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TAN CHONG INTERNATIONAL LIMITED

陳唱國際有限公司

(incorporated in Bermuda with limited liability)

(Stock Code: 693)

OVERSEAS REGULATORY ANNOUNCEMENT

(This overseas regulatory announcement is issued pursuant to Rule 13.10B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.)

The announcement of unaudited financial results of Zero Co., Ltd. for the three-month period ended 30 September 2019 is originally prepared in Japanese ("Original Announcement"). The attached announcement on the next page is a translation of the Original Announcement solely for the purpose of providing information.

By the order of the Board
Tan Chong International Limited
Teo Siok Ghee
Liew Daphnie Pingyen
Joint Company Secretaries

Hong Kong, 8 November 2019

Website: <http://www.tanchong.com>

As at the date of this announcement, the executive Directors are Mr. Tan Eng Soon, Mr. Glenn Tan Chun Hong, Mr. Tan Kheng Leong and Mdm. Sng Chiew Huat and. The non-executive Director is Mr. Joseph Ong Yong Loke. The independent non-executive Directors are Mr. Ng Kim Tuck, Mr. Azman Bin Badrillah, Mr. Prechaya Ebrahim and Mr. Teo Ek Kee.

Summary of Consolidated Financial Results for the First Quarter Ending of the Fiscal Year June 30, 2020 [Based on IFRS]

November 8, 2019

Company name: ZERO CO., LTD.
 Stock code: 9028 URL: <http://www.zero-group.co.jp/>
 Representative: President & CEO
 Inquiries: Director and Manager of Group Strategies Headquarters
 Scheduled Date of Submission of Quarterly Report: November 11, 2019
 Scheduled date to commence dividend payments: -
 Preparation of supplementary material on quarterly financial results: No
 Holding of quarterly financial results meeting: No

Stock Exchange Listing: Tokyo
 Takeo Kitamura
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(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the first quarter ending of the fiscal year June 30, 2020 (From July 1, 2019 to September 30, 2019)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes)

	Sales revenue		Operating income		Profit before tax		Quarterly income		Profit attributable to equity shareholders of the company		Total comprehensive income of the quarter	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
1Q FY2019	22,931	9.5	1,217	246.5	1,223	254.9	804	-	803	-	786	-
1Q FY2018	20,939	8.2	351	Δ69.0	344	Δ69.5	21	Δ96.8	23	Δ96.5	Δ37	-

	Basic quarterly earnings per share		Diluted quarterly earnings per share	
	Yen		Yen	
1Q FY2019	48.15		48.08	
1Q FY2018	1.39		1.38	

(Note) “-” is shown because the change in Quarterly profit and in profit attributable to equity shareholders for Q1 FY2019 of the company exceed 1,000%.

(2) Consolidated financial position

	Total assets	Total capital	Equity attributable to equity shareholders of the company	Equity ratio attributable to equity shareholders of the company
	Millions of yen	Millions of yen	Millions of yen	%
1Q FY2019	45,086	23,527	23,510	52.1
FY2018	39,554	23,072	23,056	58.3

2. Cash dividends

	Annual dividends per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total
FY2018	---	4.00	---	20.90	24.90
FY2019	---				
FY2019 (forecast)		15.00		19.60	34.60

(Note) Amendment from the most recently announced dividend forecast: No

3. Forecast of consolidated financial results for the year ending June 30, 2020 (From July 1, 2019 to June 30, 2020)

(Percentages indicate year-on-year changes)

	Sales revenue		Operating income		Profit before tax		Profit attributable to equity shareholders of the company		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	95,000	5.3	4,000	21.0	3,980	20.8	2,300	38.7	138.33

(Note) Revisions from the most recently released business forecast: No

※(Note)

(1) Changes in significant subsidiary companies during the current quarter (Changes in the specific subsidiary companies following changes in the scope of consolidation): No

New — Co. (Company name), Exclusions — Co. (Company name)

(2) Changes in accounting policies, changes in accounting estimates

① Changes in the accounting policies required by IFRS : Yes

② Changes in the accounting policies due to other reasons : No

③ Changes in the accounting estimates : Yes

(Note) For details, please refer to the attached page. See “2. Summary of the Quarterly Consolidated Financial Statements and Major Notes, (6) Notes regarding Summary Quarterly Consolidated Financial Statements (Changes in Accounting Policy), (Changes in Accounting Estimates)” on page 12-13.

(3) Number of issued shares (common shares)

① Total number of issued shares at the end of the period (including treasury shares)

1Q FY2019	17,560,242 shares	FY2018	17,560,242 shares
② Number of treasury shares at the end of the period	1,030,369 shares	FY2017	1,030,369 shares
③ Average number of shares during the period (total up to this quarter)	16,685,873 shares	3Q FY2017	16,626,875 shares

※Earnings summary is not within the scope of the quarterly review by a certified public accountant or auditor

※Explanation of the proper use of financial results forecast and other notes

The earnings forecast, and other forward-looking statements herein are based on the information currently available to the Company and certain assumptions that the Company considers reasonable. The actual results may differ significantly from these forecasts due to a wide range of factors such as economic status of the major domestic and international markets or exchange rates fluctuation.

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1. Qualitative information on the quarterly financial results

(1) Explanation regarding the operating results

Japan's economy during the consolidated cumulative period of the first quarter continued to recover gradually; personal consumption also improved with a steady employment and income environment, but economic environment remain unclear due to the uncertainty of the foreign economic situation, beginning with the trade problem in the US and China.

In the domestic automotive market, the total number of new vehicles sales increased at 108.1% (statistical data of the Japan Automobile Manufacturers Association) as compared to the consolidated cumulative period of the same quarter from the previous year (hereinafter referred to as the same quarter from the previous year) due to the last minute surge in demand before the consumption tax rate increase.. The number of registered used cars, as with the number of new vehicle sales, increased compared to the same quarter from the previous year.

On the other hand, the business environment of the logistics industry is in serious circumstances with insufficient drivers due to the background of a strained supply and demand in the labor market as well as cost increase factors such as increased wages, increased hiring costs, continued high fuel expenses, and compliance response.

Under such circumstances, our group devised a 3-year mid-term plan from July of 2018 until June of 2021, and are proceeding with the following 5 topics: (1) development of new businesses in anticipation of a reduction of the domestic automobile market and next generation mobility society, (2) Expansion of human resources business corresponding to the strained supply and demand in the labor market and decreasing working age population, (3) Expansion of foreign business in anticipation of economic growth such as in ASEAN countries, (4) Maximization of effect to establish regional block companies through promotion of transportation reform in the vehicle transportation business, and (5) Creation of group synergy including subsidiaries and cooperating companies and promotion of optimization.

As a result, the business results of our group are as follows: sales revenue of 22,931 million yen (109.5% compared to the same quarter from the previous year) and operating profit of 1,217 million yen (346.5% compared to the same quarter from the previous year). Also, the profit before taxes was 1,223 million yen (354.9% compared to the same quarter from the previous year), and the profit of the quarter attributable to the equity shareholders of the company was 803 million yen (34.86-fold compared to the same quarter from the previous year).

Number of units related to domestic distribution of automobiles

Units: vehicles

Domestic	July of 2018 to September of 2018	July of 2019 to September of 2019	Compared to the previous year
Number of new vehicles sold			
Domestic manufacturer *1	1,214,818	1,316,263	108.4%
(out of this, Nissan Motor) *1	(154,836)	(154,521)	(99.8%)
Foreign manufacturer *2	76,312	80,002	104.8%
Total of new vehicle sales	1,291,130	1,396,265	108.1%
Number of used vehicle registrations			
Registered vehicles *3	898,707	964,714	107.3%
Light vehicles *4	710,988	755,558	106.3%
Total number of used vehicles registered	1,609,695	1,720,272	106.9%
Number of vehicles permanently deleted *3	44,189	44,637	101.0%

Export	July of 2018 to September of 2018	July of 2019 to September of 2019	Compared to the previous year
New vehicles of domestic manufacturers *1	1,143,939	1,195,515	104.5%
Used vehicles (registered vehicles) *5	358,472	372,681	104.0%

*1 Calculated from Japan Automobile Industry Association statistics *2 Calculated from Japan Automobile Importers' Association statistics *3 Calculated from Japan Automobile Dealers Association statistics *4 Calculated from Japan Mini Vehicles Association statistics *5 Trial calculated from the number of export deleted registered vehicles in the Japan Automobile Dealers Association statistics

The segment business results are as follows.

① Automobile related businesses

For vehicle transportation, which is the core business, the number of units for transportation contracts for new / used vehicles increased due to the last minute surge in demand even with the smaller scale compared to the previous consumption tax increase, and the start of Mitsubishi Motors' vehicle transportation business in the middle of August of 2019, which led to an increase in revenue. There was a decrease in revenue in the used vehicle export business due to the delay in shipment resulting from the impact of Typhoon 15, but there was an overall increase in revenue in the automotive related businesses.

The restructuring of the transportation system including cooperating companies has been accelerated with the impetus of establishment of regional block companies in the vehicle transportation business, and thorough implementation of cost management is being continued while aiming to achieve a systematic allocation and optimum distribution network throughout Japan. Profits increased in the automotive business due to the revision of transportation charges from January of 2019, review of the depreciation period of car carriers to match the actual life expectancy, and drop in unit price of fuel expenses compared to the same quarter of the previous year, in the midst of business challenges such as promoting initiatives for work style reforms to create a rewarding company and decrease the total work hours, increased labor costs and recruitment costs to deal with driver shortages, and increased vehicle costs due to the increased number of vehicles and the measures against aging of car carriers.

As a result, the overall sales revenue in the automobile related businesses was 16,307 million yen (108.8% compared to the same quarter from the previous year), and the segment profit was 1,618 million yen (278.6% compared to the same quarter from the previous year).

② Human resource business

With tightening of the labor demand accompanying the economic recovery, and increasing in personnel expenses, the difficulty in employment in major cities have become serious matters; therefore, the Group has promoted a regional shift from the major cities to smaller cities and reinforcement of the sales system, and has reviewed its product portfolio strategically and continuously. In addition to the fact that the existing pick up service and driver dispatch business have transitioned steadily, participation in the newly entered airport related business has increased revenues; the profit increased with restructuring non-profitable business and cost reduction.

As a result, the sales revenue of the overall human resource business was 4,902 million yen (107.1% compared to the same quarter from the previous year), and the segment profit was 247 million yen (159.4% compared to the same quarter from the previous year).

③ General cargo business

Revenue in the transport / warehousing business increased due to the increased cargo volume from the last minute surge in demand of the consumption tax rate increase in clients mainly handling household equipment, and the revenue in the port cargo handling business increased due to increased coal cargo and automobile cargo handling. Furthermore, the CKD business was launched and contributed to the sales revenue increase, increasing the revenue in the overall general cargo business as well.

Profit increased with the increased revenue in the transport / warehousing business and port cargo business, but expenses related to the launch of the CKD business continued, and there was a significant decrease overall in profit in the general cargo business.

As a result of the above, the sales revenue of the overall general cargo business was 1,721 million yen (125.3% compared to the same quarter of the previous year), and the segment loss was 137 million yen (segment profit of 173 million yen in the same quarter of the previous year).

Furthermore, the company expenses not included in the abovementioned report segment (expenses affiliated with our company's management division), etc. are allocated as an item in the "adjustment amount" as indicated in "2. (Segment information) in the summary of consolidated statements for the quarter," and totaled 510 million yen.

(2) Explanation regarding financial position

① Status of assets, liabilities, and equity

(Assets)

Current assets decreased 766 million yen (4.2%) compared to the end of the previous consolidated fiscal year and were 17,411 million yen.

This was mainly because, cash and cash equivalents decreased 474 million yen, the operating receivables and other receivables also decreased by 215 million yen.

Non-current assets increased by 6,298 million yen (29.5%) compared to the end of the previous consolidated fiscal year to 27,675 million yen.

This was mainly due to an increase of tangible fixed assets of 6,334 million yen resulting from an increase of assets of right to use, etc.

As a result, total assets increased by 5,531 million yen (14.0%) compared to the previous consolidated fiscal year to 45,086 million yen.

(Liabilities)

Current liabilities increased 1,586 million yen (12.6%) compared to the end of the previous consolidated fiscal year to 14,148 million yen.

This was mainly due to other financial liabilities increasing by 2,356 million yen due to an increase of lease debts, while income tax payables decreased by 438 million yen.

Non-current liabilities increased by 3,490 million yen (89.0%) compared to the end of the previous consolidated fiscal year to 7,411 million yen.

This was mainly due to an increase of 3,565 million yen in other financial liabilities due to lease debts, etc.

As a result, total liabilities increased by 5,077 million yen (30.8%) compared to the end of the previous consolidated fiscal year to 21,559 million yen.

(Equity)

Total equity increased by 454 million yen (2.0%) compared to the end of the previous consolidated fiscal year to 23,527 million yen.

This is mainly because retained earnings increased by 477 million yen due to the recording of quarterly profits attributable to equity shareholders of the company.

② Cash flow status

Cash and cash equivalents (hereinafter referred to as "funds") at the end of the consolidated accounting period of the first quarter decreased by 474 million yen compared to the end of the previous consolidated accounting fiscal year to 2,991million yen.

Each cash flow status category during the consolidated cumulative period of the first quarter and their causes are as follows.

(Cash flow through operating activities)

Funds obtained as a result of operating activities were 1,092 million yen (there was an income of 1,010 million yen during the same period of the previous year).

The main cause of the increase in funds were 804 million for profit from this period and 1.082 million yen for depreciation and amortization expenses which are non-fund expenses; the main cause of the decrease in funds was 832 million yen for payment of corporate income. To compare the same period of the previous year cash flow, due to the adoption of IFRS16, depreciation and amortization increased.

(Cashflow through investment activities)

Net cash used in investment activities was 501 million yen (expenditures of 405 million yen during the same period of the previous year).

The main itemization breakdown for expenditures was 461 million yen for acquisition of tangible fixed assets and investment property.

(Cashflow through financial activities)

Funds used as a result of financing activities were 1,064 million yen (income of 92 million yen in the previous year).

The main itemization breakdown for income was 115 million yen for short-term borrowings, and the main itemization breakdown for expenditures were 802 million yen lease liabilities payments and 345 million for dividends. To compare the same period of the previous year cash flow, due to the adoption of IFRS16, lease liabilities payments increased.

(3) Explanation regarding the future forecast information such as consolidated business forecast

In the domestic vehicle market, the backlash against last-minute demand before consumption tax rate increase will be expected, and still the other situation is uncertain, we have not made any amendments to the consolidated earnings forecast announced on August 8, 2019.

2. Summary of the consolidated financial statements and major notes

(1) Summary of quarterly consolidated statement of financial position

(Unit: million yen)

	End of the previous consolidated accounting year (June 30, 2019)	End of the consolidated accounting period of the first quarter (September 30, 2019)
Assets		
Current assets		
Cash and cash equivalents	3,465	2,991
Trade and other receivables	13,281	13,066
Inventories	922	1,004
Other financial assets	4	4
Other current assets	503	344
Total current assets	18,177	17,411
Non-current assets		
Tangible fixed assets	11,931	18,265
Goodwill and intangible assets	2,803	2,800
Investment properties	3,393	3,363
Investment accounting processed with equity method	986	973
Other financial assets	1,629	1,611
Other non-current assets	291	324
Deferred tax assets	341	335
Total non-current assets	21,377	27,675
Total assets	39,554	45,086

(Unit: million yen)

	End of the previous consolidated accounting year (June 30, 2019)	End of the consolidated accounting period of the first quarter (September 30, 2019)
Liabilities and Equity		
Liabilities		
Current liabilities		
Trade and other payable	6,976	6,838
Loans	1,283	1,389
Other financial liabilities	720	3,077
Income taxes payable, etc.	901	463
Other current liabilities	2,679	2,378
Total current liabilities	12,561	14,148
Non-current liabilities		
Loans	154	130
Other financial liabilities	1,519	5,085
Retirement benefits liabilities	1,725	1,646
Other non-current liabilities	306	309
Deferred tax liabilities	214	238
Total non-current liabilities	3,920	7,411
Total liabilities	16,481	21,559
Equity		
Capital	3,390	3,390
Capital surplus	3,362	3,376
Treasury stock	△687	△687
Other component of funds	236	199
Retained earnings	16,754	17,231
Total equity attributable to the equity shareholders of the company	23,056	23,510
Non-controlling interest	16	17
Total Equity	23,072	23,527
Total liabilities and equity	39,554	45,086

(2) Summary of quarterly consolidated profit and loss statement

(Unit: million yen)

	Consolidated cumulative period for the previous third quarter (from July 1, 2018 to September 30, 2018)	Consolidated cumulative period of this third quarter (from July 1, 2019 to September 30, 2019)
Sales revenue	20,939	22,931
Cost of sales	△ 18,537	△ 19,521
Gross Profit	2,401	3,409
Selling, general and administrative expenses	△ 2,277	△ 2,233
Other income	239	54
Other expenses	△ 12	△ 13
Operating profit	351	1,217
Financial profit	2	6
Financial expenses	△ 13	△ 13
Investment gain / loss through equity method	4	13
Profit before tax	344	1,223
Corporate income tax expenses	△ 323	△ 419
Profits of the quarter	21	804
Attribution of the profits of the quarter:		
Equity shareholders of the company	23	803
Non-controlling interest	△ 1	0
Profits of the quarter	21	804
Quarterly earnings per share		
Basic quarterly earnings per share (yen)	1.39	48.15
Diluted quarterly earnings per share (yen)	1.38	48.08

(3) Summary of quarterly consolidated statement of comprehensive income

(Unit: million yen)

	Consolidated cumulative period for the previous first quarter (from July 1, 2018 to September 30, 2018)	Consolidated cumulative period of this first quarter (from July 1, 2019 to September 30, 2019)
Profits for the quarter	21	804
Other comprehensive income		
Items not transferring over to profit or loss:		
Remeasurement of defined benefit system	32	19
Financial assets measured by fair value through other comprehensive income	△76	△11
Total of the items not transferring over to profit or loss	△44	8
Items which may be transferred over to profit or loss		
Other comprehensive income equity of affiliated company accounted for by the equity method	△14	△26
Total of the items which may be transferred over to profit or loss	△14	△26
Other comprehensive income after tax deduction	△59	△18
Comprehensive income for the quarter	△37	786
Attribution of the comprehensive income for the quarter:		
Equity shareholders of the company	△36	785
Non-controlling interest	△1	0
Comprehensive income for the quarter	△37	786

(4) Summary of quarterly consolidated statement of changes in equity
Consolidated accounting period of the first quarter (from July 1, 2018 to September 30, 2018)

(Unit: million yen)

	Equity attributable to equity shareholders of the company										Non-controlling interest	Total equity
	Capital	Capital surplus	Treasury stock	Other components of funds					Retained earnings	Total equity attributing to the equity shareholders of the company		
				Conversion difference of business activities overseas	Fluctuation of fair value of financial assets which can be sold	Financial assets measured by fair value through other comprehensive profits	Remeasurement of defined benefit system	Total other components of funds				
Balance on July 1, 2018	3,390	3,305	△ 687	△ 47	464	-	-	416	15,682	22,108	11	22,119
Cumulative effect amount due to change of accounting method					△ 464	464		-	△ 18	△ 18		△ 18
Carrying amount with the change in accounting method reflected	3,390	3,305	△ 687	△ 47	-	464	-	416	15,664	22,089	11	22,101
Profits of the quarter								-	23	23	△ 1	21
Other comprehensive income				△ 14		△ 76	32	△ 59		△ 59		△ 59
Comprehensive income of the quarter	-	-	-	△ 14	-	△ 76	32	△ 59	23	△ 36	△ 1	△ 37
Dividends of surplus								-	△ 282	△ 282		△ 282
Share-based payment transactions, etc.		14						-		14		14
Transfer from other capital component to Retained earnings							△ 32	△ 32	32	-		-
Total transactions, etc. with the owners	-	14	-	-	-	-	△ 32	△ 32	△ 250	△ 268	-	△ 268
Balance on September 30, 2018	3,390	3,320	△ 687	△ 62	-	387	-	325	15,436	21,785	9	21,795

Consolidated accounting period of the previous first quarter (from July 1, 2019 to September 30, 2019)

(Unit: million yen)

	Equity attributable to equity shareholders of the company										Non-controlling interests	Total equity
	Capital	Capital surplus	Treasury stock	Other components of funds					Retained earnings	Total equity attributing to the equity shareholders of the company		
				Conversion difference of business activities overseas	Fluctuation of fair value of financial assets which can be sold	Remeasurement of defined benefit system	Total other components of funds					
Balance on July 1, 2019	3,390	3,362	△ 687	△ 50	286	-	236	16,754	23,056	16	23,072	
Profits of the quarter								803	803	0	804	
Other comprehensive income				△ 26	△ 11	19	△ 18		△ 18		△ 18	
Comprehensive income of the quarter	-	-	-	△ 26	△ 11	19	△ 18	803	785	0	786	
Dividends of the surplus								-	△ 345	△ 345		△ 345
Share-based payment transactions		14						-		14		14
Transfer from other capital component to retained earnings						△ 19	△ 19	19		-		-
Total of transactions, etc., with the owners	-	14	-	-	-	△ 19	△ 19	△ 326	△ 331	-	△ 331	
Balance on September 30, 2019	3,390	3,376	△ 687	△ 76	275	-	199	17,231	23,510	17	23,527	

Unit: million

(5) Summary of quarterly consolidated cash flow statements

(Unit: million yen)

	Consolidated cumulative period for the previous first quarter (from July 1, 2018 to September 30, 2018)	Consolidated cumulative period of this first quarter (from July 1, 2019 to September 30, 2019)
Cash flow from operating activities		
Profits of the quarter	21	804
Depreciation and amortization costs	420	1,082
Interest income and dividend	△5	△6
Interest expense	13	13
Investment gain / loss through equity method	△4	△13
Corporate income tax expenses	323	419
Increase / decrease of trade receivables (△ is an increase)	△25	204
Increase / decrease of inventories (△ is an increase)	△335	△82
Increase / decrease of trade payables (△ is a decrease)	168	334
Increase / decrease in retirement benefits liabilities (△ is a decrease)	△96	△65
Other	△252	△758
Subtotal	227	1,932
Interest and dividend received	5	6
Interest paid	△13	△13
Corporate income tax paid	△1,230	△832
Net cash provided by (used in) operating activities	△1,010	1,092
Cash flow from investment activities		
Payment for acquisition of tangible fixed assets and investment properties	△387	△461
Proceed from sales of tangible fixed assets and investment properties	0	2
Payment for intangible assets	△77	△38
Payment for loans receivable	△1	△3
Proceed from loans receivable	4	3
Other	55	△4
Net cash provided by (used in) investment activities	△405	△501

	Consolidated cumulative period for the previous first quarter (from July 1, 2018 to September 30, 2018)	Consolidated cumulative period of this first quarter (from July 1, 2019 to September 30, 2019)
Cash flow from financing activities		
Net increase or decrease of short-term loans (Δ is a decrease)	600	115
Repayment of long-term loans	$\Delta 78$	$\Delta 32$
Repayment of finance lease debts	$\Delta 146$	-
Repayment of lease debts	-	$\Delta 802$
Dividend paid	$\Delta 282$	$\Delta 345$
Cash flow through financing activities	92	$\Delta 1,064$
Increase / decrease in of cash and cash equivalents (Δ is a decrease)	$\Delta 1,324$	$\Delta 474$
Cash and cash equivalents at the beginning of the quarter	5,273	3,465
Balance of cash and cash equivalents at the end of the quarter	3,949	2,991

- (6) Notes regarding summary of quarterly consolidated financial statements
(Notes on going concern assumption)
There are no applicable matters.

(Changes in accounting policies)

The important company policies that our group applies to this quarterly consolidated financial statement summary will be the same company policies applicable to the consolidated financial statements of the previous consolidated accounting year excluding the below.

(1) Application of IFRS No. 16 (lease)

Our group has applied the following standards starting from this first quarter of the consolidated accounting period.

Standard	Name of the standard	Summary
IFRS No. 16	Lease	Definition of lease and revision of accounting process

In the application of IFRS No. 16 "Lease (announced in January of 2016, hereinafter referred to as IFRS No. 16), retroactive revision approach is being applied. Therefore, revised comparison information is not shown again, and the cumulative effect of the application of IFRS No. 16 is recognized on the initial application date, which is July 1, 2019.

In the previous consolidated accounting year, our group has classified all substantial risks and lease contracts with economic benefit as finance lease. Lease assets are initially recognized at the fair value or the current value of the total amount of minimum payment lease fee. Lease contracts other than finance leases are classified as operating leases and are not appropriated in the consolidated statement of affairs of our group. The payment lease fee of operating leases is recognized as an expense throughout the lease period based on the straight-line method.

During this consolidated accounting year, our group did not categorize borrower leases as finance leases or operating leases in accordance with IFRS No. 16, has introduced a single accounting model, and has recognized lease debts which show the obligation to pay the right-of-use asset and lease fee which show the right to use the underlying assets as a general rule for all leases, excluding cases of short term leases with a lease period shorter than 12 months or small amount assets leases.

Accompanying the application of IFRS No. 16, for borrower lease transactions, our group has measured the right to use asset at acquisition cost and the lease debt at the current value of the total amount of unpaid lease fees at the lease commencement date. The acquisition cost of the right to use asset is initially measured by adjusting the prepaid lease payment, etc. to the initial measured amount of the lease debt. In the summary of consolidated financial status statement for the quarter, the right-of-use asset is shown as included in the "tangible fixed assets," and the lease debt is included in the "other financial debts." The depreciation of the right-of-use assets and interest costs related to the lease debt are appropriated after recognizing the right-of-use assets and the lease debts.

Our group estimates the lease period of the right-of-use asset by adding a reasonably certain time period in which executing an option to extend the lease or executing an option to cancel the lease will not be exercised during the irrevocability period of the lease. Also, the discount rate applied to the lease debts related to the applicable right-of-use assets utilize the borrowing interest rate of the borrower. The right-of-use assets are depreciated using the straight-line method over the shorter of either the useful life period or the lease period.

Also, our group utilizes the following practical expedients in applying the IFRS No. 16.

- Regarding leases in which the lease period is to be concluded within 12 months of the application start date, the same accounting process method of short-term leases
- Exclude the initial direct cost from the measurement of right-of use as of the date of initial application
- Carry over the past decision of whether the transaction is a lease or not for the contracts signed before the previous consolidated accounting year
- Utilize ex post facto decisions in the case of calculating the lease period for contracts which include extension or cancellation options

(2) Effect on the summary of the consolidated financial statements of the quarter

When applying IFRS No. 16, a method of recognizing the cumulative effect from the application of the standard on the application start date, which is the accepted transitional measure, is utilized. The revised comparison information is not displayed again due to this, 8,871million yen for right-of-use assets and 8,720 million yen for lease debts are appropriated in the summary of consolidated financial status statements for this quarter on July 1, 2019. This is mainly an influence of the lease fee classified as an operating lease in IAS No. 17 being appropriated as an asset and debt upon application of IFRS No. 16. Furthermore, there is no effect on the accumulated earnings at the beginning of the term because right-of-use assets that is the same amount as the lease debts (however, advance lease fee and unpaid lease fee are revised) is recognized when the lease debt is recognized.

The average of the added borrowing interest applied to the lease debts at the time of the application start date was 0.2%.

Also, the cash flow due to sales activities increased, and the cash flow due to financial activities decreased in conjunction with the change of display in the operating lease cost.

The difference between the total of the minimum lease fee of the operating leases at the last date of the fiscal year immediately before the application start date, and the lease debt recognized in the summary of the consolidated financial status statement for the quarter as of the application start date, is as follows.

(Million yen)

	Amount
Balance of unpaid lease fees for operating lease contracts (June 30, 2019)	1,965
Balance of unpaid lease fees for operating lease contracts after discount (July 1, 2019)	1,946
Lease debts classified in the finance leases (June 30, 2019)	2,149
Effects, etc., from the review of lease period due to the application of IFRS No. 16	4,624
Lease debts recognized in the summary of the consolidated financial status statement as of the application start date	8,720

(Change of accounting estimates)

In creating the summary of the consolidated financial statements for the quarter conforming to IFRS, managers are required to apply the accounting policy as well as to determine, estimate, and presume the effect thereof on the assets, debts, profits, and cost amount. The actual business results may differ compared to these estimates.

The estimate and the assumptions which become the base of the estimates will be continuously reviewed. The effect from the accounting estimate review is recognized in the accounting period in which the estimate is reviewed as well as in the future accounting period thereafter.

Excluding the accounting estimate changes indicated below, the estimate and decisions significantly affecting the amount in the summary of the consolidated financial statements in the quarter are the same as the consolidated financial statements in the previous consolidated accounting year.

(Change in life expectancy)

Regarding some of the sales vehicles in the automobile related business possessed by our company, it became clear that long-term usage can be expected through regular maintenance, etc. Due to this, the life expectancy has been revised from the conventional 7 years to 10 years starting the first quarter of the consolidated accounting period going forward.

Due to this, 75 million yen has been added to the sales profit and pre-tax profits for this first quarter of the consolidated cumulative period. Also, the effect on the segment information is indicated in the applicable portions.

(Segment information)

The segment information of our group is as follows.

Consolidated cumulative period of the previous first quarter (from July 1, 2018 to September 30, 2018)

(Unit: million yen)

	Automobile related businesses	Human resource businesses	General cargo businesses	Total	Adjustment amount (note)	Total amount on the quarterly consolidated financial statements
Sales revenue						
Sales revenue from external customers	14,986	4,579	1,373	20,939	-	20,939
Sales revenue between segments	8	225	98	331	△ 331	-
Total	14,994	4,804	1,472	21,270	△ 331	20,939
Segment profit (operating profit)	580	155	173	910	△ 558	351

(Note) The △ 558 million yen adjustment amount in the segment profits includes the total company cost △ 558 million yen and 0 million yen of transaction elimination between segments. The total company cost is an expense related to the management divisions of our company not belonging to the reporting segment.

Consolidated cumulative period of this first quarter (from July 1, 2019 to September 30, 2019)

(Unit: million yen)

	Automobile related businesses	Human resource businesses	General cargo businesses	Total	Adjustment amount (note)	Total amount on the quarterly consolidated financial statements
Sales revenue						
Sales revenue from external customers	16,307	4,902	1,721	22,931	-	22,931
Sales revenue between segments	9	280	116	406	△ 406	-
Total	16,316	5,182	1,838	23,337	△ 406	22,931
Segment profit (operating profit)(△ is loss)	1,618	247	△ 137	1,728	△ 510	1,217

(Note) 1. The △ 510 million yen adjustment amount in the segment profits includes the total company cost △ 510 million yen and 0 million yen of transaction elimination between segments. The total company cost is an expense related to the management divisions of our company not belonging to the reporting segment.

2. As indicated in "2. Summarized quarterly consolidated statement's (Change of estimates appropriated in accounting)," the life expectancy has been changed starting from the consolidated cumulative period of this first quarter for some of the vehicles for sales in our company's automobile related businesses. Due to this change, the segment profit during the consolidated cumulative period of this first quarter has increased 75 million yen in the automotive related businesses compared to that of the conventional method.