

May 10, 2007

## Summary of Consolidated Earnings Report for the Fiscal Year Ending March 31, 2007

**Company Name:** Backs Group Inc. (URL: <http://www.backs.co.jp/>)  
**Code Number:** 4306  
**Stock Listings:** JASDAQ  
**Head Office:** 1-19-19 Ebisu, Shibuya-ku, Tokyo  
**Representative:** Yuhiko Nishioka (President)  
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 Tel: 03-5793-7836  
**Board of Director's meeting:** May 10, 2007  
**Use of U.S. accounting standards:** No

### 1. Consolidated Results for the Fiscal Year Ended March 31, 2006 (April 1, 2005 — March 31, 2006)

(1) Business Results (Millions of yen, rounded down; %)

	Net Sales	Operating Income	Ordinary Income	Net In come
FY2007	10,072 (12.4)	326 (△48.8)	319 (△49.8)	179 (△51.7)
FY2008	8,963 (29.3)	637 (38.5)	637 (39.4)	371 (43.6)

	Net Income per share (yen)	Net Income per share (Diluted) (yen)	ROE (%)	Ratio of ordinary income to total capital (%)	Ratio of operating income to sales (%)
FY 2007	1,278 61	1,276 38	10.7	10.9	3.2
FY 2006	2,629 67	2,616 09	23.9	25.0	7.1

Reference: Equity in net income of affiliates FY2007 —million FY2006 —million

(2) Consolidated Financial Position (millions of yen, rounded down; except as indicated)

	Total Assets	Shareholders' Equity	Equity Ratio (%)	Shareholders' Equity per Share (yen)
FY 2007	3,066	1,664	54.3	11,975 26
FY 2006	2,829	1,705	60.3	12,039 41

Reference: Equity capital FY2007 1,664 million FY2006 1,705million

(3) Consolidated Cash Flows Position (Unit: Millions of yen)

	Cash Flow from Operating Activities	Cash Flow from Investment Activities	Cash Flow from Financial Activities	Cash and Cash Equivalents, end of Period
FY 2007	247	△78	79	1,474
FY 2006	342	△101	△92	1,226

### 2. Dividends

(Record Date)	Dividend per share			Devided price (Full year) million	Payout raio (Consolidated) %	Ratio of net assets to dividends (Consolidated) %
	As of end of midterm period yen	End of fiscal year yen	Full year yen			
FY2006	0	625	625	88	23.8	5.2
FY2007	0	950	950	132	74.1	7.9

FY2008 Forecats	0	250	250		27.1	
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3. Consolidated Forecast for Fiscal Year 2007 (April 1, 2006 – March 31, 2007) (Unit: Millions of yen, %)

	Net Sale	Operating Income	Ordinary Income	Net Income	Net Income per Share
Half Year	5,352 (9.9)	33 (△78.0)	33 (△77.8)	19 (△78.0)	139.84
Full Year	11,560 (14.7)	221 (△32.1)	221 (△30.8)	128 (△28.6)	923.14

4. Others

- (1) Changes in important subsidiaries during the fiscal year (Changes to designated companies that fall within the amended scope of consolidation) None
- (2) Changes in accounting principles & procedures, methods of expression etc for processing of accounts concerning the preparation of consolidated financial accounts
- ① Changes in accounting principles: Yes
- ② Changes other than ① above: None
- (3) Number of Share outstanding (Common stock)
- ① Number of Shares outstanding at the end of fiscal year (Included treasury stock)
- |         |               |         |               |
|---------|---------------|---------|---------------|
| FY 2007 | 148,515shares | FY 2006 | 148,239shares |
|---------|---------------|---------|---------------|
- ② Number of shares outstanding at the end of the fiscal year
- |         |             |         |             |
|---------|-------------|---------|-------------|
| FY 2007 | 9,560shares | FY 2006 | 6,559shares |
|---------|-------------|---------|-------------|

(Reference) Summary of non-consolidated results

1. Non-consolidated results of Fiscal Year 2007 (April 1, 2006 – March 31, 2007)

(1) Non-consolidated business results

(Values in parentheses are rates of growth or decline compared to the previous year)

	Net Sales	Operating Income	Ordinary Income	Net In come
FY2007	8,014 (9.8)	203 (△60.4)	208 (△60.3)	119 (△61.3)
FY2008	7,294 (35.6)	514 (50.4)	524 (54.2)	308 (62.7)

	Net Income per share (yen)	Net Income per share (Diluted) (yen)
FY 2007	850 42	848 94
FY 2006	2,183 55	2,172 27

(2) Non-consolidated financial position

	Total Assets	Shareholders' Equity	Equity Ratio (%)	Shareholders' Equity per Share (yen)
FY 2007	2,512	1,361	54.2	9,798 86
FY 2006	2,416	1,463	60.6	10,329 48

(Reference) Equity capital FY2007 ¥1,361million FY2006 ¥1,463million

2. Non-consolidated results Forecasts for Fiscal Year 2008 (April 1, 2007 – March 31 2008)

((Values in parentheses are rates of growth or decline compared to the previous year, and for the period are percentages compared to the period of the previous fiscal year))

	Net Sales	Operating Income	Ordinary Income	Net Income	Shareholders' Equity per Share (yen)
Half Year	4,318 11.2	3 △96.9	3 △97.2	1 △97.3	12.97
Full Year	9,398 17.3	135 △33.3	135 △34.7	78 △34.1	566.76

Note: Forecasts are based on information available at the time of this announcement, and assume that unknown factors may affect future performance. Actual results may differ significantly due to a variety of factors.

## Business Results

### (1) Analysis of Business Results

#### ① Outline of Results for the Year Ended March 31, 2006 (Fiscal Year 2007)

Under the influence of increased corporate profits and demand, capital investment continued to increase in the Japanese economy during this consolidated fiscal year. Despite little change in consumer sentiment and household income, consumer spending showed signs of recovery due to improvements in the job market, and business conditions are gradually improving.

The mobile telecommunications industry, the principal market in which the Backs Group operates, achieved robust growth from 53.5% to 72.8% in the percentage of subscriptions for third-generation (3G) handsets. The number of mobile phone subscriptions was 96,710,000 at the end of March 2007, 5.3 % more than in the corresponding period of the previous fiscal year.\*<sup>1</sup> In addition, the commencement of digital terrestrial broadcasting (one segment broadcasting) for mobile phones, a rise in new entrants to the market and the start of number portability in November 2006 has heightened the struggle for market share between communications carriers.

As growth of the number of broadband subscribers stalled with 30,620,000 Internet connection service contracts\*<sup>2</sup> as of the end of December 2006, the digital consumer electronics industry was marked by a pronounced trend for sharp growth in FTTH access service and a decline in the use of DSL services. This period coincided with a lull for PCs, printers and other electronic goods between the release of new models, and the demand for sales campaigns and the like has been slow.

Steady growth has been evident in the credit card industry: the number of cards issued as of March 2006 rose 5.7% year-to-year to 289.05 million; by type of issuer, this meant 122.25 million cards by banks, 83.9 million cards by retailers, 57.43 million cards by *shinpan* credit companies and 5.04 million cards by gasoline retailers.\*<sup>3</sup> Card companies are beginning to feel the impact of the new money lending regulations that went into effect in December 2006, which reduced the maximum allowable interest rate. As a result, despite positive factors such as the full-scale issuance of cards by regional financial institutions and in affiliation with companies outside the card industry, we face an environment in which the credit card industry is reviewing its sales promotion strategies.

In this environment, the growth of new contracts for major sales campaigns in the finance sector and newly regulated sector has been sluggish and undercut year-on-year levels. However, sales in the mobile sector began to recover during the second half of the fiscal year in the Kanto region, with nationwide sales achieving an impressive increase of 51.3% over the previous fiscal year. Thanks to these favorable trends, consolidated earnings for the fiscal year reached a new historical record.

A shortage of contracts for high-profit-margin, large sales campaigns combined with the growing share of lower-margin customers in the digital sector caused our gross profit margin to decline. Despite efforts to improve efficiency, the SG&A ratio increased compared to the prior period, attributable to underachievement of sales targets. As a result, ordinary income and net income for the period declined.

As a result of these efforts, consolidated net sales for fiscal year 2007 were ¥10,072 million (up 12.4% from the previous fiscal year). Ordinary income was ¥319 million (down 49.8 %), and net income was ¥179 million (down 51.7%).

#### Notes:

\*1 Source: Calculations based on Telecommunications Business Association report “Numbers of Mobile Phone/IP Connection Services/PHS/Wireless Call Contracts.”

\*2 Source: Calculations based on Ministry of Internal Affairs and Communications’ report “Trends in Numbers of Users of Internet Connection Services, etc (as at December 2006)” (latest data March 3, 2007).

\*3 Source: Calculated based on the Japan Consumer Credit Industry Association, “Numbers of Credit cards Issued by Sector (Actual results)”

## ② Results by Major Segment

### I By business segment

#### (a) Outsourcing

Our outsourcing business in fiscal year 2007 achieved steady sales thanks to continuing intense demand in the mobile sector throughout Japan that offset slow growth in sales to the mobile industry in the Kanto region and to the financial sector. Nevertheless, demand for our services in highly profitable campaigns did not improve and the gross profit margin declined. As a result, net sales in the outsourcing segment totaled ¥8,131 million (up 6.5% from the previous fiscal year), while operating income was ¥388 million (down 41.9%).

#### (b) Temporary staffing

In our temporary staffing business, the dispatch of staff to mobile communications carrier retail stores yielded good results, and in the digital and finance sectors as well demand has been vigorous throughout Japan. As a result, net sales in the temporary staffing segment totaled ¥1,940 million (up 45.7% from the previous fiscal year), while operating income was ¥94 million (up 0.1%).

### II By region

#### (a) Kanto region\*1

Along with success in attracting demand in the Kanto area, our offices in Utsunomiya, Takasaki and Niigata, which were opened in the previous fiscal year to optimize staff deployment, are in full operation and have contributed to this fiscal year's sales. However our offices in the Tokyo metropolitan region in particular suffered from the lack of major campaign demand from the digital goods and finance sectors, as well as harsher competition in the mobile communications sector's full-time employment market. This led to almost flat net sales, at a total of ¥5,934 million (up 2.7% from the previous fiscal year).

#### (b) National\*2

Nationally, in addition to the start of business at the newly opened Kofu office, demand at existing offices has generally been firm. As a result of major growth in the mobile communication sector in particular, net sales totaled ¥4,138 million (up 29.9% from the previous fiscal year).

### III By customer industry

#### (a) Mobile telecommunications\*3

In the mobile communications sector, communications company have faced intensified market competition as they rushed to release new service menus and new models around the time that number portability was introduced. Harsh competition among companies in the human resources industry to attract this new business led to sluggish sales in the first half of the year in the mobile sector in Kanto. However, in the second half of the year we saw a recovery trend emerge, and we made steady gains in securing business from communications carriers and sales outlets throughout Japan during the year. As a result, net sales totaled ¥6,523 million (up 21.7% from the previous fiscal year).

#### (b) Digital consumer electronics\*4

The digital goods area is currently experiencing a lull between the release of new models, as well as a shortage of large sales campaigns and a failure to attract new large digital campaigns. However, we worked harder to obtain demand from existing clients, and as a result of sales activities conducted by the sales offices, net sales totaled ¥2,113 million (up 2.4% from the previous fiscal year).

#### (c) Financial services\*<sup>5</sup>

In the financial sector, the issuance of credit cards affiliated with retail stores remains robust, but sales were sluggish in the Kanto area due to a lack of orders for large-scale campaigns in this fiscal period. In addition, demand temporarily declined as existing credit company customers revised their sales promotion strategies to conform with regulations on gray-zone interest rates (interest rates falling between two separate legal cap rates on consumer loans). As a result of these two factors, net sales totaled ¥1,108 million (a decrease of 6.6% from the previous fiscal year).

#### (d) New Sectors\*<sup>6</sup>

In our new business segment, new clients such as consumer goods manufacturers are on the rise, but our sales specialist division that was established in the second half of the year has not yet fully entered into operation. As a result net sales totaled ¥327 million (a decrease of 6.8% from the previous fiscal year).

#### Notes:

- \*1: Includes Tokyo, Kanagawa, Saitama, Chiba, Ibaraki, Tochigi, Gunma and Niigata.
- \*2: Indicates all other regions not listed in note (1) above.
- \*3: Indicates all mobile telecommunications customers, including carriers and agents.
- \*4: Indicates manufacturers of personal computers and digital consumer electronics (printers, digital cameras, security software, etc.), as well as broadband service (ADSL, optical fiber) providers.
- \*5: Indicates the financial industry such as banks and credit-card firms
- \*6: Indicates consumer products manufacturers, apparel companies, and call centers excluding 3, 4, 5, above.

### **③ Financial Outlook for Fiscal Year FY2008**

In the next fiscal year, we expect the market's momentum to flag due to the introduction of number portability and the entry of new carriers into our company's main market of mobile communications, but demand will remain robust. In the digital goods industry, new demand will be generated thanks to the release of new products, and we forecast strong demand from this source. However we think the outlook will continue to be unclear in the credit card industry given the effect of the abolition of gray zone interest rates, which will hold back sales promotion activities. Based on these forecasts, we will continue to bolster sales by continuing to build our regional sales organizations to better serve existing clients, expand our office network and increase our hiring. We are also focusing on gaining greater market share and winning new clients and campaigns. From the beginning of the next fiscal year we will also start initiatives in our two new businesses of personnel placement and the light work industry. We will also develop new customer segments and reinforce our ability to effectively assign employees, as measures to further strengthen our sales and revenue base.

Also, in line with a management objective for the current fiscal year, we will aim to further improve the quality of our sales support for products requiring explanations, sales promotion expertise and "one-stop" administration system for BtoC businesses, an area of strength for the Backs Group. We will make plans to improve management, invest in staff and internal control systems, and develop projects with the aim of improving earnings capability over the medium term.

These initiatives will require investments, and some time must pass before the results of the investments bear fruit. Nevertheless, we predict that contributions to sales and profits will be evident after the second half of the next fiscal year. Based on these factors, our forecasts for the March 2008 term are for net sales of ¥11,560 million (up 14.7% from the previous fiscal year), ordinary income of ¥221 million (a decrease of 30.8% from the current fiscal year), and net income totaling ¥128

million (down 28.6% from the current year).

## (2) Analysis of Financial Condition

### ① Assets, liabilities, and capital

Total assets as of the end of the consolidated fiscal year were ¥3,066 million, representing an increase of ¥236 million from the end of the previous consolidated accounting year. In addition, shareholders' equity increased ¥41 million to ¥1.664 billion.

### ② Statement of Cash Flows

At the end of the fiscal year, the balance of cash and cash equivalents (hereafter, "cash") was ¥1,474 million on a consolidated basis (up 20.2% from the previous fiscal year-end). This was due mainly to an increase in short-term borrowing and payment of corporate tax.

#### Cash flow by operating activities

Cash provided by operating activities during the term was ¥247 million (down 27.8% from the previous fiscal year). The main reasons for this were a reduction of ¥64 million due to recovery of accounts receivable, an additional ¥73 million in accrued expenses and payments of ¥310 million for corporate tax, among other factors.

#### Cash flow by investing activities

Cash used in investing activities during the term was ¥78 million (decrease 23.1% from the previous fiscal year). The major reason was expenditures of ¥44 million for fixed assets in keeping with augmentation of the core information system, and for intangible fixed assets, and expenditures of ¥34 million for acquisition of investment securities.

#### Cash flow by financing activities

Cash used in financing activities was ¥79 million (compared with income of ¥92 million in the previous fiscal year). The major reason was an increase in short-term borrowing of ¥300 million and payments of ¥157 million for buyback of shares.

### ③ Trends in Cash Flow-related Indicators

	FY2006		FY2007	
	Interim	Year-end	Interim	Year-end
Equity ratio (%)	63.6	60.3	63.7	54.3
Equity ratio (market value basis) (%)	503.4	1,056.5	438.5	165.4
Debt redemption (years)	0.0	—	—	1.2
Interest coverage ratio (times)	518.3	1,563.4	505.5	206.8

Equity ratio = Shareholders' equity / total assets

Equity ratio (market value basis) = Aggregate market value of stock / total assets

Debt redemption (years) = Interest-bearing debt / operating cash flow

(Operating cash flow is calculated on an annual basis, so interim debt redemption is presented as double the year-end amount)

Interest coverage ratio = Operating cash flow / interest expense

\*All indices are calculated on a consolidated basis

\*Aggregate market value of stock = Year-end market price x number of shares issued as of year-end (after deducting treasury stock)

\*Calculations of operating cash flow and interest expense use amounts in "cash flow by operating activities" and "interest payments" in the consolidated (interim consolidated) cash flow statements.

### (3) Basic policy on the distribution of profits and dividends for current and next fiscal period

Recognizing that returning profit to its shareholders is one of its major management tasks at hand, the Group will uphold the basic policy of sustained payment of stable dividends, while maintaining sufficient internal reserves for the improvement of its finances and for the promotion of corporate growth, mainly in the form of investments into new businesses and capital expenditure. As for shareholder dividends, the Company's policy has been to decide on the amount of dividends by taking into consideration the Company's performance and to maintain a payout ratio of more than 25% based on the consolidated net income.

In view of the above policy, the Company intends to issue a full year dividend of 950 yen per share (consolidated payout ratio of 74.1%) for the current term.

Estimated annual dividends for next fiscal year are ¥250 per share.

### (4) Business risks and uncertainties

Risks inherent in the business activities and other aspects of the Group that may significantly affect the judgment of the investors include those described below. Please be advised that forward looking statements included below have been deemed to be true by the Group at the time of announcement of the Kessan Tanshin Financial Report (May 10, 2007).

#### ① On the management of personal information

As the Group is faced with numerous opportunities to come in contact with personal information including staff information and consumer information, we practice ample management in regards to its handling. We are making efforts to provide adequate education and training to operational staff who come into contact with personal information and we are also striving to emphasize its importance in the communication that takes places in everyday operations between staff and the administrative managers.

Moreover in order to establish and operate an appropriate management structure, the Group has acquired certification in the domestic standards JISQ27001:2006 and in the international standards ISO/IEC27001:2005 of the Information Security Management Systems (ISMS) in March 2007. As a result, we are now able to maintain an environment that allows for the appropriate use of internal administrative structures, including the in-house network and mainframe systems, while maintaining and sustaining high levels of security.

However, despite these efforts by the Group, in the event that leaks and abuse of personal information occur, business relationships with our clients may deteriorate as a result of loss in the Group's trust and the Group may be sued for damages resulting from the leak of personal information, which, in turn, may materially affect the performance of the Group.

#### ② Dependency on particular client industries

The Group's strength lays in the sales of "explanation-type products" and in particular sales to mobile telecommunications companies and their primary agents account for a major portion of total sales. For the current consolidated fiscal year the ratio of sales to the particular industry to total sales account for 61.5 % as seen in the table below. Consequently the Company, aware that dependency on particular client industry will not lead to stable and sustained demand, is continuing its efforts to capture new digital clients as well as cultivating new segments.

However changes may occur in the business environment, such as corporate reorganization/reduced sales activities in the mobile telecommunications industry, to which the Group is incapable of adopting, materially affecting the performance of the Group.

(Transitions in sales component percentages)

(Unit: %)

	FY 2005		FY 2006		FY 2007	
	Interim period	End of term	Interim period	End of term	Interim period	End of term
Mobile	59.7	61.2	61.5	59.8	61.5	65.1
Non-mobile	40.3	38.8	38.5	40.2	38.5	34.9

## ③ Increased sales component percentages to a particular client

The Group's sales to KDDI Corporation during the current consolidated fiscal year accounted for 32.0% of total sales. The reason for the high percentage of sales to this particular client lays mainly in the fact that the contents for the orders received from this particular client overlaps both mobile sales (au) and digital sales (DION) and that nation-wide sales from national bulk orders have increased. Although the risk borne by the Group is deemed to be low, there is a possibility that the Group may be materially affected by the performance of this client.

(Unit: thousands of yen)

	FY 2005			FY 2006			FY 2007		
	Sales	Sales component percentages (%)	Composition ratio (%)	Sales	Sales component percentages (%)	Composition ratio (%)	Sales	Sales component percentages (%)	Composition ratio (%)
Consolidated	6,933,695	100.0		8,963,331	100.0		10,072,787	100.0	
K D D I	2,457,218	35.4	(100.0)	2,578,900	28.8	(100.0)	3,226,367	32.0	(100.0)
(Mobile)	1,769,659	25.5	(72.0)	2,284,252	25.5	(88.6)	3,018,681	30.0	(93.6)
(Digital)	687,559	9.9	(28.0)	294,647	3.3	(11.4)	207,686	2.0	(6.4)
(Kanto Region)	1,479,438	21.3	(60.2)	1,420,895	15.9	(55.1)	1,485,734	14.7	(46.0)
(National)	977,780	14.1	(39.8)	1,158,005	12.9	(44.9)	1,740,633	17.3	(54.0)

## ④ Social insurance coverage

According to the provisions of the Health Insurance Act and the law on employee pension insurance in offices in which the social insurance system is applied, permanent employees are required to join the social insurance plan. At our firm, we recommend that staff members who are currently being deployed to outsourcing customers be actively employed on a full-time basis, and at the same time we recommend they sign up for social insurance. Also, when a contract period exceeds two months in our placement business, we enroll all qualified staff in the social insurance scheme.

However, there is a possibility that the number of the Backs Group personnel who will join the social insurance scheme would increase if the National Diet decides to expand the guidelines requiring employees to participate in a social insurance plan to include short term blue-collar laborers. If the social insurance fees increase, there will also be an effect on the allocation of expenses in our company as an employer, and this

could have an impact on the Backs Group's results.

⑤ Securing staff

Staffs with high communications skills are indispensable to the Group's main business of selling mobile and digital "explanation-type products." Consequently the Group upholds the policy of seeking staff who are not only experienced in the "paper" medium but those who are "digitally-oriented" and are capable of handling the main products. And to this end, the Group will formulate a WEB-based hiring strategy, while making effective use of the Group's own job information site "digibite@.com" and "appajob.com." Moreover we intend expand our customer base and build a structure that provides diverse operations and employment styles to a wide age group through our temporary staffing and personnel placement operations for sales channels, thereby enhancing the percentage of successful matches between employment and personnel.

However in cases where, due to drastic rise in demands and lopsided supply, staff satisfying the clients' needs cannot be adequately secured, there is the possibility that the Group's growth strategy will be materially affected.

⑥ On laws and regulations

The Labor Standards Law, the Law for Worker Dispatching Undertaking, the Workers' Accident Compensation Insurance Law, the National Health Insurance Act, the Employee's Pension Insurance Act and other related laws may be revised or its interpretation altered according to the changes in the social climate surrounding the labor market. In such cases there is the possibility that the Group's performance will be materially affected.

⑦ On business approvals and licenses

The Group has obtained licenses from the Minister of Health, Labor & Welfare to engage in general dispatching undertakings and in fee-charging employment services.

The Law for Worker Dispatching Undertakings stipulates that in the general dispatching undertakings, once the employer falls under any of the disqualification provisions or violates any provision of the law, the license may be revoked or the undertaking ordered to be suspended. In the Employment Security Law also, there are stipulations to the effect that operators of fee-charging employment services may be disqualified or ordered suspension in a similar way.

Although the Group, by implementing employee training and monitoring in the compliance divisions, is making every effort to prevent law violations, in the event of a significant law violation by the Group or by its employee, licenses may be revoked or operations subject to suspension causing the Group to become incapable of continuing its employee placement business, which, in turn, could materially affect the performance of the Group.

## Backs Group Inc. Group Information

### 1. Description of business

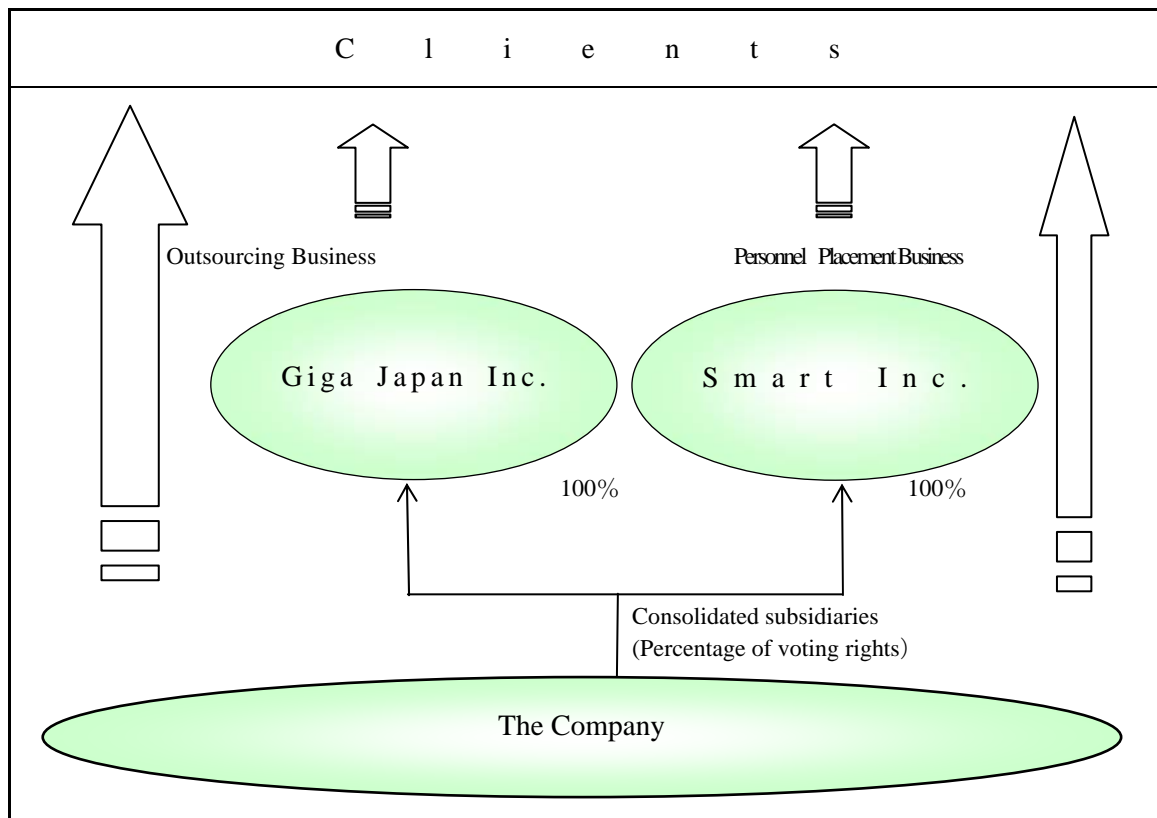
The Back Group Inc., a group of enterprises consisting of the Backs Group Inc and its two subsidiaries, is engaged in the businesses of outsourcing and personnel placement in retail support and sales promotion activities for BtoC (Business to Consumer) companies, including digital consumer electronics manufacturers, mobile phone companies, consumer products companies dealing in liquor and beverages and financial services companies.

In terms of the product categories, the group has exhibited its strength in the retailing of “explanation-type products,” which include “advanced and multiple function products” such as mobile phones, PCs, and printers, “trial-based products” such as beverages and everyday items, and “contract-based products” such as broadband and financial services.

While the Company and Giga Japan Inc., having been commissioned by industry clients to perform their sales promotion activities and by home appliances discount stores/GMSs (General Merchandising Stores) to provide retail support in their sales channels, are mainly involved in the outsourcing business, they are also involved in the personnel placement business to the extent of answering to customer needs. Smart Inc., on the other hand, specializes in offering personnel placement services to the client companies of the enterprise group, centering mainly on placing staff and sales personnel at the exclusive sales shops, such as the DoCoMo Shops, but will also provide outsourcing services if asked by the client.

Business segments		Company name
Outsourcing Business		The Company
		Giga Japan Inc.
		Smart Inc.
Personnel Placement Business		The Company
		Giga Japan Inc.
		Smart Inc.

### 2. Business diagram



## **Management Policy**

### 1. Basic management policy

As a partner to its clients in the retail support/sales promotion businesses, the Backs Group Inc. group of companies adheres to and shares with its Group members the basic management philosophy of “contributing to society by growing with our clients and our staff.” Moreover the Group will continue to provide valuable services and make sustained efforts to enhance its enterprise value, thereby fulfilling its responsibilities towards its stakeholders, including the community, its shareholders, its clients, its employees and staff.

At the Group, personnel employed in sales, marketing and customer contact positions are referred to as “orange collar” workers, who are required to be equipped with far greater communication skills than “white collar” and “blue collar” workers. By operating retail/sales organizations comprised of such personnel, the Group has been promoting an unique business that supports the retail and sales activities of its corporate clients. Moreover, by utilizing its experience in over-the-counter retail/sales support and continuing to provide sales/customer contact staff to large discount retailers /GMSs and the restaurant businesses, the Group intends to solidify its position as a “comprehensive orange collar enterprise” and provide a line of comprehensive services.

### 2. Targeted Management Indices

The enhancement of shareholder return being one its top priorities and from the perspective of heightening profitability and capital efficiency for the purpose of increasing its comprehensive enterprise value, the Company has posted consolidated Return on Equity (ROE) as the most important of its management indices. The Company will strive to maintain a consolidated ROE of 20% or more and as a measure of business productivity and soundness it will continue its effort in achieving an Operating Income to Sales Ratio of 8% or more in the medium-term.

### 3. Medium- and Long-term Management Strategies

Grounded in the management philosophy of “contributing to society by growing with our clients and our staff,” the Group’s basic strategy is to engage in the comprehensive “orange collar” business, “as a partner to our corporate clients in retail support/sales promotion businesses.”

Based on these principles, the Company intends to

- (1) Not limiting itself to BtoC companies, respond to various demands concerning sales promotion and business management arising from the various sales channels.
- (2) Optimize its business portfolio by expanding its customer base.
- (3) Offer diverse types of employment to prospective workers of a wide-ranging age group

By expanding its business based on the above three pillars, the Company intends to pursue its medium- to long-term management strategy of evolving into a “comprehensive orange collar enterprise” and solidifying its position as the “No. 1 company in the retail support field.”

### 4. Essential Tasks at Hand

From the perspective of business stability and the diversification of risk, the Group, while continuing to take into account the balance of sales segments in its business portfolio, will endeavor to expand its customer base and tap new product sources with a view to constructing new client segments in addition to the existing fields of mobile, digital and financial services and at the same time concentrate on absorbing business demands on a nation-wide basis by utilizing its sales offices around the nation.

Additionally, by building on its expertise in over-the-counter sales promotion acquired over the years, the Group

intends to offer temporary staffing and personnel placement services to the various sales channels, in addition to its retail/sales support services of BtoC companies by “orange collar staff.” By expanding its customer base, the Group will be able to provide a structure that offers diverse work and types of employment to a wide-ranging age group, thereby enhancing the percentage of a successful match between employment and personnel.

In order to respond to increasing demand and reinforce its personnel providing capabilities, the Group will not only build more branch offices but will also realize the plans for an efficient hiring media and promote the effective use of the Group’s own job information site, “digibite@.com”. Moreover in order to provide staff with consistent skill levels on a nation-wide scale, the Group will actively utilize e-learning based on its original contents and strive to upgrade and standardize the skill level of its registered staff.

In terms of the temporary staffing business, the Group, in order to respond to client demands, intends to reinforce and expand its structure in its staffing services for mobile phone carrier shops, credit card membership solicitation, etc. Furthermore, in its specialized staffing and personnel placement businesses, the Group launched its specialist recruitment site “Tenshoku (career change) Road” in May 2007, and plans to upgrade its web-based business model by utilizing “appajob.com.” Along with plans to ensure registered applicants, the Company’s own job information site exclusively intended for the apparel industry (<http://www.appajob.com/>) will begin to post online want ads for employers, make use of the registered applicants’ data and upgrade management of personal information.

#### 5. Upgrade and management status of the internal control structure

- (1) The system of checks and balances, the arrangement status of the operational divisions and administrative divisions of the system, the upgrade status of internal rules and other upgrade status of internal control.

The Company strives for an internal control system that enables the function of mutual checks and balances between the administrative divisions consisting of the Human Resources Department, the General Affairs Department, the Finance/Accounting Department, the IT Strategy Department and the Business Promotion Department and the operational division consisting of the Sales Headquarters, without impairing the speed of operations. To that end, the Company makes optimal use of the advantages of the Business Administration Mainframe System and Electronic Approval Systems and has thus achieved both timely approvals by management and the enhancement of the checking function. Moreover the various internal rules covering the entire company have been comprehensively upgraded, so that each personnel is executing his/her duties with a full awareness of the power and responsibilities entailed by his/her position. Furthermore the Company, in order to further strengthen the inner control structure and enhance the efficiency of operations, is undertaking the revision of various internal rules as needed.

In addition, the Company has established a Compliance Office directly under the supervision of the President that conducts internal audits of the Company’s subsidiaries on a regular basis and as needed and gives guidance and instruction on matters not only pertaining to the law but also in respect to the improvement of validity and efficiency.

For details on the upgrade and management status of the Company’s internal control structure, please refer to the report on corporate governance, “The Basic Thinking behind the Internal Control Structure and its Maintenance Status,” issued separately.

- (2) Implementation status of measures for the enhancement of the inner control structure in the past year.

The status of specific efforts made is as follows:

- ① As part of our efforts in managing our information assets, we have acquired certification in the Information Security Management System.

- ② We have established the Operations Promotion Department within the Administration Headquarters as a means to strengthen the system of checks and balances in the management of operations.

6. Other significant matters pertaining to the management of the Company

Not applicable.

## Consolidated Balance sheet and Income statement

### 1. Consolidated Balance Sheet

(Unit : Thousands of yen)

Item	FY2006 (As of March 31)		FY2007 (As of March 31)		
	A m o u n t		Ratio	A m o u n t	
(Assets)			%		%
I Current Assets					
1. Cash and cash equivarents		1,226,586		1,474,758	
2. Notes and accounts receivable		1,211,778		1,147,457	
3. Deferred tax assets		25,103		32,476	
4. Others		32,448		46,482	
5. Allowance for doubtful accounts		△982		△1,373	
Total currents assets		2,494,933	88.2	2,699,801	88.0
II Fixed Assets					
1. Property and equipment					
(1) Buldings and structures	73,568			75,323	
Total deprecoation and amortization	△32,221	41,347		△42,025	33,298
(2) Marchinery, tools and equipment	70,158			86,262	
Total depreciation and amortization	△47,427	22,731		△55,610	30,652
Total fixed assets		64,078	2.3	63,950	2.1
2. Intangible fixed assets					
(1) Software		74,129		72,115	
(2) Others		3,238		3,238	
Total intangible fixed assets		77,368	2.7	75,353	2.5
3. Investments and other assets					
(1) Deposit and guarantees		30,000		60,000	
(2) Deposits and guarantees		162,898		166,600	

(3) Diferred tax assets	—		573	
(4) Others	283		—	
Total investments and other assets	193,182	6.8	227,173	7.4
Total fixed assets	334,628	11.8	366,477	12.0
<b>TOTAL ASSETS</b>	<b>2,829,562</b>	<b>100.0</b>	<b>3,066,279</b>	<b>100.0</b>

(Unit: Thousands of yen)

Item	FY2006 (As of March 31, 2006)		FY2007 (As of March 31, 2007)	
	Amount	Ratio	Amount	Ratio
<b>LIABIRITIES</b>		%		%
I Current Liabilities				
1. Notes and accounts payable, trade	46,012		21,733	
2. Shor-term debt	—		300,000	
3. accounts payable	67,127		106,866	
4. Accrved payable	192,129		28,230	
5. Income taxes payable	137,987		97,247	
6. Accrued expenses	604,733		678,786	
7. Provision for bonuses	—		47,491	
8. Others	75,830		121,902	
TOTAL CURRENT LIABIRITIES	1,123,821	39.7	1,402,257	45.7
TOTAL LIABIRITIES	1,123,821	39.7	1,402,257	45.7
<b>SHAREHOLDERS' EQUITY</b>				
I Capitalization ※1	395,240	14.0	—	—
II Capital surplus	421,219	14.9	—	—
III Retained earnings	931,290	32.9	—	—
IV Treasury stock ※2	△42,008	△1.5	—	—
TOTAL LIABIRITIES	1,705,741	60.3	—	—
TOTAL LIABIRITIES AND SHAREHOLDERS' EQUITY	2,829,562	100.0	—	—
<b>NET ASSETS</b>				
I Shareholders' equity				
1. Caoitalization	—	—	406,970	13.3
2. Capital surplus	—	—	432,958	14.1
3. Retained earnings	—	—	1,022,379	33.4
4. Treasury stock	—	—	△198,286	△6.5

TOTAL SHAREHOLDERS' EQUITY		—	—	1,664,021	54.3
TOTAL NET ASSETS		—	—	1,664,021	54.3
LIABILITIES AND NET ASSETS		—	—	3,066,279	100.0

## 2. Consolidated Income Statements

(Unit : Thousands of yen)

Item	FY2006 (From Apr 1, 2005 to Mar 31 2006)			FY2007 (From Apr 1, 2006 to Mar 31, 2007)		
	Amount		Ratio	Amount		Ratio
			%			%
I Net sales		8,963,331	100.0		10,072,787	100.0
II Cost of sales		6,680,170	74.5		7,734,576	76.8
Gross profit on sales		2,283,161	25.5		2,338,210	23.2
III Selling, general and administrative expenses ※1		1,645,501	18.4		2,011,993	20.0
Operating Income		637,660	7.1		326,216	3.2
IV Non-operating income						
1. Interest received	7			458		
2. Commissions receivable	1,088			250		
3. Revenue from contract penalties	18			—		
4. Gain on exemption from consumption tax	802			16		
5. Reversal of unpaid dividends	—			108		
6. Others	171	2,089	0.0	85	921	0.0
V Non-operating income						
1. Interest expense	218			1,776		
2. Stock buy-back costs	—			983		
3. Fee to establish a commitment line	1,793			2,099		
4. Claims expenses	—			2,480		
5. Others	487	2,500	0.0	91	7,431	0.0
Ordinary income		637,249	7.1		319,706	3.2
VI Extraordinary gains						
1. Reversal of allowance for doubtful receivables	91			—		
2. Gain on sale of investments in securities	—	91	0.0	72	72	0.0
VII Extraordinary losses						
1. Loss on sale of fixed assets ※2	198			1,127		
2. Expenses for restoration to original state	360			—		
3. Loss on prior-term adjustments ※3	6,873	7,431	0.1	—	1,127	0.0

Income before income taxes and minority interests		629,908	7.0		318,651	3.2
Defferred income taxes	260,772			146,959		
Income tax adjustment	△2,633	258,139	2.9	△7,946	139,012	1.4
Net income		371,769	4.1		179,639	1.8

### 3. Consolidated Statement of Retained Earnings

(Unit : Thousands of yen)

Item	F Y 2 0 0 6 (As of March 31, 2006)	
	A m o u n t	
(Capital Surplus)		
I Capital surplus at the beginning of the period		419,652
II Increase in capital surplus		
1. New stock issued through exercise of preemptive rights	1,567	1,567
III Capital surplus at the end of the period		421,219
(Retained Earnings)		
I Retained earnings at the beginning of the period		630,054
II Increase in retained earnings		
Net income	371,769	371,769
III Decrease in retained earnings		
Cash dividends	70,534	70,534
IV Retained earnings at the end of the period		931,290

#### (4) Consolidated Statement of Changes in Shareholders' Equity

	Shareholders' equity					Total Net Assets
	Capital Stock	Total Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity	
Balance of March (thousands of yen)	395,240	421,219	931,290	△42,008	1,705,741	1,705,741
Changes during the first half of the fiscal 2007						
Capitalization Issue	11,730	11,730	—	—	23,460	23,460
Dividends(*1)	—	—	△88,549	—	△88,549	△88,549
Net Income	—	—	179,639	—	179,639	179,639
Treasury stock acquisition	—	—	—	△156,282	△156,282	△156,282

Treasury stock disposal	—	9	—	4	13	13
Total changes of the FY2007	11,730	11,739	91,089	△156,278	△41,719	△41,719
Balance of March 31, 2007 (Thousands of yen)	406,970	432,958	1,022,379	△198,286	1,664,021	1,664,021

Note: (\*1) These are items under plan for appropriation of earnings at the ordinary general meeting of shareholders held in June 2007.

## 5. Consolidated Statement of Cash Flow

(Unit : Thousands of yen)

Item	FY2006 (From Apr 1, 2005 to Mar 31 2006)	FY2007 (From Apr 1, 2006 to Mar 31, 2007)
<b>I Cash flow operating activities</b>		
Income before income taxes and minority interests	629,908	318,651
Depreciation and amortization	41,889	46,864
Changes in provision for doubtful accounts(△=decrease)	△91	391
Changes in provision for bonuses	—	47,491
Interest and dividend income	△8	△459
Interest expenses	218	1,776
Gain on interest of fixed assets	198	1,127
Change in accounts receivable (△=decrease)	△335,775	64,320
Changes in purchase liabilities (△=decrease)	43,007	△24,279
Changes in consumption tax payable (△=decrease)	31,870	△40,739
Changes in accrued expenses	122,389	73,471
Change in trade liabilities	—	38,644
Others	12,760	31,378
Subtotal	546,368	558,637
Interest and dividends received	8	459
Interest expenses paid	△218	△1,195
Income taxes paid	△204,113	△310,817
Net cash from operating activities	342,045	247,084
<b>II Net cash from investing</b>		
Payments for purchases of property and equipment	△16,560	△22,781
Payments for purchases of intangible fixed assets	△36,978	△21,967
Payments for purchases of marketable securities	—	4,302
Payments for purchases of marketable securities	△30,000	△34,230
Payments for deposits and guarantees	△20,309	△3,701
Proceeds from return of deposits and guarantees	1,922	—
Net cash from investing activities	△101,926	△78,378
<b>III Net cash flows from financing activities</b>		
Net change in short-term borrowings	—	300,000
Repayments of long-term debt	△25,300	—
Payments for deposits and guarantees	3,135	23,460
Proceeds from return of deposits and guarantees	△70,006	△86,741
Proceeds from sale of treasury stock	—	△157,252
Net cash flows from financing activities	△92,171	79,466
<b>IV Change in cash and cash equivalents</b>	147,947	248,172
<b>V Cash and cash equivalents at the beginning of the period</b>	1,078,639	1,226,586

VI Cash and cash equivalents at the end of the period	1,226,586	1,474,758
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## 7. Segment Information

### Industry segments

Previous consolidated period (April 1, 2005 – March 31, 2006)

(Unit: Thousands yen of yen)

	Outsourcing business	Temporary Staffing	Total	Eliminations and corporate	Consolidated
I Sales and operating income					
Net Sales					
(1) Sales to external clients	7,631,990	1,331,341	8,963,331	—	8,963,331
(2) Internal sales or transfers between segments	19,021	73	19,095	(19,095)	—
Total	7,651,011	1,331,415	8,982,426	(19,095)	8,963,331
Operating expenses	6,982,380	1,236,830	8,219,211	106,460	8,325,671
Operating income	668,631	94,584	763,215	(125,555)	637,660
II Assets, depreciation expenses, and capital expenses					
Assets	2,348,999	393,543	2,742,543	87,019	2,829,562
Depreciation and amortization	29,392	3,678	33,071	8,818	41,889
Capital expenditure	40,224	3,444	43,688	11,357	55,026

Current consolidated period (April 1, 2006 – March 31, 2007)

(Unit: Thousands of yen)

	Outsourcing business	Temporary Staffing	Total	Eliminations and corporate	Consolidated
I Sales and operating income					
Net Sales					
(1) Sales to external clients	8,131,953	1,940,833	10,072,787	—	10,072,787
(2) Internal sales or transfers between segments	22,732	—	22,732	(22,732)	—
Total	8,154,685	1,940,833	10,095,519	(22,732)	10,072,787
Operating expenses	7,766,219	1,846,140	9,612,359	134,210	9,746,570
Operating income	388,466	94,692	483,159	(156,942)	326,216
II Assets, depreciation expenses, and capital expenses					
Assets	2,352,635	573,283	2,925,918	140,360	3,066,279
Depreciation and amortization	28,172	4,792	32,965	13,899	46,864
Capital expenditure	19,873	2,951	22,825	23,019	45,844

Note: 1. Business divisions are categorized according to the type and nature of the work,

(1) Major businesses under each category

① Outsourcing business..... Field staff business, Rounders (Route sales staff) business

② Temporary staffing business ..... Temporary staffing service business

(2) Among the business expenses in the previous fiscal year, ¥125,555 million of unallocated expenses was included in the “Eliminations and corporate” item. These were mainly expenses associated with the parent company’s management department.

Among the business expenses in the current fiscal year, ¥156,942 million of unallocated expenses was included in the “Eliminations and corporate” item. These were mainly expenses associated with the parent company’s management department.

(3) Among assets in the previous consolidated fiscal year the value of the entire company’s assets, including “Eliminations or corporate” items, was ¥140,360 million, the principal item being assets related to the management area.

## Production, Orders and Sales

(1) Production

This section has been abridged, as there is no relevant information concerning production due to the nature of the services that the Company provides (outsourcing and temporary staffing).

(2) Orders

This section has been abridged because orders for the services that the Company provides (outsourcing and temporary staffing) consist of both long-term contracts and short-term appointments, which make accurate analysis of order volume difficult.

(3) Sales

Sales by business segment for the fiscal period under review are as follows:

(Unit : Thousands of yen)

Business Segment	Amount	Change
O u t s o u r c i n g	8,131,953	106.6 %
T e m p o r a r y   s t a f f i n g	1,940,833	145.8
Total	10,072,787	112.4

Note 1: Sales and by main clients for the fiscal period under review are follows:

(Unit : Thousands of yen)

Clients	FY2005 (As of March 31, 2005)		FY2006 (As of March 31, 2006)	
	Amount	Ratio	Amount	Ratio
K     D     D     I	2,578,900	%	3,226,367	%
		28.8		32.0

Note 2: Amount does not include consumption tax.