

TRANSLATION



January 4, 2022

FOR IMMEDIATE RELEASE

Company Name: Prored Partners Co., Ltd.
Representative: Susumu Satani, Representative Director
(Securities code: 7034, First Section of TSE)
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Notice Regarding Corrections of Summary of Financial Statements for the First Nine Months of the Previous Fiscal Year Ending October 31, 2021 (Japanese GAAP)

Prored Partners Co., Ltd. (the "Company" or "we") announces a correction to an accounting-related error with respect to the announced summary of financial statements for the previous fiscal year (First Nine Months of the fiscal year ended October 31, 2021). Details are as follows.

1. Reason for and background of the correction

The Company had recognized as net sales in its consolidated financial statements, from the perspective of consolidated accounting, management fees (the "Fees") that Dolphin No. 1 Investment Limited Partnership (the "Partnership"), which is operated by Bluepass Capital, the Company's consolidated subsidiary, receives from external investors. Recently, however, it found an accounting error with regards to the Fees while it was working on the financial results for the fiscal year ended October 31, 2021.

The Partnership has been included in the scope of the Company's consolidated group since it filed the consolidated financial results for the first six months of the fiscal year ended October 31, 2021. Following the discussion with its audit company at the time about the accounting treatment of the Fees, we posted such Fees as net sales from the perspective of consolidation accounting, taking into consideration (i) the fact that the management of investment funds including the Partnership was deemed as one of the Company's main businesses, which we confirmed with the auditor and (ii) the economic nature of the Fees. We prepared the consolidated financial results for the first nine months for the fiscal year ended October 31, 2021 in the same way.

The auditor reviewed the accounting treatment of the Fees as part of its audit process for the financial results for the fiscal year ended October 31, 2021. The auditor found that the accounting treatment of the Fees was not correct and advised us that the category for posting the Fees should be changed from net sales to profit attributable to non-controlling interests. Following the advice, we carefully reviewed the contractual nature of the Fees and generally accepted accounting procedures for similar matters and have reached a conclusion that there was an error in the accounting treatment of the Fees. Based on this conclusion, we have decided to correct the announced summary of financial results for the previous fiscal year.

Because of the error correction, consolidated net sales for the fiscal year ended October 31, 2021 decreased 156 million yen. In the meantime, with consolidated operating profit rising 41 million yen, profit attributable to owners of parent remained unaffected.

2. Correction points

The corrected part is displayed with a _____ under line. In addition, since there are many corrections, the corrections will be made the full text is shown only after the correction.

End

(After correction)

September 14, 2021

Consolidated Financial Results for the First Nine Months of the Fiscal Year Ending October 31, 2021 (Japanese GAAP)

Company name: Prored Partners Co., Ltd. Stock exchange listing: Tokyo Stock Exchange
Securities code: 7034 URL: <https://www.prored-p.com/>
Representative: Susumu Satani, Representative Director
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Scheduled date for filing of securities report: September 14, 2021
Scheduled date of dividend payment: –
Supplementary documents for quarterly results: Yes
Quarterly results briefing: Yes (for institutional investors and analysts)

(Rounded down to the nearest million yen)

1. Consolidated Financial Results for the First Nine Months of the Fiscal Year Ending October 31, 2021 (November 1, 2020 to July 31, 2021)

(1) Consolidated business results (Percentages below represent increases (decreases) from the same period of the previous fiscal year)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Nine months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
July 31, 2021	<u>2,721</u>	–	<u>513</u>	–	<u>368</u>	–	<u>331</u>	–
July 31, 2020	–	–	–	–	–	–	–	–

(Note) Comprehensive income First nine months ended July 31, 2021: 207 million yen (–%)
First nine months ended July 31, 2020: – million yen (–%)

	Earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
July 31, 2021	<u>29.80</u>	<u>29.73</u>
July 31, 2020	–	–

(Note) The Company prepares consolidated financial statements from the end of the fiscal year ended October 31, 2020, and therefore does not state year-on-year rates of change in the first nine months of the fiscal year ending October 31, 2021 and values and year-on-year rates of change in the first nine months of the fiscal year ended October 31, 2020.

(2) Financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of July 31, 2021	<u>7,243</u>	<u>6,000</u>	<u>80.6</u>
As of October 31, 2020	7,522	6,266	83.3

(Reference) Equity As of July 31, 2021: 5,837 million yen As of October 31, 2020: 6,266 million yen

2. Dividends

	Dividend per share				
	End of first quarter	End of second quarter	End of third quarter	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended October 31, 2020	–	0.00	–	0.00	0.00
Fiscal year ending October 31, 2021	–	0.00	–		
Fiscal year ending October 31, 2021 (Forecast)				0.00	0.00

(Note) Revisions to the forecasts of cash dividends most recently announced: None

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending October 31, 2021 (November 1, 2020 to October 31, 2021) (Percentages below represent increases (decreases) from the same period of the previous fiscal year.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full Year	3,744	–	627	–	611	–	420	–	37.95

(Notes) 1. Revisions to the forecast of results since most recent announcement: Yes

For details of revisions to the consolidated financial results forecasts, please refer to “Notice Concerning Revisions to the Full-Year Results Forecast” announced today (September 14, 2021).

2. Given that the fiscal year ended October 31, 2020 is the first year of preparing consolidated financial results and that the deemed date of acquisition of consolidated subsidiaries is set at the end of the current fiscal year, only the balance sheets are consolidated in the fiscal year ended October 31, 2020. Therefore, the statement of year-on-year rates of change is omitted.

* Notes

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries accompanying changes in scope of consolidation): None
 Newly included: None Excluded: None

- (2) Application of particular accounting treatment concerning preparation of quarterly financial statements: Yes
 (Note) For details, please refer to “2. Quarterly Consolidated Financial Statements and Key Notes (3) Notes to Quarterly Consolidated Financial Statements (Application of particular accounting treatments concerning preparation of quarterly consolidated financial statements)” on page 7 of the Supplementary Information.

- (3) Changes in accounting policies, accounting estimates and restatement
 (i) Changes in accounting policies associated with revision of accounting standards: None
 (ii) Changes in accounting policies other than (i): None
 (iii) Changes in accounting estimates: None
 (iv) Restatement: None

- (4) Number of shares outstanding (common stock)
 (i) Number of shares outstanding (including treasury stock)
 As of July 31, 2021: 11,195,600 shares
 As of October 31, 2020: 11,169,600 shares
 (ii) Number of treasury stock at the end of the period
 As of July 31, 2021: 276,069 shares
 As of October 31, 2020: 169 shares
 (iii) Average number of shares issued during the period
 Nine months ended July 31, 2021: 11,127,275 shares
 Nine months ended July 31, 2020: 10,819,597 shares

(Note) On January 12, 2020, the Company implemented a two-for-one common stock split. The number of shares outstanding at end of the period, the number of treasury shares at end of the period, and the average number of shares outstanding during the period were calculated assuming that the stock split was implemented at the beginning of the previous consolidated fiscal year.

* Quarterly financial results are outside the scope of the quarterly review by certified public accountants or audit corporations.

* Explanations and other special notes concerning the appropriate use of business results forecasts
 (Notes on forward-looking statements)

The forward-looking statements such as result forecasts included in this document are based on the information available to the Company at the time of the announcement and on certain assumptions considered reasonable, and the Company makes no representations as to their achievability. Actual results may differ materially from the forecast depending on a range of factors. For assumptions underlying the forecasts and notes regarding the use of the forecasts, please refer to “1. Qualitative Information on Financial Results for the First Nine Months Ended July 31, 2021 (3) Explanation Regarding Financial Results Forecasts and Other Forward-Looking Statements” on page 3 of the Supplementary Information.

(How to obtain supplementary documents for quarterly results and details of the results briefing)

The Company will hold an online results briefing for institutional investors and analysts on Tuesday, September 14, 2021 using its web meeting system. The Company will post the details of the results briefing on its website as soon as it has been held.

○ Index for Supplementary Information

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1. Qualitative Information on Financial Results for the First Nine Months Ended July 31, 2021

The forward-looking statements made below are forecasts determined by the Group at the end of the first nine months under review.

The Group prepares consolidated financial statements from the end of the previous fiscal year, and therefore does not conduct a comparative analysis with the same period of the previous fiscal year.

(1) Explanation Regarding Business Results

During the first nine months under review, the conditions surrounding the Japanese economy continued to be severe, as Japan continued to be affected by restraints on economic activity and people's movement due to COVID-19.

However, in the consulting service market in which the Group operates, there was increasing need for consulting services supporting various aspects of corporate activities such as the restructuring of industries, the improvement of work efficiency, and the creation of new business models to enhance corporate value, as well as the utilization of digital technologies essential in the achievement of these objectives. Among these needs, the need for consulting continued to be high in areas surrounding the reduction of costs, given the increasing personnel expenses and uncertain economic conditions, etc.

In this business environment, the Group has continued to operate by negotiating and providing consulting services via the internet, encouraging people to work from home and striving to win new orders by expanding its sales partners, strengthening relationships and increasing sales staff. In consulting services, the Group has commenced a new service to offer extensive cost management in a more hands-on way compared to previous cost reduction measures. In addition, it is expanding into new business areas, which include consulting on the environment for local governments and even the business spend management area in which digital transformation (DX) is applied to facilitate cost control.

For the fiscal year ending October 31, 2021, sales in the first half were relatively low from the planning stage due mainly to the impact of restrictions on sales activities during the state of emergency that began in April 2020. Even so, the Group expected that sales would recover to the year-ago level in the second half. However, some of the Group's customers are experiencing tougher business conditions, given the additional declaration of a state of emergency and implementation of intensive infection prevention measures in Tokyo and certain other areas due to the resurgence of the COVID-19 after April 2021. This has seriously affected orders for consulting services that the Group provides to customers.

As a result, operating results for the first nine months under review recorded net sales of 2,721 million yen, operating profit of 513 million yen, ordinary profit of 368 million yen and profit attributable to owners of parent of 331 million yen. Segment information is not shown because the Group's operations are limited to the single segment of the consulting business.

(2) Explanation Regarding Financial Position

(Assets)

Assets at the end of the first nine months under review totaled 7,243 million yen, a decrease of 279 million yen from the end of the previous fiscal year.

Current assets decreased 593 million yen from the end of the previous fiscal year, to 6,081 million yen. This was mainly attributable to a decrease of 536 million yen in cash and deposits.

Non-current assets increased 313 million yen from the end of the previous fiscal year, to 1,161 million yen. This was chiefly due to increases of 131 million yen in investment securities, 102 million yen in software in progress, and 57 million yen in leasehold deposits and guarantee deposits, partly offset by a decrease of 22 million yen in accumulated depreciation of property, plant and equipment.

(Liabilities)

Liabilities at the end of the first nine months under review totaled 1,243 million yen, a decrease of 12 million yen from the end of the previous fiscal year.

Current liabilities increased 17 million yen from the end of the previous fiscal year, to 930 million yen. This was mainly attributable to increases of 98 million yen in accounts payable - other and decreases of 178 million yen in income taxes payable and 74 million yen in accrued expenses.

Non-current liabilities declined 30 million yen from the end of the previous fiscal year, to 312 million yen. This primarily reflects a decrease of 23 million yen in asset retirement obligations.

(Net assets)

Assets at the end of the first nine months under review totaled 6,000 million yen, a decrease of 266 million yen from the end of the previous fiscal year. This was mainly attributable to increases of 762 million yen in treasury shares, 331 million yen in retained earnings due to the posting of profit attributable to owners of parent, and 162 million yen in non-controlling interests.

(3) Explanation Regarding Financial Results Forecasts and Other Forward-Looking Statements

The full-year consolidated financial results forecasts for the fiscal year ending October 31, 2021 have been revised due to prolonged impacts including restrictions on sales activities associated with the state of emergency that began in April 2020.

For details, please see the Notice Concerning Revisions to the Full-Year Results Forecast released today (September 14, 2021).

Results forecasts are prepared based on the information available to the Company at the present moment, and actual results may differ from forecasts due to various future factors.

2. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheet

(Unit: Thousand yen)

	Previous fiscal year (As of October 31, 2020)	First nine-month period (As of July 31, 2021)
Assets		
Current assets		
Cash and deposits	5,952,812	5,416,169
Accounts receivable - trade	629,078	496,789
Work in process	43,279	28,758
Supplies	386	286
Other	49,103	<u>139,630</u>
Total current assets	<u>6,674,660</u>	<u>6,081,634</u>
Non-current assets		
Property, plant and equipment	44,753	82,380
Intangible assets		
Goodwill	369,054	345,988
Software	47,767	39,961
Software in progress	—	102,793
Other	26	26
Total intangible assets	<u>416,848</u>	<u>488,769</u>
Investments and other assets	<u>386,451</u>	<u>590,633</u>
Total non-current assets	<u>848,053</u>	<u>1,161,783</u>
Total assets	<u>7,522,713</u>	<u>7,243,418</u>
Liabilities		
Current liabilities		
Accounts payable - trade	28,314	25,105
Current portion of bonds payable	80,000	40,000
Short-term borrowings	100,000	100,000
Current portion of long-term borrowings	25,200	12,600
Accounts payable - other	147,427	246,037
Accrued expenses	212,763	138,596
Income taxes payable	193,428	14,470
Provision for bonuses	10,368	40,658
Other	115,193	<u>312,683</u>
Total current liabilities	<u>912,695</u>	<u>930,152</u>
Non-current liabilities		
Bonds payable	240,000	240,000
Long-term borrowings	50,800	44,500
Retirement benefit liability	13,539	13,539
Asset retirement obligations	38,928	14,945
Total non-current liabilities	<u>343,268</u>	<u>312,984</u>
Total liabilities	<u>1,255,963</u>	<u>1,243,136</u>
Net assets		
Shareholders' equity		
Share capital	2,025,041	2,025,925
Capital surplus	2,015,041	2,015,925
Retained earnings	2,227,213	<u>2,558,803</u>
Treasury shares	(546)	(762,779)
Total shareholders' equity	<u>6,266,750</u>	<u>5,837,874</u>
Non-controlling interests	—	<u>162,407</u>
Total net assets	<u>6,266,750</u>	<u>6,000,281</u>
Total liabilities and net assets	<u>7,522,713</u>	<u>7,243,418</u>

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

(Quarterly consolidated statement of income)

(First nine-month period)

	(Unit: Thousand yen)
	First nine-month period (from November 1, 2020 to July 31, 2021)
Net sales	<u>2,721,832</u>
Cost of sales	<u>1,101,418</u>
Gross profit	<u>1,620,413</u>
Selling, general and administrative expenses	<u>1,106,871</u>
Operating profit	<u>513,542</u>
Non-operating income	
Interest income	67
Government subsidies received	2,000
Miscellaneous income	2,025
Total non-operating income	<u>4,093</u>
Non-operating expenses	
Interest expenses	423
Interest expenses on bonds	160
Loss on investments in investment partnerships	22,051
Investment partnership management expenses	<u>126,413</u>
Miscellaneous losses	358
Total non-operating expenses	<u>149,406</u>
Ordinary profit	<u>368,229</u>
Extraordinary income	
Gain on sale of non-current assets	154
Total extraordinary income	<u>154</u>
Extraordinary losses	
Loss on retirement of non-current assets	0
Total extraordinary losses	<u>0</u>
Profit before income taxes	<u>368,384</u>
Income taxes	160,525
Profit	<u>207,858</u>
Loss attributable to non-controlling interests	<u>(123,730)</u>
Profit attributable to owners of parent	<u>331,589</u>

(Quarterly consolidated statement of comprehensive income)

(First nine-month period)

(Unit: Thousand yen)

	First nine-month period (from November 1, 2020 to July 31, 2021)
Profit	<u>207,858</u>
Comprehensive income	<u>207,858</u>
Comprehensive income attributable to	
Comprehensive income attributable to owners of parent	<u>331,589</u>
Comprehensive income attributable to non-controlling interests	<u>(123,730)</u>

(3) Notes to Quarterly Consolidated Financial Statements

(Note regarding going concern assumptions)

Not applicable.

(Notes in the case of significant changes in shareholders' equity)

The Company acquired 275,900 treasury shares following a resolution passed at a meeting of the Board of Directors held on March 16, 2021. Consequently, during the first nine months of the fiscal year under review, treasury shares increased 762 million yen, standing at 762 million yen at the end of the first nine months of the fiscal year under review.

(Application of particular accounting treatments concerning preparation of quarterly consolidated financial statements)

The Company calculates tax expenses by rationally estimating the effective tax rate after applying tax effect accounting to profit before income taxes in the consolidated fiscal year that includes the nine months under review and multiplying profit before income taxes by the estimated effective tax rate.

(Segment information, etc.)

Segment information

Segment information is not shown because the Group's operations are limited to the single segment of the consulting business.

(Significant subsequent events)

(Implementation of investment by a fund to which one of the Group companies provides services)

A fund, to which BLUEPASS CAPITAL INC., one of the Group companies, provides services, concluded an agreement on August 12, 2021 with Ceno Company, Ltd. through a special purpose company in which the fund made investment, with respect to capital and business collaboration, etc. Consequently, the fund has commenced investment in Ceno Company, Ltd. and Peaman Co., Ltd., its affiliate company. Due to confidentiality requirements, the Company will refrain from disclosing acquisition prices, etc.

(i) Overview of the investment

Ceno Company, Ltd., a fashion apparel company, offers products under multiple brands including VANQUISH, a Shibuya-originated brand that Ceno inherited, and #FR2, a street fashion brand promoted through a Harajuku-based flagship store, a facility established as a communication hub, featuring the era of photo-based social media communication. In particular, #FR2 is extremely popular in East Asia and Southeast Asia as a street fashion brand originating from Japan, and is one of the few Japanese street fashion brands with the potential to expand globally. In addition, Ceno has been maintaining high profitability, even amid the COVID-19 pandemic, through its unique marketing strategy without depending on advertising.

BLUEPASS CAPITAL INC. provides Ceno with its full support to ensure that #FR2 becomes one of the world's pre-eminent Japan-originated street fashion brands, chiefly by helping Ceno further expand its business in East and Southeast Asia, increase its online sales including those from cross-border e-commerce, and strengthen its organizational structure, while simultaneously leveraging the Group's management consulting function and its own networks, among other resources.

(ii) Overview of parties in which investment was made

Company name	Ceno Company, Ltd.
Outline of the business	Planning, manufacture and sales of clothes, accessories and other products
Establishment	December 2002

Company name	Peaman Co., Ltd.
Outline of the business	Holding and management of shares and intellectual property
Establishment	May 2018