Next Communication with NCXX.

NCXX

INTEGRATED REPORT 2019

NCXX Group Inc.

CONTENTS

Note on Forward-Looking Statements

This report contains information that includes forward-looking statements. These statements are prepared based on information available to management as of the preparation date of the report. Accordingly, actual conditions may differ significantly from such statements or details implied therein based on risks and uncertainties associated with changes in economic conditions and markets and other factors.

Editorial Policy

This integrated report has been issued to help stakeholders develop a deeper understanding of the NCXX Group's activities to achieve sustainable growth.

User Guide

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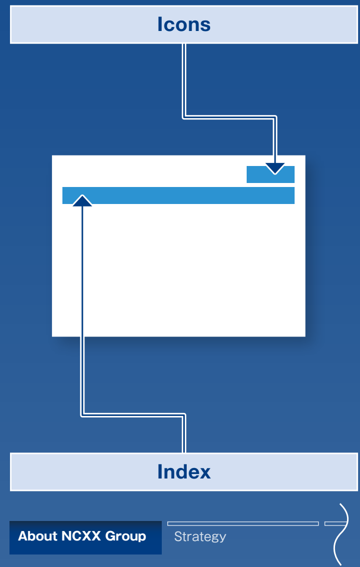


Click on the items on the contents page to move directly to that page.

Corporate Philosophy:

Provide new value to people based on telecommunications technology, thereby contributing to the development of a more efficient and comfortable society

Management Vision:

Connecting, Creating, and Growing:

The Company will create new value and contribute to society by integrating the Group's accumulated original technologies and knowledge, as well as its outstanding human resources

NCXX Group Inc.	https://ncxxgroup.co.jp/en
● NCXX Inc.	https://www.ncxx.co.jp/
● e frontier, Inc.	https://www.e-frontier.com**
● Care Dynamics Limited	http://www.care-dynamics.jp/
● e-tabinet.com	https://www.e-tabinet.com/
● Gloria Tours Inc.	https://www.gloria-tours.jp**
● TITICACA, Co. Ltd.	http://www.titicaca.jp/english/

* NCXX Solutions Inc. and CAICA Inc. are alliance partners.
** Japanese only

Overall Image of the NCXX Group

IoT Solutions

The Internet of Things (IoT) refers to a system that automates various controls by enabling “things” such as sensors and devices connected through the Internet to exchange data with each other. By equipping each of these devices with a wireless communication function, we propose a variety of solutions that realize greater operational efficiency.

System Solutions

We provide integrated one-stop services in the manufacturing, finance, distribution, and corporate and public sectors. Services cover all aspects from commercialization using blockchain technology and consulting to system development businesses, including design, construction, operation, and maintenance, as well as infrastructure construction such as networks and databases.

Internet Travel

For customers who wish to take a one-of-a-kind trip, not being satisfied with regular travel tours and wanting to make trips that do not appear in guidebooks, our travel consultants, known as travel concierges, propose individually customized trips.

Brand Retail Platform Business

The brand retail platform business handles brand licenses (trademark rights) and retail businesses that sell miscellaneous goods and apparel. This business provides a service that can recommend items tailored to consumers’ tastes as well as being used in product development by converting information such as sales and web data into big data, and combining it with AI.

Total Nursing Care Business Support Service

We will solve various problems faced by nursing care providers, including through the provision of Care Online, a business support system for nursing care providers, and the proposal, development and sales of nursing care robots and nursing care ICT systems.

Robot Business

We aim to provide new value in a variety of fields, including nursing care, by combining robot and communication technologies and creating a new kind of robot, in the broad sense of the word, that is connected to a network, rather than the narrow sense of “robot” meaning an independent device (equipment) operated autonomously.

Agricultural ICT Business

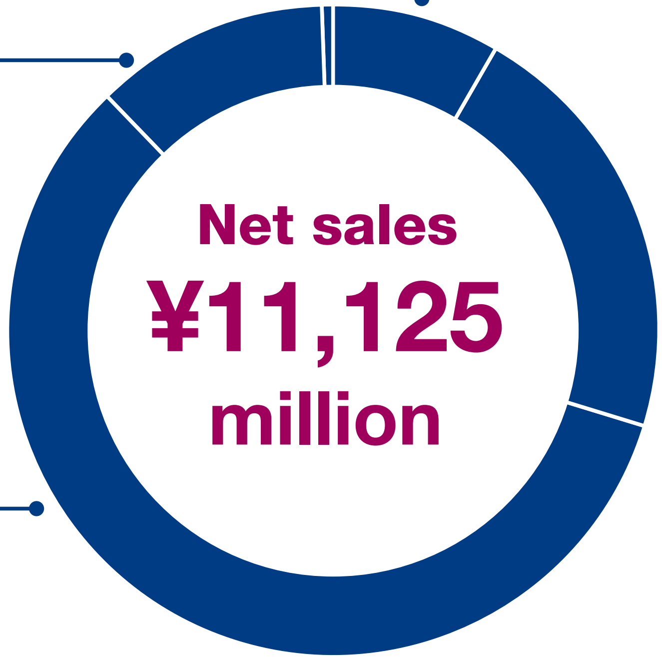
We aim to realize an agricultural business in which anyone can succeed by selling safe, secure and delicious healthy vegetables grown through digitally managed soil chemistry, and by providing cultivation technologies for producers.

Business Domains

Other
¥35 million

IoT-Related Business
¥950 million

Cryptocurrency and Blockchain Business
¥1,326 million



Brand Retail Platform Business
¥6,445 million

Internet Travel Business
¥2,367 million

Value Creation Process

Changing Society

- Dramatic development of communication infrastructure
- Increasing capacity of hardware
- Explosive popularization of mobile terminals
- Transformation of existing financial services through the development of AI
- Diffusion of new financial services by FinTech
- Utilization of blockchain technology

- Climate change risk
- Worsening environmental conditions
- Increasing awareness of the need for food safety
- An aging society with a falling birthrate
- Declining regional vitality

Management Strategy

Social Issues to be Addressed

Making use of information and communication technologies

- Responding to risks including data leaks, tampering and loss
- Recommends items tailored to consumer tastes and is used in product development

Construction of financial systems

- Creating innovative financial services that make full use of resources in financial systems construction expertise
- Optimization of costs

Conservation of the environment and food

- Effective use of land
- Creating attractive business models in agriculture
- Creation of “Safe, Secure, Ecological” crops and technologies

Diversity & Inclusion

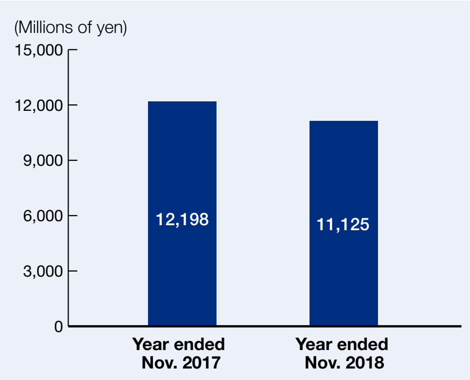
- Shortage of nursing care staff
- Improvement of living conditions of growers and workers
- Support for domestic regions and developing countries

Value Creation Process

Financial Highlights

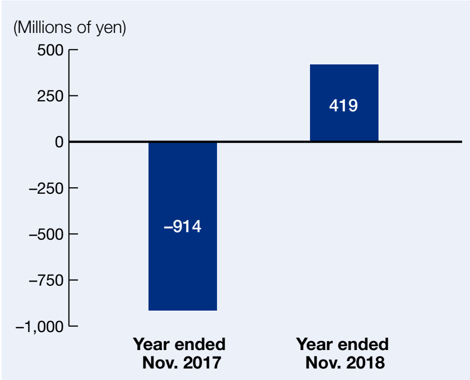
Net sales

¥11,125 million



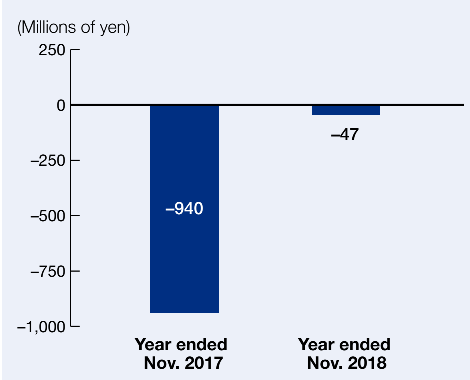
Operating profit (loss)

¥419 million



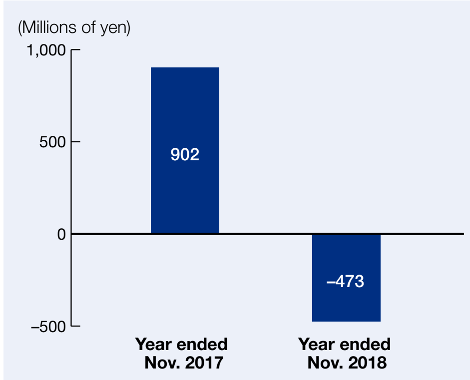
Ordinary loss

¥–47 million



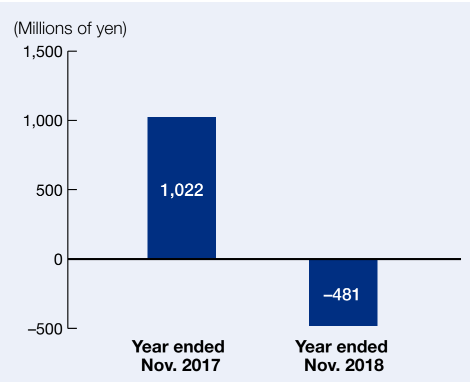
Profit (loss) attributable to owners of parent

¥–473 million



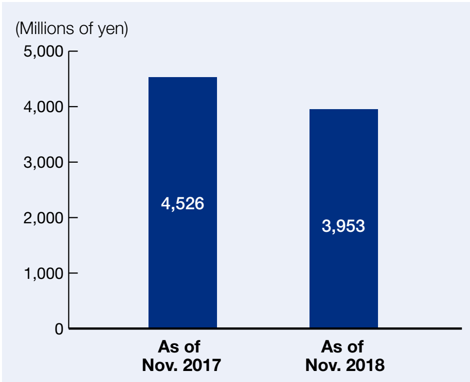
Comprehensive income (loss)

¥–481 million



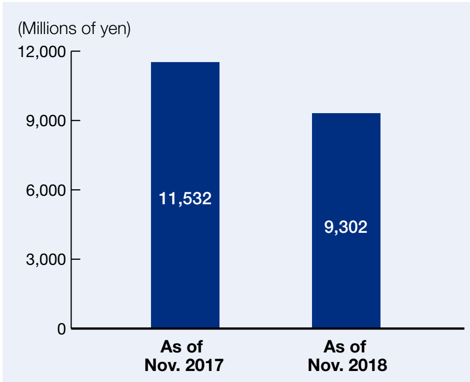
Net assets

¥3,953 million



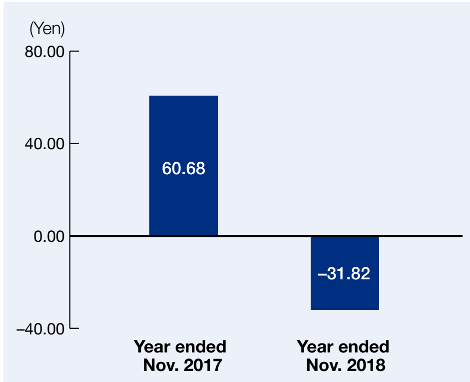
Total assets

¥9,302 million



Net income (loss) per share

¥–31.82



Core Performance Indicators

NCXX Group Inc. and consolidated subsidiaries

(Thousands of yen)

Terms	31st term	32nd term	33rd term	34th term	35th term
Fiscal year-end	November 2014	November 2015	November 2016	November 2017	November 2018
Net sales	6,375,427	7,416,907	12,231,134	12,198,921	11,125,302
Ordinary income (loss)	692,055	(810,412)	(770,026)	(940,251)	(47,323)
Profit (loss) attributable to owners of parent	630,311	(45,483)	(1,068,435)	902,592	(473,969)
Comprehensive income (loss)	654,412	33,876	(930,013)	1,022,017	(481,499)
Net assets	3,551,077	4,726,400	3,800,538	4,526,047	3,953,120
Total assets	6,979,008	14,303,095	13,459,907	11,532,367	9,302,807
Net assets per share (Yen)	276.14	308.98	241.60	259.74	216.02
Net income (loss) per share (Yen)	54.07	(3.14)	(71.77)	60.68	(31.82)
Diluted net income per share (Yen)	51.60	–	–	–	–
Equity ratio (%)	48.7	32.0	26.7	33.5	34.6
Return on equity (%)	21.5	(1.1)	(26.1)	24.2	(13.4)
Price-earnings ratio (Times)	9.3	–	–	6.5	–
Cash flows from operating activities	1,448,650	(1,090,008)	341,581	(1,388,039)	981,015
Cash flows from investing activities	(851,134)	(844,920)	686,866	3,929,054	(1,099,133)
Cash flows from financing activities	2,072,665	829,467	(2,047,010)	(1,851,972)	(1,389,394)
Cash and cash equivalents	3,930,484	2,905,141	1,881,667	2,529,595	1,022,774
Number of employees	235	712	873	272	303
(Average number of temporary employees)	(–)	(–)	(423)	(286)	(345)

Notes: 1. Consumption taxes are not included in net sales.
2. Although there were potentially dilutive shares for the 32nd term, 33rd term and 35th term, the Company recorded a net loss per share. There were no potentially dilutive shares for the 34th term. Accordingly, diluted net income per share is not disclosed for these terms.
3. The price-earnings ratio is not disclosed for the 32nd term, 33rd term and 35th term, because the Company recorded a net loss per share for those terms.
4. The average number of temporary employees has not been disclosed as the number from the 31st term to the 32nd term is less than one-tenth of the number of employees.

Strategy

Top Message

Greeting

I am pleased to extend this greeting to all our shareholders and other stakeholders as we deliver the NCXX Group's integrated report.

The Japanese government has incorporated the concept of the Fourth Industrial Revolution into its growth strategy. In the Fourth Industrial Revolution, physical things of all kinds, including automobiles and home electric appliances, will be connected to the Internet, and the ability to collect and retain big data through IoT technology and the ability to manage and analyze this data through AI and blockchain technologies will become increasingly crucial. The size of the Cyber-Physical System (CPS) / IoT market*, our primary focus, is expected to grow to ¥404.4 trillion worldwide and ¥19.7 trillion in Japan by 2030.

Based on this vision for the future, in January 2018, NCXX Group Inc. entered into a business alliance agreement with Fisco Cryptocurrency Exchange Inc. regarding the development of an AI trading system for cryptocurrency by e frontier, Inc., a subsidiary of the Company. Concurrently, NCXX Solutions Inc., an equity-method affiliate of the Company, became a wholly owned subsidiary of CAICA Inc., another equity-method affiliate. This arrangement will enable us to further increase operational efficiency and synergies, as well as bolster consolidated profitability and enhance Group-wide corporate value. In October 2018, CAICA was excluded from the scope of application of the equity method. However, our capital and business alliance agreement with CAICA will remain in force without modification in the future. Together with CAICA, we will continue to implement initiatives to develop new services in the FinTech business field.

* Source: A survey published by the Japan Electronics and Information Technology Industries Association.

Tsukasa Akiyama

Representative Director and President
NCXX Group Inc.

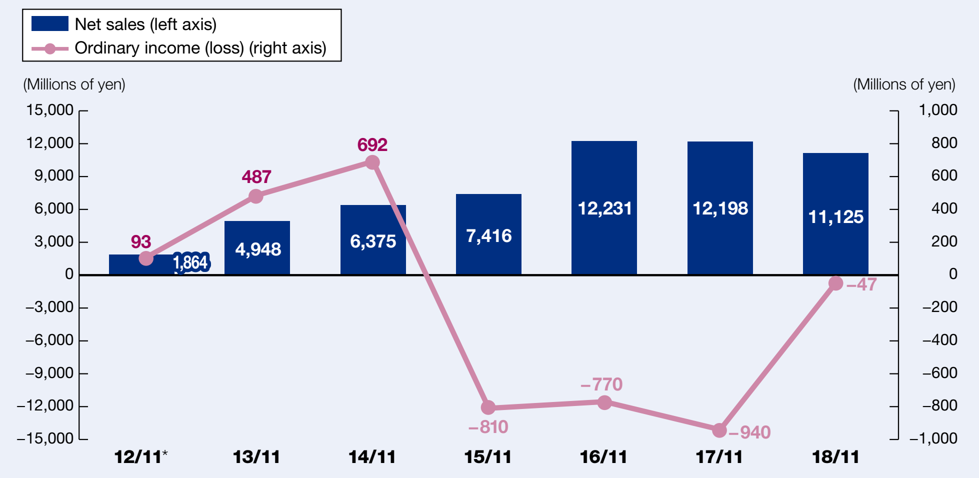
Top Message

Results for Fiscal 2018

In fiscal 2018 (December 1, 2017 to November 30, 2018), the Company's consolidated business results were as follows. The Group delivered significant results through investments in Bitcoin in conjunction with performing demonstration trials of software under development by e frontier. Meanwhile, net sales decreased due to the exclusion of NCXX Solutions from the scope of application of the equity method. As a result, the Company's consolidated net sales decreased by 8.8% year on year to ¥11,125 million.

In addition, we posted operating income of ¥419 million (an operating loss of ¥914 million in the previous fiscal year) and an ordinary loss of ¥47 million (an ordinary loss of ¥940 million in the previous fiscal year). These results partly reflected an increase in TITICACA's selling, general and administrative expenses and its higher cost-of-sales ratio. While we recorded extraordinary income on the transfer of shares, we also booked an impairment loss on the CoSTUME NATIONAL trademark. Consequently, loss before income taxes was ¥265 million (against profit before income taxes of ¥1,024 million in the previous fiscal year) and loss attributable to owners of parent was ¥473 million (against profit attributable to owners of parent of ¥902 million in the previous fiscal year).

Consolidated Business Performance



* Transitional accounting period of four months (August 1, 2012 to November 30, 2012) for the fiscal year ended November 30, 2012.

ICT, IoT, Device Business (NCXX Inc.)

In collaboration with NCXX Solutions, in August 2016, NCXX rolled out the safe driving assistance service Drive Care (http://www.care-dynamics.jp/obd2/), an OBD II solution for businesses that operate shuttle vehicles to provide various transportation services for nursing care facilities and other customers. The system can monitor any dangerous driving behaviors (sudden starts, sudden stops, sharp turns) in multiple fleet vehicles operated simultaneously, enabling managers and supervisors to monitor the driving behavior of drivers and provide appropriate instructions tailored to each driver.

Top Message

Care Dynamics continues to provide tours of nursing care facilities that have adopted the Drive Care OBD II solution, and offers free trials of the solution. Care Dynamics has also launched additional services such as support for the deployment of nursing care robots and the provision of nursing care ICT. In these and other ways, Care Dynamics has evolved into a comprehensive nursing care business support enterprise.

In August 2018, the National Defense Authorization Act for Fiscal Year 2019 (NDAA 2019) entered force in the United States. NDAA 2019 significantly tightens enforcement actions against five Chinese companies, including Huawei Technologies Co., Ltd. Consequently, NCXX Inc. has received numerous inquiries about whether or not it has any products that may infringe upon NDAA 2019. For all of its products, NCXX Inc. does not outsource any manufacturing to the five Chinese companies affected by NDAA 2019 and does not use any of their components. NCXX Inc. will continue to implement strict management to ensure that it remains in compliance with the matters prohibited by NDAA 2019.

Segment sales in fiscal 2018 were ¥950 million, down 76.3% year on year. Segment income was ¥48 million, compared with a segment loss of ¥465 million in the previous fiscal year.

Internet Travel Business

e-tabinet.com provides travel products that fulfill the increasingly diverse and sophisticated needs of customers. The company enjoys a strong reputation for customer satisfaction as Japan's only Internet-based travel agency offering customized services. In addition, Web travel Co., Ltd., a wholly owned subsidiary of e-tabinet.com, is notable for its highly experienced registered "travel concierges" (travel consultants). The travel support services provided by these travel consultants have proven highly popular among customers.

Since February 2018, Web travel has been pressing forward with a business alliance with Credit Saison Co., Ltd., a leading credit card issuer in Japan. This business alliance primarily concerns the travel concierge service, which is presented as a credit card function under the partnership. The alliance has helped to enhance the number of requests for travel estimates and order rates at Web travel.

Meanwhile, the number of inbound foreign tourists visiting Japan rose by 8.7% to 31.19 million as of the end of fiscal 2018. One key priority for e-tabinet.com has been to enhance the content of tourism information available to inbound tourists. For this, e-tabinet.com is striving to enhance content with the help of Jitsugyo no Nihon Sha, Ltd., a long-standing publisher and Group company. For example, e-tabinet.com has set up a new dedicated skiing website in English. In a separate development, e-tabinet.com converted Gloria Tours Inc. into a subsidiary in October 2016. Gloria Tours specializes in sending Paralympic athletes to various events and organizing international para-sports tournaments. It is focused on expanding the market for para-sports ahead of the Tokyo Olympic and Paralympic Games to be held in 2020.

As a result of the foregoing activities, segment sales in fiscal 2018 rose 8.4% year on year to ¥2,367 million. Segment income was ¥38 million, compared with a segment loss of ¥2 million in the previous fiscal year.

Brand Retail Platform Business

Following on from the previous fiscal year, TITICACA has been pushing ahead with structural reforms, including the closure of unprofitable stores and revisions to its personnel system. In the e-commerce business, TITICACA added two new stores to its network of six stores, bringing the total number of stores to eight.

Wheelchair basketball

Skiing

Top Message

As part of a tie-up initiative with Japanese actress Alice Hirose, TITICACA set up a stand at the Aichi Bloc Tahara Conference, an event organized by the Aichi Bloc Council of the Junior Chamber International Japan. TITICACA sold tie-up T-shirts and tote bags at the stand. For every item purchased, TITICACA donated ¥500 to social contribution organizations.

In February 2018, the Company entered into a capital and business partnership with CSMEN Co., Ltd., an apparel brand retailer. This was done by underwriting a portion of a capital increase through a third-party allotment of shares of CSMEN.

As a result of the foregoing activities, segment sales in fiscal 2018 were ¥6,445 million, up 8.7% year on year. Segment loss was ¥460 million, compared with a segment loss of ¥71 million in the previous fiscal year.

Cryptocurrency and Blockchain Business

e frontier is conducting investment operations based on trading using an AI-based cryptocurrency trading system currently being developed by this company. e frontier has produced significant results by conducting trading activities with an emphasis on risk control and funding efficiency.

In July 2018, the Company's Board of Directors passed a resolution to commence a cryptocurrency mining business in Hanamaki, Iwate Prefecture, where its Head Office is located. Mining requires massive amounts of computations to be performed using high-performance computers. Therefore, cooling fans and air conditioner installations are needed to suppress heat emitted from the mining equipment. Hanamaki, Iwate Prefecture is located in a relatively cold region. Accordingly, the Group can expect to significantly reduce its electricity bills by relying on natural ventilation for most of its cooling needs throughout the year. Moreover, the heat released by mining equipment will be reused in the Group's agricultural ICT business (NCXX FARM).

As a result of the foregoing activities, segment sales in fiscal 2018 were ¥1,326 million, and segment income was ¥1,320 million.

Outlook for Fiscal 2019

In the Fourth Industrial Revolution, physical things of all kinds, including automobiles and home electric appliances, will be connected to the Internet, making it possible to perform sophisticated analysis of the big data that will be generated. In addition, as a result of the development of AI and blockchain technologies, a society that is far more efficient and less labor intensive than what we have today is predicted to take shape in the future. Based on this vision for the future, we have positioned FinTech-related businesses as a strategic area of focus, and plan to strengthen various initiatives with a focus on blockchain technology as a particularly crucial priority.

We will continue to collaborate with CAICA which was excluded from the scope of application of equity method in the current fiscal year and NCXX Solutions with the aim of providing services in the Cryptocurrency and Blockchain Business as early as possible. Moreover, we will promote the development of an AI-based cryptocurrency trading system, as well as investment in cryptocurrencies and various tokens using the system. In addition, as a new initiative, we have started a cryptocurrency mining business on a trial basis, with the goals of building up expertise and developing businesses at the earliest opportunity.

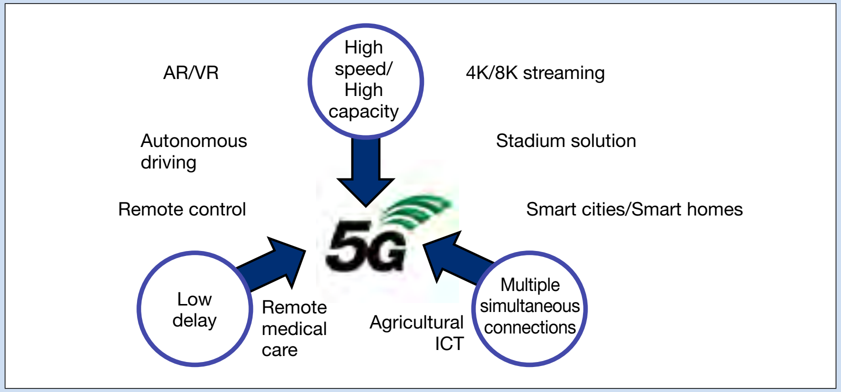
We plan to continue to enter growth fields that are attracting interest, such as upgrading and expanding IoT-related services, providing services that integrate IoT and blockchain technologies, and offering cryptocurrency services and other services related to the various tokens issued by Group companies, such as NCXX Coin.

Tsukasa Akiyama

Representative Director and President
NCXX Group Inc.

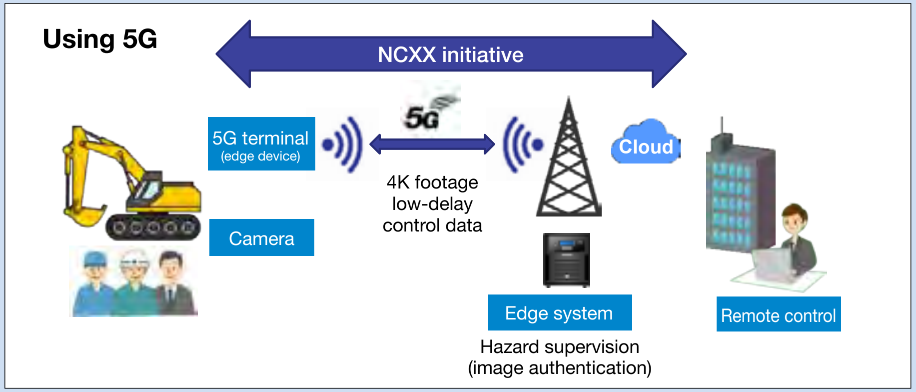
Feature Device Business Initiatives for 5G Next-Generation Communications

NCXX aims to expand its presence in the M2M field by leveraging the communications technology assets it has cultivated in its device business, its core business. Commercial 5G service will start in Japan from March 2020. With 5G, "high speed/high capacity," "low delay" and "multiple simultaneous connections" will become a reality, and it is expected to have an impact on a wide variety of industries. In the age of IoT, when all manner of things can be connected, services will roll out flexibly whether in urban or rural areas and expectations are high that it will resolve local community issues and aid in regional revitalization. As a communications device manufacturer, NCXX is pushing into new fields, and launches products that not only support LTE products, but also products that support 5G, which are expected to expand going forward.



NCXX's Initiatives in the 5G Field

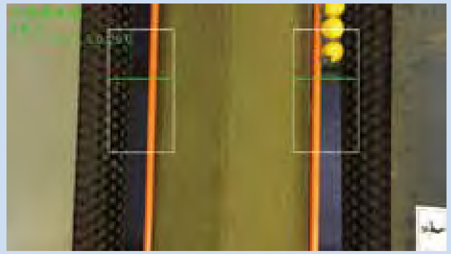
NCXX utilizes its strength in the field of BtoB communications adapter module sales to strengthen planning such as real-time remote-control operation of construction machinery using high-quality images, control various types of equipment and provide solutions combining the use of 5G devices collecting big data and deep learning image authentication techniques, as well as developing application services.



■ Image authentication technology

Visualization of traffic volume on an expressway

Visualization of mini tomato varieties, size and results of collated data



Looking into the future, development of AI and blockchains means we can predict more efficient, more energy-saving operations than now. In anticipation of just such a future, NCXX is strengthening its collaborations with Group companies CAICA Inc., NCXX Solutions Inc. and Fisco Cryptocurrency Exchange Inc. By providing communications devices connecting equipment and cryptocurrency payment terminals and applications for a variety of items, we are studying an IoT payment platform where the various tokens that companies issue can organically bind to enable token-based payments.

■ Agricultural ICT: Creating a new business model for agriculture

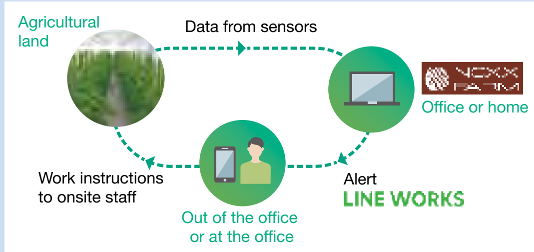
The Company aims to enter into a broader range of M2M fields, leveraging the telecommunications technology assets developed in its core device business. As one specific example of these efforts, we seek to make ICT a key force in agriculture through the agriculture ICT business. This business integrates new agricultural techniques and facilities with technologies in each of these areas. Through these efforts, we aim to create a new agricultural business model.

In the agricultural ICT business (NCXX Farm), one of the Company's key areas of focus, we provide end-to-end support to producers in activities ranging from growing to sales. We have been advancing research and development into a new AI-based growth model and optimization model, along with carrying out related field trials. With NCXX Farm, agricultural products are grown by integrating several different environmental control tools for agricultural greenhouses (such as ventilation fans, windows, blackout thermal curtains, mist generators, and watering systems) and digitally controlled chemical soil management. AI-based image recognition technology is employed to determine the right time to harvest crops. We are also pursuing research and development into automated harvesting robots for agricultural products.

Conditions in greenhouses are monitored with quantitative indicators. Therefore, our agricultural ICT business allows anyone, even beginners, to start farming without having to rely on the instincts or experience of expert farmers. In this manner, we have helped to create employment for people with disabilities and reduce barriers to entry into agriculture for new entrants. Additionally, our agricultural ICT business minimizes the impact of agriculture on the environment and enables producers to supply reliable, safe and eco-friendly farm products to consumers.

In September 2019, we formed a partnership with WORKS MOBILE Japan Corp. on LINE WORKS, a LINE-based collaboration and communication platform for business users. As a result, we can now use PCs and smartphones to conduct monitoring and surveillance of various types of environmental data, such as temperature, humidity, and sunlight. This information will be easily accessible during break times between jobs and when people are out of the home or office, making it easier for new entrants to start farming. In emergencies such as inclement weather, NCXX Farm will send out alerts via LINE WORKS as soon as it detects any unusual conditions. NCXX Farm instantly grasps and address such unusual situations, including weather-related risks, which are difficult to predict. By doing so, NCXX Farm has successfully reduced the workload of producers in performing various tasks.

NCXX Farm also seeks to reduce the workload of producers in the growing stage. We employ a patented agricultural technique called the "stacked planter farming technique." This is a planter-based growing technique designed to enable producers to provide an optimal environment according to the growth stage of crops, thereby enabling the growth of delicious and healthy crops. The planters contain a proprietary high-performance fertilized soil featuring an optimally balanced mix of nitrogen, phosphoric acid, potassium, and various minerals. Producers can use this soil to maximize the natural growth potential of their crops. No fields are needed because the crops are grown in planters. Crops can be grown simply by putting the fertilized soil into the planters and planting seedlings in the soil. There are no restrictions on where the planters can be placed. (We recommend growing crops in greenhouses in the winter.) No agricultural machinery, such as field cultivators, are required, allowing troublesome weeding and soil tilling work to be reduced. The stacked planter farming technique increases the planting and harvest volume per area, and uses new soil for every planting. For this reason, there is no need to worry about continuous cropping problems.



We have also built a testing plot on idle land in Hanamaki, Iwate Prefecture, where our Head Office is located. In 12 greenhouses on the testing plot, we are conducting a variety of field tests using the stacked planter farming technique. Here, yellow tomatoes with a high sugar content are grown. These yellow tomatoes have gained a strong reputation. Notably, they have been chosen as a local specialty product for Hanamaki's hometown tax donation program (*furusato nozei*).

Another priority is to encourage the deployment of as much agricultural ICT as possible among not only companies involved in the agriculture business, but also those companies that have an interest in, but are not yet involved, in the agriculture business. To this end, we conduct fee-based facility tours every Friday at our testing plot. As part of these study tours, we present an overview of agricultural ICT systems, hand out briefing materials, provide guided facility tours and conduct food tasting and sales sessions.

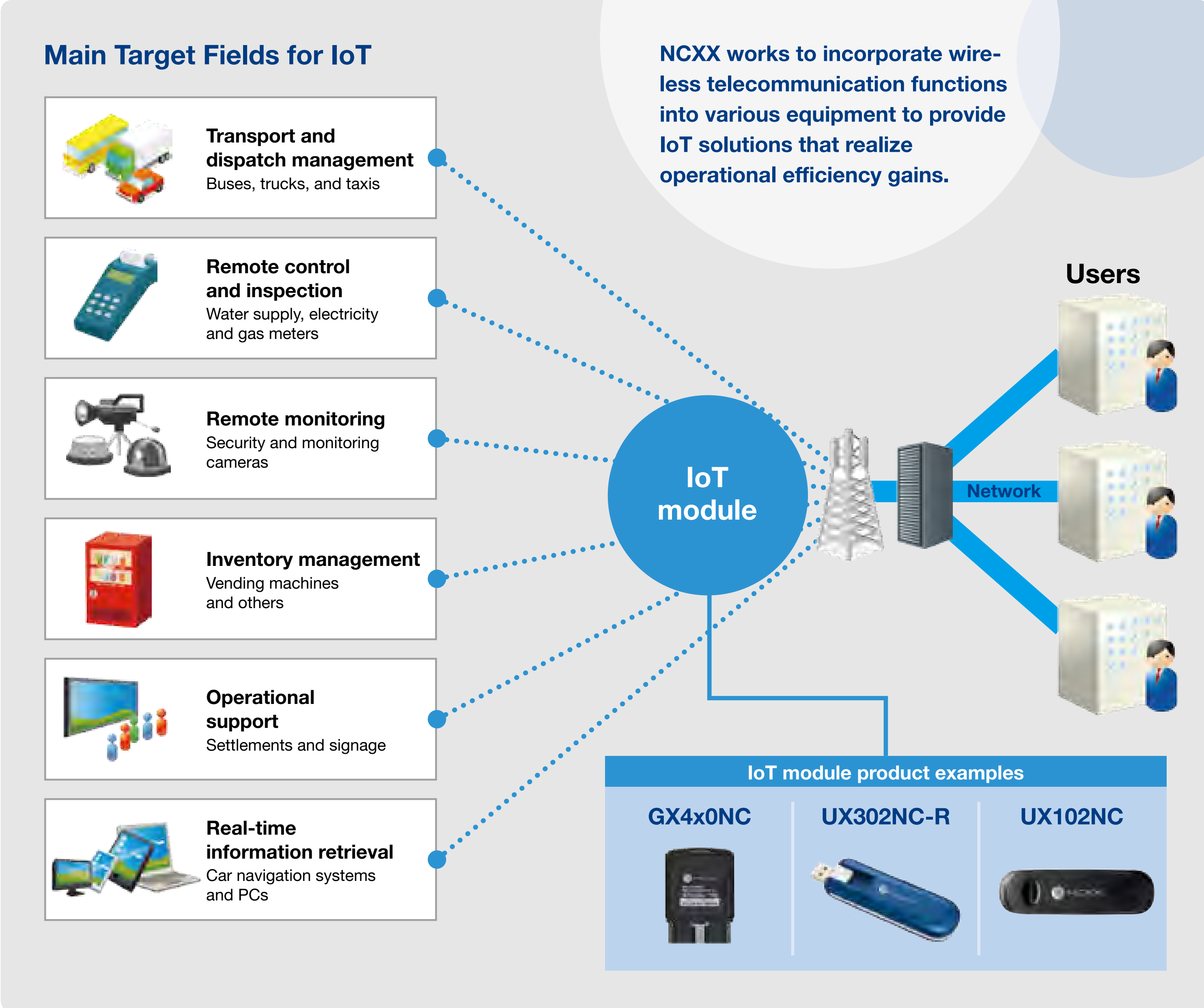
In this manner, we have created an attractive agricultural business model that realizes work that is less labor intensive and more efficient and that can successfully support locally produced and consumed agricultural products. Going forward, we aim to more actively communicate the attractive features of this business model, while at the same time increasing the number of franchisees.

Introducing Our Businesses

IoT-Related Business (NCXX Inc.)

IoT Solutions

IoT refers to a system that automates various controls by enabling “things” such as sensors and devices connected through the Internet to exchange data with each other. One key advantage of M2M is that it enables data communication between devices without any human intervention. For this reason, M2M has been introduced not just to PCs and servers, but to a diverse array of fields, including management of driving conditions through integration with vehicle driving management systems, inventory management for vending machines and related monitoring of malfunctions and other issues, remote surveillance and monitoring for faults and so forth of elevators and ATMs, remote readings of water, electricity and gas meters, and security measures.



Introducing Our Businesses

IoT-Related Business (NCXX Inc.)

Agricultural ICT

Since 2012, the NCXX Group has been operating the NCXX FARM agricultural ICT business with a view to applying its telecommunication technology assets in the field of agriculture. A test plot was established at NCXX Group Hanamaki Head Office, where various trials are conducted using new agricultural methods. The Group conducts trials that use multi-stage pot cultivation enabled by digitally based chemical soil management to minimize environmental impacts and supply reliable, safe and eco-friendly farm products. In addition, the Group aims to convert the various cultivation conditions into data and optimize them to establish cultivation technologies that can ensure stable production, with a view to providing these technologies to producers.

Utilizing Agricultural ICT

- Development of a mushroom cultivation management system
- Research into disease prevention strategies in agricultural facility cultivation together with Iwate University
- Launch of Yellow Tomato Keema Curry packed in Paulownia Wood Box and 100% Yellow Tomato Juice
- Took part as an advisor in the Iwate Prefectural Workshop Promoting Development of New Fields Using IT
- Started collaboration on a farming ICT system with LINE WORKS, a LINE for work use

Characteristics of NCXX FARM

A franchise business entailing sales of packaged system with chemical soil management based on a patented farming method, digital management based on ICT systems, and a sales support system

Introducing Our Businesses

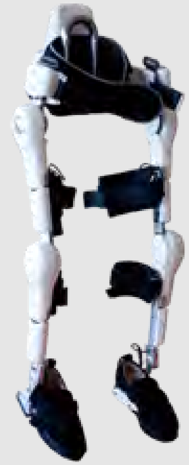
IoT-Related Business (Care Dynamics Limited)

Total Nursing Care Business Support Services

Care Dynamics develops and sells Care Online, an ASP service for nursing care service providers offering a system for centrally managing operations and information related to the nursing care business, such as care plan creation, nursing care service provision, and invoicing national health insurance organizations. Looking ahead, the company will combine M2M technologies that utilize synergies with the NCXX Group to transition into a “total nursing care business support company.” To this end, the company is expanding its conventional software service with the addition of NCXX’s hardware and services in the telecommunication field to provide the highest level of service and total solutions to people involved in nursing care. It is also participating in the planning and development of a nursing care robot business.

Nursing Care Robot Business

Care Dynamics aims to realize the highest level of nursing care service quality through the harmonization of people and robots. The company supports sales and introduction and operation of robots at nursing care facilities. Care Dynamics will provide consulting to assist with introduction based on diverse trial data obtained through use of nursing care robots in actual frontline nursing care situations, and is now creating a manual for optimal introduction and operation of nursing care robots.



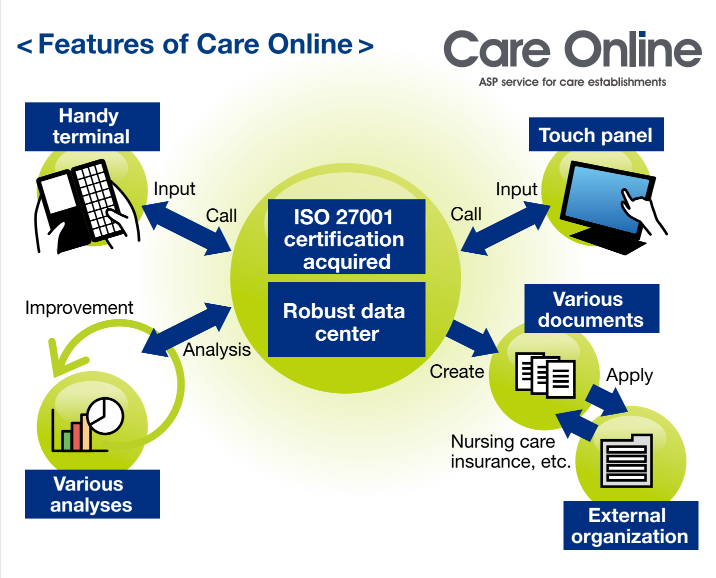
Prof. Sankai, University of Tsukuba/CYBERDYNE Inc.

Nursing Care ICT Business

The telecommunication and communication technologies cultivated in the nursing care robot business will be used to supplement human workers on the front lines of nursing care, which tend to be in short supply. This offers a way for nursing care workers to provide higher-quality services. Care Dynamics will draw on the basis of its accumulated experience in the nursing care solutions business to provide solutions that nursing care service providers truly need.

ASP Services for Nursing Care Service Providers

Care Dynamics provides Care Online, an operation support system for nursing care service providers. The system is provided as a cloud-based service corresponding to a suite of operations including care plan creation, nursing care service provision, and invoicing national health insurance organizations. With simple operation that anyone can use and features that can be customized to suit the characteristics of each facility, the system caters to a full range of administrative processes in facilities. 120 nursing care service providers have introduced the system at over 400 facilities.



Introducing Our Businesses

Internet Travel Business (e-tabinet.com)

Internet Travel

The main business in the Internet travel business is customized travel services provided by e-tabinet.com's wholly owned subsidiary, Web travel Co., Ltd. Specialist "travel concierges" create multiple itineraries based on the requirements of applicants, and propose travel plans via email. From these, applicants select the travel concierge and plan that appeals to them. The service is therefore different from ordinary package tours, combining high-quality product proposals brimming with hospitality and the unrivalled convenience of the Internet to provide service with a difference.

Features

- Proposal of high-quality products brimming with hospitality that differ from major travel company package tours
- Unrivalled convenience of the Internet
- Relatively unaffected by low price trends caused by price competition with major tour companies

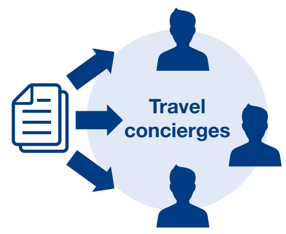
Service Flow

After hearing from customers about their goals, envisaged experience, approximate budget, and other aspects of their trip, expert "travel concierges" provide a proposal and an estimate free of charge on a travel plan designed according to the customer's wishes. Since most of the service is conducted through e-mail and telephone, customers who are busy during work hours can have a plan created at a time that suits them. The service also includes taking care of tiresome details, reservations, and other tasks.

STEP 1

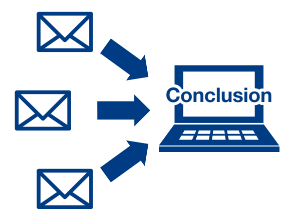
Send a travel estimate request using a special form

STEP 2



Travel concierges reply with an estimate by e-mail

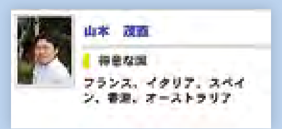
STEP 3

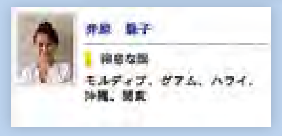


Customers enjoy a unique, custom-made tour

Travel Concierges

Travel concierges are travel consultants who specialize in creating travel plans to meet individual clients' wishes. They each have their own specialty fields, enabling them to respond flexibly to increasingly diverse customer needs. However, the Internet is a medium that does not provide face-to-face interaction. Therefore, we post profiles of the travel concierges online, emphasizing their experience and personality, so that customers can feel peace of mind when they consult us.





The service has about 450 unique and original travel concierges registered.

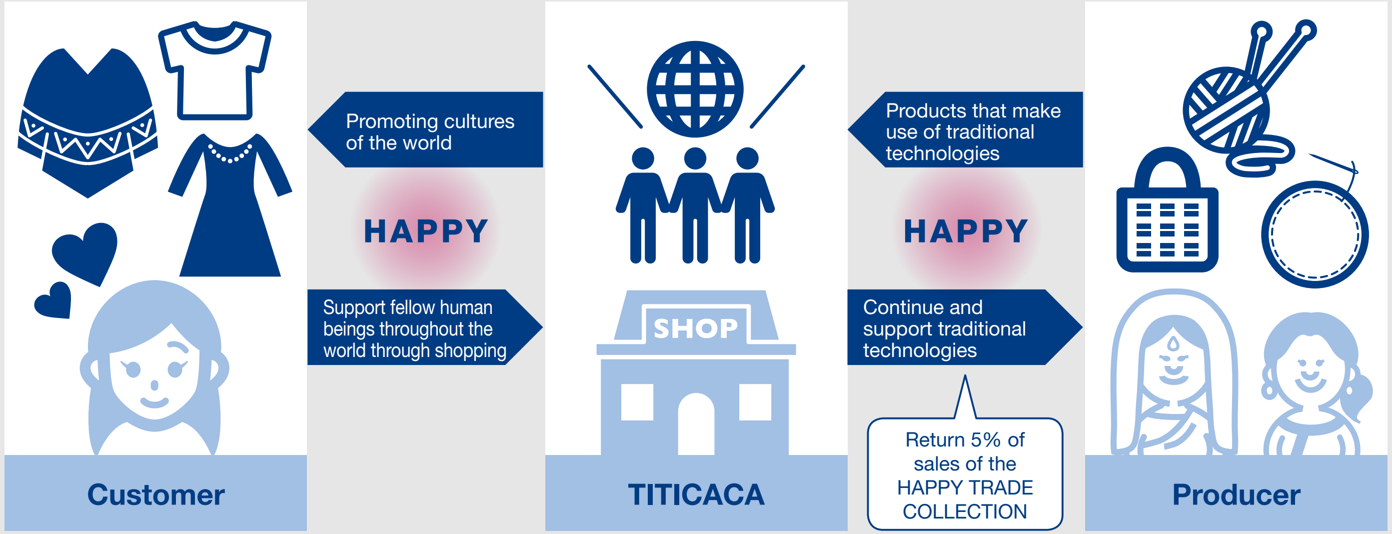
Introducing Our Businesses

Brand Retail Platform Business / (TITICACA, Co. Ltd.)

Retail and Wholesale Sales of Clothing and Accessories

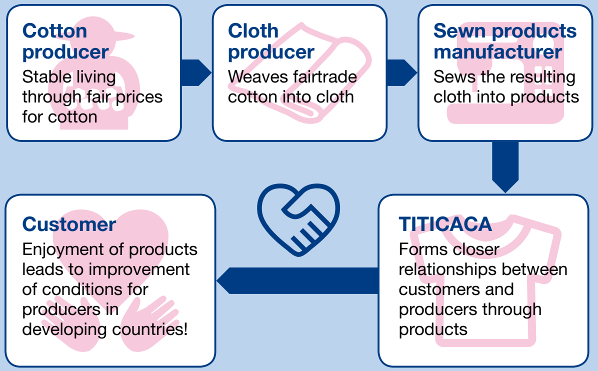
TITICACA deals directly with producers in countries around the world, such as Central and South America, with integrated in-house operations spanning planning, manufacture, and sale of original ethnic apparel and accessories. The company creates original products with a hand-crafted style designed to match market demand. TITICACA also strives to “bridge the world’s happiness” by undertaking various activities. For example, the company supports the transfer of traditional technologies and improving the skills of young people by allocating 5% of sales from the HAPPY TRADE COLLECTION, designed to protect the welfare of producers and connect cultures. TITICACA also promotes fair trade, which aims to improve the standard of living for producers and workers in developing countries and help them to be autonomous through the purchase of their materials and products at fair prices.

HAPPY TRADE COLLECTION



What Is Fairtrade?

Fairtrade is a system of trade that aims to improve the standard of living for producers and workers in developing countries through the purchase of their materials and products at fair prices. Producing products that are designated as “fairtrade” and allowing customers to purchase them leads to mutual prosperity for supplier countries.



The International Fairtrade Certification Mark

The International Fairtrade Certification Mark assures customers that international Fairtrade Standards set out by Fairtrade Labeling Organizations International are met at every stage in the value chain of a product, from production of its raw materials through to import and export, processing, manufacturing, and completion as a Fairtrade Certified Product.

Introducing Our Businesses

Blockchain Business (NCXX Group Inc.) (e frontier, Inc.)

Cryptocurrency

e frontier entered a business alliance with Fisco Cryptocurrency Exchange in January 2018, and the two companies have started developing AI trading system for crypto-currencies. e frontier has also begun conducting trials of cryptocurrency based on this AI trading system. Furthermore, in October 2018, e frontier subscribed to bonds with warrants issued by Fisco Cryptocurrency Exchange's parent group, FICSO Digital Asset Group. In another aspect of cryptocurrency operations, e frontier conducts cryptocurrency mining operations in Hanamaki, Iwate Prefecture, where the NCXX Group Head Office is located. The heat exhausted from the mining equipment is used in the NCXX FARM agricultural ICT operation.

* For TITICACA, the Company has been proceeding with operations that use the AI trading system for crypto-currency that e frontier has developed as a trading base.

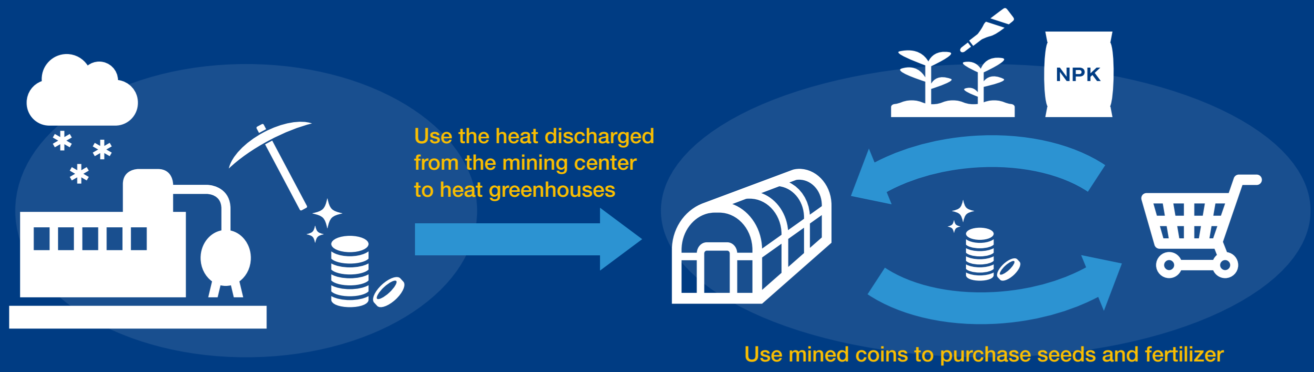
Hanamaki Mining Business Concept

Conditions conducive to the mining center

- Iwate's cold weather is suited to mining
- Utilization of idle assets
- Great potential for renewable energy (wind / geothermal) (future application under consideration)

Feedback into other businesses

- Using discharged heat reduces traditional heating costs
- A self-rotating agricultural business model that uses mined coins in the near future



Sustainability

Corporate Governance

I Corporate Governance System

1. Outline of Corporate Governance System

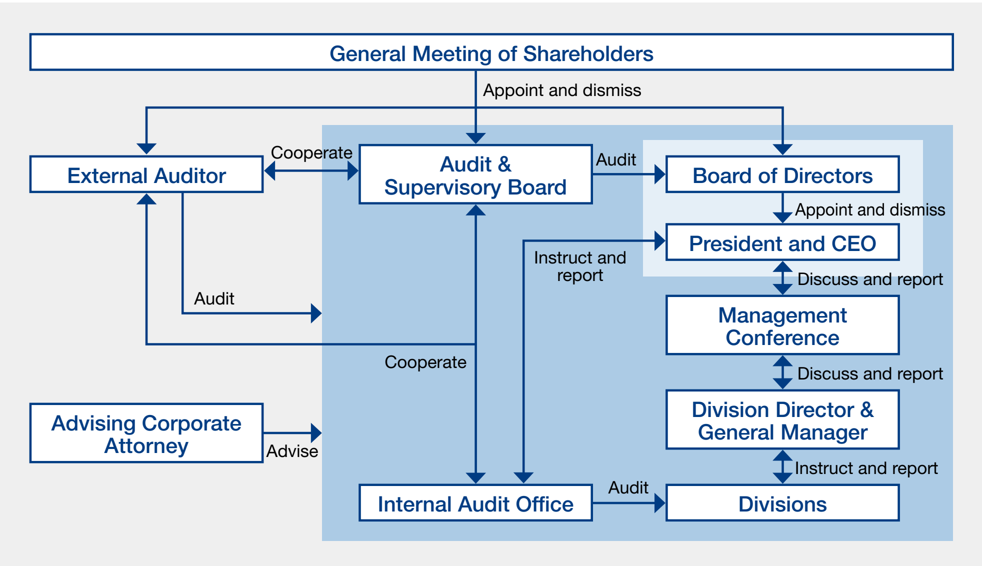
The Company has a corporate governance system comprising a Board of Directors, Audit & Supervisory Board members, an Audit & Supervisory Board, and an external auditor.

The Company's Board of Directors has six directors, one of whom is an outside director. As the body making management decisions, the Board of Directors resolves important business decisions in accordance with the Board of Directors Regulations. The board meets once a month and as the need arises to supervise the execution of duties by directors based on monthly financial statements and other reports. It also invites the outside director to participate in board meetings in order to obtain the outside director's views on management from an objective perspective based on his extensive experience.

The Company's Audit & Supervisory Board has three members (including two outside members), comprising one full-time Audit & Supervisory Board member and two part-time Audit & Supervisory Board members. The Audit & Supervisory Board meets as necessary to share information between the Audit & Supervisory Board members and facilitate efficient audits.

In addition, the Company strives to promptly grasp information on business management by holding a Management Conference once a week, with mainly the directors and general managers in attendance.

A schematic diagram of the Company's corporate governance system is presented below.



2. Number of Directors

The Company's Articles of Incorporation stipulate that the Board of Directors comprises a maximum of 10 directors.

3. Approval Criteria for the Appointment and Dismissal of Directors

The Company's Articles of Incorporation stipulate that the appointment of directors shall be approved by a majority of voting rights exercised at a meeting attended by shareholders holding at least one-third of all voting rights. The Articles of Incorporation also stipulate that the appointment of directors shall not be approved on the basis of cumulative voting.

The Articles of Incorporation also stipulate that the dismissal of a director shall be approved by two-thirds majority of voting rights exercised at a meeting attended by shareholders holding a majority of all voting rights.

4. Limited Liability Agreement

The Company has concluded an agreement limiting liability for damages with each director (excluding directors with executive responsibilities and similar posts) and each Audit & Supervisory Board member, pursuant to Article 423, Paragraph 1 of the Companies Act, based on the provisions in Article 427, Paragraph 1 of the same.

The liability for damages based on this agreement is limited to either an amount no larger than ¥1 million specified by the Company in advance, or the minimum liability amount as set forth by the law, whichever is higher.

The Company's Articles of Incorporation stipulate that "the Company can conclude an agreement limiting liability for damages with the external auditor, pursuant to Article 423-1 of the Companies Act, based on the provisions in Article 427-1 of the same. However, the upper limit of the liability amount under the contract shall be the amount provided in the law." As such, the Company's external audit contract with Toko Audit Corporation makes provisions for an article limiting liability. The limit on the amount of liability for damages in this contract is twice the amount of total remuneration for Toko Audit Corporation's auditing services.

5. Exemption of Directors and Audit & Supervisory Board Members from Liability

Pursuant to the provisions on liability set forth in Article 423-1 of the Companies Act, the Company's Articles of Incorporation stipulate that the Board of Directors may resolve to exempt a director (including past directors) or Audit & Supervisory Board member (including past Audit & Supervisory Board members) from their liability within the limit set forth by the law, provided that that person had acted in good faith and was not grossly negligent.

The aim of this provision is to enable the directors and Audit & Supervisory Board members to fulfill their roles to the fullest extent, and to enable the Company to appoint experienced and knowledgeable personnel to the Board of Directors and Audit & Supervisory Board.

6. Body Making Decisions to Pay Dividends and Other Distributions from Surplus

In order to flexibly return profits to shareholders, the Company's Articles of Incorporation stipulate that the Board of Directors may resolve to pay an interim dividend to the shareholders and registered pledgees of the Company's shares, listed or recorded in the final register of shareholders as of May 31 each year.

Corporate Governance

II Establishment of an Internal Control System

The Company has developed Company-wide internal rules governing all business operations, and executes business with proper separation of management based on these rules. At the same time, the Company has built an approval system based on rules governing the authorization of duties and the circular approval of decisions. In order to evaluate the effectiveness and sustainability of the Company's internal control system, the Internal Audit Office audits each business division to ensure that their important business duties are being executed both efficiently and accurately.

III Status of Internal Audits, Audit & Supervisory Board Audits and Accounting Audits

Each Audit & Supervisory Board member attends the Board of Directors meetings to audit the execution of duties by directors. The members also exchange information as required with the president and directors of the Company to share an understanding of the management priorities and issues. In addition to auditing the Company's minutes, circular approval documents, contracts, and business transaction records, the full-time Audit & Supervisory Board member is mainly responsible for interviewing relevant personnel, observing accounting audits, and conducting on-site surveys, as well as attending other important meetings apart from the Board of Directors.

The Company's Internal Audit Office, comprising one person in charge, cooperates with the Audit & Supervisory Board members throughout the year to conduct the required internal audits based on an internal audit plan. Results of the internal audits are reported in writing to the president and confirm the status of specific advice and recommendations given to the divisions receiving audits as well as the improvements they have made.

The Company has also concluded an external auditor contract with Toko Audit Corporation, under which it periodically receives accounting audits.

The Internal Audit Office, Audit & Supervisory Board members, and external auditor cooperate with one another to conduct audits effectively and efficiently. To this end, they strive to conduct proper audits and confirm the status of improvements in response to the findings and issues they raise by exchanging information and opinions and sharing what they find.

IV Development Status of the Risk Management System

The Company's risk management system has rules that were developed based on the International Organization for Standardization (ISO) from the standpoint of preventing risks. When there is information thought to represent a market, credit, business, or management risk, the Management Conference confirms the status of compliance with laws and regulations of the Company and Group companies. At the same time, executives in charge of each division strive to raise risk awareness by rigorously disseminating information considered to represent a risk within their respective divisions. The Company is also striving to strengthen its legal risk management system by concluding an advisory contract with a law firm so that it can receive timely advice and instruction on legal risks of high importance, particularly the protection of personal information, statutory regulations, and so forth.

Internal audits are conducted periodically to verify that there are no problems with the Company's risk management system and compliance with laws and regulations.

V Status of Development of a System for Ensuring the Appropriateness of the Operations of Subsidiaries of the Company

The subsidiaries of the Company have adopted the basic policy of maintaining their independence by making management decisions autonomously in light of the characteristics of each company, such as the scale of operations, business characteristics and design of governing bodies, in tandem with maintaining cooperation and information sharing with the Company. Meanwhile, with regard to important matters concerning management at the Company's subsidiaries, the subsidiaries are requested to seek the approval of these matters from the Company or report them to the Company, based on internal rules. In parallel, subsidiaries regularly report on the status of business execution, financial condition and other matters to the Company. Moreover, the Internal Audit Office audits transactions between the Company and its subsidiaries.

VI Compensation of Corporate Officers

1. Total Compensation by Corporate Officer Position, Type of Compensation, and Number of Eligible Officers

Position	Total compensation (Thousands of yen)	Total by type of compensation (Thousands of yen)				Number of eligible officers
		Basic compensation	Stock options	Bonuses	Retirement benefits	
Directors (excluding outside directors)	6,487	4,910	1,577	–	–	5
Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members)	1,200	1,200	–	–	–	1
Outside officers	3,000	3,000	–	–	–	3

Notes: 1. The Extraordinary General Meeting of Shareholders, held on October 25, 2017, resolved that the total compensation for the Company's directors (excluding salary as an employee) shall be limited to within ¥100 million per year. Separately from the above, the 34th Ordinary General Meeting of Shareholders, held on February 22, 2018, resolved that the total compensation in stock options shall be limited to within ¥100 million per year.

2. The 22nd Ordinary General Meeting of Shareholders, held on June 29, 2006, resolved that the total compensation for the Company's Audit & Supervisory Board members shall be limited to within ¥50 million per year.

2. Breakdown of Compensation by Corporate Officer

Omitted from record in this report as there were no corporate officers receiving ¥100 million or more in total compensation.

Corporate Governance

3. Material Information on Salary as an Employee for Corporate Officers Serving Concurrently as Employees

No items to report

4. Policy on Determining the Amount and Calculation Method of Corporate Officer Compensation

The Company has not established policies on the amount or calculation method of compensation for corporate officers.

VII Outside Director and Outside Audit & Supervisory Board Members

1. Functions and Roles Relating to Corporate Governance

The Company has appointed one outside director and two outside Audit & Supervisory Board members.

Outside Director Katsumi Kitamura has extensive experience and specialized knowledge as a lawyer. Mr. Kitamura was appointed because his experience and knowledge is expected to help the executive officers to ensure that the Company's operations as a whole satisfy the basic principles required by Japan's Corporate Governance Code. There are no conflicts of interest between this individual and the Company.

Outside Audit & Supervisory Board member Mitsutoshi Urano possesses the extensive experience and knowledge needed to perform audit operations based on his past and current positions as certified tax accountant, representative director, and Audit & Supervisory Board member. Mr. Urano was appointed because his experience and knowledge are expected to help strengthen the Company's audit team. There are no conflicts of interest between this individual and the Company.

Outside Audit & Supervisory Board member Kazuhisa Nagabuchi currently serves as chairman of a non-profit organization, and has ample knowledge needed to audit and supervise corporate management. Mr. Nagabuchi was appointed because his knowledge is expected to help strengthen the Company's audit team. There are no conflicts of interest between this individual and the Company.

Based on the above, the outside director and outside Audit & Supervisory Board members have no noteworthy vested interests in the Company from the standpoint of conflict of interest with general shareholders. Furthermore, they are expected to supervise and audit the execution of duties by the Company's directors from an independent position posing no risk of a conflict of interest with general shareholders, since they are expected to apply an outsider's perspective, drawing on their professional expertise and experience and knowledge working for other companies, in offering impartial advice and opinions to the Company.

2. View Concerning the Appointment Status of the Outside Director and Audit & Supervisory Board Members

The Company has no standards or policies regarding independence from the Company for the appointment of outside directors and outside Audit & Supervisory Board members. However, as noted above, the Company recognizes that the outside director and outside Audit & Supervisory Board members are fulfilling their functions and roles as expected and judges that there is no problem with their appointment status.

3. Supervision and Audit by the Outside Director and Audit & Supervisory Board Members and Internal Audit, Their Mutual Cooperation in Audit & Supervisory Board Audits and Accounting Audits, and Relationship with the Internal Control Division

The Company's outside director voices timely opinions at Board of Directors meetings based on high-level knowledge and ample experience, and fulfills the functions of supervising and checking management from an independent position from the Company's management team.

The outside Audit & Supervisory Board members provide opinions and advice based on professional expertise and ample experience at the Company's Board of Directors and Audit & Supervisory Board meetings. They also maintain and strengthen the compliance of Company divisions with laws and regulations by deliberating and exchanging information with the Internal Audit Office and an external auditor, as well as by receiving reports from them.

[Details of Compensation for the External Auditor and Their Staff]

(Thousands of yen)

Classification	Fiscal 2017		Fiscal 2018	
	Compensation paid for audit certification activities	Compensation paid for non-audit activities	Compensation paid for audit certification activities	Compensation paid for non-audit activities
Reporting company	12,000	–	12,000	–
Consolidated subsidiaries	31,215	–	25,200	–
Total	43,215	–	37,200	–

Board of Directors and Audit & Supervisory Board Members

Representative Director and President	Tsukasa Akiyama
Representative Director and Vice President	Naoki Ishihara
Director	Osamu Fukami
Director	Yosuke Saito
Director	Wei Zhang
Director	Katsumi Kitamura
Full-Time Audit & Supervisory Board Member	Hiroshi Sasaki
Audit & Supervisory Board Member	Mitsutoshi Urano
Audit & Supervisory Board Member	Kazuhisa Nagabuchi

Commitment to SDGs

The NCXX Group aims to "contribute to the development of a more efficient and comfortable society," as laid out in its corporate philosophy. We believe this aim is aligned with efforts to realize a sustainable society—the main purpose of the Sustainable Development Goals (SDGs) adopted at the United Nations Sustainable Development Summit held in 2015.

In the Cryptocurrency and Blockchain Business and agricultural ICT business, the Group has initiated research and development into AI-based trading systems and automated harvesting robots. The goal is to turn these projects into platforms for technological innovation (Goal 9: Industry, Innovation and Infrastructure).

The Group also uses the heat generated from cryptocurrency mining to grow cherry tomatoes in greenhouses, and strives to reduce heating expenses in the winter and cooling expenses needed to mitigate waste heat (Goal 7: Affordable and Clean Energy, Goal 12: Responsible Consumption and Production).

In the agricultural ICT business, an area of focus for the NCXX Group, we help to create employment for people with disabilities and the elderly by enabling people to start farming even without agriculture knowledge or experience (Goal 8: Decent Work and Economic Growth).

SUSTAINABLE DEVELOPMENT GOALS

17 GOALS TO TRANSFORM OUR WORLD

Commitment to SDGs

In addition, NCXX offers the GX4x0NC, an OBD II-type automotive telematics data collecting unit. It can be installed in a variety of welfare vehicle models. Driving data of vehicles fitted with the device is sent over 3G networks to servers, where a management system can quantify and visualize the data to detect hazardous driving (sudden starts, sudden stops, sharp turns). With this system, managers can monitor any dangerous behaviors and give appropriate instructions to drivers as necessary, thereby making it possible to provide safer transportation services (Goal 11: Sustainable Cities and Communities).

We have entered into business alliances with CAICA Inc. and NCXX Solutions Inc., along with fostering collaboration between the Group's agricultural ICT business NCXX Farm and WORKS MOBILE Japan Corp.'s LINE WORKS, a LINE-based collaboration and communication platform for business users. Through such partnerships with other companies, we will strengthen our measures to achieve sustainable development (Goal 17: Partnerships for the Goals).

CSR Activities through Business

Initiatives through Business

Service and Supports for People with Disabilities
Volunteer Cosponsor of Motorcycle Sidecar Parade “Feel the Wind”

The NCXX Group’s underlying desire as a manufacturer is to find ways to help people with disabilities or elderly people achieve things that they want to do but cannot, and to take on various individual wishes and realize them. Through our activities with various people in and outside the Company, we encounter many ways of thinking, widen our field of view, and create new values and ideas. We believe this helps to invigorate our organization.

Based on this stance, we are engaged in the volunteer activities introduced below and also volunteer to support events held at nursing care facilities and the lives of elderly residents in depopulated villages.

In addition, we are also working to serve communities through our businesses and to develop products that contribute to society.

Riding tandem

CSR Activities through Business

Initiatives through Business

Support for Sports (Support for Motor Sports)

To support the development of motor sports and increase its industry recognition, the NCXX Group co-sponsored MV AGUSTA Reparto Corse, the motorcycle racing team of Italian motorcycle manufacturer MV Augusta, as a spot sponsor for races held at Circuito de Jerez in Spain on October 22, 2017 and the Losail International Circuit in Qatar on November 4, 2017.

The NCXX Group has so far focused on product development in the IoT field, particularly automotive products. The Group has an extensive track record of developing and delivering many different products, including the GX4x0NC OBD II-type automotive telematics data collecting unit. The NCXX Group has participated in the Suzuka 8 Hours Endurance Race since 2014 in order to develop motorcycle products. At these races, we conduct tests of prototypes and collect and analyze data. We aim to apply the technologies we have developed through these races to a variety of uses beyond motorcycle applications, including automotive applications, as well as capabilities for robots such as motion control and surveillance.

Looking ahead, we aim to continue developing IoT products for motorcycles and applying technologies for those products to product development in other fields.

Support for Culture (e.g., Mechanisms for Streamlining Sales in the Fashion Industry, Proposals for Wearable Devices and Matching Apparel with Consumer Needs)

In 2017, FACETASM became a subsidiary of the NCXX Group. The FACETASM fashion brand was launched in 2007 by Mr. Hiromichi Ochiai, the first Japanese fashion designer to be selected as a finalist for the LVMH Prize for Young Fashion Designers. FACETASM is actively undertaking expansion initiatives overseas, most notably through the unveiling of a collection in Paris.

The NCXX Group seeks to form partnerships on developing and popularizing IoT-related services for the fashion industry. The Group envisions a wide range of initiatives, such as converting sales data and online information into a repository of big data and combining this big data with AI to recommend items according to consumer preferences, and applying it to product development. The Group also envisions embedding highly conductive textiles and sensors into apparel to make it possible to operate wearable devices.

Financial Section

Analysis of Operating Results and Financial Position

[Review of Operations]

In the fiscal year ended November 30, 2018, the Japanese economy saw corporate earnings follow a recovery trend, supported by the Japanese government's economic policies together with monetary policies. On the other hand, the economic outlook still remains uncertain, based partly on unstable political trends overseas and concerns about the impact of geopolitical risk.

The Japanese government has incorporated the concept of the Fourth Industrial Revolution into its growth strategy. In the Fourth Industrial Revolution, physical things of all kinds, including automobiles and home electric appliances, will be connected to the Internet, making Cyber-Physical Systems a reality. A Cyber-Physical System is a system that quantifies various states of the Physical Part of the real world that are subject to control, and quantitatively analyzes this data in the Cyber Part to derive new insights and knowledge, which are then fed back and used to control the Physical Part of the real world. The general belief is that the ability to collect and retain big data from the Physical Part of the real world through IoT technology and the ability to manage and analyze this data through AI and blockchain technologies in the Cyber Part will be crucial to success.

The Company's main focus is the CPS/IoT market, which grew in 2016 to a scale of ¥194.0 trillion globally and ¥11.1 trillion in Japan. By 2030, the global market scale is projected to grow to ¥404.4 trillion, and the Japanese market scale to ¥19.7 trillion. Furthermore, the agriculture field, which has exhibited remarkable growth in Japan, saw annualized growth of 20.2%. (Source: Japan Electronics and Information Technology Industries Association "Survey of Trends Related to Focus Field 2017")

In this operating environment, in January 2018, the Company entered into a business tie-up with Fisco Cryptocurrency Exchange ("FCCE") with regard to the development of an AI trading system for crypto-currencies to be undertaken with Company's subsidiary e frontier, Inc. ("e frontier"). Furthermore, e frontier conducted multiple trials of software under development, started investing in bitcoin, and succeeded in delivering a certain level of results. Moreover, also in January 2018, e frontier's then-equity method affiliate NCXX Solutions Inc. ("NCXX Solutions") conducted a share exchange with another then-equity method affiliate, CAICA Inc. ("CAICA") to make NCXX Solutions a wholly owned subsidiary of CAICA. By making NCXX Solutions a wholly owned subsidiary, CAICA aimed to further increase operational efficiency, expand synergies, strengthen consolidated earnings capability, and increase consolidated corporate value. The Company and NCXX Solutions continued to conduct joint development related to IoT after the transfer.

In addition, in February 2018, the Company subscribed to part of a private placement of new shares to raise capital by the apparel brand CSMEN Co., Ltd. (Listing: 3083 TSE JASDAQ; Headquarters: Chuo-ku, Tokyo; President: Masao Aoki), thereby entering a capital and business alliance. CSMEN Co., Ltd. is expected to form synergies with the Company's brand retail platform business.

In April 2018, the Company procured ¥200 million by issuing the 7th Series of Unsecured Convertible Bond-Type Bonds with Share Acquisition Rights by private placement to fund basic research and development for providing AI solutions and distributed applications using blockchain, as well as development of agricultural ICT systems, which will be the Company's main focus areas going forward.

In July 2018, the Company decided to start a cryptocurrency mining operation at its Head Office in Hanamaki City, Iwate Prefecture. The mining of cryptocurrency refers to authentication work performed to ensure that blocks of transaction data found on networks are consistent with one another. Cryptocurrency miners who authenticate data at the fastest pace are rewarded by receiving payment in the relevant crypto-currency. Because massive amounts of computations must be performed to conduct this authentication work, cryptocurrency miners require high-performance computers. Ordinarily, in order to conduct a mining business, cryptocurrency miners require a considerable number of cooling fans and air conditioning systems to dissipate the heat generated by mining equipment, as well as the physical space to house this equipment plus an immense amount of electric power to operate the mining facility. Therefore, a key priority in business is to efficiently solve these problems at the lowest possible cost. Hanamaki, Iwate Prefecture is located in a relatively cold region. In winter, temperatures fall to the freezing point while in the summer, the average temperature is fairly low at 23.8 ℃ (almost 74.8℉) (Source: Japan Meteorological Agency). Accordingly, the Group can expect to significantly reduce its electricity bills by relying on natural ventilation for most of its cooling needs throughout the year. Moreover, Iwate Prefecture is ranked second in terms of its potential for renewable energy. Notably, Iwate Prefecture has an extremely high potential for wind power and geothermal power. In the future, the Group plans to target the procurement of low-cost electric power based on this abundant supply of renewable energy. Moreover, the heat released by mining equipment will be reused in the Group's agricultural ICT business (NCXX FARM). At NCXX FARM, the Group grows cherry tomatoes year-round in greenhouses. In winter, the outdoor temperature falls below freezing, so heaters are run 24 hours a day to maintain the optimal temperature for growing vegetables in the greenhouses. The mining equipment generates a considerable amount of heat as it is operated 24 hours a day. Therefore, this heat can be reused to reduce heating costs in the winter. Looking ahead, the Group will seek to build a self-sufficient agricultural system not only by reusing the heat generated by mining operations, but also by using the mined coins to procure the seedlings, fertilizer and agrichemicals needed in the agriculture business. In this manner, the NCXX Group will conduct a unique cryptocurrency mining business by working to optimize overall efficiency, including initiatives involving other businesses. The Group's mining business will thus be markedly different than mining operations undertaken in overseas countries where electricity is available at low cost.

In October 2018, the Company sold a part of its equity-method affiliate CAICA to procure funds for the Company's growth, and CAICA was excluded from the scope of application of the equity method. The Company has a well-established cooperative relationship with CAICA based on a capital and business alliance, which will continue unchanged going forward. They will continue joint development combining NCXX Inc.'s ("NCXX") IoT technology, CAICA's blockchain, and AI technology, and continue to conduct initiatives toward development of new services in the FinTech business field.

Analysis of Operating Results and Financial Position

Also in November 2018, the Company's consolidated subsidiary Versatile Inc. ("Versatile") conducted a corporate split of part of its business (incorporation type split), which was transferred to the newly established company, NCXX Premium Group, Inc. ("NCXX Premium Group"), and NCXX Farm Holdings, Inc. ("NCXX Farm Holdings"), while the newly established company became a wholly owned subsidiary of Versatile. Subsequently, also in November, in order to restructure the business, it was decided to apply to conduct a special liquidation in which all shares of NCXX Premium Group and NCXX Farm Holdings, which were held by Versatile, would be transferred to the Company, making them into subsidiaries of the Company, and Versatile would be dissolved.

[Operating Results]

Looking at consolidated business results, e frontier began to record revenues after commencing investment in cryptocurrency on its own account. e frontier conducted trials of software under development for the development of the abovementioned AI trading system for cryptocurrencies. It then began investing in bitcoin and achieved considerable success. On the other hand, revenue declined following the removal of NCXX Solutions from the scope of equity-method affiliates. Furthermore, sales at the Company's consolidated subsidiary, e-tabinet.com fell short of target. Turning to income, operating income declined year on year as the cost ratio at the Company's consolidated subsidiary TITICACA Co., Ltd. ("TITICACA") rose in the fourth quarter after selling, general, and administrative expenses were seen to increase throughout fiscal 2018. Looking at ordinary income, TITICACA recorded a loss on sale of cryptocurrency of ¥201 million and a loss on valuation of cryptocurrency of ¥192 million. Recently, the cryptocurrency market has seen some fairly prominent price declines; however, in the event of a drastic decrease in cryptocurrency prices, TITICACA executes stop-loss transactions as needed as part of its risk control measures. In this manner, TITICACA always conducts trading activities with an emphasis on capital efficiency. As a result, the cryptocurrency business has achieved a certain level of profit for the fiscal year; however, since investment in cryptocurrency was not one of TITICACA's main businesses, it has been recorded under non-operating expense.

Loss attributable to owners of parent resulted from impairment of the CoSTUME NATIONAL trademark of ¥888 million, which was offset by extraordinary income of ¥651 million from sale of shares held by the Company. The write-down of the trademark reflected a conservative revision of CoSTUME NATIONAL's business plan in light of its current performance. Looking forward, the Group will start a worldwide license business, and examine business alliances offering synergies with the business in order to expand it, aiming to grow sales rapidly.

In the same way, a ¥136 million impairment of goodwill of FACETASM was the result of a more conservative revision due to falling below the initial target, despite sales growing.

As a result of these efforts, consolidated net sales were ¥11,125 million, down 8.8% year on year. Operating profit was ¥419 million, compared with an operating loss of ¥914 million in the previous fiscal year. The ordinary loss was ¥47 million, compared with an ordinary loss of ¥940 million in the previous fiscal year. Loss before income taxes was ¥265 million, compared with a profit before income taxes of ¥1,024 million in the previous fiscal year. Loss attributable to owners of parent was ¥473 million, compared with a profit attributable to owners of parent of ¥902 million in the previous fiscal year.

Business performance by segment in the fiscal year under review was as follows:

(IoT Related Business)

NCXX Inc. focused on providing solutions using GX410NC and GX420NC, OBD II-type automotive telematic data collecting units launched in 2015. In collaboration with NCXX Solutions, NCXX Inc. developed the safe driving assistance service Drive Care (http://www.care-dynamics.jp/obd2/), an OBD II solution for nursing care transportation service vehicles, and rolled it out in August 2016.

This system enables the managers or supervisors of businesses that provide various transportation services for nursing care facilities and other customers to confirm the status of multiple fleet vehicles operating simultaneously. The system can ascertain all dangerous driving behaviors (sudden starts, sudden stops, sharp turns)have occurred when the vehicle is en route to a destination. By displaying these incidents in formats that are easy for managers and supervisors to understand, such as lists and graphs, they will be able to monitor the driving behavior of drivers and provide appropriate instructions tailored to each driver. In addition, managers and supervisors will be able to ascertain the extent of improvement of each driver and follow up on drivers appropriately by continuously checking driving performance data.

Also, the system can be used to reduce the maintenance and management costs of welfare service vehicles by making effective use of the various types of data that can be obtained. For example, managers and supervisors will be able to improve average fuel economy by instructing drivers on environmentally friendly driving practices, curtail wear of tires and other parts of vehicles, and issue vehicle inspection alerts to prevent vehicle malfunctions.

In recent trends, the U.S. National Defense Authorization Act for Fiscal Year 2019 ("NDAA 2019") was passed in August 2018, greatly strengthening restrictions on five companies: Huawei, ZTE, HIKVISION, Dahua Technology, and Hytera; and calling for a ban on transactions between them and U.S. government institutions. The Group has received numerous inquiries regarding whether NCXX products are also subject to the NDAA 2019.

NCXX explains that its products can be used with confidence, since none of the products currently on the market are manufactured by outsourcing to the abovementioned five companies related to the recently passed NDAA 2019, or use parts sourced from them. Moreover, NCXX will strengthen controls to ensure that its products do not infringe on any of the prohibitions going forward.

Analysis of Operating Results and Financial Position

The Group will continue to monitor trends carefully, and continuously manage and monitor its contract manufacturing providers while developing trustworthy new contract manufacturing providers. The Group will work to further expand its product groups to meet the needs of the market as a domestic Japanese manufacturer. The Group will continue to provide mobile computing solutions such as LPWA, which is expected to spread in markets in Japan and overseas going forward, and the next-generation 5G telecommunications standards, automotive telematic solutions that integrate high-valued-added communication devices and software, as well as various other types of solutions.

Care Dynamics Limited is a provider of ASP systems to nursing care businesses. It has already deployed ASP systems at more than 400 nursing care facilities. With the launch of services such as support for the introduction of nursing care robots and the provision of nursing care ICT, Care Dynamics has evolved into a comprehensive nursing care business support enterprise.

As a service for assisting caregivers, Care Dynamics offers nursing care robots as a sales agency, distribution of instructive leaflets of corporations using manga illustrations, and services for creating advertisements. Care Dynamics continues to provide tours of nursing care facilities that have adopted the “Drive Care” OBD II solution for nursing care transportation services, and offers free trials of the solution.

Moreover, Care Dynamics provide a replacement support service and reassess electricity providers to help nursing care facilities cut their electricity bills. Care Dynamics also offer a service that introduces systems for saving water.

Care Dynamics concluded a new network building support service for corporations, concluded a sales agreement with PARAMOUNT BED CO., LTD., and began selling PARAMOUNT BED’s sleep management system.

e frontier has a track record in developing and selling software, such as AI-driven programs for the games of go, shogi and mahjong. The company is currently developing a system for cryptocurrency trading that leverages its AI technologies. Last year, e frontier concluded a business alliance with FCCE, and both companies have been conducting trials of AI technology. In addition, e frontier has received provision of a vast amount of past transaction data from FCCE, as well as expertise in derivative systems and high frequency trading systems* from a user standpoint, and aims to develop systems with even better usability.

In addition, in June 2018, the Company concluded a general agency agreement for Japan with major U.S. manufacturer Other World Computing, Inc. (“OWC”) and now plans to expand sales of computer peripheral devices such as Thunderbolt 3 products and eGPUs, as well as ancillary services, in Japan.

* Derivative systems and high frequency trading systems:
Designed to cover multiple cryptocurrency exchanges in Japan and overseas, checking and analyzing their trends to obtain profit automatically. The systems control risk appropriately while being able to wait for profit taking opportunities.

As a result, segment sales in the fiscal year ended November 30, 2018 were ¥950 million, down 76.3% year on year. Segment profit was ¥48 million, compared with segment loss of ¥465 million in the previous fiscal year.

(Internet Travel Business)

In the Internet travel business, e-tabinet.com and its subsidiaries have received a large number of positive comments from many highly satisfied customers for their ability to fulfill increasingly diverse and sophisticated needs, amid a proliferation of travel products and services. The crucial factor behind this success is that e-tabinet.com has been able to build a solid structure as Japan’s only Internet-based travel agency offering customized services with a carefully chosen staff of highly experienced registered “travel concierges” (travel consultants).

In 2015, e-tabinet.com launched a specialized site for inbound tourists visiting Japan from abroad, and implemented search engine optimization with a focus on Asia. The number of tourists visiting Japan is projected to increase by 14% to 32 million by the end of the fiscal year ended November 30, 2019, which is expected to lead to shortages in accommodation facilities. Against this backdrop, in cooperation with Group company Jitsugyo no Nihon Sha, Ltd., e-tabinet.com set up a new dedicated skiing website in English featuring 204 ski fields in Japan to address the strong demand for this information among information for inbound tourists visiting Japan. Additionally, Gloria Tours Inc., a company specializing in sending Paralympic athletes to various events and organizing numerous international para-sports tournaments, will increase its focus on the para-sports market. Along with the concierge business of Web travel Co., Ltd. (“Web travel”), e-tabinet.com seeks to build a niche market base that most general travel agencies would find difficult to serve.

Meanwhile, the number of registered travel concierges has grown steadily, but with a significant amount of the concierges churned, the number was decreased slightly to 440 as of September 30, 2018. In addition, e-tabinet.com has been advancing the crowdsourcing business as a platform for concierges to make the most of their unique talents in areas other than travel. By fostering a stronger sense of community and belonging among concierges, e-tabinet.com will work to recruit and retain talented personnel.

The business alliance with SAISON UC Card, which has been in place since February 2018, is more than a supple advertising agreement, with the business alliance regarding travel concierges being positioned as a function of the card itself. This has encouraged even greater social trust in Web travel’s concierge service, and contributed to an increase in requests for travel estimates and orders.

Overseas travel business sales were ¥2,215 million, centered on standard round trip packages to Europe and honeymoon packages, and domestic travel business sales were ¥170 million. As the number of requests for travel estimates from customers began to recover slightly, the number of requests for travel estimates on the Web travel website increased by 2% year on year. For the e-tabinet.com website, the number of requests for travel estimates remained level year on year. However, as a result of measures to enhance order rates, the number of orders received increased by 16% year on year, and the gross profit margin was maintained at 14%. The total number of staff handling requests also increased by 12% year on year to 7,438.

As a result, segment sales in the fiscal year ended November 30, 2018 were ¥2,367 million, up 8.4% year on year. Segment profit was ¥38 million, compared with segment loss of ¥2 million in the previous fiscal year.

Analysis of Operating Results and Financial Position

(Brand Retail Platform Business)

In its stores business, TITICACA had 93 stores as of October 31, 2017, opened two stores in 2018 (Yokohama World Porters, Aeon Mall Sapporo Hassamu) and closed one store (Aeon Mall Nagoya Dome Mae) leaving 94 stores as of the end of October 2018. In the e-commerce business, the Company expanded its six-store lineup including its own online stores to an eight-store lineup by opening stores on au Wowma! (former Wowma!) and Alinoma in fiscal 2018. The Company also continued to promote structural reforms such as closing unprofitable stores and revising personnel structures.

Moreover, in its sales measures, the Company, Japanese actress Alice Hirose and TITICACA introduced a second round to their collaboration effort in 2018, opening a stall at the Aichi Block Conference Tahara Conference held by the Junior Chamber International Japan, where visitors could listen in person to Alice Hirose talking about her experiences of overseas cooperation activities. One of the objectives of the conference is to stimulate interest in overseas cooperation among young people and inspire them to take action. TITICACA sold collaboration T-shirts and tote bags as an immediate form of international collaboration. ¥500 from each unit sold was donated to social contribution organizations supported by Alice Hirose. Purchases of the merchandise leads to future happiness.

In fiscal 2019, the Company will continue to expand its customer contacts through social media and its own app in an effort to expand the customer base. In addition, from a perspective of staff development, the Company will work to enhance its manuals and education systems, and to stabilize earnings.

As a result, segment sales in the fiscal year ended November 30, 2018 were ¥6,445 million, up 8.7% year on year. Segment loss was ¥460 million, compared with segment loss of ¥71 million in the previous fiscal year.

(Cryptocurrency and Blockchain Business)

e frontier and TITICACA are conducting investment operations based on trading using an AI-based cryptocurrency trading system currently being developed by e frontier. In contrast to 2017, the cryptocurrency market has seen some fairly prominent price declines in 2018. In the event of a drastic decrease in cryptocurrency prices, e frontier and TITICACA execute stop-loss transactions as needed as part of their risk control measures. In this manner, e frontier and TITICACA always conduct trading activities with an emphasis on capital efficiency. In addition, the companies are considering investment operations aimed at accumulating small returns from margins while mitigating risk. In these and other ways, the two companies will establish an investment style that does not rely on the direction (upward or downward movements) of market prices.

As a result, segment sales in the fiscal year ended November 30, 2018 were ¥1,326 million. Segment profit was ¥1,320 million.

[Financial Position]

(Assets)

Total assets were ¥9,302 million as of November 30, 2018, a decrease of ¥2,229 million from a year earlier. The main components of this change were decreases of ¥1,500 million in cash and deposits, ¥669 million in advance payments—trade, and ¥1,033 million in investment securities, and increases of ¥1,000 million in short-term loans receivable and ¥317 million in long-term loans receivable.

(Liabilities)

Total liabilities were ¥5,349 million, a decrease of ¥1,656 million from a year earlier. The main components of this change were decreases of ¥1,165 million in current portion of convertible bond-type bonds with share acquisition rights, and ¥471 million in interest-bearing debt*.

(Net Assets)

Total net assets were ¥3,953 million, a decrease of ¥572 million from a year earlier. The main contributing factors were decreases of ¥522 million in retained earnings, and ¥77 million in valuation difference on available-for-sale securities.

* Interest-bearing debt is the sum of short-term loans payable, current portion of long-term loans payable and long-term loans payable.

[Cash Flows]

Cash and cash equivalents ("cash") at November 30, 2018 were ¥1,022 million, a decrease of ¥1,506 million from the previous fiscal year-end.

Cash flows during the fiscal year under review and analysis of the main components are as follows:

(Cash Flows from Operating Activities)

Net cash provided by operating activities was ¥981 million, compared with net cash used in operating activities of ¥1,388 million in the previous fiscal year. The primary reasons were impairment loss of ¥1,110 million, decreased in cryptocurrencies of ¥751 million, and advance payment of ¥667 million. These factors were partly offset by an increases in notes and account receivable—trade of ¥926 million and a gain in sales of investment securities of ¥705 million.

Analysis of Operating Results and Financial Position

(Cash Flows from Investing Activities)

Net cash used in investing activities was ¥1,099 million, compared with net cash provided by investing activities of ¥3,929 million in the previous fiscal year. This was mainly due to payment of ¥3,112 for purchase of cryptocurrencies, payment of ¥320 million for purchase of investment securities, payment of ¥960 million for purchase of intangible assets, and an increase in long-term loans receivable of ¥760 million, the main factors reducing cash. These cash outflows were partly offset by proceeds from sale of cryptocurrencies of ¥1,961 million and proceeds from sale of investment securities of ¥1,998 million.

(Cash Flows from Financing Activities)

Net cash used in financing activities was ¥1,389 million, compared with net cash used in financing activities of ¥1,851 million in the previous fiscal year. This was mainly due to payment of long-term loans payable of ¥1,055 million and payments for redemption of bonds of ¥1,165 million, the main factors reducing cash. These cash outflows were partly offset by proceeds from short-term loans payable of ¥241 million, proceeds from long-term debt of ¥392 million and proceeds from issuance of bonds with share acquisition rights of ¥200 million, the main factors increasing cash.

[Risk Information]

The Group presents the main factors that could pose a risk to its business development and related activities. From the standpoint of actively disclosing information to investors, the Group discloses matters that could have a material impact on investor judgment, even external factors beyond the control of the Company and matters that may not necessarily be considered as business risks.

The items outlined below do not represent an exhaustive listing of all risks affecting investment in the Company's stock.

The items in the following section that concern the future were assessed by the Group based on information available as of November 30, 2018. They are subject to uncertainties and may differ from actual results.

(1) Business Characteristics

1. Group Driven by Research and Development

The Group primarily comprises companies driven by research and development (R&D), and its source of competitiveness is the constant internal accumulation of new technology. If the Group has difficulty securing and nurturing competent technicians, or suffers an outflow of competent human resources, this could have a material impact on the Group's business and operating results.

As a policy, the Group adapts to technological and other advancements through its R&D activities. However, the Group may not be able to adapt promptly to changes in the business environment if they were brought about by new unforeseen technologies. Adapting to changes in the business environment may also involve large sums of R&D expenses and other expenses. Such events could have a material impact on the Group's business and operating results.

2. Fabless Manufacturing

The Group outsources the manufacturing of mobile telecommunications devices and other products to a large extent. As a result, business conditions at the outsourcing contractors, as well as the Group's cultivation and retention of outsourcing contractors and the Group's in-house manufacturing capabilities, could have a material impact on the Group's business and operating results.

3. Relationship with Telecommunications Service Providers

The Group's core products are data telecommunications terminals and other mobile devices developed and manufactured based on the specifications of telecommunications service providers. Furthermore, in these transactions the telecommunications service providers purchase all of the contracted output. As a result, changes in the content of the contracts, sales prices, and transaction terms with the telecommunications service providers, as well as the success or failure of renewing the contracts, could have a material impact on the Company's business and operating results.

4. Changes in Demand for Mobile Devices

Data telecommunications terminals and other mobile devices developed and manufactured by the Group are subject to severe product competition. As such, the trend in their demand has a tendency to change dramatically depending on such factors as technological advancement and the status of the product competition. The business is also characterized by the short turnaround in launching new products. As a policy, the Group seeks to adapt to changes in demand with fabless manufacturing. However, the Group is currently dependent on specific products because it develops and manufactures a limited variety of products. Consequently, drastic changes in demand and falls in the sale price of mobile devices brought about by factors such as business strategies of competitors and changing customer needs could have a material impact on the Group's business and operating results.

(2) Dependence on a Specific Business Partner

In the fiscal year ended November 30, 2018, the Group outsourced the manufacturing of mobile devices to TRICHEER TELECOMMUNICATION LTD. Consequently, changes in the business transaction policy and manufacturing framework between the Group and this contractor could have a material impact on the Group's business and operating results.

Analysis of Operating Results and Financial Position

(3) Risks Related to Protection of Intellectual Property Rights

The Group is driven by R&D and is the rightful owner of numerous intellectual properties that have been submitted and registered for patent and registered with design rights and trademarks. The Group also strives to make sure that the products it develops and manufactures do not infringe on the intellectual property rights of third parties, and understands that there are no infringements at present. However, the possibility of infringing on the intellectual property rights of a third party in the future cannot be eliminated. Should the Group infringe on the intellectual property rights of a third party, it may experience legal action seeking damages, a decline in credibility, a deterioration in its corporate brand, and so forth, which could have a material impact on the Group's business and operating results. Conversely, should the intellectual property rights of the Group suffer infringement by a third party, the Group would be obliged to divert management resources toward taking the party to court and other defensive measures, which could have a material impact on the Group's business and operating results.

(4) Quality Control

The Group must recall and repair the mobile devices it develops and manufactures in the event of a product malfunction. Moreover, should an accident caused by defective products occur, the Company may be subject to claims for damages under the Product Liability Act.

In order to prevent such product defects and accidents from occurring, the Group has developed a quality control system that also encompasses the management of outsourcing contractors and suppliers to improve product safety and promote compliance with laws and regulations. In addition, the Group also subscribes to product liability insurance as a contingency in the event of product accidents. However, should a serious product defect or incident violating the Product Liability Act occur, the Group may have to bear product recall and repair expenses and payment of damages, as well as experience a decline in its credibility with corporate clients and society, a deterioration in its corporate brand value, and so forth, which could have a material impact on the Group's business and operating results.

(5) Statutory Regulations on Telecommunications

The Group mainly develops products regulated by the Radio Act of Japan. As a result, trends regarding the Radio Act and other statutory regulations on telecommunications could have a material impact on the Group's business and operating results.

(6) Protection of Personal Information

The Group holds the personal information and so forth of its customers in the conduct of its business of selling and providing product support and so forth for mobile communication devices and selling apparel and general merchandise. To prevent the acquired personal information and so forth of customers from leaking externally, the Group takes ample precautions such as limiting access to the personal information and strengthening the internal control system by periodically conducting internal audits. However, should a leak in personal information occur, the Company may be in violation of laws and regulations as well as its confidentiality agreements with client companies. As a result, the Group may receive claims for damages from client companies and other customers as well as experience a decline in its credibility with corporate clients and society, a deterioration in its corporate brand value, and so forth, which could have a material impact on the Group's business and operating results.

(7) Corporate Organization

In order to continue growing while strengthening the internal control system further at the same time, the Group sees a need to bolster competent human resources, as well as further enhance the organization of its administrative divisions, at each stage of business development. Consequently, should the Group be unable to bolster human resources as required at each stage of business development, or suffer an outflow of competent human resources, this could have a material impact on the Group's business and operating results.

(8) Relationship with the Parent Company

FISCO Ltd. (listed on the Tokyo Stock Exchange JASDAQ Growth) is the parent company of the Company, holding 48.51% of the voting rights both directly and indirectly as of November 30, 2018.

The Company therefore belongs to a parent company group with FISCO at the center. As a result, changes in the parent company group's management policy and other circumstances could have a material impact on the Company's business and operating results.

(9) Fluctuations in the Foreign Exchange Market

The Company subcontracts the manufacturing of some of its products to overseas manufacturers and so forth to enhance price competitiveness and profitability. As a result, business transactions denominated in foreign currencies may be affected by fluctuations in the foreign exchange market. To reduce this impact, the Company strives to make use of instruments such as foreign exchange forward contracts, and to reconfigure its product portfolio. However, trading conditions and foreign exchange market trends in the future could have a material impact on the Group's business and operating results.

Also, fluctuations in the foreign exchange markets could impact the Group's operating results and financial position since the Group has assets overseas. Further, in the event that changes in legislation or government policies in Japan or overseas hinder smooth remittances, the Group's business operations and accounting processes may be affected, which could in turn impact the Group's operating results and financial position.

Analysis of Operating Results and Financial Position

(10) Profitability of System Development Projects

When undertaking system development, the Group estimates in advance the total number of work hours (labor hours) needed to meet customer requirements and determines the costs necessary to create the system as part of its activities to win orders. However, if problems arise during system development and work hours exceed the budgeted time, the Group could end up bearing that cost.

Additionally, the Group may be called on to bear the cost of an increase in labor hours even if it relates to specification changes made during development.

Further, the Group may incur the cost of fixing defects that arise after the developed system has been delivered to the customer and the customer has finished inspecting it and determined it to be free of issues.

The Group therefore strives to increase the accuracy of estimates at the time of the contract by creating detailed estimates for each development process (phase), and taking other steps to keep the actual number of labor hours in line with the budgeted number. While the Group gives sufficient consideration to project profitability, profitability could deteriorate due to factors such as development projects becoming large in scale and escalating competition to win orders.

(11) Investments and Loans

To expand business going forward, the Group may undertake M&As or business investments targeting alliances, or engage in joint venture business development, subsidiary establishment, or capital expenditures in Japan or overseas.

The Group's policy in making investments and loans is to thoroughly evaluate the recoverability and risks of those prospective investments and loans in advance. However, it is sometimes difficult to accurately project the impact on the Group from business conditions at investees and should investments or loans become unrecoverable, the Group's operating results and financial position could be affected.

(12) Merchandise Purchases

The Group company TITICACA mostly sells imported products. Therefore, events in relevant countries such as unanticipated changes in legislation, political uncertainty, major natural disasters, social unrest, and sharp fluctuations in foreign exchange rates could affect TITICACA's merchandise supply framework and the Group's operating results and financial position.

(13) Impairment of Property, Plant and Equipment

The Group recognizes impairment losses on the portion of the assets of stores that are persistently unprofitable or that it has decided to relocate or close for which the book value of property, plant and equipment is determined to be unrecoverable. In the event of an increase in such unprofitable stores going forward, the posting of significant impairment losses would be expected, which could affect the Group's business performance and financial position.

(14) Losses from Store Relocations and Closings

The Group may relocate or close stores due to tenancy agreements expiring. In that event, costs will arise for the removal of property, plant and equipment to restore the leased space to its original condition, new investments in relocation sites, and so forth. If store relocations and closings increase in the future, the posting of a large amount of losses associated with the removal of property, plant and equipment, as well as selling, general and administrative expenses would be expected, which could affect the Group's business performance and financial position.

(15) Investment in Cryptocurrency

The Group faces risks associated with investment in cryptocurrency, including price movements in cryptocurrency, the risk of losses stemming from the inability to trade in the cryptocurrency markets or being forced to trade on terms that are less advantageous than normal due to factors such as turmoil in the cryptocurrency markets. Other risk factors include disruptions in derivative trading systems for cryptocurrency, system disruptions and business failure of cryptocurrency exchanges, and theft due to unauthorized access to servers. The Group makes every effort to rigorously implement risk management. However, if the aforementioned risks materialize, the Group could incur higher costs to deal with the issue or suffer a decline in its credibility, which could have a material impact on the Group's business results and financial condition.

(16) Disasters, etc.

In the event that a major natural disaster or accident in the vicinity of stores, warehouses, and so forth causes physical damage to such facilities; disrupts sales, distribution, purchasing, or other business activities; or causes personal injury, the Group's business performance and financial position could be affected.

Consolidated Financial Statements

[Consolidated Balance Sheets]

(Thousands of yen)

	Fiscal 2017 (As of November 30, 2017)	Fiscal 2018 (As of November 30, 2018)
Assets		
Current assets		
Cash and deposits	¥ 2,529,595	¥ 1,028,774
Notes and accounts receivable—trade	599,269	525,801
Merchandise	1,070,793	1,146,284
Work in process	245,736	266,947
Raw materials	3,632	11,149
Cryptocurrency	15,899	21,608
Accounts receivable—other	114,228	54,964
Advance payments—trade	970,582	300,864
Short-term loans receivable	15,000	1,015,000
Deferred tax assets	416	2,030
Other	314,951	161,121
Allowance for doubtful accounts	(53,097)	(6,249)
Total current assets	5,827,009	4,528,296
Non-current assets		
Property, plant and equipment		
Buildings and structures	*1 1,523,941	*1 1,612,880
Accumulated depreciation	*3 (1,174,291)	*3 (1,294,686)
Buildings and structures, net	349,650	318,194
Machinery, equipment and vehicles	89,553	125,524
Accumulated depreciation	*3 (65,410)	*3 (104,664)
Machinery, equipment and vehicles, net	24,142	20,859
Tools, furniture and fixtures	1,119,713	1,181,950
Accumulated depreciation	*3 (950,393)	*3 (974,567)
Tools, furniture and fixtures, net	169,320	207,382

(Thousands of yen)

	Fiscal 2017 (As of November 30, 2017)	Fiscal 2018 (As of November 30, 2018)
Land	*1 192,132	*1 192,865
Construction in progress	–	16,872
Total property, plant and equipment	735,245	756,173
Intangible assets		
Software	62,710	43,073
Goodwill	397,006	156,652
Trademark rights	6,300	4,140
Other	3,964	12,151
Total intangible assets	469,982	216,017
Investments and other assets		
Investment securities	*1, 4 3,531,593	*1, 4 2,282,185
Long-term accounts receivable—other	163,181	106,853
Long-term loans receivable	396,140	713,930
Guarantee deposits	599,245	623,576
Other	29,292	22,653
Allowance for doubtful accounts	(219,321)	(162,783)
Total investments and other assets	4,500,130	3,802,319
Total non-current assets	5,705,358	4,774,510
Total assets	¥11,532,367	¥ 9,302,807

Consolidated Financial Statements

(Thousands of yen)

	Fiscal 2017 (As of November 30, 2017)	Fiscal 2018 (As of November 30, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable—trade	¥ 600,601	¥ 576,086
Short-term loans payable	*5 191,660	*5 383,200
Current portion of convertible bond-type bonds with share acquisition rights	1,165,000	–
Current portion of long-term loans payable	*1 836,382	*1 587,606
Accounts payable—other	251,417	177,011
Accrued expenses	350,077	164,393
Income taxes payable	24,509	43,784
Accrued consumption taxes	16,601	36,438
Advances received	268,271	360,875
Asset retirement obligations	28,780	–
Deferred tax assets	2,076	–
Provision for bonuses	67,796	74,165
Provision for product warranties	106,000	66,000
Provision for sales returns	13,376	4,908
Provision for loss on store closing	16,592	–
Provision for point card certificates	8,041	12,650
Other	48,250	52,132
Total current liabilities	3,995,438	2,539,253
Non-current liabilities		
Convertible bond-type bonds with share acquisition rights	–	200,000
Long-term loans payable	*1 1,637,685	*1 1,223,263
Net defined benefit liability	29,708	31,333
Asset retirement obligations	360,907	377,087
Deferred tax liabilities	767,129	837,642
Other	215,450	141,106
Total non-current liabilities	3,010,881	2,810,433
Total liabilities	7,006,319	5,349,686

(Thousands of yen)

	Fiscal 2017 (As of November 30, 2017)	Fiscal 2018 (As of November 30, 2018)
Net assets		
Shareholders' equity		
Capital stock	10,000	10,000
Capital surplus	2,770,501	2,770,954
Retained earnings	935,697	412,939
Treasury stock	(86,159)	(66,515)
Total shareholders' equity	3,630,038	3,127,378
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	139,894	61,933
Deferred gains or losses on hedges	(57)	(78)
Foreign currency translation adjustments	95,981	30,389
Total accumulated other comprehensive income	235,818	92,244
Subscription rights to shares	22,211	27,502
Non-controlling interests	637,979	705,994
Total net assets	4,526,047	3,953,120
Total liabilities and net assets	¥11,532,367	¥9,302,807

Please refer to page 47 for *1 and *3 to 5

Consolidated Financial Statements

[Consolidated Statements of Income and Consolidated Statements of Comprehensive Income]
[Consolidated Statements of Income]

(Thousands of yen)

	Fiscal 2017 (From December 1, 2016 to November 30, 2017)	Fiscal 2018 (From December 1, 2017 to November 30, 2018)
Net sales	¥12,198,921	¥11,125,302
Cost of sales	*1 7,604,901	*1 5,764,715
Gross profit	4,594,019	5,360,587
Selling, general and administrative expenses	*2, 3 5,508,575	*2, 3 4,940,868
Operating income (loss)	(914,555)	419,718
Non-operating income		
Interest income	12,881	27,207
House rent income	4,293	–
Foreign exchange gains	43,082	2,424
Share of profit of entities accounted for using equity method	43,691	–
Reversal of provision for loss on store closing	–	14,602
Other	28,428	24,516
Total non-operating income	132,377	68,750
Non-operating expenses		
Interest expenses	71,540	40,350
Share of loss of entities accounted for using equity method	–	38,696
Commission fees	49,196	16,281
Loss on sale of cryptocurrencies	–	201,021
Loss on valuation of cryptocurrencies	–	192,004
Other	37,336	47,438
Total non-operating expenses	158,072	535,792
Ordinary loss	(940,251)	(47,323)
Extraordinary income		
Gain on sales of shares of subsidiaries	888,152	–
Gain on sales of non-current assets	*4 553	*4 31
Reversal of allowance for doubtful accounts	2,968	–
Gain on change in equity	25,605	207,547
Gain on sales of investment securities	2,973,909	705,622
Other	503	–
Total extraordinary income	3,891,693	913,201

(Thousands of yen)

	Fiscal 2017 (From December 1, 2016 to November 30, 2017)	Fiscal 2018 (From December 1, 2017 to November 30, 2018)
Extraordinary losses		
Loss on retirement of property, plant and equipment	*6 6,912	*6 10,457
Loss on valuation of investment securities	–	10,366
Loss on sales of subsidiaries' stocks	450	–
Impairment loss	*7 1,830,642	*7 1,110,179
Loss on sales of non-current assets	*5 81,790	*5 –
Loss on liquidation of subsidiaries	4,145	–
Other	2,708	–
Total extraordinary losses	1,926,649	1,131,003
Profit (loss) before income taxes	1,024,792	(265,125)
Income taxes	157,377	40,285
Income taxes—deferred	8,856	100,523
Total income taxes	166,233	140,809
Profit (loss)	858,559	(405,935)
Profit (loss) attributable to non-controlling interests	(44,033)	68,034
Profit (loss) attributable to owners of parent	¥ 902,592	¥ (473,969)

Please refer to page 48 to 49 for *1 to 7

[Consolidated Statements of Comprehensive Income]

(Thousands of yen)

	Fiscal 2017 (From December 1, 2016 to November 30, 2017)	Fiscal 2018 (From December 1, 2017 to November 30, 2018)
Profit (loss)	¥ 858,559	¥(405,935)
Other comprehensive income (loss)		
Valuation difference on available-for-sale securities	125,199	(77,528)
Deferred gains or losses on hedges	(1,188)	(40)
Foreign currency translation adjustments	39,020	4,377
Share of other comprehensive income of entities accounted for using equity method	427	(2,373)
Total other comprehensive income (loss)	163,458	(75,564)
Total comprehensive income (loss)	¥1,022,017	¥(481,499)
Comprehensive income (loss) attributable to:		
Owners of parent	¥1,065,710	¥(549,514)
Non-controlling interests	(43,692)	68,014

Consolidated Financial Statements

[Consolidated Statements of Changes in Net Assets]

Fiscal 2017 (From December 1, 2016 to November 30, 2017)

(Thousands of yen)

	Shareholders' equity					Accumulated other comprehensive income						
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at beginning of the fiscal year	¥ 1,819,748	¥1,776,350	¥ 33,104	¥(107,897)	¥3,521,304	¥ 14,695	¥ 1,131	¥56,533	¥ 72,359	¥ 37,539	¥169,334	¥3,800,538
Changes during the fiscal year												
Issuance of new shares		124,831			124,831							124,831
Transfer to legal capital surplus or other capital surplus from capital stock due to capital reduction	(1,809,748)	1,809,748			–							–
Profit attributable to owners of parent			902,592		902,592							902,592
Purchase of treasury stock				(12,982)	(12,982)							(12,982)
Change in scope of equity method					–							–
Change in ownership interest of parent due to transactions with non-controlling interests		(183,930)			(183,930)							(183,930)
Change of scope of consolidation		(756,498)		34,720	(721,778)							(721,778)
Net changes of items other than shareholders' equity					–	125,199	(1,188)	39,448	163,458	(15,327)	468,644	616,776
Total changes during the fiscal year	(1,809,748)	994,150	902,592	21,738	108,733	125,199	(1,188)	39,448	163,458	(15,327)	468,644	725,509
Balance at end of the fiscal year	¥ 10,000	¥2,770,501	¥935,697	¥ (86,159)	¥3,630,038	¥139,894	¥ (57)	¥95,981	¥235,818	¥ 22,211	¥637,979	¥4,526,047

Fiscal 2018 (From December 1, 2017 to November 30, 2018)

(Thousands of yen)

	Shareholders' equity					Accumulated other comprehensive income						
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at beginning of the fiscal year	¥10,000	¥2,770,501	¥ 935,697	¥(86,159)	¥3,630,038	¥ 139,894	¥(57)	¥ 95,981	¥ 235,818	¥22,211	¥637,979	¥4,526,047
Changes during the fiscal year												
Issuance of new shares					–							–
Transfer to legal capital surplus or other capital surplus from capital stock due to capital reduction					–							–
Loss attributable to owners of parent			(473,969)		(473,969)							(473,969)
Purchase of treasury stock					–							–
Disposal of treasury stock		2,005		16,450	18,456							18,456
Change in scope of equity method			(48,788)	3,193	(45,594)							(45,594)
Change in ownership interest of parent due to transactions with non-controlling interests		(1,551)			(1,551)							(1,551)
Change of scope of consolidation					–							–
Net changes of items other than shareholders' equity					–	(77,960)	(20)	(65,591)	(143,573)	5,290	68,014	(70,268)
Total changes during the fiscal year	–	453	(522,757)	19,644	(502,659)	(77,960)	(20)	(65,591)	(143,573)	5,290	68,014	(572,927)
Balance at end of the fiscal year	¥10,000	¥2,770,954	¥ 412,939	¥(66,515)	¥3,127,378	¥ 61,933	¥(78)	¥ 30,389	¥ 92,244	¥27,502	¥705,994	¥3,953,120

Consolidated Financial Statements

[Consolidated Statements of Cash Flows]

(Thousands of yen)

	Fiscal 2017 (From December 1, 2016 to November 30, 2017)	Fiscal 2018 (From December 1, 2017 to November 30, 2018)
Cash flows from operating activities		
Profit (loss) profit before income taxes	¥ 1,024,792	¥ (265,125)
Depreciation and amortization	212,551	206,046
Impairment loss	1,830,642	1,110,179
Amortization of goodwill	254,073	53,388
Increase (decrease) in allowance for doubtful accounts	134,212	(103,385)
(Decrease) increase in provision for bonuses	(56,052)	6,369
Increase (decrease) in provision for product warranties	14,000	(40,000)
(Decrease) increase in net defined benefit liability	(276)	1,624
Share-based compensation expenses	2,088	5,290
Interest and dividend income	(12,883)	(28,409)
Interest expenses	71,540	40,350
Foreign exchange (gains) losses	(2,970)	576
Share of (profit) loss of entities accounted for using equity method	(43,691)	38,696
Loss on valuation of investment securities	–	10,366
Gain on sales of investment securities	(2,973,909)	(705,622)
Loss on valuation of cryptocurrencies	–	192,004
Loss on sale of cryptocurrencies	–	201,021
Gain on sales of shares of subsidiaries	(887,702)	–
Loss on retirement of property, plant and equipment	6,912	10,457
Loss (gain) on sales of property, plant and equipment	81,236	(31)
Gain on change in equity	(25,605)	(207,547)
Decrease (increase) in notes and accounts receivable—trade	86,678	*2 (926,553)
Decrease in cryptocurrencies	–	751,992
Increase in inventories	(214,177)	(104,188)
(Increase) decrease in advance payments	(470,126)	667,465
(Increase) decrease in accounts receivable—other	(209,323)	118,615
Decrease in deposits paid	–	146,268
Increase (decrease) in notes and accounts payable—trade	149,635	(24,411)
Decrease in accounts payable—other	(155,899)	(67,749)
Increase (decrease) in accrued expenses	142,874	(204,629)
Increase in advances received	11,658	92,603
Increase in deposits received	–	2,768
Other, net	(226,413)	39,276
Subtotal	(1,256,135)	1,017,708
Interest and dividends income received	6,496	28,157
Interest paid	(80,004)	(54,670)
Income taxes paid	(58,396)	(10,179)
Net cash (used in) provided by operating activities	(1,388,039)	981,015

(Thousands of yen)

	Fiscal 2017 (From December 1, 2016 to November 30, 2017)	Fiscal 2018 (From December 1, 2017 to November 30, 2018)
Cash flows from investing activities		
Purchase of cryptocurrencies	–	(3,112,542)
Proceeds from sales of cryptocurrencies	–	1,961,815
Purchase of property, plant and equipment	(133,698)	(278,180)
Proceeds from sales of property, plant and equipment	9,456	55
Purchase of intangible assets	(97,002)	(960,887)
Payments for asset retirement obligations	(27,228)	(33,677)
Purchase of investment securities	(2,797,907)	(320,864)
Proceeds from sales of investment securities	6,491,645	1,998,795
Payments for sales of investments in subsidiaries resulting in change in scope of consolidation	(490,371)	–
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	281,601	–
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	577,075	–
Payments for sales of investments in subsidiaries resulting in change in scope of consolidation	(60,964)	–
Increase in short-term loans receivable	(20,000)	–
Collection of short-term loans receivable	330,000	–
Increase in long-term loans receivable	(344,918)	*2 (760,000)
Collection of long-term loans receivable	611,709	442,000
Payments for guarantee deposits	(136,080)	(64,927)
Proceeds from collection of guarantee deposits	260,893	32,977
Payments for distribution of dividends	(524,300)	–
Other, net	(856)	(3,695)
Net cash provided by (used in) investing activities	3,929,054	(1,099,133)
Cash flows from financing activities		
Net (decrease) increase in short-term loans payable	(295,340)	*2 241,540
Proceeds from long-term loans payable	342,804	392,800
Repayment of long-term loans payable	(2,059,670)	(1,055,493)
Redemption of bonds	(300,000)	(1,165,000)
Proceeds from issuance of bonds with subscription rights to shares	–	200,000
Proceeds from issuance of shares resulting from exercise of subscription rights to shares	244,999	–
Purchase of treasury stock	(12,982)	–
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	–	(4,011)
Proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	229,320	2,460
Other	(1,104)	(1,688)
Net cash used in financing activities	(1,851,972)	(1,389,394)
Effect of exchange rate change on cash and cash equivalents	(41,113)	690
Net increase (decrease) in cash and cash equivalents	647,928	(1,506,821)
Cash and cash equivalents at beginning of the fiscal year	1,881,667	2,529,595
Cash and cash equivalents at end of the fiscal year	*1 ¥ 2,529,595	*1 ¥ 1,022,774

Please refer to page 51 for *1 and 2

Notes

(Notes to the Consolidated Financial Statements)

1. Scope of consolidation

(1) Number of consolidated subsidiaries: 14

(2) Names of consolidated subsidiaries:

TITICACA, Co. Ltd., Gloria Tours Inc., NCXX Inc., Care Dynamics Limited, e-tabinet.com, Web travel Co., Ltd., e frontier, Inc., Versatile Inc., Versatile Milano S.R.L., MEC S.R.L. SOCIETA' AGRICOLA, NCXX International Limited, FACETASM, NCXX Premium Group, Inc., NCXX Farm Holdings, Inc.

NCXX Premium Group, Inc. and NCXX Farm Holdings, Inc. were established by incorporation type split during fiscal 2018 and have therefore been included in the scope of consolidation. FISCO International (Cayman) Limited and FISCO International (Cayman) L.P. were liquidated and wound up during fiscal 2018 and have therefore been excluded from the scope of consolidation.

(3) Number of non-consolidated subsidiaries: 2

(4) Names of non-consolidated subsidiaries:

Webtravel Asia & Pacific Pty Limited

NCXX Racing, Inc. (the company name was changed from IOTA Inc. on July 5, 2018)

(Reasons for exclusion from the scope of consolidation)

Because total assets, net sales, net income (loss) (proportional to equity interest), retained earnings (proportional to equity interest) and other metrics do not have a material impact on the consolidated financial statements.

2. Application of the equity method

(1) Number of non-consolidated subsidiaries and affiliates not accounted for by the equity method: 3

(2) Names of non-consolidated subsidiaries and affiliates not accounted for by the equity method:

Webtravel Asia & Pacific Pty Limited, TICA HK Co. Limited, NCXX Racing, Inc. (the company name was changed from IOTA Inc. on July 5, 2018)

Former equity method affiliated NCXX Solutions Inc. was excluded from the scope of application of the equity method in fiscal 2018 following a share exchange.

CAICA Inc. and its subsidiaries were excluded from the scope of application of the equity method in fiscal 2018 following the sale of the Company's holdings of CAICA Inc. shares.

(Reasons for not applying the equity method)

Because total assets, net sales, net income (loss) (proportional to equity interest), retained earnings (proportional to equity interest) and other metrics do not have a material impact on the consolidated financial statements.

3. Fiscal year of consolidated subsidiaries

The companies with fiscal years that end on different dates than the end of the Company's fiscal year are as follows:

Name	Fiscal year-end
TITICACA, Co. Ltd.	October 31*1
e frontier, Inc.	October 31*1
FACETASM	October 31*1

*1 The financial statements as of the fiscal year-end of the consolidated subsidiary are used. The fiscal year-end differs from the end of the Company's fiscal year. However, the accounts have not been adjusted as there were no significant discrepancies upon the elimination of receivables, obligations and transactions among the consolidated companies. If significant discrepancies arise due to a difference in the fiscal year-end from the end of the Company's fiscal year, the accounts are adjusted upon consolidation.

4. Accounting policies

(1) Valuation standards and accounting treatment for important assets

1. Investment securities

(i) Subsidiaries' stocks and affiliates' stocks

Stated at cost determined by the moving average method.

(ii) Investment securities—other

With market quotations

Stated at fair value based primarily on market prices as of the fiscal year-end (with all valuation differences, net of taxes, reported in a separate component of net assets, with the cost of securities sold calculated by the moving average method).

Without market quotations

Stated at cost determined by the moving average method.

2. Inventories

Valued at cost (book value is written down when profitability declines).

(i) Merchandise and finished goods

Retail method

(ii) Work in process

Specific identification method

(iii) Raw materials and supplies

Mainly the moving average method

Notes

(iv) Cryptocurrency held for trading purposes

Those that have active markets

Stated at fair value (Cost of sales is calculated by the moving average method).

Those that do not have active markets

Stated at cost by the moving average method

(2) Method for depreciating and amortizing important depreciable assets

1. Property, plant and equipment

Property, plant and equipment are mainly depreciated using the declining-balance method. However, the straight-line method of depreciation is used for buildings, excluding facilities attached to buildings, acquired on or after April 1, 1998, and facilities attached to buildings and structures acquired on or after April 1, 2016.

The main estimated useful lives are as follows:

Buildings and structures:	5 to 42 years
Machinery, equipment and vehicles:	2 to 10 years
Tools, furniture and fixtures:	2 to 15 years

2. Intangible assets

In-house software is amortized by the straight-line method based on the estimated in-house useful life of 3 or 5 years.

In addition, software intended for commercial sale is amortized by the straight-line method based on the remaining estimated effective sales period of 3 years.

Trademarks are amortized by the straight-line method based on an amortization period of 10 years.

(3) Accounting for significant allowances

1. Provision for product warranties

A provision for product warranties is provided to cover product warranty costs that may be incurred after products are sold. The provision for product warranties is determined on the basis of the estimated product warranty cost.

2. Provision for bonuses

A provision for bonuses is provided to cover the costs of bonuses paid to employees of domestic consolidated subsidiaries. The provision for bonuses is determined on the basis of the amount projected to be paid in fiscal 2018.

3. Provision for loss on store closing

Domestic consolidated subsidiaries record the estimated penalties for breach of contract as a provision for loss on store closing to prepare for the cost of cancelling contracts for stores scheduled to close in the next fiscal year.

4. Allowance for doubtful accounts

In order to prepare for losses due to uncollectible receivables, the Company has recorded the estimated uncollectible amounts as an allowance for doubtful accounts. For general receivables, an amount is recorded based on the historical default rate. For specific receivables for which there are concerns about collectability, an estimated amount deemed uncollectible is recorded based on consideration of the collectability of each individual account.

5. Provision for sales returns

Domestic consolidated subsidiaries record estimated sales returns as a provision for sales returns in order to prepare for any returns of products after they are sold.

6. Provision for point card certificates

To prepare for the burden of future use of points, an estimate of the amount to be used from among the converted balance of unused, awarded points is recognized as necessary and recorded.

(4) Accounting method for retirement benefits

Liabilities related to retirement benefits are recorded to cover the costs of the retirement benefits of employees, based on the projected retirement benefit obligations at the fiscal year-end. Retirement benefit obligations are calculated using the simplified method.

In addition, a new, elective defined contribution pension plan was introduced in November 2003. Employees who elected to join the new plan have been transferred out of the existing lump-sum retirement benefit payment plan into the defined contribution pension plan.

(5) Method of calculating important revenues and expenses

Basis for calculating sales and cost of sales on contracted development

Completed contract basis

Notes

(6) Standards for translating important foreign currency denominated assets and liabilities into Japanese yen

Foreign currency denominated receivables and obligations are translated into Japanese yen using the spot exchange rate at the consolidated fiscal year-end, and translation gains and losses are charged to income. The assets and liabilities, as well as the revenues and expenses, of foreign subsidiaries and other such entities are translated into Japanese yen using the spot exchange rate at the fiscal year-end, and translation gains and losses are recorded as foreign currency translation adjustments under net assets.

(7) Accounting methods for significant hedging

a. Hedge accounting methods

The Company has primarily adopted the deferred hedge accounting method. The allocation method is applied to foreign currency forward contracts that meet the requirements for allocation. Special treatment is applied to interest rate swaps that meet the requirements for special treatment.

b. Hedge instrument and hedge targets

Hedge instruments: Interest rate swaps, foreign currency forward contracts

Hedge targets: Borrowings, scheduled transactions denominated in foreign currencies

c. Hedging policy

Hedging is limited to the scope of target obligations in order to mitigate interest rate fluctuation risk and foreign exchange fluctuation risk and improve the financial balance.

d. Method of evaluating hedging effectiveness

The Company compares cumulative market fluctuations in the hedge target and the hedge instrument over the period from the start of hedging to the hedging effectiveness evaluation date, and arrives at an evaluation based on the amount of changes and other factors with respect to both the hedge target and hedge instrument.

The evaluation of hedging effectiveness is omitted for interest rate swaps and other instruments that qualify for special treatment.

(8) Method and period of amortization of goodwill

The Company reasonably estimates the period over which investment benefits will materialize, and amortizes goodwill over this period applying the straight-line method.

(9) Scope of cash and cash equivalents in the consolidated statements of cash flows

Cash and cash equivalents in the consolidated statements of cash flows consist of cash on hand, demand deposits, and short-term investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value and due within three months from the date of acquisition.

(10) Other notes to the consolidated financial statements

1. Accounting method for consumption taxes

   National and local consumption taxes are accounted for by the net tax method.

2. Gains and losses related to cryptocurrency transactions

   Gains and losses related to transactions of cryptocurrency held for trading purposes are presented in net sales on a net basis.

3. Consolidated taxation

   The Company has adopted consolidated taxation.

(Additional Information)

(1) Matters concerning the status of cryptocurrency

1. Policy regarding cryptocurrency

   Giving first priority to preserving the safety of principal, the Company invests in cryptocurrency, taking into consideration liquidity, profitability and risk diversification.

2. Content and risks of cryptocurrency

   Cryptocurrency is exposed to the risk of fluctuations in market prices.

3. Risk management system for cryptocurrency

   (i) Market risk

   Market risk is managed by monitoring market prices in a timely manner.

   (ii) Credit risk

   Credit risk is managed by monitoring the balances of each borrower.

(2) Matters concerning the fair value of cryptocurrency

The carrying amounts in the consolidated balance sheets, fair values and their differences are as follows. The table below does not include cryptocurrencies whose fair values cannot be reliably determined because they do not have active markets.

(Thousands of yen)

	Carrying amount	Fair value	Difference
Cryptocurrency	¥21,608	¥21,608	¥–

Note: Measurement of fair value of cryptocurrency

Fair value is stated as the average of the closing prices on the settlement dates of multiple exchanges that the Company uses frequently.

Notes

(Unapplied Accounting Standards, etc.)

(Notes concerning unapplied accounting standards, etc.)

1 Implementation Guidance on Tax Effect Accounting, etc.

· Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28, revised on February 16, 2018, Accounting Standards Board of Japan)
· Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, final revision on February 16, 2018, Accounting Standards Board of Japan)

(1) Overview
The following revisions to “Implementation Guidance on Tax Effect Accounting” and other documents were made as necessary based on the original content when responsibility for practical guidance related to tax effect accounting was transferred from the Japanese Institute of Certified Public Accountants to the Accounting Standards Board of Japan.
(Main accounting treatments that have been revised)
· Treatment of taxable temporary differences related to subsidiaries shares, etc., in the non-consolidated financial statements
· Treatment of recoverability of deferred tax assets for entities in (Category 1)

(2) Scheduled adoption date
The Company will adopt the revised accounting standards from the beginning of the fiscal year ending November 30, 2019.

(3) Impact of the adoption of the revised accounting standards
The Company is currently evaluating the impact of adopting the “Implementation Guidance on Tax Effect Accounting” and other documents on the consolidated financial statements.

2 “Tentative Practical Solution on the Accounting for Virtual Currencies under the Payment Services Act” (ASBJ Practical Issues Task Force (PITF) No. 38, March 14, 2018, Accounting Standards Board of Japan)

(1) Overview
This solution clarifies tentative treatment regarding accounting treatment and disclosure for cryptocurrency held by a cryptocurrency exchange operator or cryptocurrency user and cryptocurrencies received from a depositor by a cryptocurrency exchange operator.

(2) Scheduled adoption date
The Company will adopt the accounting standards from the beginning of the fiscal year ending November 30, 2019.

(3) Impact of the adoption of the revised accounting standards
The Company is currently evaluating the impact of adopting the “Tentative Practical Solution on the Accounting for Virtual Currencies under the Payment Services Act” on the consolidated financial statements.

3 Accounting Standard for Revenue Recognition, etc.

· “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 30, 2018, Accounting Standards Board of Japan)
· “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, revised on March 30, 3018, Accounting Standards Board of Japan)

(1) Overview
The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) have jointly developed a comprehensive accounting standard for revenue recognition. In May 2014, “Revenue from Contracts with Customers” was issued (as IFRS 15 by the IASB and as Topic 606 by the FASB), with IFRS 15 to be adopted from fiscal years beginning on or after January 1, 2018 and Topic 606 from fiscal years starting after December 15, 2017. In light of this situation, the Accounting Standards Board of Japan developed a comprehensive accounting standard for revenue recognition and issued it together with implementation guidance.

The basic policy of the Accounting Standards Board of Japan when developing the accounting standard on revenue recognition is to determine the accounting standard while incorporating the basic principles of IFRS 15 as a starting point in order to achieve the benefit of comparability between financial statements from compatibility with IFRS 15. Moreover, where there are items to be considered with regard to practices used in Japan to date, alternative treatments have been added within a scope that does not impair comparability.

(2) Scheduled adoption date
The Company is scheduled to adopt the accounting standard from the beginning of the fiscal year ending November 30, 2022.

(3) Impact of the adoption of the revised accounting standards
The Company is currently evaluating the impact of adopting the “Accounting Standard for Revenue Recognition” on the consolidated financial statements.

Notes

(Change in Presentation)

(Consolidated Balance Sheets)

Guarantee deposits, which were previously included in other under investments and other assets in the fiscal year ended November 30, 2017, have been presented separately from the fiscal year ended November 30, 2018 due to its increased qualitative importance. The consolidated financial statements for the fiscal year ended November 30, 2017 have been restated to reflect this change in presentation method.

As a result, the ¥628,537 thousand presented as other under investments and other assets on the consolidated balance sheet as of November 30, 2017 has been restated as guarantee deposits of ¥599,245 thousand and other of ¥29,292 thousand.

Provision for point card certificates, which was previously included in accounts payable—other under current liabilities in the fiscal year ended November 30, 2017, has been presented separately from the fiscal year ended November 30, 2018 due to its increased qualitative importance. The consolidated financial statements for the fiscal year ended November 30, 2017 have been restated to reflect this change in presentation method.

As a result, the ¥259,459 thousand presented as accounts payable—other under current liabilities on the consolidated balance sheet as of November 30, 2017 has been restated as provision for point card certificates of ¥8,041 thousand and accounts payable—other of ¥251,417 thousand.

(Consolidated Statements of Cash Flows)

Decrease in provision for loss on store closing, increase in other provision, difference on execution of asset retirement obligations, and decrease in accrued consumption taxes, which were all presented separately under cash flows from operating activities in the fiscal year ended November 30, 2017, have been included in other for the fiscal year ended November 30, 2018 due to their decreased monetary importance. The consolidated financial statements for the fiscal year ended November 30, 3017 have been restated to reflect this change in presentation method.

As a result, ¥(47,691) thousand presented as decrease in provision for loss on store closing, ¥143 thousand presented as increase in other provision, ¥(3,967) thousand presented as decrease in difference on execution of asset retirement obligations, and ¥(3,659) thousand presented as decrease in accrued consumption taxes under cash flows from operating activities in the consolidated statements of cash flows for the fiscal year ended November 30, 2017, have been restated as other.

Proceeds from sales of intangible assets, and payments for investments in capital, which were presented separately under cash flows from investing activities in the fiscal year ended November 30, 2017, have been included in other for the fiscal year ended November 30, 2018 since they did not occur during the fiscal year ended November 30, 2018. The consolidated financial statements for the fiscal year ended November 30, 2017 have been restated to reflect this change in presentation method.

As a result, ¥8,273 thousand presented as proceeds from sales of intangible assets and ¥(9,547) thousand presented as payments for investments in capital under cash flows from investing activities in the consolidated statements of cash flows for the fiscal year ended November 30, 2017, have been restated as other.

Repayments of lease obligations, which was presented separately under cash flows from financing activities in the fiscal year ended November 30, 2017, has been included in other for the fiscal year ended November 30, 2018 due to its decreased monetary importance. The consolidated financial statements for the fiscal year ended November 30, 3017 have been restated to reflect this change in presentation method.

As a result, ¥(1,104) thousand presented as repayments of lease obligations under cash flows from financing activities in the consolidated statements of cash flows for the fiscal year ended November 30, 2017, has been restated as other.

(Consolidated Balance Sheets)

*1 Collateral assets and collateralized liabilities

Assets pledged as collateral are as follows.

(Thousands of yen)

	Fiscal 2017 (As of November 30, 2017)	Fiscal 2018 (As of November 30, 2018)
Buildings	¥ 12,926	¥ 10,907
Land	151,097	151,097
Investment securities	506,781	542,868
Total	¥670,806	¥704,873

Collateralized liabilities are as follows.

(Thousands of yen)

	Fiscal 2017 (As of November 30, 2017)	Fiscal 2018 (As of November 30, 2018)
Current portion of long-term loans payable	¥148,012	¥137,303
Long-term loans payable	726,270	588,967

Notes

*2 The Company is providing debt guarantees for the affiliates below for financial institution loans.

(Thousands of yen)

	Fiscal 2017 (As of November 30, 2017)	Fiscal 2018 (As of November 30, 2018)
NCXX Solution Inc.	¥148,456	¥136,264
FISCO Ltd.	9,400	–

*3 Accumulated depreciation on property, plant and equipment

(Thousands of yen)

	Fiscal 2017 (As of November 30, 2017)	Fiscal 2018 (As of November 30, 2018)
Accumulated depreciation on property, plant and equipment	¥2,190,095	¥2,373,919

Accumulated depreciation includes accumulated impairment loss.

*4 Stakes in and exposures to non-consolidated subsidiaries and affiliates are as follows.

(Thousands of yen)

	Fiscal 2017 (As of November 30, 2017)	Fiscal 2018 (As of November 30, 2018)
Investment securities (stocks)	¥2,331,955	¥10,904

*5 Certain consolidated subsidiaries have entered into overdraft facility agreements with their banks in order to ensure the efficient procurement of working capital.

The balance of unused loans based on these agreements as of November 30, 2018 was as follows.

(Thousands of yen)

	Fiscal 2017 (As of November 30, 2017)	Fiscal 2018 (As of November 30, 2018)
Total amount of overdraft facilities and loan commitments	¥200,000	¥250,000
Outstanding loan balance	91,660	250,000
Difference	¥108,340	¥ –

(Consolidated Statements of Income)

*1 Book value write down of inventory held for sale under normal conditions due to decline in profitability

(Thousands of yen)

	Fiscal 2017 (From December 1, 2016 to November 30, 2017)	Fiscal 2018 (From December 1, 2017 to November 30, 2018)
Cost of sales	¥206,989	¥81,585

*2 Major breakdown and amount of selling, general and administrative expenses are as follows.

(Thousands of yen)

	Fiscal 2017 (From December 1, 2016 to November 30, 2017)	Fiscal 2018 (From December 1, 2017 to November 30, 2018)
Salaries and allowances	¥1,425,532	¥1,353,800
Retirement benefit expenses	9,619	12,835
Commission fees	752,670	678,384
Office rent	660,586	658,404
Provision of allowance for doubtful accounts	8,442	(5,360)
Provision for point card certificates	–	12,650
Amortization of goodwill	254,073	53,388

*3 Total research and development expenses included in selling, general and administrative expenses

(Thousands of yen)

	Fiscal 2017 (From December 1, 2016 to November 30, 2017)	Fiscal 2018 (From December 1, 2017 to November 30, 2018)
Research and development expenses	¥98,623	¥29,957

Notes

*4 The components of gain on sales of non-current assets are as follows.

(Thousands of yen)

	Fiscal 2017 (From December 1, 2016 to November 30, 2017)	Fiscal 2018 (From December 1, 2017 to November 30, 2018)
Tools, furniture and fixtures	¥553	¥ –
Vehicles	–	31

*5 The components of loss on sales of non-current assets are as follows.

(Thousands of yen)

	Fiscal 2017 (From December 1, 2016 to November 30, 2017)	Fiscal 2018 (From December 1, 2017 to November 30, 2018)
Buildings and structures, machinery	¥81,790	¥–

In fiscal 2017, losses arising from purchases and sales of non-current assets among consolidated subsidiaries were recorded as loss on sales of non-current assets, without eliminating unrealized losses.

*6 The components of loss on retirement of property, plant and equipment are as follows.

(Thousands of yen)

	Fiscal 2017 (From December 1, 2016 to November 30, 2017)	Fiscal 2018 (From December 1, 2017 to November 30, 2018)
Buildings and structures	¥ –	¥10,411
Tools, furniture and fixtures	11	46
Software	6,901	–

*7 Impairment loss

Fiscal 2017 (From December 1, 2016 to November 30, 2017)

The Group recorded impairment losses on the following assets.

Use	Type	Location	Impairment loss (Thousands of yen)
–	Goodwill	Minato-ku, Tokyo and other	¥1,064,036
Business assets	Trademarks		734,899
	Other		7,008
Store equipment	Buildings and structures	Shibuya-ku, Tokyo and other	24,698

(Background to recognizing impairment losses)

Regarding store equipment, the Group recognized as impairment losses under property, plant and equipment the portion of carrying value determined to be unrecoverable for stores that the Group has decided to close or expects to continue to generate losses from operations, having revised its management policy in light of factors including impact from the external environment. This applies to 21 stores.

(Asset grouping method)

The Group conducts asset grouping based on the minimum unit generating cash flows in a manner generally independent of the cash flows of other assets and asset groups.

(Method of calculating the recoverable amount)

In principle, the Company uses the value in use to calculate the recoverable amount of business assets.

In addition, the recoverable amount of the carrying value for store equipment has been reduced to zero because future cash flows are highly unlikely.

Notes

Fiscal 2018 (From December 1, 2017 to November 30, 2018)
The Group recorded impairment losses on the following assets.

Use	Type	Location	Impairment loss (Thousands of yen)
–	Goodwill	Minato-ku, Tokyo and other	¥136,965
Business assets	Trademarks	Minato-ku, Tokyo and other	888,678
Business assets	Buildings and structures	Hanamaki-shi, Iwate	34,170
Business assets	Machinery, equipment and vehicles	Hanamaki-shi, Iwate	2,038
Business assets	Software	Hanamaki-shi, Iwate	9,634
Store equipment	Buildings and structures	Shibuya-ku, Tokyo and other Nishitama-gun, Tokyo Kurashiki-shi, Okayama and other	34,945
Store equipment	Tools, furniture and fixtures	Shibuya-ku, Tokyo and other Nishitama-gun, Tokyo Kurashiki-shi, Okayama and other	3,747

(Background to recognizing impairment losses)
Impairment loss was recognized on goodwill as the initially anticipated earnings are no longer expected.

Regarding business assets, the Group recognized impairment loss because earnings from operating activities have continued to be negative or are expected to continue to be negative.

Regarding store equipment, the Group recognized as impairment losses under property, plant and equipment the portion of carrying value determined to be unrecoverable for stores that TITICACA and FACETASM expect to continue to generate losses from operations. This applies to 19 stores.

(Asset grouping method)
The Group conducts asset grouping based on the minimum unit generating cash flows in a manner generally independent of the cash flows of other assets and asset groups.

(Method of calculating the recoverable amount)
The recoverable amount was calculated by using the value in use and discounting future cash flows from operating activities by a certain discount rate.

However, for assets whose future cash flows from operating activities will be negative, the recoverable amount is assessed to be zero.

(Consolidated Statements of Comprehensive Income)

*1 Reclassification adjustments and tax effects for other comprehensive income

(Thousands of yen)

	Fiscal 2017 (From December 1, 2016 to November 30, 2017)	Fiscal 2018 (From December 1, 2017 to November 30, 2018)
Valuation difference on available-for-sale securities:		
Amount incurred during the fiscal year	¥202,142	¥ 461,734
Reclassification adjustments	(14,695)	(573,006)
Before tax effect adjustment	187,447	(111,272)
Tax effect	(62,247)	(33,743)
Valuation difference on available-for-sale securities	125,199	(77,528)
Deferred gains or losses on hedges:		
Amount incurred during the fiscal year	(1,188)	(40)
Reclassification adjustments	–	–
Before tax effect adjustment	(1,188)	(40)
Tax effect	–	–
Deferred gains or losses on hedges	(1,188)	(40)
Foreign currency translation adjustments:		
Amount incurred during the fiscal year	61,843	14,691
Reclassification adjustments	(22,822)	(10,313)
Before tax effect adjustment	39,020	4,377
Tax effect	–	–
Foreign currency translation adjustments	39,020	4,377
Share of other comprehensive income of entities accounted for using equity method:		
Amount incurred during the fiscal year	427	14,487
Reclassification adjustments	–	(16,861)
Share of other comprehensive income of entities accounted for using equity method	427	(2,373)
Total other comprehensive income	¥163,458	¥ (75,564)

Notes

(Consolidated Statements of Changes in Net Assets)

Fiscal 2017 (From December 1, 2016 to November 30, 2017)

1 Type and number of shares issued and type and number of treasury stock

(Number of shares)

	Starting balance in fiscal 2017	Increase during fiscal 2017	Decrease during fiscal 2017	Ending balance in fiscal 2017
Issued shares				
Common shares	15,030,195	–	–	15,030,195
Total	15,030,195	–	–	15,030,195
Treasury stock				
Common shares(Note)	156,058	32,900	42,485	146,473
Total	156,058	32,900	42,485	146,473

Notes: 1. The increase in treasury stock was mainly due to a share repurchase under the provisions of the Articles of Incorporation pursuant to Article 165, Paragraph 2 of the Companies Act.
2. The decrease in treasury stock was due to the decrease in the Company's equity interest in CAICA Inc., which owns a portion of the Company's shares.

2 Subscription rights to shares

Category	Components of subscription rights to shares	Type of shares underlying the subscription rights to shares	Number of shares underlying the subscription rights to shares: Starting balance in fiscal 2017	Increase during fiscal 2017	Decrease during fiscal 2017	Ending balance in fiscal 2017	Ending balance in fiscal 2017 (Thousands of yen)
Filing company (parent company)							
	5th Series of Unsecured Convertible Bonds with Subscription Rights to Shares	Common shares	1,069,788	–	–	1,069,788	¥ –
	6th Series of Unsecured Convertible Bonds with Subscription Rights to Shares (Note 1)	Common shares	466,562	–	466,562	–	–
	Subscription rights to shares as stock options (11th series)	–	–	–	–	–	19,775
	Subscription rights to shares as stock options (13th series) (Note 2)	–	–	–	–	–	2,436
Total		–	–	–	–	–	¥22,211

Notes: 1. The decrease in fiscal 2017 was due to the redemption of bonds. The lump-sum method was adopted for reporting purposes.
2. The exercise period has not commenced for the 13th series of subscription rights to shares as stock options.

3 Dividends

(1) Dividends paid

Not applicable

(2) Dividends with a record date that falls in the fiscal year under review, but an effective date that falls in the following fiscal year

Not applicable

Fiscal 2018 (From December 1, 2017 to November 30, 2018)

1 Type and number of shares issued and type and number of treasury stock

(Number of shares)

	Starting balance in fiscal 2018	Increase during fiscal 2018	Decrease during fiscal 2018	Ending balance in fiscal 2018
Issued shares				
Common shares	15,030,195	–	–	15,030,195
Total	15,030,195	–	–	15,030,195
Treasury stock				
Common shares(Note)	146,473	–	20,658	125,816
Total	146,473	–	20,658	125,816

Note: The decrease in treasury stock was mainly due to the exclusion of CAICA Inc. from the scope of application of the equity method during the fiscal year ended November 30, 2018.

Notes

2 Subscription rights to shares

Category	Components of subscription rights to shares	Type of shares underlying the subscription rights to shares	Number of shares underlying the subscription rights to shares				Ending balance in fiscal 2018 (Thousands of yen)
			Starting balance in fiscal 2018	Increase during fiscal 2018	Decrease during fiscal 2018	Ending balance in fiscal 2018	
Filing company (parent company)	5th Series of Unsecured Convertible Bonds with Subscription Rights to Shares (Note 1)	Common shares	1,069,788	–	1,069,788	–	¥ –
	7th Series of Unsecured Convertible Bonds with Subscription Rights to Shares	Common shares	–	487,800	–	487,800	–
	Subscription rights to shares as stock options (11th series)	–	–	–	–	–	19,775
	Subscription rights to shares as stock options (13th series)	–	–	–	–	–	4,176
	Subscription rights to shares as stock options (14th series) (Note 2)	–	–	–	–	–	3,549
Total		–	–	–	–	–	¥27,502

Notes: 1. The decrease in fiscal 2018 was due to the redemption of bonds. The lump-sum method was adopted for reporting purposes.
2. The exercise period has not commenced for the 14th series of subscription rights to shares as stock options.

3 Dividends

(1) Dividends paid

Not applicable

(2) Dividends with a record date that falls in the fiscal year under review, but an effective date that falls in the following fiscal year

Not applicable

(Consolidated Statements of Cash Flows)

*1 Cash and deposits in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows at the end of the fiscal year

(Thousands of yen)

	Fiscal 2017 (As of November 30, 2017)	Fiscal 2018 (As of November 30, 2018)
Cash and deposits	¥2,529,595	¥1,028,774
Term deposits with periods exceeding three months	–	(6,000)
Cash and cash equivalents	¥2,529,595	¥1,022,774

*2 Contents of important non-cash transactions

In the fiscal year ended November 30, 2018, borrowings by transfer of obligations were used as consideration for the sale of cryptocurrency. This transaction reduced accounts receivable by ¥1,000,000 thousand, and increased loans receivable to debtors outside the Company by ¥1,000,000 thousand.

(Lease Transactions)

(As a lessee)

Lease transactions were omitted from record in these financial statements in conformity with Article 15-3 of the Ordinance on Consolidated Financial Statements, due to the small amount per contract and immateriality of the content.

(Financial Instruments)

1. Conditions of financial instruments

(1) Policy regarding financial instruments

As a policy, the Group receives loans from banks and other FISCO Group companies primarily to procure operating funds, in tandem with managing surplus funds in the form of short-term deposits, and investment and loans to other FISCO Group companies. This is done in conformity with parent company FISCO Ltd.'s Group financial policy of optimizing funding efficiency by adjusting the surplus and shortage of funds among FISCO Group companies. The Company's policy is to use derivative transactions for hedging against the risk of interest rates on loans payable fluctuating, and to refrain from using them for speculative purposes. For cryptocurrency transactions, the Company makes investments while mitigating investment risk by establishing rules and systems for investment and conducting daily management.

Notes

(2) Content, risk, and risk management of financial instruments

Notes and accounts receivable—trade are exposed to the credit risk of customers (risk of default by customers or counterparties). To mitigate this risk, relevant departments within each of the Group's business divisions strive to promptly detect and reduce the risk of trade receivables defaulting by keeping track of the due date and amount of notes and accounts receivable by customer or counterparty.

The short-term loans receivable the Company makes are for managing funds in conformity with the aforementioned FISCO Group financial policy.

The Company's investment securities are primarily unlisted stocks, and are therefore exposed to the risk of prices fluctuating. To mitigate this risk, the Company periodically screens the assessed value and financial position of the issuer of these financial instruments.

As a rule of thumb, trade payables, namely notes and accounts payable—trade, and accounts payable—other have payment dates that are due in one month or less. Furthermore, the loans the Company receives are primarily for the purpose of procuring operating funds.

Trade payables and loans payable are exposed to the liquidity risk involved in fund procurement (risk of defaulting on the payment date). To mitigate and manage this liquidity risk, the Company's financial division formulates a timely funding operation plan based on the reports it receives from the Group's business divisions.

Certain variable interest rate loans the Company has received are exposed to the risk of interest rates fluctuating. To mitigate this risk, the Company uses interest rate swaps to hedge against the risk of interest payable on these loans fluctuating. For information regarding hedge accounting methods, hedge instruments and hedge targets, hedging policy, and method of evaluating hedging effectiveness, please refer to "Notes to the Consolidated Statements, 4. Accounting policies, (7) Accounting methods for significant hedging."

Certain accounts payable are procurement liabilities denominated in foreign currency in conjunction with manufacturing consigned to an overseas ODM manufacturer. For this reason, the Company uses foreign currency forward contracts and other arrangements to mitigate the risk of foreign exchange fluctuations associated with those foreign currency-denominated procurement liabilities.

Derivative transactions are managed in accordance with internal rules that set forth transaction procedures and transaction authority. The Company's management division monitors information on transaction balances, exchange rate movements, and gains or losses on derivative transactions on a daily or a monthly basis.

2. Fair value of financial instruments

The carrying amounts in the consolidated balance sheets, fair values, and their differences as of November 30, 2017 and 2018 are as follows. In addition, financial instruments, whose fair values cannot be reliably determined, are not included. (Please see "Note 2. Carrying amount of financial instruments whose fair values cannot be reliably determined.")

Fiscal 2017 (As of November 30, 2017)

(Thousands of yen)

	Carrying amount	Fair value	Difference
(1) Cash and deposits	¥2,529,595	¥2,529,595	¥ –
(2) Notes and accounts receivable—trade	599,269	599,269	–
(3) Accounts receivable—other	114,228	–	–
Allowance for doubtful accounts*1	(53,097)	–	–
	61,131	61,131	–
(4) Short-term loans receivable	15,000	15,000	–
(5) Long-term loans receivable	396,140	–	–
Allowance for doubtful accounts*2	(56,140)	–	–
	339,999	339,999	–
(6) Long-term accounts receivable—other	163,181	–	–
Allowance for doubtful accounts*3	(163,181)	–	–
	–	–	–
(7) Investment securities*4	3,225,630	5,146,815	1,921,184
Total	¥6,770,626	¥8,691,811	¥1,921,184
(1) Notes and accounts payable—trade	¥ 600,601	¥ 600,601	¥ –
(2) Short-term loans payable	191,660	191,660	–
(3) Accounts payable—other	259,459	259,459	–
(4) Convertible bond-type bonds with share acquisition rights (including current portion)	1,165,000	1,165,000	–
(5) Long-term loans payable (including current portion)	2,474,068	2,479,824	5,756
Total	¥4,690,789	¥4,695,113	¥ 4,323
Derivative transactions	¥ –	¥ –	¥ –

*1 Excludes the allowance for doubtful accounts recorded for accounts receivable—other.
*2 Excludes the allowance for doubtful accounts recorded for long-term loans receivable.
*3 Excludes the allowance for doubtful accounts recorded for long-term accounts receivable—other.
*4 Investment securities include listed equity-method affiliates, and the difference is based on a fair market valuation of the shares.

Notes

Note: 1. Measurement of fair value of financial instruments, as well as investment securities and derivative transactions

Assets

(1) Cash and deposits, (2) Notes and accounts receivable—trade, (3) Accounts receivable—other and (4) Short-term loans receivable
Fair value is stated as the carrying amount because the fair value approximates the carrying amount given the short settlement period of these instruments.

(5) Long-term loans receivable
The fair value of long-term loans receivable is measured as the present value of loans receivable classified into certain periods for each credit risk group used for credit management purposes, using the future cash flows as an appropriate indicator, discounted by an interest rate to which the credit spread has been added. The current portion of long-term loans receivable expected to be collected within one year and included in short-term loans receivable on the consolidated balance sheets is included and shown in this item.

(6) Long-term accounts receivable—other
Fair value is measured as the present value of the amount of receivables grouped together for a certain period, discounted using an interest rate adjusted for the period until maturity and the credit risk of the receivables.

(7) Investment securities
Fair value for investment securities is measured using stock exchange prices.

Liabilities

(1) Notes and accounts payable—trade, (2) Short-term loans payable, (3) Accounts payable—other and (4) Convertible bond-type bonds with share acquisition rights (including current portion)
Fair value is stated as the carrying amount because the fair value approximates the carrying amount given the short settlement period of these instruments.

(5) Long-term loans payable (including current portion)
Fair value is measured as the present value of the total amount of loan principal and interest, discounted using an interest rate that would apply to a similar new loan. However, certain long-term loans payable with variable interest rates are subject to special treatment for interest rate swaps. (Please see "Derivative transactions" below.) The fair value of these loans is measured by discounting the total amount of the loan principal and interest, which are accounted for together with the respective interest rate swaps, using a reasonably estimated interest rate that would apply to a similar new loan.

Derivative transactions

Interest rate swaps subject to special treatment are accounted for together with the long-term loans payable that are the hedge targets. Therefore, the fair value of the interest rate swaps is included in the fair value of the respective long-term loans payable.

Fiscal 2018 (As of November 30, 2018)

(Thousands of yen)

	Carrying amount	Fair value	Difference
(1) Cash and deposits	¥1,028,774	¥1,028,774	¥ –
(2) Notes and accounts receivable—trade	525,801	525,801	–
(3) Accounts receivable—other	54,964	–	–
Allowance for doubtful accounts*1	(6,249)	–	–
	48,715	48,715	–
(4) Cryptocurrencies	21,608	21,608	–
(5) Current assets—other	21,914	21,914	–
(6) Short-term loans receivable	1,015,000	1,015,000	–
(7) Long-term loans receivable	713,930	–	–
Allowance for doubtful accounts*2	(55,930)	–	–
	658,000	658,000	–
(8) Long-term accounts receivable—other	106,853	–	–
Allowance for doubtful accounts*3	(106,853)	–	–
	–	–	–
(9) Investment securities*4	2,282,185	2,282,185	–
Total	¥5,601,997	¥5,601,997	¥ –
(1) Notes and accounts payable—trade	¥ 576,086	¥ 576,086	¥ –
(2) Short-term loans payable	383,200	383,200	–
(3) Accounts payable—other	177,011	177,011	–
(4) Convertible bond-type bonds with share acquisition rights	200,000	197,363	(2,637)
(5) Long-term loans payable (including current portion)	1,810,869	1,809,636	(1,233)
Total	¥3,147,166	¥3,143,296	¥(3,870)
Derivative transactions	¥ –	¥ –	¥ –

*1 Excludes the allowance for doubtful accounts recorded for accounts receivable—other.
*2 Excludes the allowance for doubtful accounts recorded for long-term loans receivable.
*3 Excludes the allowance for doubtful accounts recorded for long-term accounts receivable—other.

Notes

Note: 1. Measurement of fair value of financial instruments, as well as investment securities and derivative transactions

Assets

(1) Cash and deposits, (3) Accounts receivable—other and (6) Short-term loans receivable
Fair value is stated as the carrying amount because the fair value approximates the carrying amount given the short settlement period of these instruments.
(2) Notes and accounts receivable—trade and (8) Long-term accounts receivable—other
Fair value is measured as the present value of the amount of receivables grouped together for a certain period, discounted using an interest rate adjusted for the period until maturity and the credit risk of the receivables.
(4) Cryptocurrencies and (5) Current assets—other
The fair value of cryptocurrencies is calculated in two ways. For those with active markets, such as Bitcoin, the amount is stated at fair value (cost of sales calculated by moving average method), while for those that do not have active markets the amount is stated at cost based on the moving average method. Furthermore, the fair value of deposits included in current assets—other is stated as the balance in Japanese yen held by each cryptocurrency exchange, since this is a cash equivalent.
(7) Long-term loans receivable
The fair value of long-term loans receivable is measured as the present value of loans receivable classified into certain periods for each credit risk group used for credit management purposes, using the future cash flows as an appropriate indicator, discounted by an interest rate to which the credit spread has been added. The current portion of long-term loans receivable expected to be collected within one year and included in short-term loans receivable on the consolidated balance sheets is included and shown in this item.
(9) Investment securities
Fair value for investment securities is measured using stock exchange prices.

Liabilities

(1) Notes and accounts payable—trade, (2) Short-term loans payable and (3) Accounts payable—other
Fair value is stated as the carrying amount because the fair value approximates the carrying amount given the short settlement period of these instruments.
(4) Convertible bond-type bonds with share acquisition rights
Fair value is measured as the present value of the total amount of bond principal and interest, discounted using an interest rate adjusted for the remaining maturity and the credit risk of the bonds.
(5) Long-term loans payable (including current portion)
Fair value is measured as the present value of the total amount of loan principal and interest, discounted using an interest rate that would apply to a similar new loan. However, certain long-term loans payable with variable interest rates are subject to special treatment for interest rate swaps. (Please see “Derivative transactions” below.) The fair value of these loans is measured by discounting the total amount of the loan principal and interest, which are accounted for together with the respective interest rate swaps, using a reasonably estimated interest rate that would apply to a similar new loan.

Derivative transactions

Interest rate swaps subject to special treatment are accounted for together with the long-term loans payable that are the hedge targets. Therefore, the fair value of the interest rate swaps is included in the fair value of the respective long-term loans payable.

Note: 2. Carrying amount of financial instruments whose fair values cannot be reliably determined

(Thousands of yen)

	Fiscal 2017 (As of November 30, 2017)	Fiscal 2018 (As of November 30, 2018)
Unlisted stocks (investment securities)	¥305,962	¥215,904

Fair value is not disclosed because the fair value of these stocks cannot be reliably determined given that they do not have market prices and their future cash flows cannot be estimated.

Note: 3. Maturity analysis for financial assets and investment securities with contractual maturities after the fiscal year-end

Fiscal 2017 (As of November 30, 2017)

(Thousands of yen)

	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
(1) Cash and deposits	¥2,529,595	¥ –	¥–	¥–
(2) Notes and accounts receivable—trade	599,269	–	–	–
(3) Accounts receivable—other*1	61,131	–	–	–
(4) Short-term loans receivable	15,000	–	–	–
(5) Long-term loans receivable*1	–	339,999	–	–
(6) Long-term accounts receivable—other*1	–	–	–	–
Total	¥3,204,996	¥339,999	¥–	¥–

*1 The above table does not include accounts receivable with indefinite redemption schedules of ¥53,097 thousand (allowance for doubtful accounts of ¥53,097 thousand), long-term loans receivable of ¥56,140 thousand (allowance for doubtful accounts of ¥56,140 thousand) and long-term accounts receivable—other of ¥163,181 thousand (allowance for doubtful accounts of ¥163,181 thousand).

Fiscal 2018 (As of November 30, 2018)

(Thousands of yen)

	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
(1) Cash and deposits	¥1,028,774	¥ –	¥–	¥–
(2) Notes and accounts receivable—trade	525,801	–	–	–
(3) Accounts receivable—other*1	48,715	–	–	–
(4) Short-term loans receivable	1,015,000	–	–	–
(5) Long-term loans receivable*1	–	658,000	–	–
(6) Long-term accounts receivable—other*1	–	–	–	–
Total	¥2,618,291	¥658,000	¥–	¥–

*1 The above table does not include accounts receivable with indefinite redemption schedules of ¥6,249 thousand (allowance for doubtful accounts of ¥6,249 thousand), long-term loans receivable of ¥55,930 thousand (allowance for doubtful accounts of ¥55,930 thousand) and long-term accounts receivable—other of ¥106,853 thousand (allowance for doubtful accounts of ¥106,853 thousand).

Notes

Note: 4. Scheduled repayments of loans, bonds, and other interest-bearing debt after the fiscal year-end

Fiscal 2017 (As of November 30, 2017)

(Thousands of yen)

	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Convertible bonds with subscription rights to shares	¥1,165,000	¥ –	¥ –	¥ –	¥ –	¥–
Long-term loans payable	836,382	618,057	856,628	144,812	18,186	–
Short-term loans payable	141,660	–	–	–	–	–
Total	¥2,143,043	¥618,057	¥856,628	¥144,812	¥18,186	¥–

Fiscal 2018 (As of November 30, 2018)

(Thousands of yen)

	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Convertible bonds with subscription rights to shares	¥ –	¥ 200,000	¥ –	¥ –	¥–	¥–
Long-term loans payable	587,606	940,474	204,689	78,099	–	–
Short-term loans payable	383,200	–	–	–	–	–
Total	¥970,806	¥1,140,474	¥204,689	¥78,099	¥–	¥–

(Investment Securities)
1. Investment securities—other

Fiscal 2017 (As of November 30, 2017)

(Thousands of yen)

	Type	Carrying amount	Acquisition cost	Difference
Securities whose carrying amounts exceed the acquisition cost	Share	¥1,199,637	¥ 997,927	¥201,710
Securities whose carrying amounts do not exceed the acquisition cost	Share	2,025,992	2,089,879	(63,886)
	Total	¥3,225,630	¥3,087,806	¥137,823

Unlisted investment securities (carrying amount ¥305,962 thousand) are not disclosed because the fair value of these securities cannot be reliably determined given that they do not have market prices.

Fiscal 2018 (As of November 30, 2018)

(Thousands of yen)

	Type	Carrying amount	Acquisition cost	Difference
Securities whose carrying amounts exceed the acquisition cost	Share	¥2,282,185	¥2,191,746	¥90,438
Securities whose carrying amounts do not exceed the acquisition cost	Share	–	–	–
	Total	¥2,282,185	¥2,191,746	¥90,438

Unlisted investment securities (carrying amount ¥215,904 thousand) are not disclosed because the fair value of these securities cannot be reliably determined given that they do not have market prices.

2. Gain on sale of investment securities

Fiscal 2017 (From December 1, 2016 to November 30, 2017)

The Company did not sell investment securities—other.

Fiscal 2018 (From December 1, 2017 to November 30, 2018)

(Thousands of yen)

	Sale amount	Total gain on sale	Total loss on sale
Share	¥900,202	¥573,006	¥–
Total	¥900,202	¥573,006	¥–

3. Loss on valuation of investment securities

Fiscal 2017 (As of November 30, 2017)

The Company did not record a loss on valuation of investment securities.

Loss on valuation is recorded in full if the fair value at fiscal year-end falls 50% or more in relation to the acquisition price of investment securities. If the fall in fair value is around 30 to 50%, a loss on valuation deemed appropriate is recorded in view of factors such as the likelihood of prices recovering.

Notes

Fiscal 2018 (As of November 30, 2018)

In the fiscal year ended November 30, 2018, the Company recorded a ¥10,366 thousand loss on valuation of investment securities (unlisted shares ¥10,366 thousand).

Loss on valuation is recorded in full if the fair value at fiscal year-end falls more than 50% in relation to the acquisition price of investment securities. If the fall in fair value is around 30 to 50%, a loss on valuation deemed appropriate is recorded in view of factors such as the likelihood of prices recovering.

(Derivative Transactions)

1. Derivative transactions to which hedge accounting is not applied

Currency related

Fiscal 2017 (As of November 30, 2017)

Not applicable

Fiscal 2018 (As of November 30, 2018)

Not applicable

2. Derivative transactions to which hedge accounting is applied

(1) Currency related

Fiscal 2017 (As of November 30, 2017)

(Thousands of yen)

Hedge accounting method	Type of transaction	Main hedge target	Contract amount	Amount of contract exceeding one year	Fair value
Allocation method for foreign currency forward contracts, etc.	Foreign currency forward contracts	Accounts payable	¥3,808	¥–	(Note) ¥3,728

Note: Calculation of fair value

Calculated based on quoted prices obtained from financial institution counterparties.

Fiscal 2018 (As of November 30, 2018)

(Thousands of yen)

Hedge accounting method	Type of transaction	Main hedge target	Contract amount	Amount of contract exceeding one year	Fair value
Allocation method for foreign currency forward contracts, etc.	Foreign currency forward contracts	Accounts payable	¥81,612	¥–	(Note) ¥81,491

Note: Calculation of fair value

Calculated based on quoted prices obtained from financial institution counterparties.

(2) Interest rate

Fiscal 2017 (As of November 30, 2017)

(Thousands of yen)

Hedge accounting method	Type of transaction	Main hedge target	Contract amount	Amount of contract exceeding one year	Fair value
Special treatment of interest rate swaps	Interest rate swap transaction Variable interest—received Fixed interest—paid	Long-term loans payable	¥1,255,000	¥920,000	(Note) ¥–

Note: Calculation of fair value

Interest rate swaps to which the special treatment is applied are accounted for together with the long-term loans payable targeted for hedging. Therefore, their fair value is included in the fair value of long-term loans payable.

Fiscal 2018 (As of November 30, 2018)

(Thousands of yen)

Hedge accounting method	Type of transaction	Main hedge target	Contract amount	Amount of contract exceeding one year	Fair value
Special treatment of interest rate swaps	Interest rate swap transaction Variable interest—received Fixed interest—paid	Long-term loans payable	¥870,000	¥650,000	(Note) ¥–

Note: Calculation of fair value

Interest rate swaps to which the special treatment is applied are accounted for together with the long-term loans payable targeted for hedging. Therefore, their fair value is included in the fair value of long-term loans payable.

(Retirement Benefits)

1. Overview of retirement benefit plan

The Company has adopted an elective system in which employees can choose between a defined contribution pension plan and a prepaid retirement benefit plan as part of its defined contribution plan.

Certain consolidated subsidiaries have adopted a lump-sum payment plan as part of their defined retirement benefit plans, and an elective system in which employees can choose between a defined contribution pension plan and a prepaid retirement benefit plan as part of their defined contribution plans.

Certain consolidated subsidiaries apply the simplified method for calculating the liability and expenses on their lump-sum retirement benefit plans.

Notes

2. Simplified-method defined benefit plan

(1) Reconciliation of balance of simplified-method liability for retirement benefit at the beginning and at the end of the fiscal year

(Thousands of yen)

	Fiscal 2017 (From December 1, 2016 to November 30, 2017)	Fiscal 2018 (From December 1, 2017 to November 30, 2018)
Balance of liability for retirement benefit at the beginning of the fiscal year	¥29,724	¥29,708
Increase from new consolidation	260	–
Retirement benefit expenses	6,047	9,094
Retirement benefits paid	(6,323)	(7,469)
Balance of liability for retirement benefit at the end of the fiscal year	¥29,708	¥31,333

(2) Reconciliation of balance of retirement benefit obligations and liability for retirement benefit on the consolidated balance sheets at the end of the fiscal year

(Thousands of yen)

	Fiscal 2017 (As of November 30, 2017)	Fiscal 2018 (As of November 30, 2018)
Retirement benefit obligations for non-funded plans	¥29,708	¥31,333
Net liability on the consolidated balance sheets	29,708	31,333

(3) Retirement benefit expenses

(Thousands of yen)

	Fiscal 2017 (From December 1, 2016 to November 30, 2017)	Fiscal 2018 (From December 1, 2017 to November 30, 2018)
Retirement benefit expenses based on the simplified method	¥6,047	¥9,094

3. Defined contribution pension plan

The required contributions to the defined contribution pension plans of the Company and its consolidated subsidiaries were ¥4,260 thousand in fiscal 2017 and ¥2,929 thousand in fiscal 2018.

4. Prepaid retirement benefit plan

Payments made to the prepaid retirement benefit plans of the Company and its consolidated subsidiaries were ¥499 thousand in fiscal 2017 and ¥1,679 thousand in fiscal 2018.

(Stock Options)

1. Stock option expense item and amount

(Thousands of yen)

	Fiscal 2017 (From December 1, 2016 to November 30, 2017)	Fiscal 2018 (From December 1, 2017 to November 30, 2018)
Stock compensation expense under selling, general and administrative expenses	¥2,088	¥5,290

2. Stock option details, scale and change

(1) Stock option details

	11th Series of Subscription Rights to Shares	13th Series of Subscription Rights to Shares	14th Series of Subscription Rights to Shares
Status and number of option holders	NCXX Group Inc. directors: 5 NCXX Group Inc. employees: 3 NCXX Group Inc. subsidiary director: 1	NCXX Group Inc. directors: 3 NCXX Group Inc. subsidiary directors: 8 NCXX Group Inc. subsidiary employees: 3	NCXX Group Inc. directors: 5 NCXX Group Inc. subsidiary directors: 3 NCXX Group Inc. subsidiary employees: 2
Type of share and number of stock options(Note)	Common shares: 100,000 shares	Common shares: 100,000 shares	Common shares: 90,000 shares
Grant date	October 30, 2014	October 5, 2016	January 15, 2018
Vesting condition	An option holder must remain in continued service from the grant date (October 30, 2014) to the option exercise date	An option holder must remain in continued service from the grant date (October 5, 2016) to the option exercise date	An option holder must remain in continued service from the grant date (January 15, 2018) to the option exercise date
Required service period	From October 30, 2014 until the option exercise date	From October 5, 2016 until the option exercise date	From January 15, 2018 until the option exercise date
Exercise period	October 31, 2016 to October 30, 2020	October 6, 2018 to October 5, 2021	January 16, 2020 to January 15, 2023

Note: Recorded based on the number of eligible shares.

Notes

(2) Stock option scale and change

Existing stock options as of fiscal 2018 (ended November 2018) are recorded herein on the basis of the number of eligible shares.

1. Number of stock options

(Shares)

	11th Series of Subscription Rights to Shares	13th Series of Subscription Rights to Shares	14th Series of Subscription Rights to Shares
Before vesting			
As of November 30, 2017	–	100,000	–
Granted	–	–	90,000
Forfeited	–	–	–
Vested	–	100,000	–
Outstanding	–	–	90,000
After vesting			
As of November 30, 2017	96,000	–	–
Vested	–	100,000	–
Exercised	–	–	–
Forfeited	–	–	–
Exercisable	96,000	100,000	–

2. Unit price information

(Yen)

	11th Series of Subscription Rights to Shares	13th Series of Subscription Rights to Shares	14th Series of Subscription Rights to Shares
Exercise price	¥738	¥458	¥458
Average stock price at exercise	–	–	–
Fair value on the grant date	206	42	86

3. Method for estimating the fair value of stock options

The method for estimating the fair value of the 2018 stock options, granted in the fiscal year ended November 30, 2018, is as follows.

1. Estimation method used

Monte Carlo simulation

2. Main assumptions and estimates

	2018 stock options
Stock price volatility (Note 1)	67.57%
Estimated period to expiry (Note 2)	3.5 years
Estimated dividend yield (Note 3)	¥0
Risk free interest rate (Note 4)	(0.085)%

Notes: 1. Calculated based on stock price data for five years (December 2012 to December 2017).
2. Due to insufficient data for making a reasonable estimate, the period to expiry is estimated based on the assumption that the subscription rights to shares will be exercised at the midpoint of the exercise period.
3. Based on dividend yields for the fiscal year ended November 30, 2017.
4. The yield of Japanese government bonds for the estimated period to expiry

4. Method for estimating the number of vested stock options

A method reflecting the actual number of forfeited stock options was adopted due to the fundamental difficulty of reasonably estimating the actual number of stock options that will be forfeited in the future.

Notes

(Tax-Effect Accounting)
1. Main factors giving rise to deferred tax assets and liabilities

(Thousands of yen)

	Fiscal 2017 (As of November 30, 2017)	Fiscal 2018 (As of November 30, 2018)
Deferred tax assets		
Inventories	¥ 62,383	¥ 74,984
Accrued enterprise taxes	3,637	3,417
Provision for bonuses	20,922	26,749
Provision for product warranties	32,711	22,756
Non-current assets	475,322	298,525
Shares of affiliated companies	489,409	14,678
Allowance for doubtful accounts	457,011	58,282
Carryforwards of unused tax losses	1,966,716	3,381,601
Liability for retirement benefit	9,168	9,626
Asset retirement obligations	61,715	130,019
Others	37,917	15,489
Deferred tax assets subtotal	3,616,915	4,036,133
Valuation allowance	(3,616,456)	(4,034,102)
Deferred tax assets total	458	2,030
Deferred tax liabilities		
Valuation difference on available-for-sale securities	(62,247)	(28,504)
Fund balance difference	(662,408)	(757,050)
Reserve for special depreciation	–	(8,671)
Others	(44,592)	(43,417)
Deferred tax liabilities total	(769,248)	(837,642)
Net deferred tax liabilities	¥ (768,789)	¥ (835,611)

2. Main items giving rise to material differences between the statutory income tax rate and effective income tax rate

(%)

	Fiscal 2017 (As of November 30, 2017)	Fiscal 2018 (As of November 30, 2018)
Statutory income tax rate	30.86 %	–%
(Adjustments)		
Entertainment and other non-deductible expenses	0.42	–
Inhabitants taxes—per capita levy	1.38	–
Share of profit of entities accounted for using equity method	(1.32)	–
Amortization of goodwill	7.65	–
Change in valuation allowance	15.85	–
Carryforwards of unused tax losses and other deductions	(49.06)	–
Income taxes recognized for difference on capital surplus	11.98	–
Others	(1.54)	–
Effective income tax rate	16.22 %	–%

Note: Disclosure on the difference in the statutory income tax rate and the effective income tax rate in fiscal 2018 is omitted as loss before income taxes was recorded.

(Business Combination)
Transactions with Entities under Common Control
1. Overview of transaction
(1) Name and business operations of the companies in the business combination

Absorbing company
- Name : Versatile Inc.
- Business: Apparel business, consulting business, wine-related business

Absorbed company
- Name : NCXX Premium Group, Inc.
- Business: Apparel business, consulting business
- Name : NCXX Farm Holdings, Inc.
- Business: Wine-related business

Notes

(2) Business combination date
November 12, 2018

(3) Statutory basis of business combination
An incorporation type company split with Versatile Inc. as the splitting company and NCXX Premium Group, Inc. and NCXX Farm Holdings, Inc. as the newly incorporated companies

(4) Name of company after business combination
NCXX Premium Group, Inc.
NCXX Farm Holdings, Inc.

(5) Purpose of the business combination
By consolidating the Group's apparel business and consulting business into NCXX Premium Group, Inc. and consolidating the wine-related business into NCXX Farm Holdings, Inc., the Group aims to increase the quality of the businesses, streamline back-office operations, and increase profitability.

2. Overview of accounting treatment
The transaction was treated as a transaction with entities under common control based on the "Accounting Standard for Business Combinations" and the "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures."

(Asset Retirement Obligations)
Asset retirement obligations recorded on the consolidated balance sheets

(1) Overview of recorded asset retirement obligations
The recorded asset retirement obligations are obligations under real estate lease contracts to restore business offices and stores where the Company is operating to their original condition when vacating them.

(2) Calculation method for amounts of asset retirement obligations to be recorded
The period of use is estimated at 18 years from the acquisition of the lease asset, and a discount rate between 0.01% and 0.48% is used to calculate the asset retirement obligation amounts.

(3) Change in total amount of recorded asset retirement obligations
(Thousands of yen)

	Fiscal 2017 (From December 1, 2016 to November 30, 2017)	Fiscal 2018 (From December 1, 2017 to November 30, 2018)
Balance at the beginning of the fiscal year	¥399,040	¥389,687
Increase from consolidated subsidiary acquisition	49,866	–
Increase from acquisition of property, plant and equipment	–	13,909
Adjustment reflecting the passage of time	4,349	181
Decrease from execution of obligations	(63,567)	(26,690)
Balance at the end of the fiscal year	¥389,687	¥377,087

(4) Asset retirement obligations not recorded on the consolidated balance sheets
Under its real estate lease contract, the Company and its consolidated subsidiaries have obligations to restore their Head Office to its original condition when vacating it. However, this asset retirement obligation cannot be estimated reasonably, given that the period of use of the relevant lease assets remains unclear, and the Group has no plan for relocating. Consequently, this asset retirement obligation was not recorded in this report.

Notes

(Real Estate Leasing)

Fiscal 2017 (From December 1, 2016 to November 30, 2017)

Certain consolidated subsidiaries had previously held idle real estate in Shizuoka Prefecture and Tochigi Prefecture. In addition, certain subsidiaries have acquired new properties in Fukuoka Prefecture and other regions and are using them as offices and for other purposes. Since some of these properties are rented, real estate had been treated as including the portion used as real estate for rent.

However, these consolidated subsidiaries were excluded from the scope of consolidation during fiscal 2017 due to the sale of their shares. As a result, no balances are shown on the consolidated balance sheets as of November 30, 2017.

(Thousands of yen)

	Carrying amount			
	Starting balance in fiscal 2017	Change during fiscal 2017	Ending balance in fiscal 2017	Fair value at fiscal year-end
Idle real estate	¥ 2,000	¥ (2,000)	¥–	¥–
Real estate including the portion used as real estate for rent	306,102	(306,102)	–	–

Note: The carrying amount represents the acquisition cost less cumulative depreciation.

Fiscal 2018 (From December 1, 2017 to November 30, 2018)

Not applicable

(Segment Information)

[Segment Information]

1. Overview of reportable segments

The Company's reportable segments are components of the Company for which separate financial information is available. They are periodically examined by the Board of Directors for the purpose of deciding on resource allocation and assessing business results.

The Group formulates comprehensive strategies at the Company's Head Office and is expanding business activities related to the products and services it handles. The Group's businesses are made up of segments classified based on products and services, as follows.

From fiscal 2018, the Company changed its previous six segments, specifically the ICT, IoT, Device Business, the FinTech System Development Business, the Internet Travel Business, the Brand Retail Platform Business, the Information Service Consulting Business, and Other, to the five segments comprising the IoT-Related Business, Internet Travel Business, Brand Retail Platform Business, Cryptocurrency and Blockchain Business, and Other. The reasons for this change are outlined below.

Following a review of the business management system, the FinTech System Development Business, which was previously presented as a reportable segment, has been merged with the ICT, IoT, Device Business based on the similarity and relatedness in the method of allocation of management resources and the method of evaluating earnings, and the segment name has been changed to the IoT Related Business.

In the fiscal year ended November 30, 2017, the cryptocurrency related business that had been included under other was added as a reportable segment named the "Cryptocurrency and Blockchain Business" due to its increased quantitative importance.

In addition, following a review of the business management system, in the fiscal year ended November 30, 2017 the wine business, which had been included under other, was integrated into the Brand Retail Platform Business based on the similarity and relatedness in the method of allocation of management resources and the method of evaluating earnings.

Furthermore, the Information Service Consulting Business, which had previously been presented as a reportable segment, was excluded from the reportable segments and included under other due to a decrease in its quantitative importance following a contraction in the business, etc.

Segment information for the fiscal year ended November 30, 2017 has been presented based on reportable segment categories after the Company reorganization.

Notes

Segment	Description of business
IoT-Related Business	Development and sale of communication devices applying various wireless systems Provision of systems solutions and maintenance services incidental to the above systems development Agricultural ICT business R&D for the robot business ASP services for nursing care centers
Internet Travel Business	Operation of e-marketplace for travel-related products Travel agency services for companies and individuals Travel estimate services Travel concierge services
Brand Retail Platform Business	Retailing of general merchandise, apparel and other items Restaurant business Brand license business Grape farming, winemaking and sales
Cryptocurrency and Blockchain Business	Investments related to cryptocurrencies Cryptocurrency trading and commercial loans Development and investment of derivative instruments related to cryptocurrencies Setting up funds related to cryptocurrencies
Other	Consulting on financial strategy, business strategy, recruitment support services, etc. Other

2. Calculation method for amounts of net sales, income and loss, assets and liabilities, and other items by reportable segment

The accounting policies and methods for reportable segments are the same as those shown in the notes to the consolidated financial statements.

Segment income for reportable segments is based on operating income.

Inter-segment sales and transfers are based on prevailing market prices.

Notes

3. Information on net sales, income or loss, assets and liabilities, and other items by reportable segment

Fiscal 2017 (From December 1, 2016 to November 30, 2017)

(Thousands of yen)

	Reportable segment							
	IoT Related Business	Internet Travel Business	Brand Retail Platform Business	Cryptocurrency and Blockchain Business	Other	Total	Adjustments	Consolidated
Net sales								
Sales to external customers	¥4,012,681	¥2,183,047	¥5,931,773	¥–	¥ 71,419	¥12,198,921	¥ –	¥12,198,921
Inter-segment sales and transfers	19,103	7,601	54,805	–	2,176	83,687	(83,687)	–
Total	4,031,785	2,190,648	5,986,578	–	73,595	12,282,608	(83,687)	12,198,921
Segment income (loss)	(465,884)	(2,374)	(71,667)	–	(57,779)	(597,704)	(316,850)	(914,555)
Segment assets	713,771	371,007	3,742,937	–	115,650	4,943,368	6,588,998	11,532,367
Other items								
Depreciation and amortization	64,988	539	130,927	–	8,221	204,676	7,875	212,551
Amortization of goodwill	137,037	30,848	65,741	–	20,445	254,073	–	254,073
Increase in property, plant and equipment and intangible assets	35,746	1,250	107,074	–	–	144,071	82,505	226,576

Notes: 1. Segment income (loss) is adjusted to operating income in the consolidated statements of income. Adjustments for segment income mainly represent general and administration expenses that are not allocated to reportable segments.
2. Adjustments for segment assets of ¥6,588,988 thousand include corporate assets that are not allocated to reportable segments and offsetting receivables and obligations with consolidated subsidiaries.
3. Adjustments for depreciation and amortization represent mainly depreciation and amortization related to corporate assets of ¥7,875 thousand.
4. Prices for transactions and transfers between reportable segments are determined based on arm's length transactions between independent third parties.

Notes

Fiscal 2018 (From December 1, 2017 to November 30, 2018)

(Thousands of yen)

	Reportable segment							
	IoT Related Business	Internet Travel Business	Brand Retail Platform Business	Cryptocurrency and Blockchain Business	Other	Total	Adjustments	Consolidated
Net sales								
Sales to external customers	¥ 950,751	¥2,367,417	¥6,445,821	¥1,326,207	¥ 35,104	¥11,125,302	¥ –	¥11,125,302
Inter-segment sales and transfers	19,597	2,211	994	–	–	22,803	(22,803)	–
Total	970,348	2,369,629	6,446,816	1,326,207	35,104	11,148,106	(22,803)	11,125,302
Segment income (loss)	48,734	38,840	(460,452)	1,320,327	(73,257)	874,192	(454,473)	419,718
Segment assets	2,353,686	639,760	2,369,082	43,522	–	5,406,051	3,896,755	9,302,807
Other items								
Depreciation and amortization	10,728	1,590	149,547	–	8,359	170,225	35,821	206,046
Amortization of goodwill	3,830	30,848	18,709	–	–	53,388	–	53,388
Increase in property, plant and equipment and intangible assets	4,116	5,228	1,155,536	26,806	–	1,191,687	65,776	1,257,464

Notes: 1. Segment income (loss) is adjusted to operating income in the consolidated statements of income. Adjustments for segment income mainly represent general and administration expenses that are not allocated to reportable segments.
2. Adjustments for segment assets mainly include corporate assets of ¥3,896,755 thousand that are not allocated to reportable segments such as cash and deposits, short-term loans receivable, etc.
3. Adjustments for depreciation and amortization represent mainly depreciation and amortization related to corporate assets of ¥35,821 thousand.
4. Prices for transactions and transfers between reportable segments are determined based on arm's length transactions between independent third parties.

Notes

[Related Information]

Fiscal 2017 (From December 1, 2016 to November 30, 2017)

1. Information by product and service

Disclosure is omitted as the same information is shown in segment information.

2. Information by region

(1) Net sales

Disclosure is omitted as sales to external customers in Japan account for over 90% of net sales in the consolidated statements of income.

(2) Property, plant and equipment

Disclosure is omitted as the amount of property, plant and equipment in Japan accounts for over 90% of property, plant and equipment in the consolidated balance sheets.

3. Information by major customer

Disclosure of information by major customer is omitted as sales to major customers account for less than 10% of consolidated net sales.

Fiscal 2018 (From December 1, 2017 to November 30, 2018)

1. Information by product and service

Disclosure is omitted as the same information is shown in segment information.

2. Information by region

(1) Net sales

Disclosure is omitted as sales to external customers in Japan account for over 90% of net sales in the consolidated statements of income.

(2) Property, plant and equipment

Disclosure is omitted as the amount of property, plant and equipment in Japan accounts for over 90% of property, plant and equipment in the consolidated balance sheets.

3. Information by major customer

Disclosure of information by major customer is omitted as sales to major customers account for less than 10% of consolidated net sales.

[Information on Impairment Loss on Property, Plant and Equipment by Reportable Segment]

Fiscal 2017 (From December 1, 2016 to November 30, 2017)

(Thousands of yen)

	IoT Related Business	Internet Travel Business	Brand Retail Platform Business	Cryptocurrency and Blockchain Business	Other	Corporate and elimination	Total
Impairment loss	¥312,639	¥–	¥1,086,293	¥–	¥431,709	¥–	¥1,830,642

Fiscal 2018 (From December 1, 2017 to November 30, 2018)

(Thousands of yen)

	IoT Related Business	Internet Travel Business	Brand Retail Platform Business	Cryptocurrency and Blockchain Business	Other	Corporate and elimination	Total
Impairment loss	¥45,843	¥–	¥1,064,336	¥–	¥–	¥–	¥1,110,179

Notes

[Information on Amortized Amount and Unamortized Balance of Goodwill by Reportable Segment]

Fiscal 2017 (From December 1, 2016 to November 30, 2017)

(Thousands of yen)

	IoT Related Business	Internet Travel Business	Brand Retail Platform Business	Cryptocurrency and Blockchain Business	Other	Corporate and elimination	Total
Amortized amount	¥137,037	¥ 30,848	¥ 65,741	¥–	¥20,445	¥–	¥254,073
Unamortized balance	23,302	168,028	205,674	–	–	–	397,006

Fiscal 2018 (From December 1, 2017 to November 30, 2018)

(Thousands of yen)

	IoT Related Business	Internet Travel Business	Brand Retail Platform Business	Cryptocurrency and Blockchain Business	Other	Corporate and elimination	Total
Amortized amount	¥ 3,830	¥ 30,848	¥18,709	¥–	¥–	¥–	¥ 53,388
Unamortized balance	19,472	137,180	–	–	–	–	156,652

[Information on Gain on Bargain Purchase by Reportable Segment]

Fiscal 2017 (From December 1, 2016 to November 30, 2017)

Not applicable

Fiscal 2018 (From December 1, 2017 to November 30, 2018)

Not applicable

Notes

[Information on Related Parties]
1. Transactions with related parties
(1) Transactions between the filing company and related parties
(a) Parent company of the filing company and major shareholders (only companies and other such entities)

Fiscal 2017 (From December 1, 2016 to November 30, 2017)

Type	Name of company or other entity	Address	Paid-in capital or investment (Millions of yen)	Description of business or occupation	Percentage of voting rights held (%)	Relationship with related party	Nature of transaction	Amount of transaction (Thousands of yen)	Item	Ending balance (Thousands of yen)
Parent company	FISCO Ltd.	Kishiwada, Osaka	¥1,266	Information services business, consulting business	Direct (28.38) Indirect (20.13)	Concurrent officers	Funds lent	¥340,000	Long-term loans receivable	¥340,000
							Interest received	3,777	–	–
							Debt guarantees received	899,935	–	–

Fiscal 2018 (From December 1, 2017 to November 30, 2018)

Type	Name of company or other entity	Address	Paid-in capital or investment (Millions of yen)	Description of business or occupation	Percentage of voting rights held (%)	Relationship with related party	Nature of transaction	Amount of transaction (Thousands of yen)	Item	Ending balance (Thousands of yen)
Parent company	FISCO Ltd.	Kishiwada, Osaka	¥1,269	Information services business, consulting business	Direct (28.38) Indirect (20.13)	Concurrent officers	Funds lent	¥400,000	Long-term loans receivable	¥300,000
							Funds recovered	440,000	–	–
							Interest received	7,615	–	–
							Debt guarantees received	723,651	–	–

Notes: 1. Consumption taxes are not included in the amounts of transactions and the ending balances.
2. Transaction terms and policy on deciding transaction terms and conditions
(1) The interest rate on funds lent is determined reasonably based on prevailing market interest rates. The funds lent are unsecured.
(2) The debt guarantees received are debt guarantees for bank loans. A guarantee fee is not paid.

Notes

(b) Companies and other entities with the same parent company as the filing company and subsidiaries of other related companies of the filing company

Fiscal 2017 (From December 1, 2016 to November 30, 2017)

Type	Name of company or other entity	Head office location	Capital stock or investment (Millions of yen)	Description of business or occupation	Percentage of voting rights held (%)	Relationship with related party	Nature of transaction	Amount of transaction (Thousands of yen)	Item	Ending balance (Thousands of yen)
Companies with the same parent company as the filing company	Chanty Co., Ltd.	Minato-ku, Tokyo	¥32	Advertising agency business	–	Concurrent officers	Funds recovered	¥160,000	Long-term loans receivable	¥–
							Interest received	1,574	–	–

Fiscal 2018 (From December 1, 2017 to November 30, 2018)

Type	Name of company or other entity	Head office location	Capital stock or investment (Millions of yen)	Description of business or occupation	Percentage of voting rights held (%)	Relationship with related party	Nature of transaction	Amount of transaction (Thousands of yen)	Item	Ending balance (Thousands of yen)
Companies with the same parent company as the filing company	Vulcan Crypto Currency Financial Products K.K.	Kishiwada, Osaka	¥10	Crypto-currency and blockchain business	–	–	Interest received	¥19,068	Short-term loans receivable	¥1,000,000

Notes: 1. Consumption taxes are not included in the amounts of transactions and the ending balances.
2. Transaction terms and policy on deciding transaction terms and conditions
The interest rate on funds lent is determined reasonably based on prevailing market interest rates. The funds lent are unsecured.

(c) Officers of filing company, major shareholders and other persons (individuals only)

Fiscal 2017 (From December 1, 2016 to November 30, 2017)

Type	Name of company or other entity	Description of business or occupation	Percentage of voting rights held (%)	Relationship with related party	Nature of transaction	Amount of transaction (Thousands of yen)	Item	Ending balance (Thousands of yen)
Officer and his relatives	Tsukasa Akiyama	Officer	–	Representative Director and President of NCXX Group Inc.	Debt guarantee received	¥29,308	–	¥–

Fiscal 2018 (From December 1, 2017 to November 30, 2018)

Type	Name of company or other entity	Description of business or occupation	Percentage of voting rights held (%)	Relationship with related party	Nature of transaction	Amount of transaction (Thousands of yen)	Item	Ending balance (Thousands of yen)
Officer and his relatives	Tsukasa Akiyama	Officer	–	Representative Director and President of NCXX Group Inc.	Debt guarantee received	¥21,304	–	¥–

Notes: 1. Consumption taxes are not included in the amounts of transactions and the ending balances.
2. Transaction terms and policy on deciding transaction terms and conditions
The debt guarantees received are debt guarantees for bank loans. A guarantee fee is not paid.

Notes

(2) Transactions between the filing company and its consolidated subsidiaries and related parties

(a) Parent company of the filing company and major shareholders (only companies and other such entities)

Fiscal 2017 (From December 1, 2016 to November 30, 2017)

Type	Name of company or other entity	Head office location	Capital stock or investment (Millions of yen)	Description of business or occupation	Percentage of voting rights held (%)	Relationship with related party	Nature of transaction	Amount of transaction (Thousands of yen)	Item	Ending balance (Thousands of yen)
Parent company	FISCO Ltd.	Kishiwada, Osaka	¥1,266	Information services business, consulting business	Direct (28.38) Indirect (20.13)	Concurrent officers	Funds recovered	¥200,000	–	¥–
							Interest received	1,994	–	–

Notes: 1. Consumption taxes are not included in the amounts of transactions and the ending balances.
2. Transaction terms and policy on deciding transaction terms and conditions
The interest rate on funds lent is determined reasonably based on prevailing market interest rates. The funds lent are unsecured.

Fiscal 2018 (From December 1, 2017 to November 30, 2018)

Not applicable

(b) Companies and other entities with the same parent company as the filing company and subsidiaries of other related companies of the filing company

Fiscal 2017 (From December 1, 2016 to November 30, 2017)

Type	Name of company or other entity	Head office location	Capital stock or investment (Millions of yen)	Description of business or occupation	Percentage of voting rights held (%)	Relationship with related party	Nature of transaction	Amount of transaction (Thousands of yen)	Item	Ending balance (Thousands of yen)
Subsidiary of the parent company	Fisco Cryptocurrency Exchange Inc.	Kishiwada, Osaka	¥387	Management of cryptocurrency exchange	Indirect (4.02)	Cryptocurrency trading	Deposits made	¥193,000	Deposit	¥160,984

Fiscal 2018 (From December 1, 2017 to November 30, 2018)

Type	Name of company or other entity	Head office location	Paid-in capital or investment (Millions of yen)	Description of business or occupation	Percentage of voting rights held (%)	Relationship with related party	Nature of transaction	Amount of transaction (Thousands of yen)	Item	Ending balance (Thousands of yen)
Subsidiary of the parent company	Vulcan Crypto Currency Financial Products K.K.	Kishiwada, Osaka	¥10	Crypto-currency and blockchain business	–	–	Transfer of debt obligation	¥1,000,000	–	¥–

Note: Consumption taxes are not included in the amounts of transactions and the ending balances.

Notes

(c) Officers of the filing company, major shareholders and other persons (individuals only)

Fiscal 2017 (From December 1, 2016 to November 30, 2017)

Not applicable

Fiscal 2018 (From December 1, 2017 to November 30, 2018)

Not applicable

(d) Officers and major shareholders of the filing company's consolidated subsidiaries (individuals only)

Fiscal 2017 (From December 1, 2016 to November 30, 2017)

Type	Name of company or other entity	Description of business or occupation	Percentage of voting rights held (%)	Relationship with related party	Nature of transaction	Amount of transaction (Thousands of yen)	Item	Ending balance (Thousands of yen)
Officer of a significant subsidiary	Takao Hayashi	Officer	–	Debt guarantee received	Debt guarantee received	¥39,686	–	¥–

Fiscal 2018 (From December 1, 2017 to November 30, 2018)

Type	Name of company or other entity	Description of business or occupation	Percentage of voting rights held (%)	Relationship with related party	Nature of transaction	Amount of transaction (Thousands of yen)	Item	Ending balance (Thousands of yen)
Officer of a significant subsidiary	Takao Hayashi	Officer	–	Debt guarantee received	Debt guarantee received	¥17,414	–	¥–

Notes: 1. Consumption taxes are not included in the amounts of transactions and the ending balances.
2. Transaction terms and policy on deciding transaction terms and conditions
The debt guarantees received are debt guarantees for bank loans. A guarantee fee is not paid.

2. Notes on the parent company or significant related companies

(1) Parent company information

FISCO Ltd. (Listed on the Tokyo Stock Exchange JASDAQ Growth Market)

(2) Summary of financial information on significant related companies

Not applicable

Notes

(Per Share Information)

(Yen)

	Fiscal 2017 (From December 1, 2016 to November 30, 2017)	Fiscal 2018 (From December 1, 2017 to November 30, 2018)
Net assets per share	¥259.74	¥216.02
Amounts for net income (loss) per share	60.68	(31.82)
Diluted net income per share	–	–

Notes: 1. The basis for calculating the amounts for net income (loss) per share and diluted net income per share is as follows:

(Thousands of yen)

	Fiscal 2017 (From December 1, 2016 to November 30, 2017)	Fiscal 2018 (From December 1, 2017 to November 30, 2018)
Net income (loss) per share		
Gain (loss) attributable to owners of parent	¥902,592	¥(473,969)
Amounts not attributable to common shareholders	–	–
Gain (loss) attributable to owners of parent related to common shares	902,592	(473,969)
Average number of common shares during the period (Shares)	14,875,370	14,894,159
Diluted net income per share		
Adjustments to profit attributable to owners of parent	–	–
Increase in number of common shares (Shares)	–	–

	Fiscal 2017 (From December 1, 2016 to November 30, 2017)	Fiscal 2018 (From December 1, 2017 to November 30, 2018)
Outline of dilutive shares excluded from the calculation of diluted net income per share because of not having a dilutive effect	Subscription rights to shares attached to NCXX Group Inc.'s 11th Series of Subscription Rights to Shares (960 subscription rights for 96,000 underlying shares) Subscription rights to shares attached to NCXX Group Inc.'s 5th Series of Unsecured Convertible Bonds with Subscription Rights to Shares (1,165 subscription rights for 1,069,788 underlying shares) Subscription rights to shares attached to NCXX Group Inc.'s 13th Series of Subscription Rights to Shares (1,000 subscription rights for 100,000 underlying shares)	Subscription rights to shares attached to NCXX Group Inc.'s 11th Series of Subscription Rights to Shares (960 subscription rights for 96,000 underlying shares) Subscription rights to shares attached to NCXX Group Inc.'s 13th Series of Subscription Rights to Shares (1,000 subscription rights for 100,000 underlying shares) Subscription rights to shares attached to NCXX Group Inc.'s 14th Series of Subscription Rights to Shares (900 subscription rights for 90,000 underlying shares) Subscription rights to shares attached to NCXX Group Inc.'s 7th Series of Unsecured Convertible Bonds with Subscription Rights to Shares (20 subscription rights for 487,800 underlying shares)

2. Diluted net income per share for fiscal 2017 is not disclosed as there were no shares with a potentially dilutive effect.
3. Although there were potentially dilutive shares, diluted net income per share for fiscal 2018 is not disclosed as a net loss per share was recorded.

Notes

(Subsequent Events)

I Significant Events Related to Investments

In a press release disclosed by the Company's parent company FISCO Ltd. ("FISCO") on December 7, 2018, entitled "Notification of Recording of Extraordinary Loss by the Company and the Company's Consolidate Subsidiary, Revision of the Company's Full-Year Earnings Forecast and Dividend Forecast, and Revision of the Full-Year Earnings Forecast of the Company's Subsidiary," Fisco Cryptocurrency Exchange Inc. ("FCCE"), a consolidated subsidiary of FISCO's equity-method affiliate Fisco Digital Asset Group Co., Ltd. ("FDAG"), had held cryptocurrency reserves to compensate users (2,723.4 Bitcoin, 40,360 Bitcoin cash) as hacking response expenses upon the transfer of the Zaif business; however, on the effective date of the business transfer, November 22, 2018, a sharp fall in the market price of these cryptocurrencies meant that a realized loss was recorded with respect to the cryptocurrency used for compensation due to the difference between the acquisition price and the fair value of the effective date of the business transfer.

The Company's consolidated subsidiary, e frontier, Inc., subscribed to the 1st unsecured convertible bonds with subscription rights to shares issued by FDAG on October 18, 2018, for ¥2 million (two corporate bonds with a face value of ¥1 million), and having exercised all of the subscription rights of these corporate bonds on December 26, 2018, holds 400 shares issued by FDAG (carrying amount: ¥2 million) as investment securities. For a certain period from the following fiscal year onward based on FDAG and FCCE, there is a possibility that a loss on valuation of investment securities could be recognized from the fiscal year ending November 30, 2019 onward if the credit risk on bonds increased or grounds for recoverability cannot be obtained due to a marked divergence between the acquisition price and the real price of the investment securities.

II Recognition of Extraordinary Loss on Market Sale of Shares Held by the Company

On January 25, 2019, the Company sold a portion of its shares of CAICA Inc. (Listing: Tokyo Stock Exchange, JASDAQ; Securities Code: 2315; Head Office: Meguro-ku, Tokyo, President: Shin Suzuki).

As a result, the Company expects to recognize an extraordinarily loss in its non-consolidated financial results and its consolidated financial results, as follows.

1. Reason for sale of investment securities

To streamline assets and strengthen the financial base

2. Details of sale of investment securities

1. Shares sold: Common shares of CAICA Inc.
2. Sale period: January 17, 2019 to January 25, 2019
3. Details of extraordinary loss: Loss on sale of investment securities of ¥134 million

3. Impact on financial results

The loss on sale of investment securities resulting from this sale will be recorded as an extraordinary loss in the first quarter of the fiscal year ending November 30, 2019. The Company will promptly provide notification if this necessitates any revision to the consolidated earnings forecast for the fiscal year ending November 30, 2019.

III Issuance of Stock Compensation-Type Stock Options

On January 30, 2019, the Board of Directors of NCXX decided to submit a resolution for approval by the 35th Ordinary General Meeting of Shareholders, delegating it the authority to decide the particulars for issuing and allotting subscription rights to shares, pursuant to the provisions of Article 236, Article 238 and Article 239 of the Companies Act. The Board of Directors plans to allot the subscription rights to shares to directors and employees of NCXX and its subsidiary companies as stock options granted at particularly advantageous terms. The goal will be to raise the motivation and morale of the directors and employees by providing them with an incentive to enhance the Group's earnings performance and corporate value. The allocation of stock options to the Company's directors corresponds to compensation, etc. under Article 361 of the Companies Act.

The 35th Ordinary General Meeting of Shareholders, held on February 26, 2019, approved the proposal in its original form.

Notes

Details regarding the subscription rights to shares are as follows.

(1) Total number of subscription rights to shares

The maximum number of subscription rights to shares shall be 1,000. Of this, a maximum of 500 rights shall be allotted to the directors of the Company (with a proportionate 100 of those rights allotted to the outside directors of the Company).

(2) Class and number of underlying shares

The class of underlying shares shall be common stock of the Company, and the maximum number that can be issued shall be 100,000 shares. Of these, 50,000 shares shall be the maximum number that can be allotted to directors of the Company when they exercise their subscription rights to shares, including a portion of 10,000 shares for outside directors.

The number of underlying shares for each subscription right to shares shall be 100 shares of common stock of the Company.

The number of shares of common stock underlying the subscription rights to shares shall be adjusted according to the following formula in the event the Company conducts a stock split or consolidation following the resolution date of the General Meeting of Shareholders.

Number of underlying shares after adjustment = Number of underlying shares before adjustment × Stock split or consolidation ratio

In addition to the foregoing, in the event of other unavoidable reasons requiring adjustment of the underlying shares, the Company shall be able to adjust the number of underlying shares within reasonable bounds as deemed necessary.

Moreover, the adjustment shall apply only to the number of shares underlying the subscription rights to shares that have yet to be exercised as of the stock split or consolidation, and any fraction under one (1) share resulting from such adjustment shall be rounded down.

(3) Payment in exchange for the subscription rights to shares

No monetary payment shall be required in exchange for the subscription rights to shares.

(4) Value of assets to be invested upon exercise of subscription rights to shares

The value of assets to be invested upon exercise of a subscription right to shares shall be the amount payable for each share received upon exercise of the subscription right to shares (hereinafter, "exercise price") multiplied by the number of shares to be granted per subscription right to shares.

The exercise price of a subscription right to shares shall be the higher of the closing price of the underlying common stock on the Tokyo Stock Exchange on the allotment date of the right specified by the Board of Directors (the "allotment date") (the most recent previous closing price in the event that the stock fails to trade on that date) and the average closing price on the exchange (excluding days when the stock fails to trade) for the days of the month prior to the month of the allotment date, multiplied by 1.05 (with the fraction less than one (1) yen of the resulting amount rounded up).

In the event that a split or consolidation of the Company's common stock takes place after the allotment date, the exercise price shall be adjusted according to the following formula, with the fraction less than one (1) yen resulting from the adjustment rounded up.

$$\text{Exercise price after adjustment} = \text{Exercise price before adjustment} \times \frac{1}{\text{Stock split or consolidation ratio}}$$

In addition to the foregoing, if the exercise price must be adjusted following the allotment date due to the Company conducting a merger with another company, a corporate split, or reduction in capital stock, or some accordingly unavoidable reason, the Company shall be able to adjust the exercise price within reasonable bounds as deemed necessary.

(5) Exercise period of subscription rights to shares

The starting date of the exercise period shall be two years from the day following the Board of Directors resolution date for deciding the issuance terms of subscription rights to shares, and the expiration date shall be five years from the day following this resolution date.

(6) Conditions for exercising subscription rights to shares

Holders of the subscription rights to shares must remain in their position as a director or employee of the Company or its subsidiary in order to exercise the rights, apart from when the Board of Directors makes a special exception.

Notes

(7) Provisions for the Company to buy back the subscription rights to shares

1. The Company may buy back the subscription rights to shares from the holders free of charge, on a date specified separately by the Board of Directors, in the event that a resolution for a merger agreement under which the Company will become the dissolving company, or a resolution for a stock exchange agreement or stock transfer plan under which the Company will become a wholly owned subsidiary, is approved by the General Meeting of Shareholders (or by the Board of Directors if approval by the General Meeting of Shareholders is not required).
2. Following the allotment date of particular subscription rights to shares, the Company shall be able to acquire the particular subscription rights to shares from the holders free of charge if the closing price of ordinary transactions of the Company's common stock traded on the Tokyo Stock Exchange on any business day falls to 50% or lower than the exercise price of the particular subscription rights to shares (with fractions less than one (1) yen rounded down).
3. The Company may buy back any and all subscription rights to shares of a particular holder free of charge, on a date specified separately by the Board of Directors, in the event that the particular holder no longer satisfies the provisions set forth above in "(6) Conditions for exercising subscription rights to shares."

(8) Restrictions on the assignment of subscription rights to shares

Approval of the Company's Board of Directors shall be required for the acquisition of subscription rights to shares via assignment.

(9) Matters relating to increases of capital stock and capital reserve as a result of shares issued by the exercise of subscription rights to shares

In the event shares are issued by the exercise of subscription rights to shares, the amount of capital stock shall be increased by half of the maximum for increase in capital, as calculated in accordance with the provisions of Article 17, Paragraph 1 of the Rules of Account Settlement of Corporations of Japan. Any fraction less than one (1) yen resulting from the calculation shall be rounded up to the nearest one yen.

The amount of increase in capital reserve shall be the amount calculated by subtracting the aforementioned increase in capital stock from the maximum for increase in capital.

(10) Handling of fractions

Where fractions of less than one (1) share occur in the number of shares issued to holders of subscription rights to shares upon exercising the rights, such fractions shall be rounded down.

(11) Other

Other terms for the allotment of subscription rights to shares shall be set forth by a separate resolution of the Board of Directors of the Company.

Consolidated Supplementary Schedules

[Schedule of Corporate Bonds]

Issuer	Series	Issuance date	Starting balance in fiscal 2018 (Thousands of yen)	Ending balance in fiscal 2018 (Thousands of yen)	Interest (%)	Collateral	Maturity date
NCXX Group Inc.	5th Series of Unsecured Convertible Bonds with Subscription Rights to Shares	March 30, 2015	¥ 1,165,000 [1,165,000]	¥ – [–]	0.5	None	March 29, 2018
NCXX Group Inc.	7th Series of Unsecured Convertible Bonds with Subscription Rights to Shares	May 1, 2018	– [–]	200,000 [–]	0.7	None	April 30, 2020
Total	–	–	¥ 1,165,000 [1,165,000]	¥200,000 [–]	–	–	–

Notes: 1. Amounts in parentheses are the current portion of bonds.
2. Details on bonds with subscription rights to shares are as follows.

Series	5th Series of Unsecured Convertible Bonds with Subscription Rights to Shares	7th Series of Unsecured Convertible Bonds with Subscription Rights to Shares
Type of shares to be issued	Common shares	Common shares
Issue price of subscription rights (Yen)	Gratis	Gratis
Issue price of shares (Yen)	¥1,089	¥410
Total face amount (Thousands of yen)	¥1,165,000	¥200,000
Total amount of shares to be issued upon exercise of subscription rights to shares (Millions of yen)	¥–	¥–
Percentage of shares granted per subscription right (%)	100%	100%
Exercise period of the subscription rights	From March 30, 2015 to March 29, 2018	From May 1, 2018 to April 30, 2020

Note: The information above assumes that the full payment due for exercising subscription rights to shares is paid in lieu of the full redemption of the convertible bonds associated with those rights when requested by rights holders seeking to exercise their subscription rights to shares. It is further assumed that such a request is made when the subscription rights to shares are exercised.

Note: 3. Scheduled redemptions due within five years subsequent to November 30, 2018 are as follows.

(Thousands of yen)

Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years
¥–	¥200,000	¥–	¥–	¥–

Consolidated Supplementary Schedules

[Schedule of Borrowings]

(Thousands of yen)

Category	Starting balance in fiscal 2018	Ending balance in fiscal 2018	Average interest rate (%)	Repayment
Short-term loans payable	¥ 191,660	¥ 383,200	1.0	–
Current portion of long-term loans payable	836,382	587,606	1.5	–
Long-term loans payable (excluding current portion)	1,637,685	1,223,263	1.6	2019 to 2022
Total	¥2,868,475	¥2,194,069	–	–

Notes: 1. Average interest rate represents the weighted-average interest rate for the balance at November 30, 2018.
2. Scheduled repayments of long-term loans payable (excluding current portion) and other interest-bearing debt (excluding current portion) due within five years subsequent to November 30, 2018 are as follows.

(Thousands of yen)

	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Long-term loans payable	¥940,474	¥204,689	¥78,099	¥–	¥–

[Schedule of Asset Retirement Obligations]

The schedule of asset retirement obligations is omitted from record in these financial statements as the matters that must be recorded in this statement are disclosed as a note in conformity with Article 15-23 of the Ordinance on Consolidated Financial Statements.

[Other]

Quarterly and other information for fiscal 2018

(Thousands of yen)

(Cumulative period)	First quarter	Second quarter	Third quarter	Fiscal year
Net sales	¥4,006,728	¥6,009,732	¥8,826,992	¥11,125,302
Profit (loss) before income taxes	1,232,357	1,082,013	1,228,870	(265,125)
Profit (loss) attributable to owners of parent	1,216,841	1,020,242	1,044,308	(473,969)
Net income (loss) per share (Yen)	¥81.75	¥68.53	¥70.13	¥(31.82)

(Yen)

(Quarterly period)	First quarter	Second quarter	Third quarter	Fiscal year
Net income (loss) per share	¥81.75	¥(13.20)	¥1.62	¥(101.89)

Company Overview

Name	NCXX Group Inc.
Date of establishment	April 21, 1984
Capital stock	¥1,000,000,000 (as of November 30, 2018)
Consolidated Group employees	303 (as of November 30, 2018)
Business operations	■ Management strategy formulation and management of Group companies ■ Planning, development, and sale of nursing care and rehabilitation robots, etc. ■ Planning, development, and sale of agricultural ICT ■ Businesses associated with or related to the above
Location	Hanamaki Head Office: 2-32-1 Kunuginome, Hanamaki City, Iwate Prefecture, Japan TEL: +81-198-27-2851 FAX: +81-198-27-2850 Tokyo Head Office: 2F CoSTUME NATIONAL Aoyama Complex, 5-4-30 Minamiaoyama, Minato-ku, Tokyo, Japan TEL: +81-3-5766-9870 FAX: +81-3-5766-9871

History

Date	Event
Apr. 1984	Established as Honda Electron Co., Ltd. with capital stock of ¥10 million invested by Honda Tsushin Kogyo Co., Ltd. Head Office was located in Himonya, Meguro-ku, Tokyo. Started design and manufacture of telecommunication line equipment
Aug. 1985	Constructed Hanamaki Plant in Hanamaki City, Iwate Prefecture and started operations
Aug. 1986	Participated in the establishment of Iwateken Koudo Gijutsu Shinkou Kikou (Iwate Prefecture Advanced Technology Promotion Organization)
Aug. 1987	Relocated Head Office to Shibaura, Minato-ku, Tokyo
Sept. 1998	HOKUBU Communication & Industrial Co., Ltd. and its group company become the major shareholders
Oct. 1999	Acquired ISO quality certification (ISO 9001, JQA-QM 3856)
Feb. 2002	Launched world's first 128 kbps data telecommunication card for PHS
June 2002	Established the Hanamaki R&D Center as a base for development of PHS data telecommunication cards
Apr. 2003	Established the Tokyo R&D Center and established bases for development of PLC and wireless
Sept. 2003	Relocated Head Office to Kyobashi, Chuo-ku, Tokyo
Dec. 2003	Acquired ISO environmental certification (ISO 14001, JQA-EM 3575)
June 2004	Index Corporation acquired 2,416 shares, making the Company a subsidiary
Jan. 2005	Received supreme prize for excellence in the modem category of the BCN Awards
June 2005	Sold the semiconductor manufacturing equipment business to SHIBAURA MECHATRONICS CORPORATION and specialized in the information and telecommunication business
Sept. 2005	Changed company name from Honda Electron Co., Ltd. to Net Index Co., Ltd. Established Net Index ES Co., Ltd., and spun off the manufacturing and service divisions
Nov. 2005	Introduced the W-SIM, which is the world's smallest PHS module, and the first SIM-STYLE voice handset
June 2007	Listed on the JASDAQ securities exchange (securities code: 6634)
Nov. 2010	Relocated the Head Office to Hanamaki City, Iwate Prefecture
July 2012	FISCO Ltd. acquired 47,401 shares of the Company, making it a subsidiary Made e-tabinet.com into a subsidiary
Dec. 2012	Changed company name from Net Index Co., Ltd. to NCXX Inc.
Dec. 2013	Made NCXX Solutions Inc. and Care Online Limited (now Care Dynamics Limited) into subsidiaries
Feb. 2014	Transferred the domestic systems development business of SJI Inc. (now CAICA Inc.) to subsidiary NCXX Solutions Inc. through an absorption-type company split
Apr. 2015	Changed the company name from NCXX Inc. to NCXX Group Inc. Established NCXX Inc. as a newly incorporated company. Transferred the device business to NCXX Inc. through a corporate split
June 2015	Made SJI Inc. (now CAICA Inc.) a subsidiary
Aug. 2016	Made TITICACA, Co. Ltd. a subsidiary
Oct. 2016	Consolidated subsidiary e-tabinet.com made Gloria Tours Inc. a subsidiary
Dec. 2016	Made Versatile Inc. and FISCO International Limited into subsidiaries
May 2017	Versatile Inc. made FACETASM a subsidiary
July 2017	Made e frontier, Inc. a subsidiary
Aug. 2017	Transferred 51% of the issued shares of NCXX Solutions Inc. to CAICA Inc., changing it from a consolidated subsidiary to an equity-method affiliate
Jan. 2018	Exchanged 49% of the issued shares of NCXX Solutions Inc. with CAICA Inc., excluding NCXX Solutions Inc. from the scope of application of the equity method and making it a wholly owned subsidiary of CAICA Inc.
Apr. 2018	FISCO International Limited changed its name to NCXX International Limited
July 2018	Started the mining business as a new initiative in the cryptocurrency-related business
Oct. 2018	Sold the Company's shareholding in CAICA Inc., excluding it from the scope of application of the equity method
Nov. 2018	Conducted an incorporation type company split with part of the business of Versatile Inc. and newly established NCXX Premium Group, Inc. and NCXX Farm Holdings, Inc. wholly owned subsidiaries of Versatile Inc. The Company acquired the shares of NCXX Premium Group, Inc. and NCXX Farm Holdings, Inc. from Versatile Inc., making them into wholly owned subsidiaries

Shareholder Information (As of November 30, 2018)

Overview of shares

Total number of issuable shares: 30,000,000
Total number of shares issued: 15,030,195
Number of shareholders: 6,139

Major shareholders

Shareholder name	Number of shares held (shares)	Shareholding percentage of issued shares (%)
FISCO Ltd.	4,229,700	28.38
FISCO DIAMOND AGENCY, Inc.	3,000,000	20.13
Hideaki Oka	750,800	5.04
SBI Securities Co., Ltd.	159,100	1.07
CA INDOSUEZ (SWITZERLAND) SA SINGAPORE BRANCH (Standing proxy Kanetsugu Mike, President & CEO, MUFG Bank, Ltd.)	140,000	0.94
Shuhari Initiative Ltd.	102,000	0.68
Heringu Handeru K.K.	100,000	0.67
Yuya Takada	78,000	0.52
Matsui Securities Co., Ltd.	66,200	0.44
Masao Ito	58,700	0.39

Shareholder Memo

Listed exchanges	Tokyo Stock Exchange, JASDAQ
Listing date	June 22, 2007
Securities code	6634
Business year	December 1 to November 30
Ordinary General Meeting of Shareholders	Within three months of the final closing date of each year
Shareholder record date	November 30
Record dates for dividends from retained earnings	November 30, May 31
Number of shares in one trading unit	100 shares
Method of posting notices	The Company provides notification by electronic notices. However, when the Company cannot provide notices by the electronic method due to accidents or other unavoidable reasons, it will post the notices in the Nikkei newspaper. Notices are provided on the Company's website at the following address https://ncxxgroup.co.jp/irinfo/notification/
Transfer agent	Mitsubishi UFJ Trust and Banking Corporation, 4-5, Marunouchi 1-Chome, Chiyoda-ku, Tokyo
Handling office of the transfer agent (postal address)	Mitsubishi UFJ Trust and Banking Corporation, Securities Agency Division, 4-5, Marunouchi 1-Chome, Chiyoda-ku, Tokyo
Contact office of the same transfer agent	Mitsubishi UFJ Trust and Banking Corporation branches throughout Japan