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## Consolidated Financial Results for the Fiscal Year Ended August 31, 2019 [J-GAAP]

October 10, 2019

Name of listed company: HITO-Communications Holdings Inc. Listed on: Tokyo Stock Exchange, 1st Section  
 Securities code: 4433 URL: <http://www.hitocom-hd.com/ja/ir.html>  
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Scheduled date of holding the ordinary general meeting of shareholders: November 28, 2019  
 Scheduled date to start dividends distribution: November 29, 2019  
 Scheduled date of filing the financial report: November 29, 2019  
 Supplementary documents for this summary of financial statements: Yes  
 Explanation meeting for financial results: Yes (for institutional investors and analysts)  
 (Figures shown are rounded down to the nearest million yen.)

### 1. Consolidated results for the year ended August 31, 2019 (September 1, 2018 – August 31, 2019)

(1) Consolidated operating results (Percentage figures show changes from the previous year.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ended August 31, 2019	63,806	—	2,978	—	2,991	—	1,715	—
Year ended August 31, 2018	—	—	—	—	—	—	—	—

Note: Comprehensive income: Year ended August 31, 2019: ¥1,835 million (—%) Year ended August 31, 2018: ¥— million (—%)

	Profit per share	Diluted profit per share	Return on shareholders' equity	Ordinary income to total assets	Operating income to net sales
	Yen	Yen	%	%	%
Year ended August 31, 2019	95.83	—	17.1	13.6	4.7
Year ended August 31, 2018	—	—	—	—	—

(Reference) Equity in earnings of affiliates: Year ended August 31, 2019: ¥— million Year ended August 31, 2018: ¥— million

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of August 31, 2019	24,515	11,414	43.9	601.01
As of August 31, 2018	—	—	—	—

(Reference) Equity capital: As of August 31, 2019: ¥10,757 million As of August 31, 2018: ¥— million

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of year
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Year ended August 31, 2019	2,459	(3,424)	1,781	6,796
Year ended August 31, 2018	—	—	—	—

Note: No data is available for the previous fiscal year, as the Company was established on March 1, 2019 through a sole-share transfer.

## 2. Dividends

	Dividends per share					Total dividends (annual)	Dividends payout ratio (consolidated)	Dividends on net assets (consolidated)
	First quarter -end	Second quarter -end	Third quarter -end	Year-end	Annual			
Year ended August 31, 2018	Yen —	Yen —	Yen —	Yen —	Yen —	Millions of yen —	% —	% —
Year ended August 31, 2019	—	—	—	10.00	10.00	178	10.4	1.8
Year ending August 31, 2020 (Forecast)	—	10.25	—	10.25	20.50		19.3	

Notes: 1. Breakdown of year-end dividend for the fiscal year ended August 31, 2019: ordinary dividend ¥8.50, commemorative dividend ¥1.50  
2. No data is available for the previous fiscal year and the first two quarters of the current fiscal year, as the Company was established on March 1, 2019 through a sole-share transfer.

## 3. Consolidated financial forecast for the fiscal year ending August 31, 2020 (September 1, 2019 – August 31, 2020)

(Percentage figures show year-on-year changes.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Profit per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
First six months	36,000	—	1,670	—	1,680	—	945	—	52.80
Full year	72,000	12.8	3,350	12.5	3,370	12.6	1,900	10.8	106.15

Note: No year-on-year changes are shown for the first six months, as the Company was established on March 1, 2019 through a sole-share transfer.

Notes:

- (1) Significant changes to subsidiaries during the term (Transfers of specific subsidiaries with changes in the scope of consolidation): Yes  
New: 1 Company name: SALES ROBOTICS Corporation Excluded: — Company name: —
- (2) Changes in accounting policies, accounting estimates and restatement of revisions
- 1) Changes in accounting policies due to revision of accounting standard, etc.: None
- 2) Changes in accounting policies other than 1): None
- 3) Changes in accounting estimates: None
- 4) Restatement of revisions: None

(3) Number of outstanding shares (common stock):

1) Number of shares issued and outstanding (including treasury shares)	As of August 31, 2019	17,899,333 shares	As of August 31, 2018	— shares
2) Number of treasury shares	As of August 31, 2019	— shares	As of August 31, 2018	— shares
3) Average number of shares issued and outstanding in each period	Year ended August 31, 2019	17,899,333 shares	Year ended August 31, 2018	— shares

**\* These financial statements are outside the scope of audit procedures conducted by certified public accountants or the independent auditor.**

**\* Explanation of appropriate use of forecasts of financial results and other important items**

1. The forward-looking statements in this document, including forecasts, are based on information available at the time of disclosure and on certain assumptions deemed to be reasonable by the Company. Actual results may differ materially from forward-looking statements due to a number of factors. For more details about these assumptions and other conditions that form the basis of these forecasts, please refer to page 6 of the supplementary materials, “1. Consolidated operating performance, (4) Outlook.”

2. Consolidated financial statements for the current fiscal year (September 1, 2018 – August 31, 2019) have been prepared based on the consolidated financial statements of HITO-Communications, Inc., which became a wholly owned subsidiary through a sole-share transfer.

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## 1. Consolidated operating performance

### (1) Overview of consolidated operating results

HITO-Communications Holdings Inc. was established on March 1, 2019 as the wholly owning parent company of HITO-Communications, Inc. through a sole-share transfer. However, as there is no practical change in the scope of consolidation, year-on-year comparisons are based on the consolidated results of HITO-Communications, Inc. for the previous fiscal year (September 1, 2017 – August 31, 2018), and year-end year-on-year comparisons are based on the previous fiscal year-end of HITO-Communications, Inc. (August 31, 2018).

In addition, consolidated financial statements for the current fiscal year (September 1, 2018 – August 31, 2019) have been prepared based on the consolidated financial statements of HITO-Communications, Inc., which became a wholly owned subsidiary through a sole-share transfer.

During the fiscal year under review (September 1, 2018 – August 31, 2019; fiscal 2019), the Japanese economy continued to recover at a moderate pace. Despite concerns of a slowdown in emerging economies in Asia and other countries, the government's economic stimulus measures and monetary policies supported an ongoing improvement in the employment and income environment, as well as strength in corporate earnings.

Against this backdrop, the Group focused on six product and service fields: consumer electronics, broadband, mobile, store services, tourism and call center/other<sup>\*1 \*2 \*3 \*4</sup>. In addition to its existing focus on consumer electronics, broadband and mobile, the Group took steps to strengthen marketing in the store services, tourism and call center/other fields to create a powerful business portfolio capable of delivering balanced growth across all six fields. This shift to a wider business focus is also intended to create a more stable operating structure by minimizing the impact of product and service lifecycles and fluctuations in demand in certain fields.

During the fiscal year under review, the Group explored the possibilities of omnichannel sales support for physical retail (physical stores) and virtual retail (e-commerce and other non-physical channels). It also focused on expanding its business reach and increasing the specialization of Group companies while introducing rapid advances in IT and technology as an innovative "Corporate Group Building the Future of Marketing."

Specifically, we set up a specialist internal team to develop marketing proposals and created a framework to enable collaborative work with BBF, Inc. in the e-commerce business, resulting in a business structure that allows the Group to address client needs more effectively. In addition, as part of efforts to reinforce marketing activities for new and existing clients, the Company made SALES ROBOTICS Corporation a Group company at the end of May 2019, aiming to further expand its business with clients and improve profitability by pushing ahead with digital marketing focused on the promising growth area of inside sales. To enhance our ability to address growth in the number of overseas visitors to Japan, we worked to increase the number of non-Japanese staff employed at customers and focused on developing sales proposals for the outsourced provision of various services at airports, stores and other commercial facilities.

In the fiscal year under review, sales increased 2.4% year on year to ¥63,806 million, supported by an order from a major telecommunications carrier for a nationwide business operation office project, and by strong orders for projects to support the introduction of cashless payment services.

The Group reported operating income of ¥2,978 million (up 11.8%) and ordinary income of ¥2,991 million (up 11.7%), supported by a bottoming out in the decline in orders in the high-margin broadband and mobile fields, and efforts to find cost savings in selling, general and administrative expenses.

Profit attributable to owners of parent increased 16.8% year on year to ¥1,715 million, reflecting growth in operating income and ordinary income and a progressive increase in the Company's equity stake in BBF, Inc. in the previous fiscal year.

Business segment results are as follows:

#### **(Outsourcing business)**

In the outsourcing business, the number of subscribers to broadband services in Japan – the Group's core business field – reached 249,030,000 as of June 30, 2019, up 11.3% year on year<sup>\*5</sup>. In the mobile field, the number of mobile phone contracts totaled 177,200,000 as of June 30, 2019, up 4.5% year on year<sup>\*6</sup>. That growth continues to support strong demand for the Group's sales support services in both the broadband and mobile fields.

In the fiscal year under review, business operation offices<sup>\*7</sup> continued to work on improving earnings and securing orders by making proposals to prospective clients, mainly in the consumer electronics, broadband and mobile fields. Other steps were also taken, such as stepping up efforts to win orders for marketing outsourcing work in the business targeting overseas visitors to Japan and sports event management/other fields, which have potential for business expansion.

As a result of the above initiatives, the decline in orders caused by tighter control of marketing costs at some client companies bottomed out, particularly in the mobile field, and there was a recovery in orders from leading domestic manufacturers in the consumer electronics field, particularly for full-time staff. In addition, in the mobile field, the outsourcing business secured an order from a major telecommunications carrier for a nationwide business operation office project, and it

booked strong orders for projects to support the introduction of cashless payment services and for the management of sports events.

As a result, the outsourcing business reported net sales of ¥19,920 million, up 11.3%, and operating income of ¥1,690 million, up 9.2% in the fiscal year under review.

**(Personnel staffing business)**

In the personnel staffing business, various employment-related indicators continued to improve while the service and retail sectors are suffering from the serious shortage of manpower, supporting strong corporate demand for staff. These factors underpinned continued firm demand for human resources services the Group provide.

In the fiscal year under review, the personnel staffing business worked to secure new orders from a wide range of clients, mainly in the consumer electronics, store services and call center/other fields. In the consumer electronics field, orders from leading domestic manufacturers recovered, particularly for full-time staff, and in the call center/other field, there was an increase in orders for personnel staffing services aimed at overseas visitors to Japan. In addition, ongoing price negotiations also led to an improvement in profit margins, contributing to growth in operating income.

However, in the store services field, there was a drop in orders, mainly from leading general merchandisers and supermarkets, which reflected a shift to direct recruitment of fresh food workers and cash register staff by client companies.

As a result, the personnel staffing business reported net sales of ¥9,032 million, down 2.9%, and operating income of ¥533 million, up 34.3% in the fiscal year under review.

**(EC/TC support business)**

In the EC/TC support business, the market size of BtoC e-commerce in Japan was ¥17,984.5 billion (up 9.0% year on year<sup>\*8</sup>) and the EC ratio (the percentage of e-commerce market size to total commercial transaction amount) was 6.22% (up 0.43% year on year<sup>\*8</sup>). The BtoC e-commerce market, to which the Group provides services, has continued to grow.

In the fiscal year under review, the business focused on marketing activities to secure new business for the outsourced operation of e-commerce sites, particularly in the fields of fashion and sport. Those efforts led to strong demand for the launch of new e-commerce sites, while the operation of existing e-commerce sites was also firm. However, operating income declined year on year, mainly due to the completion of contracts at some sites.

As a result, the EC/TC support business reported net sales of ¥26,857 million, up 1.6%, and operating income of ¥479 million, down 8.1%.

**(Wholesale business)**

In the wholesale business, conditions remained challenging, with the value of clothing sold in the Group's main business fields between January 2019 and June 2019 totaling ¥467.4 billion (down 5.9% year on year<sup>\*9</sup>).

In the fiscal year under review, BRANCH-OUT CO., LTD. focused on planning apparel products for leading Japanese retailers and on marketing activities for wholesale, as well as planning and manufacturing products in collaboration with brands, content holders, TV personalities, and social networks. The business focused on the manufacture of products with high margins and consolidated its logistics warehouses to improve efficiency. As a result, sales declined but profit margins improved.

As a result, the wholesale business reported net sales of ¥7,309 million, down 12.7%, and operating income of ¥291 million, up 29.9%.

**(Others business)**

In the others business, an estimated 22,140,000 overseas visitors had visited Japan as of August 2019 (up 3.9% year on year<sup>\*10</sup>), putting the number of visitors on track to exceed 30 million in 2019. Against that backdrop, demand for the Group's limousine services aimed at wealthy individuals from overseas remained strong.

In the fiscal year under review, the business registered strong online sales of products for sports events managed by HITO-Communications, Inc. In addition, JAPAN LIMOUSINE SERVICE Inc., which provides limousine services for wealthy individuals, reported firm sales, and Total Creative Agency Co., Ltd. (TCA) saw strong demand for its social welfare services.

As a result, the others business reported net sales of ¥686 million, up 105.9%, and operating income of ¥1 million in the fiscal year under review, compared with operating loss of ¥8 million in the previous fiscal year.

Notes:

\*1: The table below shows the main target product and service fields in the outsourcing business and the type of business conducted in each field.

Target fields	Type of business
Consumer electronics	<ul style="list-style-type: none"> <li>● Sales of digital consumer electronics (large TVs, digital recorders, tablet PCs, etc.)</li> <li>● Sales of household consumer electronics (air conditioners, refrigerators, washing machines, etc.)</li> </ul>
Broadband	<ul style="list-style-type: none"> <li>● Marketing of fixed-line internet access plans (fiber-optic, etc.)</li> <li>● Marketing of internet service provider plans</li> </ul>
Mobile	<ul style="list-style-type: none"> <li>● Sales of mobile phones and high-performance mobile handsets (smartphones, etc.)</li> <li>● Marketing of new generation high-speed mobile wireless plans</li> </ul>

Store services	<ul style="list-style-type: none"> <li>● Sales of fresh food, cosmetics and fashion items</li> <li>● Marketing of credit card products and services</li> </ul>
Tourism	<ul style="list-style-type: none"> <li>● Bus guide</li> <li>● Exhibition, convention and sports event management services and other services</li> </ul>
Call center/other	<ul style="list-style-type: none"> <li>● Operation of various types of customer call centers and provision of inside sales services using call centers</li> <li>● Multilingual call centers for foreign visitors to Japan, duty free counters</li> <li>● Operation of distribution and retailing service centers and other services</li> </ul>

\*2: The table below shows the main target product and service fields in the personnel staffing business and the type of business conducted in each field.

Target fields	Type of business
Consumer electronics	<ul style="list-style-type: none"> <li>● Sales of digital consumer electronics (large TVs, digital recorders, tablet PCs, etc.)</li> <li>● Sales of household consumer electronics (air conditioners, refrigerators, washing machines, etc.)</li> </ul>
Broadband	<ul style="list-style-type: none"> <li>● Outbound marketing calls promoting fixed-line internet services</li> </ul>
Mobile	<ul style="list-style-type: none"> <li>● Sales of mobile phones and high-performance mobile handsets (smartphones, etc.)</li> <li>● Marketing of new generation high-speed mobile wireless plans</li> </ul>
Store services	<ul style="list-style-type: none"> <li>● Sales of fresh food, cosmetics and fashion items</li> <li>● Customer support for financial and card services; marketing to attract new cardholders</li> </ul>
Tourism	<ul style="list-style-type: none"> <li>● Tour guide services for domestic and overseas travel and bus guide</li> <li>● Exhibition, convention and sports event management services and other services</li> </ul>
Call center/other	<ul style="list-style-type: none"> <li>● Operation of customer call centers</li> <li>● Product shipment and distribution backyard operations</li> <li>● Back office support for the marketing, import-export and accounting sectors and other services</li> </ul>

\*3: The table below shows the main target product and service field in the EC/TC support business and the type of business conducted in the field.

Target field	Type of business
Store services	<ul style="list-style-type: none"> <li>● Outsourced operation of e-commerce sites mainly in the fashion and sports fields</li> <li>● TV shopping sales support</li> </ul>

\*4: The table below shows the main target product and service field in the wholesale business and the type of business conducted in the field.

Target field	Type of business
Store services	<ul style="list-style-type: none"> <li>● Planning, design, manufacturing, production management, wholesale of apparel</li> </ul>

\*5: Source: "Highlights of Communications Usage Trend Survey – Quarterly Data" (1Q FY2019, end-June 2019), Ministry of Internal Affairs and Communications

\*6: Source: "Number of Subscribers by Carriers" (June 2019), Telecommunications Carriers Association

\*7: In the outsourcing business, the Group sets up business operation offices (HITO-Communications offices) on site at the client to share strategies and resolve any issues related to the provision of sales support and other services. These offices are the first point of contact for negotiations with clients and for the development of strategies related to the provision of sales support and other services, under the leadership of the office chief. Directors are positioned at the offices to issue instructions to staff working at each site, and office teams are made up of personnel who are experienced in sales support and the provision of other services. Business operation offices are responsible for all operational areas related to product sales and service provision, including the recruitment of sales staff, development of training programs, creation of curriculums for product sales and other areas, work site inspections, and the provision of feedback to clients regarding sales support and other services.

This approach helps reduce the burden of personnel management and training for clients, allowing them to benefit in a number of ways, such as increased efficiency through the separation of frontline operations and marketing functions, supporting an improvement in earnings.

\*8: Source: "FY2018 Survey of Infrastructure Development Status for Data-driven Society in Japan (E-Commerce Market Survey)," Ministry of Economy, Trade and Industry

\*9: Source: "Chain Store Sales Statistics" (quarterly data, January 2019-June 2019), Japan Chain Stores Association

\*10: Source: "Visitor Arrivals" (preliminary figures, August 2019), Japan National Tourism Organization

In the fiscal year under review, sales by each product and service field were as follows:

**(a) Consumer electronics**

In the consumer electronics field, new orders were strong, particularly from overseas clients, and there were firm orders from leading domestic manufacturers for full-time business operation offices. However, in the selling season, there was a drop in orders for sales campaigns from some client companies.

As a result, the Group reported net sales of ¥3,753 million, down 1.2% in the consumer electronics field.

**(b) Broadband**

In the broadband field, sales increased at business operation offices that were set up for a leading telecommunications carrier to support the sale of broadband services at major electronics retailers nationwide. On the other hand, a contraction in the size of orders for high-margin projects continued due to reduced marketing spend at some client companies.

As a result, the Group reported net sales of ¥9,623 million, down 3.0% in the broadband field.

**(c) Mobile**

In the mobile field, orders were firm at business operation offices that were set up to sell budget SIM (kakuyasu SIM) cards, while there was an increase in the size of orders at business operation offices that were set up to market smartphones at major electronics retailers, mainly for telecommunication equipment makers.

As a result, the Group reported net sales of ¥5,214 million, up 18.6% in the mobile field.

**(d) Store services**

In the store services field, there was an increase in fashion-related sales, primarily through BBF, Inc., but sales in the wholesale business, which is focused on BRANCH-OUT CO., LTD., contracted temporarily due to unfavorable weather. In addition, there was a drop in orders, mainly from leading general merchandisers and supermarkets, due to a shift to direct recruitment of fresh food workers, cash register staff and other staff by client companies.

As a result, the Group reported net sales of ¥36,027 million, down 2.0% in the store services field.

**(e) Tourism**

In the tourism field, there was an upturn in orders for overseas tour guide placement services, led by demand for staff to work on cruise ships, and orders to manage sports events were firm.

As a result, the Group reported net sales of ¥3,482 million, up 4.3% in the tourism field.

**(f) Call center/other**

In the call center/other field, SALES ROBOTICS Corporation, which became a consolidated subsidiary at the end of May 2019, contributed to sales. In addition, there were firm orders for projects to support the introduction of cashless payment services, as well as strong orders for airport-related operations and services for overseas visitors to Japan, such as non-Japanese personnel staffing services.

As a result, the Group reported net sales of ¥5,705 million, up 39.3% in the call center/other field.

**(2) Overview of consolidated financial position**

HITO-Communications Holdings Inc. was established on March 1, 2019 as the wholly owning parent company of HITO-Communications, Inc. through a sole-share transfer. However, as there is no practical change in the scope of consolidation, year-on-year comparisons are based on the consolidated results of HITO-Communications, Inc. for the previous fiscal year (September 1, 2017 – August 31, 2018), and year-end year-on-year comparisons are based on the previous fiscal year-end of HITO-Communications, Inc. (August 31, 2018).

In addition, consolidated financial statements for the current fiscal year (September 1, 2018 – August 31, 2019) have been prepared based on the consolidated financial statements of HITO-Communications, Inc., which became a wholly owned subsidiary through a sole-share transfer.

**(Assets)**

As of August 31, 2019, total assets stood at ¥24,515 million, an increase of ¥5,124 million (26.4%) from the end of the previous fiscal year.

Current assets totaled ¥14,952 million, up ¥1,646 million from the end of the previous fiscal year, mainly reflecting increases of ¥757 million in cash and deposits and ¥659 million in notes and accounts receivable – trade.

Non-current assets totaled ¥9,562 million, up ¥3,477 million from the end of the previous fiscal year. The main items were increases of ¥1,673 million in goodwill associated with the acquisition of subsidiaries, ¥876 million in shares of subsidiaries and associates and ¥581 million in software.

**(Liabilities)**

As of August 31, 2019, total liabilities stood at ¥13,100 million, an increase of ¥3,574 million (37.5%) from the end of the previous fiscal year.

Current liabilities totaled ¥7,788 million, up ¥1,628 million from the end of the previous fiscal year. This mainly reflected increases of ¥489 million in current portion of long-term loans payable, ¥457 million in accounts payable – other and ¥231 million in accounts payable – trade.

Non-current liabilities totaled ¥5,312 million, up ¥1,945 million from the end of the previous fiscal year. This mainly reflected increases of ¥1,905 million in long-term loans payable and ¥29 million in deferred tax liabilities.

**(Net Assets)**

As of August 31, 2019, net assets stood at ¥11,414 million, an increase of ¥1,549 million (15.7%) from the end of the previous fiscal year. That mainly reflected an increase in retained earnings of ¥1,715 million from the booking of profit attributable to owners of parent and an increase in non-controlling interests of ¥125 million, which outweighed a decrease in retained earnings of ¥286 million due to the payment of dividends from surplus.

**(3) Overview of consolidated cash flows**

	(Millions of yen)
	Year ended August 31, 2019
Cash flows from operating activities	2,459
Cash flows from investing activities	(3,424)
Cash flows from financing activities	1,781
Effect of exchange rate change on cash and cash equivalents	(6)
Net increase (decrease) in cash and cash equivalents	810
Cash and cash equivalents at the beginning of period	5,985
Increase in cash and cash equivalents from newly consolidated subsidiary	—
Cash and cash equivalents at the end of period	6,796

As of the end of the fiscal year, cash and cash equivalents totaled ¥6,796 million, an increase of ¥810 million from the end of the previous fiscal year, as cash provided by operating activities and financing activities exceeded cash used by investing activities.

The main factors behind changes in cash flow during the fiscal year under review are as follows.

**1. Cash flows from operating activities**

Cash provided by operating activities mainly comprised profit before income taxes of ¥2,987 million, plus increase in operating debt of ¥598 million and amortization of goodwill of ¥335 million, minus cash used of ¥1,019 million for income tax payable.

**2. Cash flows from investing activities**

The main item was cash used of ¥2,148 million for the purchase of shares of subsidiaries resulting in change in scope of consolidation.

**3. Cash flows from financing activities**

The main item was cash provided of ¥2,750 million from proceeds from long-term loans payable.

**(4) Outlook**

The Company's outlook for the fiscal year ending August 31, 2020 (fiscal 2020) is as follows.

Guided by our motto, "Creating the future of marketing to drive real change," our goal is to continue delivering results-driven sales support services tailored to client needs by working with them as their marketing partner to develop new businesses designed for the changing demands of society, rather than simply providing personnel staffing services.

In the outsourcing business, the Group will reinforce the marketing capabilities and improve the profitability of its business operation offices in its core consumer electronics, broadband and mobile fields. We will also work to secure new business operation office orders in the store services, tourism and call center/other fields by stepping up marketing proposals to existing clients. In addition, we will expand our business in the digital marketing field, focusing on the promising growth area of inside sales.

In the personnel staffing business, the Group will work to secure staff and enhance training programs in order to deliver qualitative and quantitative improvements in staffing, focusing mainly on the consumer electronics, store services and tourism fields. In addition, in order to enhance our ability to address continued growth in the number of overseas visitors, we will focus on our non-Japanese personnel staffing services business, aiming to utilize overseas personnel such as foreign students and people on working holidays in Japan. We intend to market our services to clients who need foreign personnel. We will also focus on launching a non-Japanese worker placement business.

In the EC/TC support business, BBF, Inc. will lead efforts to expand the scope of marketing activities from the existing focus on fashion to new fields such as food and beauty & health. In addition, we will increase business synergies within the Group and step up efforts to realize a framework for omnichannel sales support.



In the wholesale business, BRANCH-OUT CO., LTD. will lead efforts to acquire new wholesale customers and expand the lineup of products developed in-house.

In the others business, we will step up efforts to address the needs of the large number of overseas visitors to Japan. Specifically, JAPAN LIMOUSINE SERVICE Inc. will reinforce its luxury limousine services for wealthy individuals and we will maximize synergies with Try Angle Inc., which has a strong position in the overseas visitor tour operator business.

In staff recruitment, we will continue to look into the feasibility of setting up a dedicated staff registration center and introduce an online interview system in order to effectively attract and register new staff. In addition, we will prioritize efforts to prevent staff turnover by continuing to enhance training and follow-up support systems, aiming to create working environments that support long-term staff retention.

Based on the above initiatives, the Group forecasts fiscal 2020 sales of ¥72,000 million, operating income of ¥3,350 million, ordinary income of ¥3,370 million and profit attributable to owners of parent of ¥1,900 million.

(5) Material events related to the going concern assumption

There is no related information.

**2. Basic stance on selection of accounting standards**

The HITO-Communications Group intends to use Japanese accounting standards to prepare consolidated financial statements for the time being in order to facilitate comparison with previous financial statements and with other companies.

The Group intends to respond appropriately to the adoption of international financial reporting standards (IFRS) based on factors such as trends in Japan and overseas.

**3. Consolidated financial statements and related notes**

## (1) Consolidated balance sheet

(Millions of yen)

As of August 31, 2019

Assets	
Current assets	
Cash and deposits	6,888
Notes and accounts receivable - trade	6,901
Merchandise	856
Work in process	66
Others	272
Allowance for doubtful accounts	(31)
<b>Total current assets</b>	<b>14,952</b>
Non-current assets	
Property, plant and equipment	
Buildings and structures	1,010
Accumulated depreciation	(404)
Buildings and structures, net	606
Machinery, equipment and vehicles	30
Accumulated depreciation	(28)
Machinery, equipment and vehicles, net	2
Tools, furniture and fixtures	395
Accumulated depreciation	(272)
Tools, furniture and fixtures, net	123
Land	1,273
Leased assets	92
Accumulated depreciation	(51)
Leased assets, net	40
<b>Total property, plant and equipment</b>	<b>2,045</b>
Intangible assets	
Goodwill	4,562
Software	787
Others	5
<b>Total intangible assets</b>	<b>5,355</b>
Investments and other assets	
Investment securities	444
Shares of subsidiaries and associates	876
Deferred tax assets	289
Others	553
Allowance for doubtful accounts	(2)
<b>Total investments and other assets</b>	<b>2,161</b>
<b>Total non-current assets</b>	<b>9,562</b>
<b>Total assets</b>	<b>24,515</b>

(Millions of yen)

As of August 31, 2019

Liabilities	
Current liabilities	
Accounts payable - trade	2,866
Short-term loans payable	35
Current portion of long-term loans payable	995
Accounts payable – other	2,477
Lease obligations	19
Income taxes payable	545
Provision for bonuses	185
Provision for directors' bonuses	5
Others	657
Total current liabilities	7,788
Non-current liabilities	
Long-term loans payable	4,981
Lease obligations	21
Provision for directors' retirement benefits	105
Net defined benefit liability	95
Deferred tax liabilities	29
Asset retirement obligations	59
Others	20
Total non-current liabilities	5,312
Total liabilities	13,100
Net assets	
Shareholders' equity	
Capital stock	450
Capital surplus	287
Retained earnings	10,027
Total shareholders' equity	10,764
Accumulated other comprehensive income	
Valuation difference on available-for-sale securities	(0)
Foreign currency translation adjustment	(6)
Total accumulated other comprehensive income	(6)
Non-controlling interests	656
Total net assets	11,414
Total liabilities and net assets	24,515

(2) Consolidated statement of income and comprehensive income  
(Consolidated statement of income)

	(Millions of yen)
	Year ended August 31, 2019
Net sales	63,806
Cost of sales	52,619
Gross profit	11,187
Selling, general and administrative expenses	8,209
Operating income	2,978
Non-operating income	
Interest income	3
Dividend income	4
Land and house rent received	3
Insurance income	6
Others	11
Total non-operating income	29
Non-operating expenses	
Interest expenses	11
Foreign exchange losses	2
Others	2
Total non-operating expenses	15
Ordinary income	2,991
Extraordinary losses	
Loss on retirement of non-current assets	0
Loss on valuation of investment securities	3
Total extraordinary losses	4
Profit before income taxes	2,987
Income taxes – current	1,174
Income taxes – deferred	(28)
Total income taxes	1,146
Profit	1,841
Profit attributable to non-controlling interests	125
Profit attributable to owners of parent	1,715

(Consolidated statement of comprehensive income)

(Millions of yen)

	Year ended August 31, 2019
Profit	1,841
Other comprehensive income	
Valuation difference on available-for-sale securities	(1)
Foreign currency translation adjustment	(3)
Total other comprehensive income	(5)
Comprehensive income	1,835
(Breakdown of comprehensive income)	
Comprehensive income attributable to owners of parent	1,711
Comprehensive income attributable to non-controlling interests	124

## (3) Consolidated statement of changes in net assets

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	737	—	8,598	(0)	9,335
Changes of items during period					
Increase (decrease) by share transfers	(287)	287			—
Dividends from surplus			(286)		(286)
Profit attributable to owners of parent			1,715		1,715
Purchase of treasury shares				(0)	(0)
Cancellation of treasury shares		(0)		0	—
Net changes of items other than shareholders' equity					
Total changes of items during period	(287)	287	1,428	0	1,428
Balance at end of current period	450	287	10,027	—	10,764

	Accumulated other comprehensive income			Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of current period	0	(3)	(2)	531	9,864
Changes of items during period					
Increase (decrease) by share transfers					—
Dividends from surplus					(286)
Profit attributable to owners of parent					1,715
Purchase of treasury shares					(0)
Cancellation of treasury shares					—
Net changes of items other than shareholders' equity	(0)	(3)	(4)	125	121
Total changes of items during period	(0)	(3)	(4)	125	1,549
Balance at end of current period	(0)	(6)	(6)	656	11,414

## (4) Consolidated statement of cash flows

	(Millions of yen)
	Year ended August 31, 2019
<b>Cash flows from operating activities</b>	
Profit before income taxes	2,987
Depreciation	194
Amortization of goodwill	335
Increase (decrease) in net defined benefit liability	8
Increase (decrease) in provision for directors' retirement benefits	8
Increase (decrease) in provision for directors' bonuses	5
Increase (decrease) in provision for bonuses	16
Increase (decrease) in allowance for doubtful accounts	(81)
Interest and dividend income	(7)
Interest expenses	11
Loss (gain) on valuation of investment securities	3
Loss on retirement of non-current assets	0
Decrease (increase) in notes and accounts receivable – trade	(460)
Decrease (increase) in inventories	(317)
Increase (decrease) in operating debt	598
Increase (decrease) in income taxes payable	(56)
Others	235
<b>Subtotal</b>	<b>3,482</b>
Interest and dividend income received	7
Interest expenses paid	(10)
Income taxes paid	(1,019)
<b>Net cash provided by (used in) operating activities</b>	<b>2,459</b>
<b>Cash flows from investing activities</b>	
Payments into time deposits	(60)
Proceeds from withdrawal of time deposits	120
Purchase of investment securities	(10)
Purchase of property, plant and equipment	(67)
Purchase of intangible assets	(198)
Purchase of shares of subsidiaries and associates	(876)
Payments of loans receivable from subsidiaries and associates	(171)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(2,148)
Others	(12)
<b>Net cash provided by (used in) investing activities</b>	<b>(3,424)</b>

	(Millions of yen)
	Year ended August 31, 2019
Cash flows from financing activities	
Proceeds from long-term loans payable	2,750
Repayments of long-term loans payable	(665)
Repayments of lease obligations	(16)
Cash dividends paid	(286)
Others	(0)
Net cash provided by (used in) financing activities	1,781
Effect of exchange rate change on cash and cash equivalents	(6)
Net increase (decrease) in cash and cash equivalents	810
Cash and cash equivalents at the beginning of period	5,985
Cash and cash equivalents at the end of period	6,796



(5) Notes on consolidated financial statements

(Basic important matters for the preparation of consolidated financial statements)

Consolidated financial statements for the fiscal year under review (September 1, 2018 – August 31, 2019) have been prepared based on the consolidated financial statements of HITO-Communications, Inc., which became a wholly owned subsidiary through a sole-share transfer.

(Notes related to the going concern assumption)

There is no related information.

(Segment information, etc.)

(Segment information)

1. Overview of reportable segments

The Group's reportable segments are components of the Group for which separate financial information is available. These segments are subject to periodic examinations to enable the Company's Board of Directors to decide how to allocate resources and assess operating performance.

The Group has four reportable segments, the outsourcing business, personnel staffing business, EC/TC support business and wholesale business. The segments have been classified based on the characteristics of their business activities and in accordance with legal requirements related to business management.

The outsourcing business conducts work for a complete area of operations (sales strategy planning, personnel placement, customer-facing sales operations, etc.) on behalf of manufacturers, communications carriers and other client companies; the personnel staffing business primarily dispatches personnel to meet the needs of manufacturers, communications carriers, supermarkets / GMS and other clients; the EC/TC support business provides sales support for e-commerce and TV shopping channels; and the wholesale business mainly manufactures and sells apparel on a wholesale basis.

2. Method used to calculate sales, income (loss), assets, liabilities and other items by reportable segment

Accounting policies for the reportable segments are substantially the same as those described in "Basic important matters for the preparation of consolidated financial statements."

Profits for reportable segments are based on operating income. Intersegment sales and transfers are based on prevailing market prices.

3. Information regarding sales, income (loss), assets, liabilities and other items by reportable segment  
Year ended August 31, 2019

(Millions of yen)

	Reportable segment					Others Note 2	Total	Adjustment Note 3	Carried on consolidated financial statements
	Outsourcing	Personnel staffing	EC/TC support	Wholesale	Total				
Net sales									
Sales to external customers	19,920	9,032	26,857	7,309	63,120	686	63,806	—	63,806
Intersegment sales and transfers	5	79	29	—	113	13	126	(126)	—
Total	19,925	9,111	26,886	7,309	63,233	699	63,933	(126)	63,806
Segment income (loss) <sup>Note 1</sup>	1,690	533	479	291	2,994	1	2,996	(18)	2,978
Segment assets	8,621	3,255	6,039	3,745	21,662	909	22,571	1,943	24,515
Other items									
Depreciation and amortization <sup>Note 4</sup> (Goodwill)	54	9	83	9	157	18	176	18	194
Amortization during the period	55	31	129	115	332	2	335	—	335
Balance at end of period	1,998	137	1,272	1,139	4,548	13	4,562	—	4,562
Increase in property, plant and equipment and intangible assets	302	15	201	4	524	17	542	—	542

- Notes:
1. Segment income (loss) has been adjusted for the operating income appearing in the consolidated financial statements.
  2. Other is not a reportable segment, and includes businesses such as social welfare services, instruction and training, luxury limousine services for wealthy individuals, and systems-related services.
  3. Details of adjustments are as follows:
    - (1) Adjustments to segment income (loss) are companywide expenses (depreciation and amortization) not allocated to a reportable segment.
    - (2) Adjustments to segment assets are companywide assets (head office land and buildings) not allocated to a reportable segment.
    - (3) Adjustments to depreciation and amortization for other items are companywide depreciation and amortization expenses not allocated to a reportable segment.
  4. Depreciation and amortization expenses include depreciation for long-term prepaid expenses.

(Related information)

Year ended August 31, 2019

1. Information by product and service

This information has been omitted, as it is the same as segment information.

2. Information by region

(1) Net sales

Information has been omitted, as net sales to outside customers in Japan exceeded 90% of net sales in the consolidated statement of income.

(2) Property, plant and equipment

This information has been omitted, as property, plant and equipment in Japan accounts for more than 90% of the value of property, plant and equipment on the consolidated balance sheet.

3. Information by major customer

This information has not been provided, as sales to external customers does not include any customers that account for 10% or more of sales in the consolidated statement of income.

(Information on non-current asset impairment losses by reportable segment)

There is no related information.

(Information on goodwill amortization amounts and outstanding amortization balances by reportable segment)

This information has been omitted, as it is the same as segment information.

(Information on gains on negative goodwill by reportable segment)

There is no related information.

(Per share information)

	(Yen)
	Year ended August 31, 2019
Net assets per share	601.01
Profit per share	95.83

Notes: 1. Fully diluted profit per share is not shown, as the Company does not have any shares with dilutive effect.

2. Basis for calculating profit per share is as follows:

	Year ended August 31, 2019
Profit per share	
Profit attributable to owners of parent (million yen)	1,715
Amounts attributable to owners of common stock (million yen)	1,715
Average number of shares of common stock during fiscal year (shares)	17,899,333

3. Basis for calculating net assets per share is as follows:

	As of August 31, 2019
Net assets (million yen)	11,414
Amount deducted from total net assets (million yen)	656
(Of which, non-controlling interests (million yen))	656
Year-end net assets related to common stock (million yen)	10,757
Number of shares of common stock at period-end used to calculate net assets per share (shares)	17,899,333

(Significant subsequent events)

There is no related information.