutting-edge technology companies such as i's FACTORY Co, Ltd. in its data scientist training and dispatching business, CYBERGYM TOKYO (managed by Strategic Cyber Holdings LLC) in its cyber expert development business, and Integration Technology Co., Ltd., strong in Model Based Development for the auto industry, as well as with the major players in the cloud, ERP, and RPA fields. In addition, the Group has advanced various initiatives to add value to engineers such as establishing courses for the acquisition of high-level skills that meet the needs for state-of-the-art technologies at Win School operated by PC Assist Co., Ltd. engaged in technology training business, a consolidated subsidiary of the Group.

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Promoting globalization

In October 2018, the Group made Orion Managed Services Limited, a staffing and permanent recruitment company based in the United Kingdom, a consolidated subsidiary, laying the foundation for mid-to-long-term expansion in Europe, in addition to its expansion efforts in Asia. The Group will continue cooperating with not only Orion but TechnoPro China Group and Helius Technologies Pte Ltd to provide technology support to Japanese multi-national companies in Europe and Asia. In addition, the Group is promoting to respond to the shortage of engineers in the Japanese market by securing overseas engineers capable of working in Japan.

\- Impact of and measures towards the spread of COVID-19 -

Given the concerns over the impact of the spread of COVID-19 on the Group since the consolidated third quarter period, the Group promptly implemented management policies which placed the highest importance on business continuity. Specifically, the Group has prioritized the health, safety, and employment security for its employees, and promoted a work from home policy. It has also strengthened performance monitoring through strict KPIs management, placed controls on new hires, implemented sales policies that focus on promoting engineer assignments, and improved financial safety by increasing the Group's committed credit line.

However, during the consolidated fiscal year under review it was difficult to avoid the impact of COVID-19. In the R&D Outsourcing and Construction Management Outsourcing businesses there was an increase in the number of furlough engineers, restrictions on sales activities due to work from home policies, and a decline in demand from the machinery, electronics, and electrical sectors, which led to sales decline and increase in engineers on standby.

In Other Business in Japan, while there was a noticeable decline in demand in professional recruitment service, an area sensitive to economic changes, the demand is recovering in education and training services in engineering since the lifting of Japan's state of emergency.

In Overseas Businesses, the impact of COVID-19 varies depending on the country. In China, performance has been recovering since April 2020. In Singapore, where IT engineer dispatch – a service possible to implement through working at home – is main business, there has been only minimal impact on sales. However, in the UK and India, lockdown is causing a sustained adverse impact on sales. It should be noted that in the UK and Singapore, fixed-term employment restrains an increase in engineers on standby, meaning the risk of making a loss on gross profit is limited.

COVID-19 will not come to an end soon and there will be continued uncertainty in customer demand. At present, the Group is taking prudent management policies, while closely monitoring the Japanese and global economic situation, in order to actively implement growth policies in preparation for its forthcoming economic recovery.

As a result of the initiatives described above and the measures taken towards the spread of COVID-19, the number of domestic engineers at the end of the consolidated fiscal year under review increased to 21,264 (up 1,971 compared to the end of the previous fiscal year). The average utilization rate was 94.0%, down 1.5 pts compared to the previous fiscal year; a high utilization rate was maintained. The Group continued the implementation of the "Shift up" and "Charge up" initiatives from the previous year for higher sales per engineer, but the hiring of a large number of new graduates, lower levels of overtime due to government-led workplace reforms, and furlough engineers resulted in average monthly sales per engineer for the consolidated fiscal year under review of 630 thousand yen per month (down 0.4 thousand yen, average for engineers at TechnoPro, Inc. and TechnoPro Construction, Inc.). However, excluding new employees, average monthly sales per engineer for existing employees rose by 13 thousand yen compared to the previous fiscal year.

In recruitment, the number of newly employed domestic engineers for the consolidated period under review was 4,398 (down 114 compared to the previous fiscal year), contributing to an increase in engineer resources.

In terms of expenses, the gross profit margin was 25.4% (up 0.1 pts compared to the previous fiscal year) despite the factors which led to increased costs, such as increased labor costs for engineers associated with improved business volume. Given the expected damage to sales due to the impact of the spread of COVID-19, cost controls were thoroughly implemented and the SG&A ratio to revenue was 15.1% (down 0.7 pts).

As a result, the Group's revenue for the consolidated fiscal year under review was 158,407 million yen (up 9.9% compared to the previous fiscal year), operating profit was 15,772 million yen (up 14.8%), profit before taxes was 15,843 million yen (up 15.4%), and net profit attributable to the owners of the parent company was 10,825 million yen (up 11.8%).

The performance by segment during the consolidated fiscal year under review was as follows:

(R&D Outsourcing)

In order to expand its IT business, which has been performing well in R&D outsourcing, the Group pursued collaborations with other companies in possession of technologies that deliver high added value in order to advance the “Shift up” and “Charge up” initiatives and thereby raise profitability. As a result of these initiatives, revenue in this segment was 126,179 million yen (up 10.7%).

(Construction Management Outsourcing)
The Group, continuing its efforts from the previous fiscal year, increased the amount of sales per engineer through the promotion of team assignments, continued the recruitment and training of inexperienced personnel, and expanded the construction design business. As a result, revenue in this segment was 19,787 million yen (up 11.7%).

(Other Businesses in Japan)
Other Businesses in Japan comprises professional recruitment service and education and training service in engineering. The Group achieved sales growth at recruitment service in part due to the contribution from TechnoBrain Co.,Ltd., which the Group acquired the previous fiscal year. In addition, Win School operated by PC Assist Co., Ltd began offering online courses for persons to receive individual tutoring from their home or workplace. As a result of these initiatives, revenue in this segment was 4,103 million yen (up 18.1%).

(Overseas Businesses)
The Group worked to enhance the management and sales structures of overseas offices and promoted sales partnerships between overseas and domestic (Japan) offices. The Group further strengthened cross-group collaborative efforts in order to create new synergies, such as the provision of engineers and solutions that meet the needs of customers developing their businesses globally. As a result of these initiatives, revenue in this segment was 9,941 million yen (down 3.3%).

(2) Summary of financial position

i. Analysis of financial conditions

Assets totaled 107,967 million yen as of the end of the consolidated fiscal year under review (up 14,196 million yen from the end of the previous fiscal year). The primary components were goodwill of 36,115 million yen, accounts receivables and other receivables of 20,214 million yen, and cash and cash equivalents of 22,797 million yen.

The status for each item was as follows.

(Current assets)

Current assets totaled 51,307 million yen as of the end of the consolidated fiscal year under review (up 6,745 million yen from the end of the previous fiscal year). The primary components were cash and cash equivalents of 22,797 million yen (up 1,566 million yen), and accounts receivables and other receivables of 20,214 million yen (up 448 million yen).

(Non-current assets)

Non-current assets totaled 56,660 million yen as of the end of the consolidated fiscal year under review (up 7,451 million yen from the end of the previous fiscal year). The primary components were goodwill of 36,115 million yen (down 964 million yen), an increase in right-of-use assets of 6,649 million yen due to the application of IFRS 16 Leases (released January 2016; hereafter “IFRS 16”), and deferred tax assets of 4,282 million yen (up 325 million yen).

(Current liabilities)

Current liabilities totaled 43,165 million yen as of the end of the consolidated fiscal year under review (up 8,994 million yen from the end of the previous fiscal year). The primary components were accounts payable and other liabilities of 13,369 million yen (up 405 million yen), employee benefit liabilities of 6,398 million yen (up 551 million yen), and an increase in lease liabilities of 5,888 million yen due to the application of IFRS 16, and corporate bonds and loans payable of 4,453 million yen (up 1,093 million yen)

(Non-current liabilities)

Non-current liabilities totaled 15,292 million yen as of the end of the consolidated fiscal year under review (up 1,758 million yen from the end of the previous fiscal year). The primary components were an increase in lease liabilities of 5,865 million yen due to the application of IFRS 16, other long-term financial liabilities of 5,214 million yen (down 1,480 million yen), and loans payable of 3,205 million yen (down 2,619 million yen).

(Equity attributable to the owners of the parent company)

Equity attributable to the owners of the parent company totaled 48,229 million yen as of the end of the consolidated fiscal year under review (up 3,426 million yen from the end of the previous fiscal year). The primary components were capital surplus of 7,349 million yen (up 44 million yen) and retained earnings of 36,139 million yen (up 5,010 million yen).

(3) Cash flow conditions

Cash and cash equivalents (hereinafter “Cash”) totaled 22,797 million yen as of the end of the consolidated fiscal year under review, representing an increase of 1,566 million yen compared to the end of the previous fiscal year.

Cash flow during the consolidated fiscal year under review as well as the main factors affecting changes are as follows.

(Cash flows from operating activities)

Cash flows from operating activities resulted in cash inflows of 18,059 million yen (previous fiscal year: inflows of 11,270 million), this was mainly due to profits before taxes (15,843 million yen), a decrease in prepaid expenses (3,330 million yen), and depreciation and amortization (2,604 million yen), partially offset by payments of corporate income taxes (5,500 million yen) and a decrease in deposits received (828 million yen).

(Cash flows from investing activities)

Cash flows from investing activities resulted in cash outflows of 1,498 million yen (previous fiscal year: outflows of 4,429 million). This was mainly due to the acquisition of tangible fixed assets (635 million yen), and the purchase of subsidiary shares at conditional acquisition price (440 million) and other financial assets (255 million yen).

(Cash flows from financing activities)

Cash flows from financing activities resulted in cash outflows of 14,927 million yen (previous fiscal year: outflows of 7,184 million). This was mainly due to inflows from long-term borrowings (1,000 million yen), offset by outflows from dividend payments (4,912 million yen), outflows from repayment of lease liabilities (6,416 million yen), and outflows from repayments of long-term borrowings (3,298 million yen).

(4) Business performance forecasts

In the mid-to-long term, customer demand for the technological innovation that is a source of the Group’s competitiveness is deep-rooted. Further, given the continued shortage in supply of engineers in Japan, the Group sees strong demand for engineer resources. However, due to the difficulties at this time of making reasonable assumptions as to when recovery will occur given the continued uncertainty in customer demand as a result of the impact of the spread of COVID-19, full-year forecasts for the fiscal year ending June 30, 2021 has not yet been determined. In addition, the announcement of the new Medium-term Management Plan scheduled for July 2020 will be postponed for one year due to the difficulties in determining the specific and rational numerical targets that would be included therein.

In the first half of the fiscal year ending June 30, 2021 the Group does not anticipate a significant recovery in customer demand and expects substantial curtailment of the number of newly employed domestic engineers and a decline in overtime hours. As a result, the Group expects the number of domestic engineers at the end of the first half to be 20,150 (up 0.7% compared to end of the first half of the previous fiscal year), an average utilization rate of 89.0% (down 6.7 pts), and monthly sales per engineer of 618 thousand yen (down 2.1%). Based on these assumptions, for the first half of fiscal year ending June 30, 2021 the Group forecasts revenue of 74,000 million yen (down 6.4%), operating profit of 5,500 million yen (down 33.1%), profit before income taxes of 5,400 million yen (down 34.1%), and net profit attributable to owners of the parent company of 3,700 million yen (down 34.6%).

2. Basic stance towards the selection of accounting standards

The Group has applied the International Accounting Standards since the fiscal year ended June 30, 2014 in an aim to improve comparability with financial information in global capital markets and to improve convenience.

3. Consolidated Financial Statements and notes

(1) Consolidated Statement of Financial Position

(Millions of yen)

	As of June 30, 2019	As of June 30, 2020
Assets		
Current assets		
Cash and cash equivalents	21,230	22,797
Accounts receivables and other receivables	19,765	20,214
Income taxes receivable	0	1,159
Other short-term financial assets	571	2,275
Other current assets	2,993	4,860
Total current assets	44,562	51,307
Non-current assets		
Property, plant and equipment	1,261	1,726
Right-of-use assets	—	6,649
Goodwill	37,079	36,115
Intangible assets	2,596	2,149
Investments accounted for using the equity method	94	—
Other long-term financial assets	4,167	4,865
Deferred tax assets	3,957	4,282
Other non-current assets	52	871
Total non-current assets	49,208	56,660
Total assets	93,771	107,967
Liabilities and equity		
Current liabilities		
Accounts payable and other liabilities	12,964	13,369
Bond and loans payable	3,360	4,453
Lease liabilities	1	5,888
Income taxes payable	3,503	2,952
Other financial liabilities	2,581	2,055
Employee benefits liabilities	5,846	6,398
Provisions	3	11
Other current liabilities	5,909	8,037
Total current liabilities	34,171	43,165

(Millions of yen)

	As of June 30, 2019	As of June 30, 2020
Non-current liabilities		
Loans payable	5,825	3,205
Lease liabilities	2	5,865
Other financial liabilities	6,695	5,214
Deferred tax liabilities	499	400
Retirement benefit liabilities	28	9
Provisions	378	459
Other non-current liabilities	104	138
Total non-current liabilities	13,534	15,292
Total liabilities	47,705	58,457
Equity		
Share capital	6,903	6,929
Capital surplus	7,304	7,349
Retained earnings	31,129	36,139
Treasury shares	(2)	(1,000)
Other components of equity	(532)	(1,188)
Equity attributable to owners of the parent company	44,803	48,229
Non-controlling interests	1,262	1,279
Total equity	46,065	49,509
Total liabilities and equity	93,771	107,967

(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Consolidated Statement of Income

(Millions of yen)

	Fiscal year ended June 30, 2019 (July 1, 2018 to June 30, 2019)	Fiscal year ended June 30, 2020 (July 1, 2019 to June 30, 2020)
Revenue	144,176	158,407
Cost of sales	107,710	118,181
Gross profit	36,466	40,226
Selling, general and administrative expenses	22,767	23,960
Other income	1,816	649
Other expenses	1,775	1,143
Operating profit	13,739	15,772
Financial income	109	203
Financial expenses	113	127
Investment profit (loss) under the equity method	(7)	(4)
Profit before income taxes	13,727	15,843
Income taxes	4,327	4,877
Net profit	9,400	10,966
Net profit attributable to:		
Owners of the parent company	9,683	10,825
Non-controlling interests	(282)	140
Net profit	9,400	10,966

(Yen)

Earnings per share attributable to owners of the parent company		
Basic earnings per share	266.86	299.97
Diluted earnings per share	266.79	—

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Fiscal year ended June 30, 2019 (July 1, 2018 to June 30, 2019)	Fiscal year ended June 30, 2020 (July 1, 2019 to June 30, 2020)
Net profit	9,400	10,966
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Changes in fair value of financial assets at fair value through other comprehensive income	(454)	(530)
Total items that will not be reclassified to profit or loss	(454)	(530)
Items that may be reclassified to profit or loss		
Foreign currency translation adjustments	(228)	(165)
Total items that may be reclassified to profit or loss	(228)	(165)
Total other comprehensive income	(682)	(696)
Comprehensive income for the period	8,717	10,269
Comprehensive income for the period attributable to:		
Owners of the parent company	9,042	10,171
Non-controlling interests	(324)	98
Comprehensive income for the period	8,717	10,269

(3) Consolidated Statement of Changes in Equity

Fiscal year ended June 30, 2019 (July 1, 2018 to June 30, 2019)

(Millions of yen)

	Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity	Total equity attributable to owners of the parent company	Non-controlling interests	Total equity
As of July 1, 2018	6,785	9,003	25,824	(1)	82	41,694	1,272	42,967
Net profit			9,683			9,683	(282)	9,400
Other comprehensive income			(25)		(615)	(640)	(41)	(682)
Total comprehensive income	—	—	9,657	—	(615)	9,042	(324)	8,717
Issuance of new shares	118	(41)				77		77
Dividends of surplus			(4,353)			(4,353)	(28)	(4,381)
Share-based payment transaction		115				115		115
Purchase of treasury shares				(0)		(0)		(0)
Change of scope of consolidation						—	343	343
Put options granted to non-controlling interest		(1,693)				(1,693)		(1,693)
Other increases (decreases)		(78)				(78)		(78)
Total transactions with the owners	118	(1,698)	(4,353)	(0)	—	(5,933)	314	(5,619)
As of June 30, 2019	6,903	7,304	31,129	(2)	(532)	44,803	1,262	46,065

Fiscal year ended June 30, 2020 (July 1, 2019 to June 30, 2020)

(Millions of yen)

	Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity	Total equity attributable to owners of the parent company	Non-controlling interests	Total equity
As of July 1, 2019	6,903	7,304	31,129	(2)	(532)	44,803	1,262	46,065
Net profit			10,825			10,825	140	10,966
Other comprehensive income			2		(656)	(653)	(42)	(696)
Total comprehensive income	—	—	10,828	—	(656)	10,171	98	10,269
Issuance of new shares	25	(25)				—		—
Dividends of surplus			(4,856)			(4,856)	(55)	(4,911)
Share-based payment transaction		46				46		46
Purchase of treasury shares				(2,062)		(2,062)		(2,062)
Disposal of treasury shares		12		90		102		102
Cancellation of treasury shares		(12)	(961)	973		—		—
Changes in ownership interests in subsidiaries		25				25	(25)	—
Other increases (decreases)		(2)				(2)		(2)
Total transactions with the owners	25	44	(5,817)	(998)	—	(6,745)	(80)	(6,826)
As of June 30, 2020	6,929	7,349	36,139	(1,000)	(1,188)	48,229	1,279	49,509

(4) Consolidated Statement of Cash Flows

(Millions of yen)

	Fiscal year ended June 30, 2019 (July 1, 2018 to June 30, 2019)	Fiscal year ended June 30, 2020 (July 1, 2019 to June 30, 2020)
Cash flows from operating activities		
Profit before income taxes	13,727	15,843
Depreciation and amortization	777	2,604
Impairment loss	1,673	915
Loss (profit) from put options granted to non-controlling interest	(1,359)	(256)
Interest and dividend income	(73)	(67)
Interest expense	91	113
Investment loss (profit) under the equity method	7	4
Decrease (increase) in accounts receivables and other receivables	(1,786)	(448)
Increase (decrease) in accounts payable and other liabilities	1,659	405
Increase (decrease) in deposits received	206	(828)
Increase (decrease) in prepaid expenses	(594)	3,330
Increase (decrease) in lease repayments	—	1,737
Increase (decrease) in consumption tax payable	459	1,402
Increase (decrease) in retirement benefit liabilities	(923)	(717)
Other	881	(508)
Subtotal	14,748	23,530
Interests and dividends received	73	67
Interest paid	(43)	(78)
Income taxes paid	(3,529)	(5,500)
Income tax refund	21	40
Net cash flows from operating activities	11,270	18,059
Cash flows from investing activities		
Payments into time deposits	(167)	(68)
Proceeds from withdrawal of time deposits	245	47
Purchase of tangible fixed assets	(375)	(635)
Proceeds from sales of tangible fixed assets	38	27
Purchase of intangible assets	(85)	(38)
Purchases of other financial assets	(260)	(255)
Purchase of marketable securities	(131)	(139)
Purchase of subsidiary	(3,705)	—
Purchase of subsidiary shares at conditional acquisition price	—	(440)
Other	13	6
Net cash flows from investing activities	(4,429)	(1,498)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(102)	912
Repayments of lease liabilities	(1)	(6,416)
Proceeds from long-term borrowings	1,000	1,000
Repayments of long-term borrowings	(3,433)	(3,298)
Redemption of bonds	(304)	(138)
Purchase of treasury shares	(0)	(2,062)
Cash dividends paid	(4,338)	(4,912)

Payments for purchase of interests in subsidiaries from non-controlling interests	–	(67)
Other	(1)	55
Net cash flows from financing activities	(7,184)	(14,927)
Effect of change in exchange rates on cash and cash equivalents	(78)	(67)
Net increase (decrease) in cash and cash equivalents	(421)	1,566
Cash and cash equivalents at the beginning of the period	21,652	21,230
Cash and cash equivalents at the end of the period	21,230	22,797

(5) Notes to the consolidated financial statements

(Note on assumption about going concern)

Not applicable.

(Note on changes to accounting policy)

Adoption of IFRS 16: Leases

The Group has applied IFRS 16 Leases since the beginning of the consolidated fiscal year.

In applying IFRS 16, the Group used a method permitted as a transition requirement which recognizes the cumulative effect of initially applying the standard at the date of initial application. With respect to the recognition of right-of-use assets, as these are recognized as an amount equal to the lease liability (with prepaid lease payments etc. adjusted), this had no impact on retained earnings at the beginning of the period.

At the inception of a contract, the Group assesses whether the contract is, or contains, a lease based on the substance of the contract. The Group determines the lease term in consideration of whether options to extend or terminate are reasonably certain to be executed in the non-cancellable period, as well as using hindsight at the date of the initial application.

Right-of-use assets are measured at the initial measured value of the lease liabilities and adjusted for lease prepayments, etc. Right-of-use assets are depreciated using the straight-line method over the lease periods.

Lease liabilities are initially measured at the present value of the lease payments that are not paid the commencement date. The Group uses its additional borrowing rate as the discount rate when calculating lease liabilities. The weighted average of the borrower's additional borrowing interest rate applied to lease liabilities recognized at the date of the initial application is 0.4%.

The Group uses the following practical expedients methods for application of IFRS 16:

- A single discount rate to a portfolio of leases with reasonably similar characteristics
- Right-to-use assets and lease liabilities for short-term leases and low-value assets are not recognized
- Leases for which the lease term ends within 12 months of the date of initial application, account for those leases in the same way as short-term leases
- Initial direct costs are excluded from the measurement of the right-of-use asset at the date of the initial application

The difference between the future minimum lease payment of the non-cancelable operating lease disclosed under IAS 17 as at the previous fiscal year ended June 30, 2019, and the lease liabilities recognized in the Consolidated Statement of Financial Position as at the current fiscal year beginning July 1, 2019, which was the initial application date of IFRS 16, was mainly due to the lease payments of the cancellable lease as well as the difference between the contractual non-cancellable lease term and the Group's estimated lease term of the buildings.

For leases where the Group acts as a lessor, the method of classifying a sublease has been changed so that classification is made with reference to right-of-use assets arising from the head lease. When transitioning to IFRS 16, the Group reevaluated the classification of the sublease contract. These were classified as operating leases under IAS 17, but are now classified as finance leases.

As a result, when applying IFRS 16, an additional 7.3 billion yen of right-to-use assets, 2.0 billion yen of lease receivables (other short-term financial assets and other long-term financial assets) , 2.9 billion yen of prepaid expenses (other current assets and other long-term financial assets), and 12.1 billion yen of lease liabilities are recognized in the Consolidated Statement of Financial Position. There is no significant impact on the Consolidated Statement of Income. In the Consolidated Statement of Cash Flows, cash flows from operating activities increased, and cash flows from financing activities decreased. In addition, the impact of additional lease receivables and prepaid expenses recognized are not included in the increase/decrease of lease receivables or prepaid expenses under cash flows from operating activities for the consolidated fiscal year under review.

(Note on segment information)

1. Segment information overview

The Group's reportable segments are Group components for which separate financial information can be obtained. Each segment is subject to periodic examinations to allow the Board of Directors to decide how to allocate management resources and assess performance. Until the previous fiscal year, the Group operated with only one reportable segment – Engineer Dispatching and Contract Assignment. However, due to an expansion in profits from services outside of the domestic engineer dispatching business, starting from the consolidated fiscal year under review, the Group has established four reportable segments: R&D Outsourcing Business, Construction Management Outsourcing Business, Other Businesses in Japan, and Overseas Businesses. The Group will manage these segments – which are based on the fields previously managed by business units – on a segment basis, including reporting the performance of each reportable segment to the Board of Directors and managing performance. Furthermore, the segment information for previous fiscal year has been restated based on the segment classification after this change.

Overview of the reportable segments:

- In R&D Outsourcing Business, the Group provides engineer dispatch and contract assignment services in technological fields including machinery, electronics/electricals, embedded controllers, IT networks, business applications, system maintenance/management, and biochemistry; its customers are major businesses and other organizations in industries including automotive and automotive parts, industrial machinery and equipment, telecommunications equipment, electronic and electrical equipment, IT, semiconductors, energy, pharmaceuticals, and chemicals.
- In Construction Management Outsourcing Business, the Group provides contract assignment services for construction design and engineer dispatch services for construction management (safety administration, quality control, process administration, and cost management) in the construction industry in the fields of construction, civil engineering, facility machinery, and plant; its customers are mainly general contractors and subcontractors.
- In Other Businesses in Japan, the Group provides professional recruitment services and education and training services in engineering.
- In Overseas Business, the Group provides technical outsourcing and professional recruitment services in China, IT engineer dispatch services and contracted development in Southeast Asia and India, and engineer dispatch and professional recruitment services in the UK.

2. Information on reportable segments

Accounting principles for the reportable segments are the same as those used in the creation of the consolidated financial statements. Business between reportable segments is based on market prices, and segment profit is shown as operating profit.

Fiscal year ended June 30, 2019 (July 1, 2018 to June 30, 2019)

(Millions of yen)

	Reportable segment					Eliminations/ Corporate	Consoli-dated
	R&D Outsourcing Business	Construction Management Outsourcing Business	Other Businesses in Japan	Overseas Businesses	Total		
Revenue							
Revenue from external customers	113,783	17,720	2,705	9,920	144,130	45	144,176
Intersegment sales or transfers	237	—	769	363	1,370	(1,370)	—
Total revenue	114,021	17,720	3,474	10,283	145,500	(1,324)	144,176
Operating profit	10,672	1,938	416	(931)	12,096	1,642	13,739
Financial income	—	—	—	—	—	—	109
Financial expenses	—	—	—	—	—	—	113
Investment profit (loss) under equity method	—	—	—	—	—	—	(7)
Quarterly profit before income taxes	—	—	—	—	—	—	13,727
Other							
Depreciation and amortization	138	33	18	42	233	213	446
Amortization of customer-related assets	80	—	—	250	331	—	331
Change (profit) in fair value related to put option	—	—	—	—	—	1,359	1,359
Profit on currency exchange related to put option liabilities	—	—	—	—	—	182	182
Loss on currency exchange related to put option liabilities	—	—	—	—	—	—	—
Change (profit) from fair value adjustments related to contingent consideration	—	—	—	—	—	110	110
Change (loss) from fair value adjustments related to contingent consideration	—	—	—	—	—	—	—
Impairment loss	—	—	—	1,673	1,673	—	1,673

(Notes)
1. Segment profit under Corporate/Eliminations includes corporate expenses not allocated to individual reportable segments.
2. Depreciation and amortization does not include amortization of customer-related assets.

Fiscal year ended June 30, 2020 (July 1, 2019 to June 30, 2020)

(Millions of yen)

	Reportable segment					Eliminations/ Corporate	Consoli-dated
	R&D Outsourcing Business	Construction Management Outsourcing Business	Other Businesses in Japan	Overseas Businesses	Total		
Revenue							
Revenue from external customers	125,901	19,787	3,238	9,431	158,359	47	158,407
Intersegment sales or transfers	277	—	865	509	1,652	(1,652)	—
Total revenue	126,179	19,787	4,103	9,941	160,012	(1,605)	158,407
Operating profit	12,880	2,109	(139)	655	15,506	266	15,772
Financial income	—	—	—	—	—	—	203
Financial expenses	—	—	—	—	—	—	127
Investment profit (loss) under equity method	—	—	—	—	—	—	(4)
Quarterly profit before income taxes	—	—	—	—	—	—	15,843
Other							
Depreciation and amortization	928	201	304	223	1,658	662	2,320
Amortization of customer-related assets	80	—	—	203	283	—	283
Profit on early exercise of put options	—	—	—	—	—	60	60
Change (profit) in fair value related to put option	—	—	—	—	—	195	195
Profit on currency exchange related to put option liabilities	—	—	—	—	—	102	102
Loss on currency exchange related to put option liabilities	—	—	—	—	—	—	—
Change (profit) from fair value adjustments related to contingent consideration	—	—	—	—	—	—	—
Change (loss) from fair value adjustments related to contingent consideration	—	—	—	—	—	110	110
Impairment loss	—	408	507	—	915	—	915

(Notes)
1. Segment profit under Corporate/Eliminations includes corporate expenses not allocated to individual reportable segments.
2. Depreciation and amortization does not include amortization of customer-related assets.

(Per share information)

The per share information is as follows.

	Fiscal year ended June 30, 2019 (July 1, 2018 to June 30, 2019)	Fiscal year ended June 30, 2020 (July 1, 2019 to June 30, 2020)
Net profit attributable to the owners of the parent company (millions of yen)	9,683	10,825
Average outstanding ordinary shares during the fiscal year (shares)	36,287,445	36,088,272
Adjustments for dilutive effect		
Increase in stock options (shares)	9,434	—
Average number of common shares (shares) after dilution	36,296,879	36,088,272
Earnings per share attributable to owners of the parent company		
Basic earnings per share (yen)	266.86	299.97
Diluted earnings per share (yen)	266.79	—

(Subsequent events)

Not applicable