Next Communication with NCXX.

INTEGRATED REPORT 2020

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.

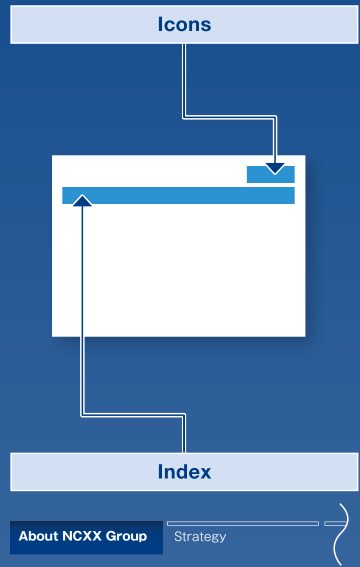
Editorial Policy

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

This PDF offers various functions to make it easier to use and to find information.

Return to the previous page
To Contents
To the previous page
To the next page



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.	http://www.e-frontier.com/ **
● Care Dynamics Limited	http://www.care-dynamics.jp/ **
● e-tabinet.com	https://www.e-tabinet.com/ **
● Web Travel Co., Ltd.	https://www.webtravel.jp/ **
● 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

Process Outsourcing Business

We conduct integrated *monozukuri* (manufacturing) activities ranging from planning and development to sales and maintenance, primarily in the consumer and IoT/M2M sectors within the mobile telecommunications market. We flexibly support needs in areas such as the provision of services for each process, prototype production, and mass production in small lots. In parallel, we are working to differentiate the NCXX Group from competing manufacturers by ensuring the highest level of quality.

IoT/M2M Business

We propose IoT/M2M solutions that enable comprehensive data communication between various devices without any human intervention by equipping each of these devices with a wireless communication function. These solutions help our customers to achieve greater operational efficiency in a variety of fields, such as management of driving conditions through integration with fleet management systems, inventory management and monitoring of malfunctions and other issues, and security measures.

Telematics Business

We propose various fleet management solutions using OBD II (On-board diagnostics II), which can acquire and manage vehicle data in real time. The collection and analysis of fleet data, such as driving speed, fuel economy, and location (GPS), allow us to deploy fleet optimization services tailored to customers' requests.

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 Services

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 sell safe, secure and delicious healthy vegetables grown through digitally managed soil chemistry and provide cultivation technologies for producers. We aim to develop a system that determines the sugar content of crops in a contact-free manner. We also seek to develop robots that can identify harvest-ready crops, and ultimately perform automated harvesting of the crops.

Business Domains

Other

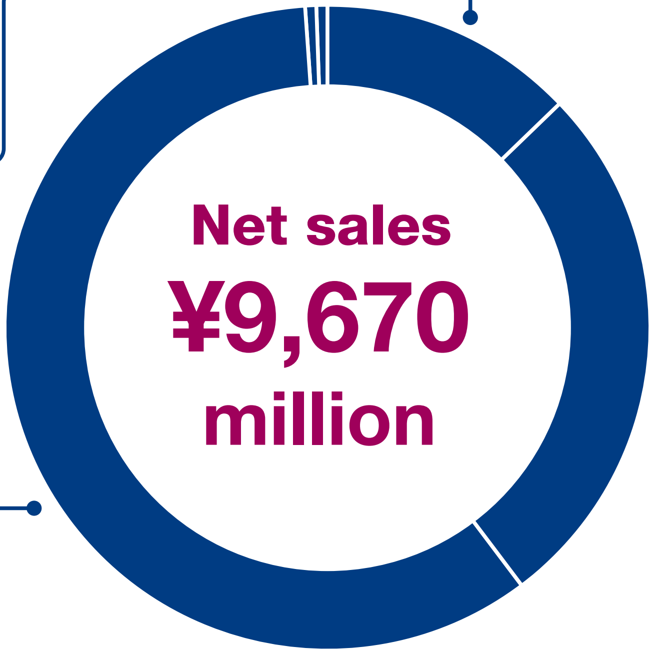
¥7 million

IoT-Related Business

¥1,243 million

Cryptocurrency and Blockchain Business

¥9 million



Brand Retail Platform Business

¥5,776 million

Internet Travel Business

¥2,632 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

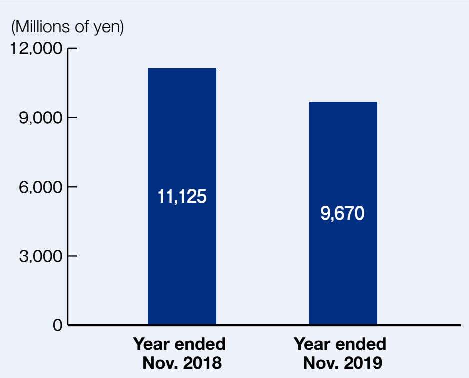
- Shortage of nursing care staff
- Improvement of living conditions of growers and workers
- Support for domestic regions and developing countries

Value Creation Process

Financial Highlights

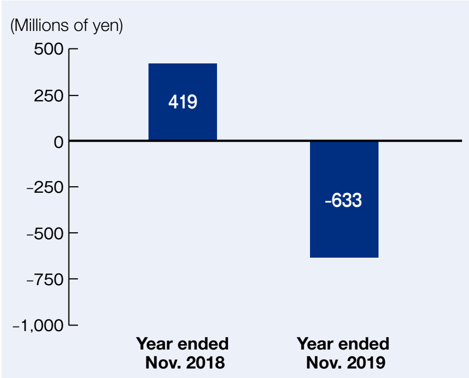
Net sales

¥9,670 million



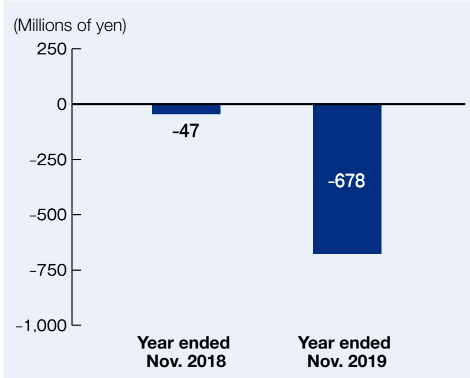
Operating profit (loss)

¥–633 million



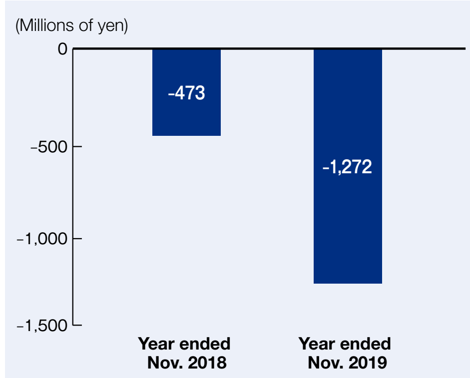
Ordinary loss

¥–678 million



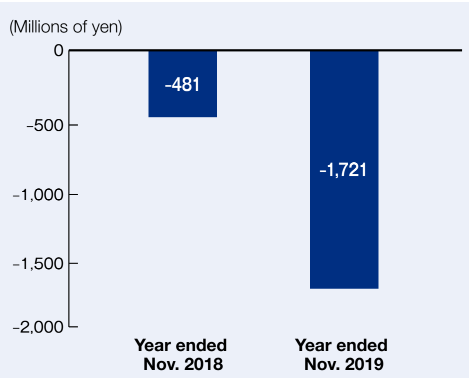
Loss attributable to owners of parent

¥–1,272 million



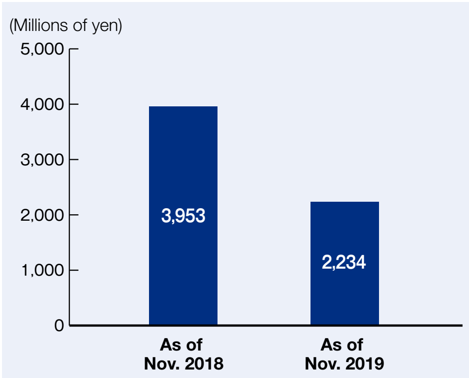
Comprehensive loss

¥–1,721 million



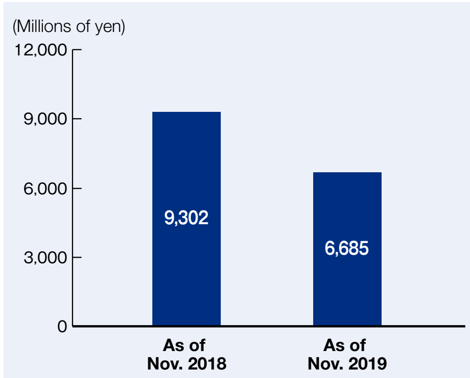
Net assets

¥2,234 million



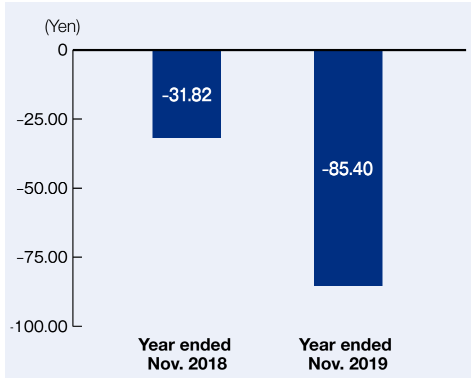
Total assets

¥6,685 million



Net loss per share

¥–85.40



Core Performance Indicators

NCXX Group Inc. and consolidated subsidiaries

(Thousands of yen)

Terms	31st term	32nd term	33rd term	34th term	35th term	36th term
Fiscal year-end	November 2014	November 2015	November 2016	November 2017	November 2018	November 2019
Net sales	6,375,427	7,416,907	12,231,134	12,198,921	11,125,302	9,670,223
Ordinary income (loss)	692,055	(810,412)	(770,026)	(940,251)	(47,323)	(678,676)
Profit (loss) attributable to owners of parent	630,311	(45,483)	(1,068,435)	902,592	(473,969)	(1,272,860)
Comprehensive income (loss)	654,412	33,876	(930,013)	1,022,017	(481,499)	(1,721,146)
Net assets	3,551,077	4,726,400	3,800,538	4,526,047	3,953,120	2,234,856
Total assets	6,979,008	14,303,095	13,459,907	11,532,367	9,302,807	6,685,099
Net assets per share (Yen)	276.14	308.98	241.60	259.74	216.02	100.22
Net income (loss) per share (Yen)	54.07	(3.14)	(71.77)	60.68	(31.82)	(85.40)
Diluted net income per share (Yen)	51.60	–	–	–	–	–
Equity ratio (%)	48.7	32.0	26.7	33.5	34.6	22.3
Return on equity (%)	21.5	(1.1)	(26.1)	24.2	(13.4)	(54.0)
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	(602,360)
Cash flows from investing activities	(851,134)	(844,920)	686,866	3,929,054	(1,099,133)	1,230,455
Cash flows from financing activities	2,072,665	829,467	(2,047,010)	(1,851,972)	(1,389,394)	(733,243)
Cash and cash equivalents	3,930,484	2,905,141	1,881,667	2,529,595	1,022,774	914,039
Number of employees	235	712	873	272	303	280
(Average number of temporary employees)	(–)	(–)	(423)	(286)	(345)	(303)

Notes: 1. Consumption taxes are not included in net sales.
2. Although there were potentially dilutive shares for the 32nd term, 33rd term, 35th term and 36th 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, 35th term and 36th 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.

Considering this outlook for the future, the NCXX Group will not only provide device products backed by technological development capabilities, but also supply servers and management systems and applications for end users on a one-stop basis, thereby covering the entire IoT market, where we are focusing our efforts. Through this coverage, we aim to maintain high profitability and to conduct management with a focus on ensuring the Company's financial stability. Moreover, we will strive to improve group synergies between Group companies such as NCXX Inc., TITICACA, Co. Ltd., e frontier, Inc. and Care Dynamics Limited, bolster sales capabilities through reorganization and sharing of customer accounts, and enhance business profitability.

Furthermore, as a new initiative, we will create new services that integrate fields that offer prospects for future growth, such as the agriculture and robotics businesses, and the NCXX Group's technology assets.

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

Tsukasa Akiyama

Representative Director and President
NCXX Group Inc.

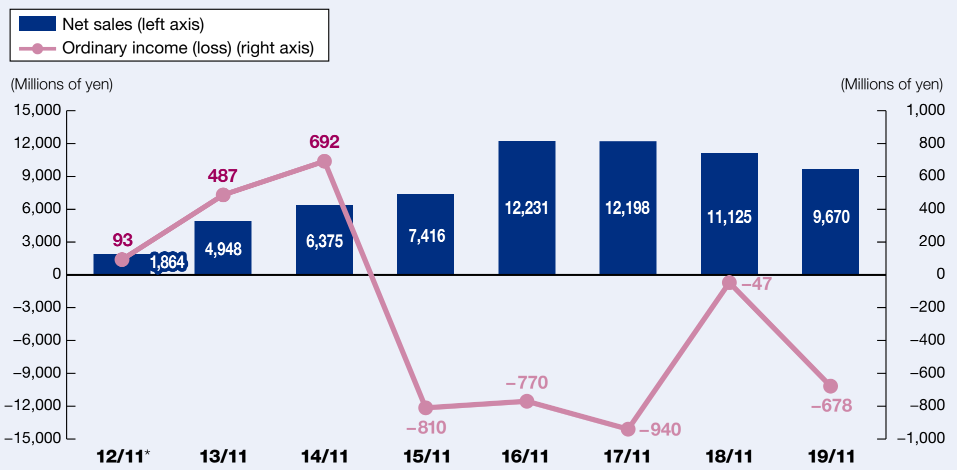
Top Message

Results for Fiscal 2019

In fiscal 2019 (December 1, 2018 to November 30, 2019), the Company's consolidated results were as follows. Sales and profit both increased substantially due to orders for large-scale projects for the retail industry scheduled at NCXX Inc., and an increase in demand for changeover parts for products following the entry into force of the U.S. National Defense Authorization Act for fiscal 2019 ("NDAA 2019"). As for the internet travel business, the 10-day Golden Week holiday had a positive impact, leading to a significant sales increase. Meanwhile, sales and profits at TITICACA, Co. Ltd. both decreased due to unseasonable weather in July 2019 and a reduction in inventory caused by reevaluation of purchase amounts aimed at improving cash flow. In the previous fiscal year, e frontier, Inc. recorded sales and operating income resulting from investment operations of an AI-based cryptocurrency trading system. However, in the current fiscal year, the company conducted investment operations aimed at accumulating small returns while mitigating risks, resulting in significant decreases in both sales and profit year on year.

As a result of the foregoing, the Company's net sales decreased by 13.1% year on year to ¥9,670 million. We posted an operating loss of ¥633 million (against operating income of ¥419 million in the previous fiscal year) and an ordinary loss of ¥678 million (against an ordinary loss of ¥47 million in the previous fiscal year). Loss before income taxes was ¥1,218 million (against loss before income taxes of ¥265 million in the previous fiscal year), and loss attributable to owners of parent was ¥1,272 million (against loss attributable to owners of parent of ¥473 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. aims to provide new services that utilize "IoT and new technology" such as "IoT and blockchain technology" and "IoT and AI technology." The field of image authentication serves as the "eye" of AI learning. To analyze and collect large amounts of data in this field, NCXX has been developing real-time image authentication technology using GPUs supplied by NVIDIA Corporation. The company began full-scale research and development of image authentication in the previous fiscal year. In its agricultural ICT business, NCXX plans to develop a system that determines the sugar content of tomatoes in a contact-free manner without the use of a saccharimeter. This will be achieved through AI learning of images of tomatoes and their sugar content. NCXX also plans to develop robots that can identify the location of harvest-ready tomatoes in growing areas and ultimately perform automated harvesting of the tomatoes.

There has been an increase in demand for changeover parts for existing products following the entry into force of NDAA 2019.

As a comprehensive nursing care business support enterprise, Care Dynamics Limited provides ASP systems for nursing care service providers. The company also provides services such as support for the deployment of nursing care robots and the provision of nursing care ICT. Care Dynamics is carrying out activities such as continuing to hold tours of nursing care facilities that have adopted the Drive Care OBD II solution for nursing care transportation vehicles, helping nursing care facilities cut their electricity bills, introducing

Top Message

water-saving systems, providing networking support for companies, and conducting sales of a sleep management system. Additionally, Care Dynamics concluded a new customer referral agreement with SmartHR, Inc., and began introducing cloud-based HR and labor-related software provided by the company.

e frontier, Inc. concluded a general agency agreement for Japan with Other World Computing, Inc. ("OWC") and conducted sales of peripheral devices for computers such as Thunderbolt 3*1 products and eGPUs*2, as well as ancillary services. In addition to preexisting sales on Amazon.com, including the new brand AkiTio, e frontier has launched sales on Yahoo! Shopping and Rakuten Ichiba. The company also sells AI versions of mahjong, shogi and igo games, which were developed internally, and aims to continue increasing customer acquisition. For example, at the end of 2018, it provided the AI mahjong program as the core engine of the Doman Mahjong game in FINAL FANTASY XIV, a major online game operated by SQUARE ENIX CO., LTD.

In the agricultural ICT business (NCXX FARM) undertaken by the Company, the Group will work to promote the commercialization of sixth-order industrialization initiatives, which involve the growing, processing and sale of agricultural products, and a franchise business, which involves packaged sales combining chemical soil management based on a patented farming method and digital management based on ICT systems. We have introduced an environmental management prediction system NCXX FARM, which combines elements necessary for vegetable growth and health management and manages environments automatically. We are continuing to evaluate the outcomes of regulation through this system. Although the total yield amount is less than that of cherry tomatoes, we will commercialize and launch sales of a franchise system for GOLDEN BERRY, which produces a stable yield and is highly profitable.

As a result of the foregoing activities, segment sales in fiscal 2019 were ¥1,243 million, an increase of 30.8% year on year. Segment income was ¥115 million, up 137.6% year on year.

Internet Travel Business

In the internet travel business, e-tabinet.com and its subsidiaries specialize in personalized online travel quotes. These companies have strengthened business alliances aimed at acquiring requests for travel quotes. They have also worked to improve usability with services such as chat support for requests for travel quotes and AI concierge support.

At Gloria Tours Inc., demand for support of domestic and overseas tournaments grew ahead of the commencement of the Tokyo 2020 Paralympic Games. The Company also launched a service to select Paralympic athletes and human resources and a service to manage planning of events such as lectures and hands-on lessons by Paralympic athletes. Going forward, it will focus even more effort on various markets related to sports for people with disabilities.

Web Travel Co., Ltd. worked to develop even more attractive services, centered on the travel concierge business. Efforts such as improving the quality level and work speed of concierges and strengthening the support system have had a positive effect on boosting order rates and acquiring repeat customers. Furthermore, Web Travel has been implementing a business alliance with Saison Card and UC Card (Credit Saison Co., Ltd.) since February 2018. This alliance has continued to grow steadily. Going forward, Web Travel plans to develop new markets and build even stronger relationships.

Segment sales crossed the ¥2 billion mark for the first time since the Company's founding due to positive impacts from the 10-day Golden Week holiday and last-minute demand before the consumption tax hike. Segment sales in fiscal 2019 rose 11.2% year on year to ¥2,632 million. Segment loss was ¥13 million, compared with segment income of ¥38 million in the previous fiscal year.

*1 A high-speed, all-purpose data transmission technology jointly developed by Intel and Apple that uses USB-C cables.
*2 An externally attached GPU unit that can be used even with laptop computers.

Top Message

Brand Retail Platform Business

Following on from the previous fiscal year, TITICACA, Co. Ltd. continued to push ahead with structural reforms, such as the closure of unprofitable stores and revisions to its personnel system. TITICACA worked to restore the balance between purchases and sales, resulting in significant improvements. Notably, operating cash flow improved to ¥(16) million for the fiscal year ended October 2019 in comparison to ¥(378) million for the fiscal year ended October 2018. Additionally, TITICACA moved its Head Office to Bakurocho in Nihonbashi, Tokyo in September 2019. The company is deriving benefits from this relocation on many different fronts. For example, it is achieving synergetic effects with Group apparel companies, acquiring product information at an early stage by reducing the physical distance between business vendors, and securing talented human resources in the Tokyo metropolitan area.

TITICACA also implemented new initiatives. Among them were the opening of a special event booth at the Hankyu Umeda department store in Osaka and a booth at the Toyota Group Thanks Sale. TITICACA also endeavored to further improve cash flow by negotiating revisions to a payment site with overseas suppliers. The company also launched initiatives to prevent delivery delays by concluding delivery agreements on a product-by-product basis with overseas suppliers.

As a result of the foregoing activities, segment sales in fiscal 2019 decreased 10.4% year on year to ¥5,776 million. Segment loss was ¥423 million, compared with a segment loss of ¥460 million in the previous fiscal year.

Cryptocurrency and Blockchain Business

e frontier, Inc. continues to develop an AI-based crypto asset trading system. e frontier aims to establish a system that enables investment operations with a focus on funding efficiency based on trends in the crypto asset market. e frontier will develop a crypto asset trading system using more finely tuned AI by accumulating and studying transaction data from its partners Fisco Cryptocurrency Exchange and Zaif, whose operations were assumed by Fisco Cryptocurrency Exchange.

As a result of the foregoing activities, segment sales in fiscal 2019 decreased 99.3% year on year to ¥9 million. Segment loss was ¥16 million, compared with segment income of ¥1,320 million.

Outlook for Fiscal 2020

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. Considering this outlook for the future, the NCXX Group plans to strengthen a wide range of initiatives.

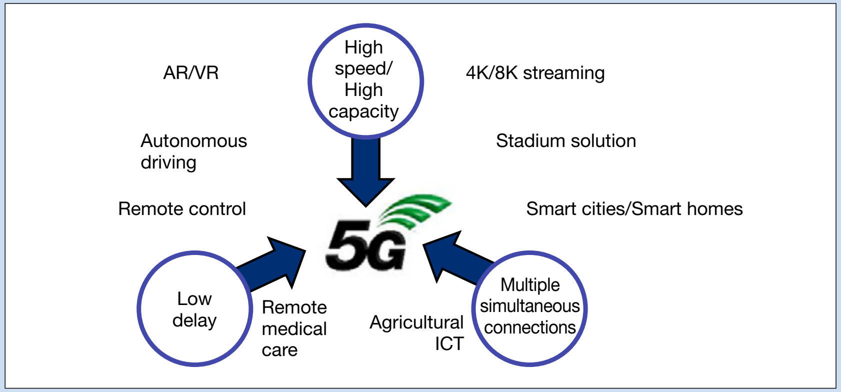
Specifically, the NCXX Group will work to upgrade and expand IoT-related services, including automotive telematic solutions, and provide new services that utilize “IoT and new technology” such as “IoT and blockchain technology” and “IoT and AI technology.” Moreover, the NCXX Group will efficiently learn and utilize new technologies by leveraging technology assets developed in the device business. In parallel, the NCXX Group plans to implement test marketing to roll out services through Group companies and business alliance partners, thereby bringing high-value-added services to the market as early as possible.

Tsukasa Akiyama

Representative Director and President
NCXX Group Inc.

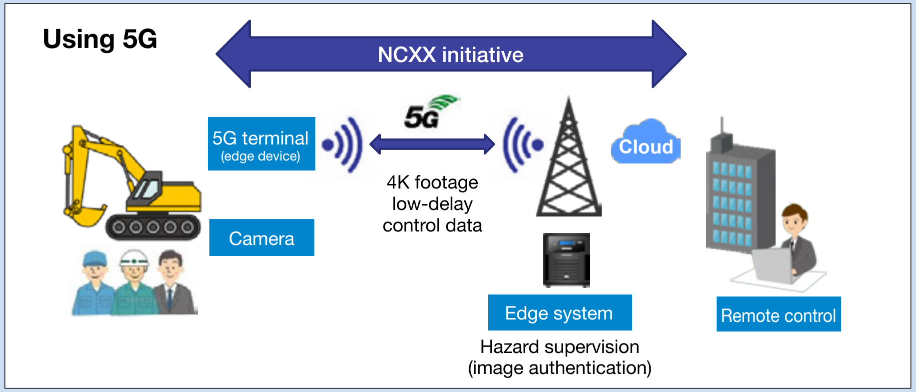
Feature Device Business Initiatives for 5G Next-Generation Communications

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

In the past few years, AI learning models have been incorporated into devices closer to the field in step with the evolution in the processing performance of semiconductors, and predictions that were previously performed in the cloud can now be carried out on the edge device side. The Company is working to develop high-performance edge AI devices. These devices will be integrated with telecommunications technologies in the device business and be capable of processing data in near real time and will utilize telecommunications technologies to send results to the cloud.

The Company's edge AI devices are expected to be deployed in a variety of fields such as visual merchandising reflecting privacy considerations, and the nursing care, healthcare, agriculture, manufacturing and infrastructure sectors.

Image recognition for foods
Image recognition for foods can be used for tasks such as visual external inspections, identification of defective products, and sorting of products by size, and offer the benefit of preventing errors such as a failure to notice something.

Image recognition for manufacturing
Image recognition for manufacturing can be used for visual external inspections and product inspection work, including inspection of elements such as packaging printing, damage, and wrong colors.

Image recognition for maintenance and management
Image recognition for maintenance and management can identify abnormalities even in places that are difficult for people to reach, via aerial images captured using drones and other devices, and can be used to support inspections.

■ Agricultural ICT: Creating a new business model for agriculture

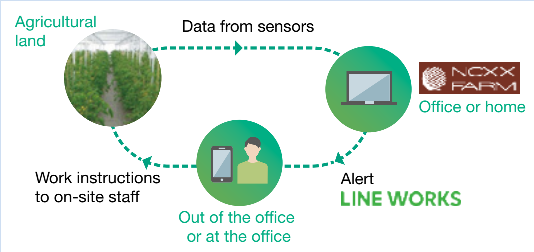
The Company aims to enter into a broader range of M2M fields, leveraging the telecommunications technology assets developed in its core device business. As one specific example of these efforts, we seek to make ICT a key force in agriculture through the agricultural ICT business. This business integrates 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

ICT, IoT, Device Business / NCXX Inc.

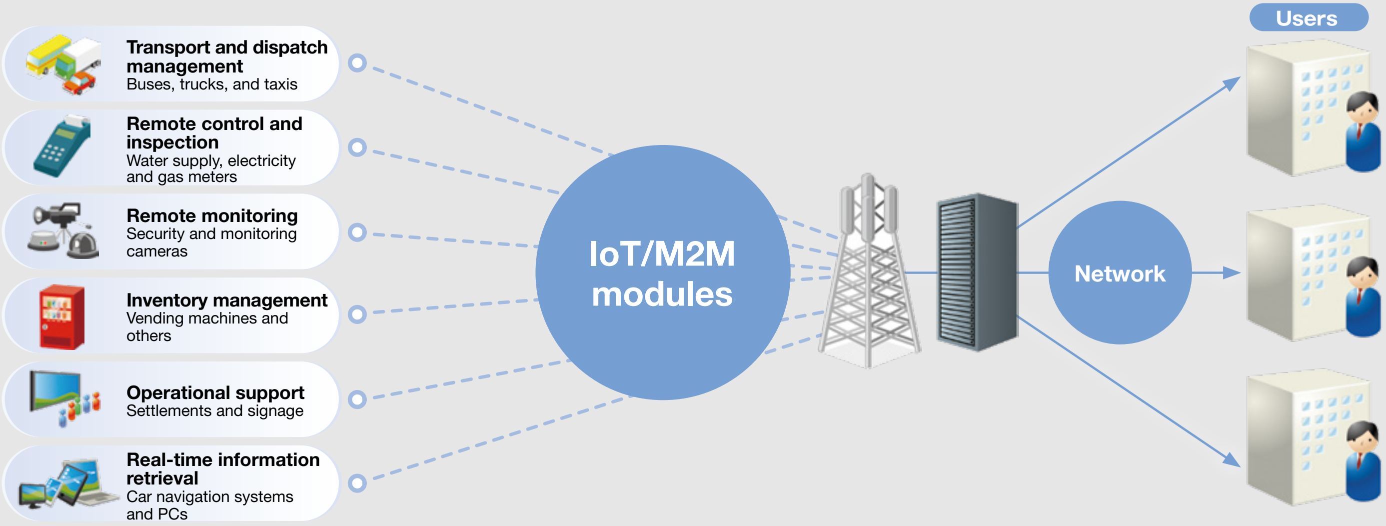
Process Outsourcing Business
IoT/M2M Business
Telematics Business

NCXX Inc. conducts product development centered on mobile computing devices and IoT/M2M modules, contracted development and process outsourcing services ranging from development to maintenance.

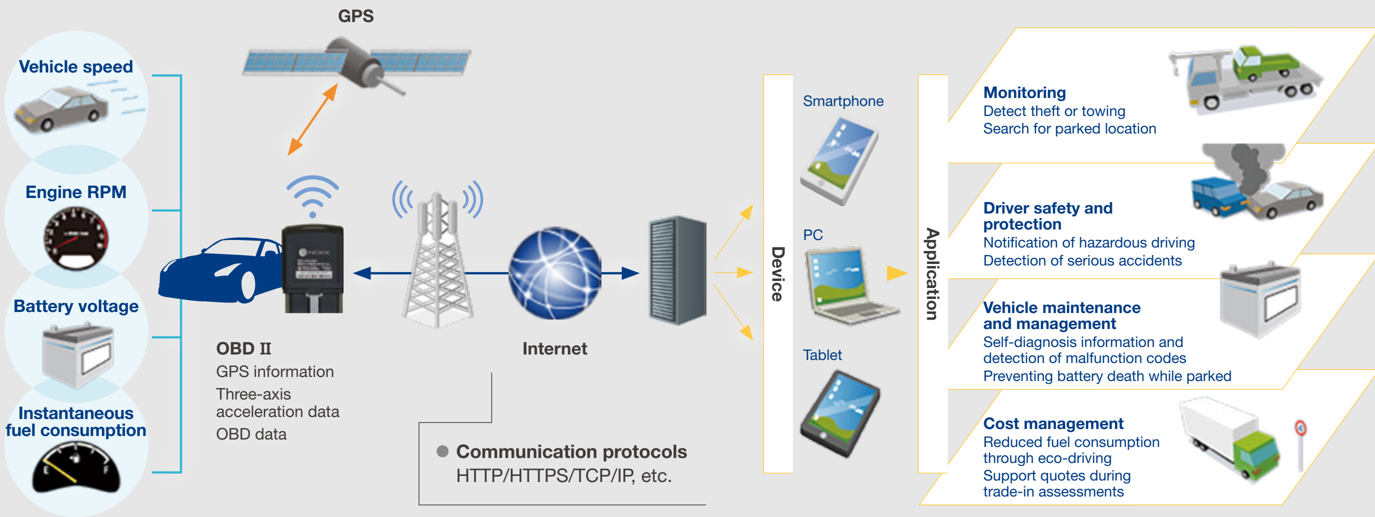
In the IoT/M2M business, NCXX proposes solutions that enable mutual data communication between various devices without any human intervention through IoT, which allows data on things to be collected over networks, and M2M, which is a system that automates various controls by enabling devices to exchange data with each other.

In the telematics business, NCXX proposes various fleet management solutions using OBD II (On-board diagnostics II), which can acquire and manage vehicle data in real time. Through integration with various systems, not only PCs and servers, these solutions have been introduced in a wide range of fields, such as management and monitoring of driving conditions, and security measures.

IoT/M2M Business



Telematics Business



Introducing Our Businesses

ICT, IoT, Device 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 telecommunications technology assets in the field of agriculture. A test plot was established at the NCXX Group's Head Office in Hanamaki, 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 Boxes 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
- Launched dedicated website for GOLDEN BERRY (edible ground cherries) (https://farm.ncxx.co.jp/services/goldenberry/)
- Sales of GOLDEN BERRY ice cream

Characteristics of NCXX FARM

A franchise business entailing package sales of systems that include 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 telecommunications 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.

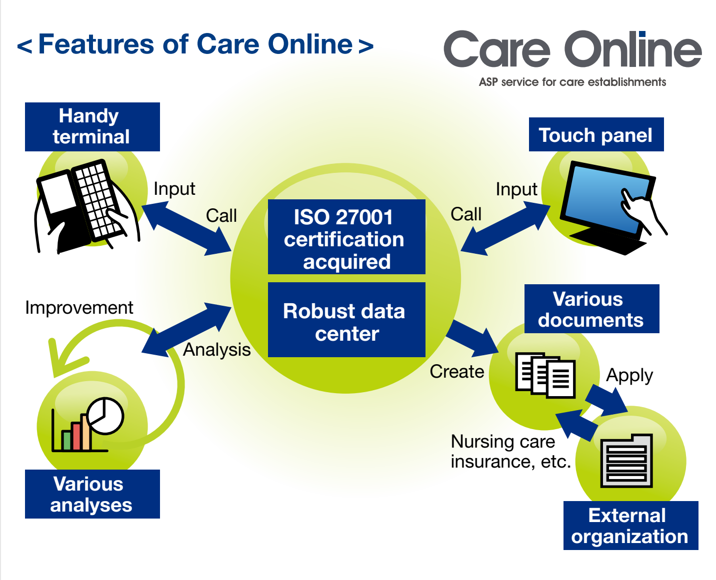

Prof. Sankai, University of Tsukuba/CYBERDYNE Inc.

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

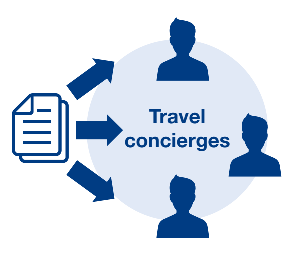
Service Flow

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

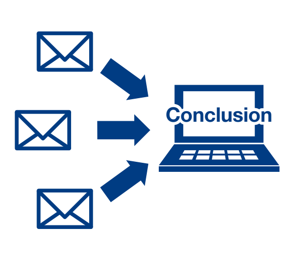
Send a travel estimate request using a special form

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 423 unique and original travel concierges registered.

Introducing Our Businesses

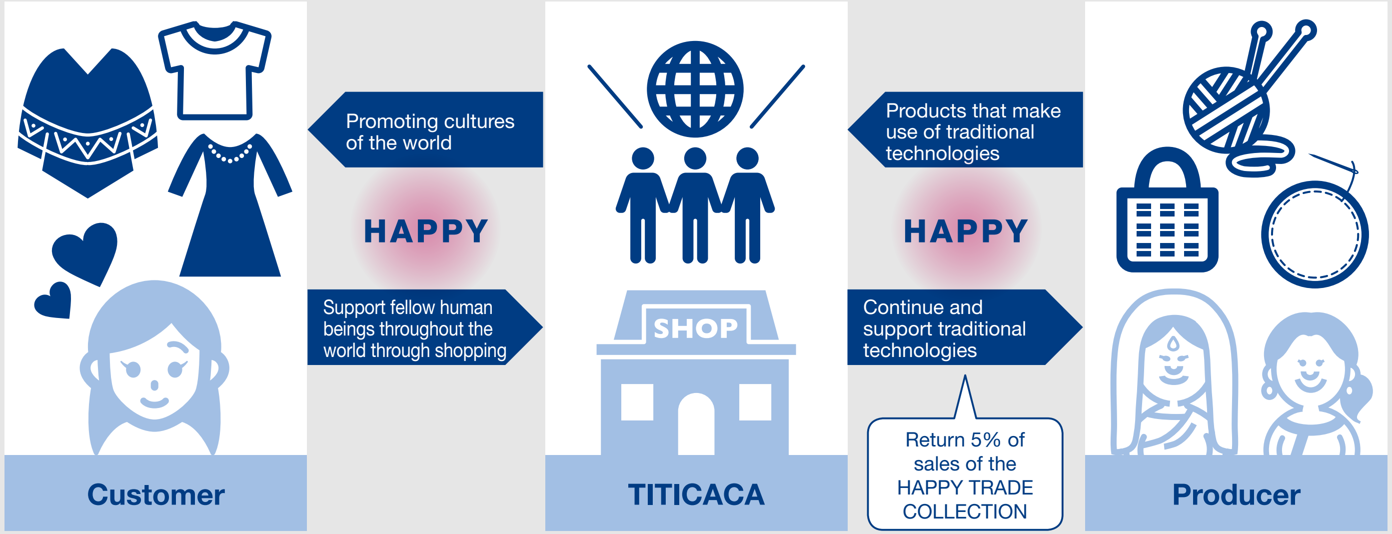
Brand Retail Platform Business

TITICACA, Co. Ltd.

Retail and Wholesale Sales of Clothing and Accessories

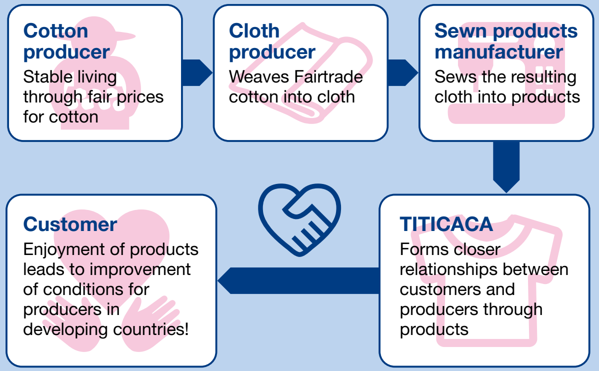
TITICACA deals directly with producers in countries around the world, such as Central and South America, with integrated in-house operations spanning planning, manufacturing, and sales of original ethnic apparel and accessories. The company creates original products with a hand-crafted style designed 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 Fair Trade?

Fair Trade 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 “Fair Trade” and allowing customers to purchase them leads to mutual prosperity for supplier countries.



The International Fairtrade Certification Mark

FAIRTRADE

The International Fairtrade Certification Mark assures customers that International Fairtrade Standards set out by Fairtrade Labelling 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.

Crypto-Assets

e frontier entered a business alliance with Fisco Cryptocurrency Exchange in January 2018, and the two companies have started developing an 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, FISCO Digital Asset Group. In another aspect of cryptocurrency operations, e frontier conducts cryptocurrency mining operations in Hanamaki, Iwate Prefecture, where the NCXX Group's 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-assets that e frontier has developed as a trading base.

e frontier × TITICACA*

AI Trading System for Crypto-Assets

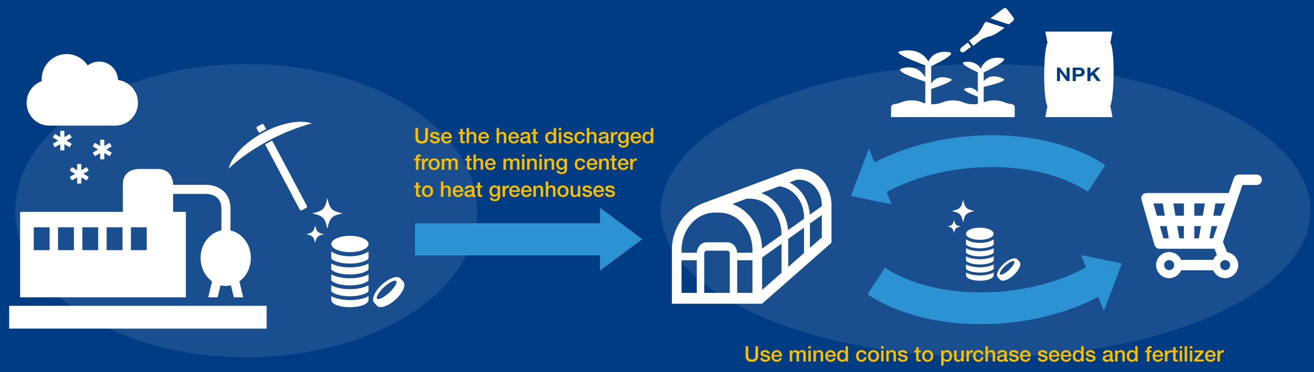
Hanamaki Mining Business Concept

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

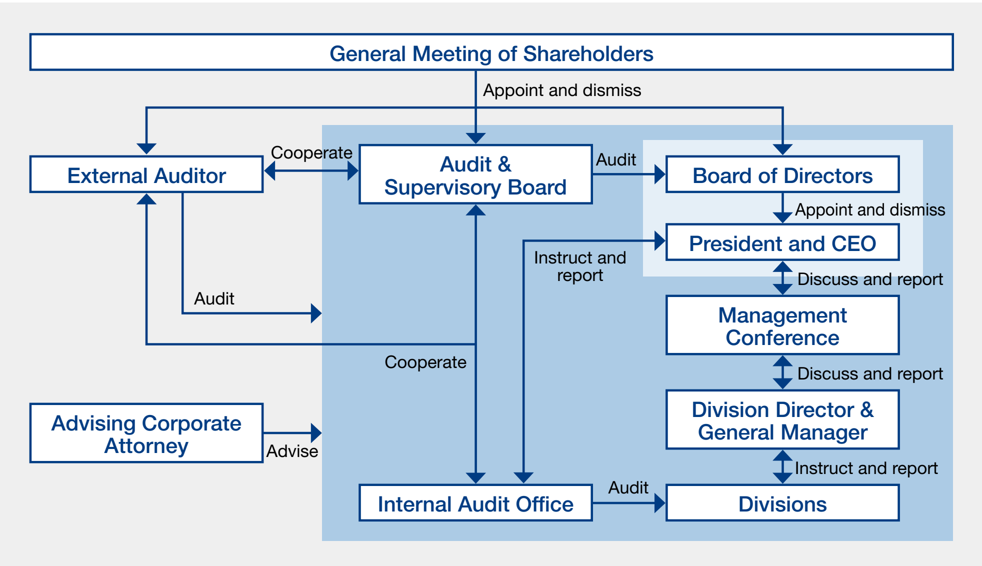
The Company has a corporate governance system comprising a Board of Directors, Audit & Supervisory Board members, an Audit & Supervisory Board, and an external auditor.

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)	8,964	7,243	1,721	–	–	5
Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members)	1,200	1,200	–	–	–	1
Outside officers	3,000	3,000	–	–	–	4

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 35th Ordinary General Meeting of Shareholders, held on February 26, 2019, 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 a 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 2018		Fiscal 2019	
	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	–	36,000	–
Consolidated subsidiaries	25,200	–	–	–
Total	37,200	–	36,000	–

Board of Directors and Audit & Supervisory Board Members

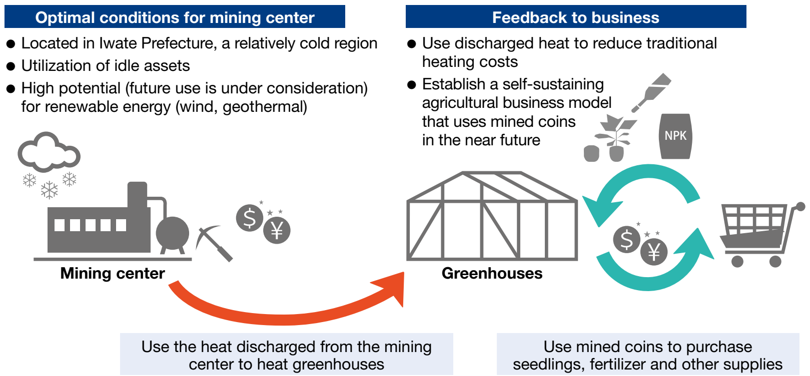
- Representative Director and President ······ Tsukasa Akiyama
- Representative Director and Vice President ······ Naoki Ishihara
- Director ······ Osamu Fukami
- Director and General Manager, Administration Division ··· Yosuke Saito
- Director ······ Wei Zhang
- Director ······ Katsumi Kitamura
- Full-Time 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).



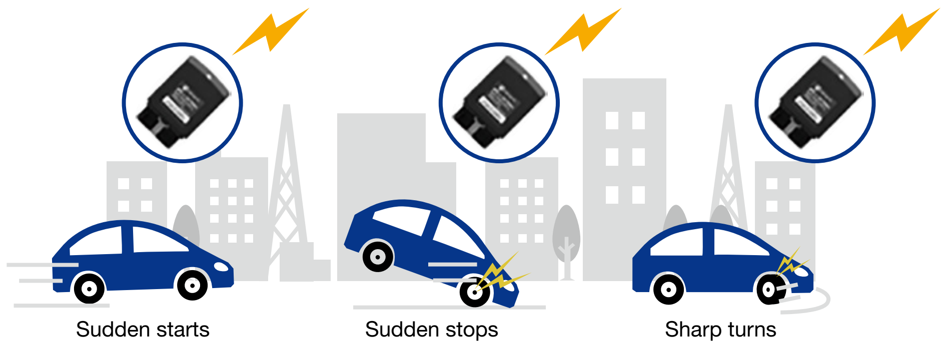
In the agricultural ICT business, an area of focus for the NCXX Group, we help to create employment for people with disabilities and the elderly by enabling people to start farming even without agricultural knowledge or experience (Goal 8: Decent Work and Economic Growth).

SUSTAINABLE DEVELOPMENT GOALS

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).



Enables reductions in accidents and improvements in corporate compliance through safe driving

CSR Activities through Business

Initiatives through Business

Service and Support 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)

In order to support the development of motor sports and increase its industry recognition, the NCXX Group is conducting activities to put telematic solutions developed through OBD II to good use in professional motorcycle racing. OBD II can acquire and manage vehicle data in real time.

The NCXX Group has participated in the Suzuka 8 Hours Endurance Race since 2014. At these races, the NCXX Group upgrades and supplies data loggers with telecommunications functions for motorcycles every year. The latest version of the data logger is equipped with features such as GNSS (Global Navigation Satellite System), acceleration sensors, gyro sensors, and telecommunications functions. These features have made possible real-time acquisition of data measurements in deciseconds and lap times in milliseconds. By breaking down this data, the strength of acceleration and deceleration, rake and other racing data can be analyzed.

NCXX RACING has consecutively achieved high performance rankings, finishing in 1st place in the STT class in 2018 and 2nd place in the same class in 2019. The NCXX Group aims to expand the technologies it has developed through these activities beyond motorcycle applications to various other applications, such as motion control and surveillance for automobiles and robots.

Going forward, the NCXX Group will continue to develop IoT products for motorcycles and conduct product development in other fields that apply those technologies.

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, 2019, the Japanese economy saw a trend toward gentle recovery, which was the result of various economic policies as well as an uptick in personal consumption and capital investment. On the other hand, the economic outlook remained uncertain, based partly on unstable political trends overseas such as prolonged trade friction between the U.S. and China 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.

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: Survey of Trends Related to Focus Field 2017, Japan Electronics and Information Technology Industries Association)

In addition, the 5th generation telecommunications system ("5G") possesses features such as multiple simultaneous connections and low delay, while achieving high speeds that surpass 4G. It is being reported that commercial services will be launched sometime around the spring of 2020.

In this business environment, UX302NC-R, an LTE/3G USB data telecommunications terminal, passed inter-operability testing performed by NTT DOCOMO, INC. ("DOCOMO") at NCXX Inc. ("NCXX") in November 2019, and are being sold at DOCOMO shops nationwide and on the DOCOMO online shop, along with being listed on the company's website as a product handled by DOCOMO. It is expected to be deployed in the fields of PC/tablet usage and IoT/M2M more widely than before.

Cloud-based vehicle management and automatic vehicle monitoring systems are seeing increased demand due to stricter legal regulations, more efficient vehicle management operations and the social environment surrounding the market such as fewer and older drivers. In this field, NCXX has begun developing versions of GX410NC and GX420NC, OBD II-type automotive telematics data collecting units that have secured a share of the market, that are compatible with LTE from multiple telecommunications carriers. NCXX plans to release these versions in fiscal 2020 in anticipation of announcements by telecommunications carriers about the schedule for discontinuing 3G network service and restricting new multi-year contracts.

[Operating Results]

Looking at consolidated business results, orders for large-scale projects for the retail industry were scheduled at NCXX. Additionally, in August 2019, measures were put in place by the U.S. government which banned procurement from five companies, including Huawei and ZTE. NCXX products can be used with confidence since the company does not outsource manufacturing to the abovementioned five companies or use parts sourced from them. For this reason, demand for changeover parts from the aforementioned five companies has increased, resulting in significant increases in both sales and profit. As for the internet travel business, the 10-day Golden Week holiday had a positive impact, leading to a significant sales increase.

In other news, sales fell at TITICACA, Co. Ltd. ("TITICACA") due to unseasonable weather in July 2019 and a reduction in inventory caused by reevaluation of purchase amounts aimed at improving cash flow in the current fiscal year. Despite implementing discounts during the August sales period, sales and profits from store sales both decreased as recovery was less than anticipated.

In the previous fiscal year, e frontier, Inc. ("e frontier") recorded sales and operating income resulting from investment operations of an AI-based cryptocurrency trading system. However, in the current fiscal year, the company conducted investment operations aimed at accumulating small returns while mitigating risks, resulting in significant decreases in both sales and operating income year on year.

As a result of these efforts, consolidated net sales were ¥9,670 million, down 13.1% year on year. Operating loss was ¥633 million, compared with operating income of ¥419 million in the previous fiscal year. Ordinary loss was ¥678 million, compared with ordinary loss of ¥47 million in the previous fiscal year. Loss before income taxes was ¥1,218 million, compared with loss before income taxes of ¥265 million in the previous fiscal year. Loss attributable to owners of parent was ¥1,272 million, compared with loss attributable to owners of parent of ¥473 million in the previous fiscal year.

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

Analysis of Operating Results and Financial Position

(IoT-Related Business)

NCXX aims to provide new services that utilize “IoT and new technology” such as “IoT and blockchain technology” and “IoT and AI technology” based on IoT technology for various fields including automotive telematics which it has cultivated.

Specifically, in the field of image authentication, which serves as the “eye” of machine learning to analyze and collect large amounts of data, NCXX is developing real-time image authentication technology. This technology uses GPU (operational equipment that conducts parallel arithmetic necessary for image processing and deep learning) supplied by NVIDIA Corporation, which offers various platforms in the field of AI computing. Real-time image authentication technology can be utilized in the security field, such as in facial recognition systems and security camera footage analysis, and various other fields, such as in defective part detection on factory lines and automatic operation or driving assistance for automobiles.

The company began full-scale research and development of image authentication in the previous fiscal year. In the agricultural ICT business, it plans to develop a system that determines the sugar content of tomatoes in a contact-free manner without the use of a saccharimeter This will be achieved through AI learning of images of tomatoes and their sugar content. NCXX also plans to develop robots that can identify the location of harvest-ready tomatoes in growing areas and ultimately perform automated harvesting of the tomatoes.

Looking at existing products, 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, major security camera company HIKVISION, Dahua Technology, and Hytera. In August 2019, measures prohibiting procurement from the five aforementioned companies were implemented by U.S. government institutions. NCXX 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. For this reason, demand for changeover parts from the aforementioned five companies increased.

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 (“Care Dynamics”) 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 reviews electricity providers and offers replacement support services to help nursing care facilities cut their electricity bills, in addition to conducting sales of a sleep management system and providing services that introduce water-saving systems and help corporate entities build networks.

Care Dynamics concluded a new customer referral agreement with SmartHR, Inc., and began introducing cloud-based HR and labor-related software provided by the company.

e frontier sells various types of software, primarily software for graphic design creation, geared toward creators. In addition, the company has concluded an exclusive agency agreement for Japan with Other World Computing, Inc. (“OWC”), which develops many peripheral devices for creators, and conducts sales of peripheral devices for computers such as Thunderbolt 3*1 products and eGPUs*2, as well as ancillary services, in Japan. In addition to preexisting sales on Amazon.com, it launched sales of 630 products, including the new brand AkiTio which it began handling in summer 2019, on a new Yahoo shop opened in October 2019 and began contributing to earnings increases. Starting from January 2020, it even launched sales on Rakuten Ichiba through a sales outlet.

The Company also sells AI versions of mahjong, shogi and go games, which were developed internally, and aims to continue increasing customer acquisition. For example, at the end of 2018, it provided the AI mahjong program as the core engine of the Doman Mahjong game in Final Fantasy XIV, a major online game operated by SQUARE ENIX CO., LTD.

*1 Thunderbolt 3 is a high-speed, all-purpose data transmission technology jointly developed by Intel and Apple that uses USB-C cables.
*2 eGPU refers to an externally attached GPU unit that can be used even with laptop computers.

Looking at the agricultural ICT business NCXX FARM, we advanced “sixth-order industrialization business” for the production, processing and sale of agricultural produce. We also promoted franchise business entailing sales of a packaged system with chemical soil management based on a patented farming method and digital management based on ICT systems.

In addition to cultivating mini tomatoes in five colors in the “sixth-order industrialization business,” we set up a website dedicated to GOLDEN BERRY (edible ground cherries) (https://farm.ncxx.co.jp/services/goldenberry/), an incredibly popular superfood that we began selling in 2018. In addition to the vegetables, we launched sales of GOLDEN BERRY Ice Cream, and received a favorable response. Because supply is currently insufficient, we intend to increase the area of the orchard by more than five times in the next fiscal year and secure a larger supply.

Analysis of Operating Results and Financial Position

In the franchise business, we introduced an environmental management prediction system NCXX FARM, which combines elements necessary for vegetable growth and health management and manages environments automatically. We are continuing to evaluate the effects of controls. Although the total yield amount is less than that of mini tomatoes, we will commercialize and launch sales of a franchise system for GOLDEN BERRY, which produce a stable yield and are highly profitable.

As a result, segment sales in the fiscal year ended November 30, 2019 were ¥1,243 million, up 30.8% year on year. Segment profit was ¥115 million, up 137.6% year on year.

(Internet Travel Business)

Amid an overwhelming number of new travel services, e-tabinet.com and its subsidiaries in the internet travel business specialize in personalized online travel quotes. In order to address consumer needs, which are becoming extremely sophisticated as years go by, the Company has also strengthened business alliances aimed at acquiring quote requests, while working to improve usability with services such as chat support for quote requests and AI concierge support.

At Gloria Tours Inc. (“Gloria Tours”), demand for support of domestic and overseas tournaments grew ahead of the commencement of the Tokyo 2020 Paralympic Games. The Company also launched a service to select Paralympic athletes and human resources and a service to plan and manage events such as lectures and hands-on lessons by Paralympic athletes. Going forward, it will focus even more effort on various markets related to sports for people with disabilities.

Web travel Co., Ltd. (“Web travel”) has increased its order volume and acquired repeat customers by improving the level, speed and strength of its support system for concierge services to make them even more appealing, with travel concierge business as its core. The crowdsourcing business, which began as an opportunity to leverage the skills of concierge agents outside the travel industry, also performed well. Furthermore, the business alliance with Saison UC Card, which it has promoted since February 2018, continued to grow steadily. Going forward, Web travel plans to expand into new markets and build even stronger relationships.

Net sales managed to cross the ¥2 billion mark for the first time since the Company’s founding due to positive impacts from the 10-day Golden Week holiday and last-minute demand before the consumption tax hike. Overseas travel business sales were ¥2,461 million, while domestic travel business sales came to ¥171 million. The total annual number of requests handled was 2,947 (up 6.0% year on year), and the total annual number of customers handled was 7,726 (up 3.7%).

As a result, segment sales in the fiscal year ended November 30, 2019 were ¥2,632 million, up 11.2% year on year. Segment loss was ¥13 million, compared with segment profit of ¥38 million in the previous fiscal year.

(Brand Retail Platform Business)

In the stores business, TITICACA, which had 94 stores as of October 31, 2018, closed 1 store (Kichijoji) this year to end with 93 stores as of October 31, 2019, and the e-commerce business maintained its 8 stores. Following on from the previous fiscal year, the company also continued to promote structural reforms such as closing unprofitable stores and revising personnel organization.

This year, the Company established improvements to operating cash flow as its largest initiative. In concrete terms, it shifted purchases and sales from lifestyle goods such as plates and utensils, which have low inventory turnover, to clothing and accessories, which have high inventory turnover, thereby restoring the balance between purchases and sales. This resulted in significant improvement with operating cash flow at ¥(16) million in the fiscal year ended October 31, 2019 (¥(378) million in the fiscal year ended October 31, 2018).

In terms of sales, the Company closed an unprofitable store (Kichijoji) and carried out structural reforms in order to capture 90% of sales compared to the previous fiscal year. As new initiatives, it opened a booth called Latin-Inspired Diverse Living for a limited time at the Hankyu Umeda department store in Osaka from September 4–10 and a booth at the Toyota Group Thanks Sale from September 28–29. Companywide net sales in the fiscal year ended October 31, 2019 were ¥5,151 million in contrast to ¥5,759 million in the fiscal year ended October 31, 2018 (down 10.5% year on year). Although this was a difficult situation, the Company was able to keep the range of decrease within its projections.

In September 2019, our Head Office moved from Shin-Yokohama to Bakurocho in Nihonbashi, Tokyo. TITICACA is deriving benefits from this relocation on many fronts. For example, it is achieving synergetic effects with Group apparel companies, acquiring product information at an early stage by reducing the physical distance between business vendors, and securing talented human resources in the Tokyo metropolitan area. In addition, we endeavored to further improve cash flow by reevaluating payment terms with overseas suppliers and through negotiations, and also launched initiatives to prevent delivery delays by concluding delivery agreements with all overseas suppliers for each product.

As a result, segment sales in the fiscal year ended November 30, 2019 were ¥5,776 million, down 10.4% year on year. Segment loss was ¥423 million, compared with segment loss of ¥460 million in the previous fiscal year.

Analysis of Operating Results and Financial Position

(Cryptocurrency and Blockchain Business)

e frontier will continue to develop an AI-based cryptocurrency trading system. The Company aims to establish a system that will allow for operations that account for capital efficiency based on trends in the cryptocurrency market, and it will continue to promote development of a cryptocurrency trading system using complex AI by accumulating and studying transaction data from Zaif, whose operations were assumed by FISCO Cryptocurrency Exchange Inc. in partnership with the Company.

As a result, segment sales in the fiscal year ended November 30, 2019 were ¥9 million, down 99.3% year on year. Segment loss was ¥16 million, compared with segment profit of ¥1,320 million in the previous fiscal year.

[Financial Position]

(Assets)

Total assets were ¥6,685 million as of November 30, 2019, a decrease of ¥2,617 million from a year earlier. The main components of this change were decreases of ¥108 million in cash and deposits, ¥104 million in merchandise, ¥1,015 million in short-term loans receivable, ¥165 million in property, plant and equipment, ¥523 million in investment securities, ¥634 million in long-term loans receivable, and ¥94 million in guarantee deposits.

(Liabilities)

Total liabilities were ¥4,450 million, a decrease of ¥899 million from a year earlier. The main components of this change were decreases of ¥731 million in interest-bearing debt*, ¥43 million in accounts payable—other, ¥63 million in advances received, ¥42 million in asset retirement obligations—non-current, and ¥39 million in deferred tax liabilities. These factors were partly offset by an increase of ¥53 million in notes and accounts payable—trade.

(Net Assets)

Total net assets were ¥2,234 million, a decrease of ¥1,718 million from a year earlier. The main contributing factors were decreases of ¥1,272 million in retained earnings and ¥485 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, 2019 were ¥914 million, a decrease of ¥108 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 used in operating activities was ¥602 million, compared with net cash provided by operating activities of ¥981 million in the previous fiscal year. The primary reason was loss before income taxes of ¥1,218 million. This factor was partly offset by depreciation and amortization of ¥112 million, impairment loss of ¥124 million and gain on sales of investment securities of ¥381 million.

Analysis of Operating Results and Financial Position

(Cash Flows from Investing Activities)

Net cash provided by investing activities was ¥1,230 million, compared with net cash used in investing activities of ¥1,099 million in the previous fiscal year. This was mainly due to proceeds from sales of investment securities of ¥1,056 million and collection of long-term loans receivable of ¥580 million. These cash proceeds were partly offset by outflows of ¥85 million for purchase of property, plant and equipment and ¥332 million for increase in long-term loans receivable.

(Cash Flows from Financing Activities)

Net cash used in financing activities was ¥733 million, compared with net cash used in financing activities of ¥1,389 million in the previous fiscal year. This was mainly due to net decrease in short-term loans payable of ¥33 million and repayment of long-term loans payable of ¥807 million. These cash outflows were partly offset by proceeds from long-term loans payable of ¥110 million.

[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, 2019, 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 between the Parent Company and Other Related Companies

FISCO Ltd. ("FISCO"), which is listed on the Tokyo Stock Exchange JASDAQ (Growth) market and holds 19.96% of the voting rights of the Company directly as of November 30, 2019, and Sequedge Japan Holdings Inc., which holds 28.55% of the voting rights indirectly, are both treated as other related companies of the Company.

Because the Company belonged to a parent company group centered on FISCO until July 2019, changes in the management policies of this company could have an impact on the Company's business and results.

(9) Fluctuations in the Foreign Exchange Markets

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 markets. 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 markets 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 2018 (As of November 30, 2018)	Fiscal 2019 (As of November 30, 2019)
Assets		
Current assets		
Cash and deposits	¥ 1,028,774	*1 ¥ 920,039
Notes and accounts receivable—trade	525,801	571,891
Merchandise	1,146,284	1,041,841
Work in process	266,947	348,404
Raw materials	11,149	14,611
Cryptocurrency	21,608	26,940
Accounts receivable—other	54,964	78,795
Advance payments—trade	300,864	240,154
Short-term loans receivable	1,015,000	–
Other	161,121	121,163
Allowance for doubtful accounts	(6,249)	(6,236)
Total current assets	4,526,265	3,357,606
Non-current assets		
Property, plant and equipment		
Buildings and structures	*1 1,612,880	*1 1,612,228
Accumulated depreciation	*3 (1,294,686)	*3 (1,385,011)
Buildings and structures, net	318,194	227,217
Machinery, equipment and vehicles	125,524	92,943
Accumulated depreciation	*3 (104,664)	*3 (69,519)
Machinery, equipment and vehicles, net	20,859	23,424
Tools, furniture and fixtures	1,181,950	1,161,128
Accumulated depreciation	*3 (974,567)	*3 (1,010,176)
Tools, furniture and fixtures, net	207,382	150,952
Land	*1 192,865	*1 188,641
Construction in progress	16,872	–
Total property, plant and equipment	756,173	590,235

(Thousands of yen)

	Fiscal 2018 (As of November 30, 2018)	Fiscal 2019 (As of November 30, 2019)
Intangible assets		
Software	43,073	26,255
Goodwill	156,652	121,973
Trademark rights	4,140	–
Other	12,151	3,806
Total intangible assets	216,017	152,035
Investments and other assets		
Investment securities	*1, 4 2,498,089	*1, 4 1,974,716
Long-term accounts receivable—other	106,853	93,463
Long-term loans receivable	713,930	79,280
Guarantee deposits	623,576	528,979
Deferred tax assets	2,030	–
Other	22,653	64,526
Allowance for doubtful accounts	(162,783)	(155,743)
Total investments and other assets	3,804,350	2,585,221
Total non-current assets	4,776,541	3,327,492
Total assets	¥ 9,302,807	¥ 6,685,099

Consolidated Financial Statements

(Thousands of yen)

	Fiscal 2018 (As of November 30, 2018)	Fiscal 2019 (As of November 30, 2019)
Liabilities		
Current liabilities		
Notes and accounts payable—trade	¥ 576,086	¥ 629,364
Short-term loans payable	*5 383,200	*5 350,000
Current portion of convertible bond-type bonds with share acquisition rights	–	200,000
Current portion of long-term loans payable	*1 587,606	*1 901,417
Accounts payable—other	177,011	133,758
Accrued expenses	164,393	133,682
Income taxes payable	43,784	60,452
Accrued consumption taxes	36,438	69,934
Advances received	360,875	297,267
Asset retirement obligations	–	30,226
Provision for bonuses	74,165	59,764
Provision for product warranties	66,000	51,000
Provision for sales returns	4,908	1,156
Provision for point card certificates	12,650	4,943
Other	52,132	30,519
Total current liabilities	2,539,253	2,953,486
Non-current liabilities		
Convertible bond-type bonds with share acquisition rights	200,000	–
Long-term loans payable	*1 1,223,263	*1 211,086
Net defined benefit liability	31,333	45,863
Asset retirement obligations	377,087	334,823
Deferred tax liabilities	837,642	798,378
Other	141,106	106,603
Total non-current liabilities	2,810,433	1,496,756
Total liabilities	5,349,686	4,450,243

(Thousands of yen)

	Fiscal 2018 (As of November 30, 2018)	Fiscal 2019 (As of November 30, 2019)
Net assets		
Shareholders' equity		
Capital stock	10,000	10,000
Capital surplus	2,770,954	2,769,964
Retained earnings	412,939	(859,921)
Treasury stock	(66,515)	(66,515)
Total shareholders' equity	3,127,378	1,853,528
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	61,933	(396,413)
Deferred gains or losses on hedges	(78)	226
Foreign currency translation adjustments	30,389	36,314
Total accumulated other comprehensive income	92,244	(359,872)
Subscription rights to shares	27,502	31,374
Non-controlling interests	705,994	709,825
Total net assets	3,953,120	2,234,856
Total liabilities and net assets	¥9,302,807	¥6,685,099

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 2018 (From December 1, 2017 to November 30, 2018)	Fiscal 2019 (From December 1, 2018 to November 30, 2019)
Net sales	¥11,125,302	¥ 9,670,223
Cost of sales	*1 5,764,715	*1 5,713,618
Gross profit	5,360,587	3,956,605
Selling, general and administrative expenses	*2, 3 4,940,868	*2, 3 4,589,723
Operating income (loss)	419,718	(633,118)
Non-operating income		
Interest income	27,207	21,952
Foreign exchange gains	2,424	–
Reversal of allowance for doubtful accounts	–	762
Reversal of provision for loss on store closing	14,602	–
Other	24,516	22,174
Total non-operating income	68,750	44,889
Non-operating expenses		
Interest expenses	40,350	27,938
Share of loss of entities accounted for using equity method	38,696	–
Foreign exchange losses	–	47,109
Loss on sale of cryptocurrencies	201,021	–
Loss on valuation of cryptocurrencies	192,004	–
Other	63,719	15,398
Total non-operating expenses	535,792	90,446
Ordinary loss	(47,323)	(678,676)
Extraordinary income		
Gain on sales of non-current assets	*4 31	*4 606
Gain on change in equity	207,547	–
Gain on sales of investment securities	705,622	–
Total extraordinary income	913,201	606
Extraordinary losses		
Loss on retirement of property, plant and equipment	*5 10,457	*5 34,822
Loss on valuation of investment securities	10,366	–
Loss on sales of investment securities	–	381,092
Impairment loss	*6 1,110,179	*6 124,103
Total extraordinary losses	1,131,003	540,019
Loss before income taxes	(265,125)	(1,218,088)
Income taxes	40,285	59,955
Income taxes—deferred	100,523	(8,728)
Total income taxes	140,809	51,226
Loss	(405,935)	(1,269,314)
Profit attributable to non-controlling interests	68,034	3,546
Loss attributable to owners of parent	¥ (473,969)	¥(1,272,860)

Please refer to page 48 for *1 to 5
Please refer to page 49 for *6

[Consolidated Statements of Comprehensive Income]

(Thousands of yen)

	Fiscal 2018 (From December 1, 2017 to November 30, 2018)	Fiscal 2019 (From December 1, 2018 to November 30, 2019)
Loss	¥(405,935)	¥(1,269,314)
Other comprehensive income (loss)		
Valuation difference on available-for-sale securities	(77,528)	(458,347)
Deferred gains or losses on hedges	(40)	590
Foreign currency translation adjustments	4,377	5,924
Share of other comprehensive income of entities accounted for using equity method	(2,373)	–
Total other comprehensive income (loss)	*1 (75,564)	*1 (451,832)
Total comprehensive income (loss)	¥(481,499)	¥(1,721,146)
Comprehensive income (loss) attributable to:		
Owners of parent	¥(549,514)	¥(1,724,978)
Non-controlling interests	68,014	3,831

Please refer to page 50 for *1

Consolidated Financial Statements

[Consolidated Statements of Changes in Net Assets]

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												
Loss attributable to owners of parent			(473,969)		(473,969)							(473,969)
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)
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

Fiscal 2019 (From December 1, 2018 to November 30, 2019)

(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	¥2,770,954	¥ 412,939	¥(66,515)	¥ 3,127,378	¥ 61,933	¥ (78)	¥30,389	¥ 92,244	¥27,502	¥705,994	¥ 3,953,120
Changes during the fiscal year												
Loss attributable to owners of parent			(1,272,860)		(1,272,860)							(1,272,860)
Change in ownership interest of parent due to transactions with non-controlling interests		(990)			(990)							(990)
Net changes of items other than shareholders' equity					–	(458,347)	305	5,924	(452,117)	3,872	3,831	(444,413)
Total changes during the fiscal year	–	(990)	(1,272,860)	–	(1,273,850)	(458,347)	305	5,924	(452,117)	3,872	3,831	(1,718,264)
Balance at end of the fiscal year	¥10,000	¥2,769,964	¥ (859,921)	¥(66,515)	¥ 1,853,528	¥(396,413)	¥226	¥36,314	¥(359,872)	¥31,374	¥709,825	¥ 2,234,856

Consolidated Financial Statements

[Consolidated Statements of Cash Flows]

(Thousands of yen)

	Fiscal 2018 (From December 1, 2017 to November 30, 2018)	Fiscal 2019 (From December 1, 2018 to November 30, 2019)
Cash flows from operating activities		
Loss before income taxes	¥ (265,125)	¥(1,218,088)
Depreciation and amortization	206,046	112,840
Impairment loss	1,110,179	124,103
Amortization of goodwill	53,388	34,679
Decrease in allowance for doubtful accounts	(103,385)	(7,052)
Interest and dividend income	(28,409)	(22,278)
Interest expenses	40,350	27,938
Loss on valuation of investment securities	10,366	–
(Loss) gain on sales of investment securities	(705,622)	381,092
Loss on valuation of cryptocurrencies	192,004	–
Loss on sale of cryptocurrencies	201,021	–
Loss on retirement of property, plant and equipment	10,457	34,822
Gain on change in equity	(207,547)	–
Increase in notes and accounts receivable—trade	(926,553)	(46,110)
Decrease (increase) in cryptocurrencies	751,992	(9,858)
(Increase) decrease in inventories	(104,188)	17,874
Decrease in advance payments	667,465	60,709
Decrease in accounts receivable—other	118,615	12,988
Decrease in deposits paid	146,268	20,913
(Decrease) increase in notes and accounts payable—trade	(24,411)	53,558
Decrease in accounts payable—other	(67,749)	(64,182)
Decrease in accrued expenses	(204,629)	(30,969)
Increase (decrease) in advances received	92,603	(63,608)
Other, net	54,569	35,561
Subtotal	1,017,708	(545,065)
Interest and dividends income received	28,157	22,026
Interest paid	(54,670)	(27,627)
Income taxes paid	(10,179)	(51,693)
Net cash provided by (used in) operating activities	981,015	(602,360)

(Thousands of yen)

	Fiscal 2018 (From December 1, 2017 to November 30, 2018)	Fiscal 2019 (From December 1, 2018 to November 30, 2019)
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	(278,180)	(85,702)
Purchase of intangible assets	(960,887)	(2,948)
Purchase of investment securities	(320,864)	(800)
Proceeds from sales of investment securities	1,998,795	1,056,212
Increase in long-term loans receivable	(760,000)	(332,000)
Collection of long-term loans receivable	442,000	580,017
Payments for guarantee deposits	(64,927)	(20,207)
Proceeds from collection of guarantee deposits	32,977	58,096
Other, net	(37,317)	(22,211)
Net cash (used in) provided by investing activities	(1,099,133)	1,230,455
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	241,540	(33,200)
Proceeds from long-term loans payable	392,800	110,000
Repayment of long-term loans payable	(1,055,493)	(807,406)
Redemption of bonds	(1,165,000)	–
Proceeds from issuance of bonds with subscription rights to shares	200,000	–
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(4,011)	(990)
Proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	2,460	–
Other	(1,688)	(1,647)
Net cash used in financing activities	(1,389,394)	(733,243)
Effect of exchange rate change on cash and cash equivalents	690	(3,585)
Net decrease in cash and cash equivalents	(1,506,821)	(108,734)
Cash and cash equivalents at beginning of the fiscal year	2,529,595	1,022,774
Cash and cash equivalents at end of the fiscal year	*1 ¥ 1,022,774	*1 ¥ 914,039

Please refer to page 52 for *1

Notes

(Notes to the Consolidated Financial Statements)

1. Scope of consolidation

(1) Number of consolidated subsidiaries: 14

(2) Names of consolidated subsidiaries:

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

TITICACA, Co. Ltd. was established by incorporation-type split during fiscal 2019 and has therefore been included in the scope of consolidation. Versatile Inc. was liquidated and wound up during fiscal 2019 and has 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.

(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.

(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 Capital Co., Ltd.	October 31*1
TITICACA, Co. Ltd.	October 31*1
e frontier, Inc.	October 31*1
FACETASM	October 31*1
NCXX International Limited	October 31*1*2

*1 Financial statements as of the fiscal year-end of the consolidated subsidiary are used. 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.

*2 In fiscal 2019, NCXX International Limited changed its fiscal year-end from November 30 to October 31. Subsequently, fiscal 2019 became an eleven-month accounting period.

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

Notes

(iii) Raw materials and supplies
Mainly the moving average method
(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.

(Changes in Accounting Policies)

Adoption of "Tentative Practical Solution on the Accounting for Virtual Currencies under the Payment Services Act"

The Company has adopted the "Tentative Practical Solution on the Accounting for Virtual Currencies under the Payment Services Act" (ASBJ Practical Issues Task Force No. 38, March 14, 2018) since the beginning of the fiscal year ended November 30, 2019. Among the cryptocurrencies held by the Group, cryptocurrencies in active markets were recorded on the consolidated balance sheet at a value based on the market price, while differences between the market value and book value were recorded as net sales.

This change had a negligible impact on the consolidated financial statements for the fiscal year ended November 30, 2019.

(Unapplied Accounting Standards, etc.)

(Notes concerning unapplied accounting standards, etc.)

"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 an implementation guidance.

Notes

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.

(Changes in Presentation)

(Changes in accordance with adoption of "Partial Amendments to Accounting Standard for Tax Effect Accounting," etc.)

The Company has adopted the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018) since the beginning of the fiscal year ended November 30, 2019, and presents deferred tax assets as investments and other assets.

As a result, deferred tax assets of ¥2,030 thousand under current assets on the consolidated balance sheet as of November 30, 2018 were presented as deferred tax assets of ¥2,030 thousand under investments and other assets.

Furthermore, in the notes on tax-effect accounting, the Company has added the information shown in Note 8 (excluding the total amount of valuation allowance) and Note 9 of the "Accounting Standard for Tax Effect Accounting" as stipulated by Paragraphs 3 through 5 of the "Partial Amendments to Accounting Standard for Tax Effect Accounting." However, information that relates to the fiscal year ended November 30, 2018 is not shown, pursuant to the transitional treatment stipulated in Paragraph 7 of the "Partial Amendments to Accounting Standard for Tax Effect Accounting."

(Consolidated statements of income)

Commission fees under non-operating expenses, which were listed separately in the fiscal year ended November 30, 2018, accounted for less than 10% of all non-operating expenses in the fiscal year ended November 30, 2019, and have therefore been included in other. The consolidated financial statements for the fiscal year ended November 30, 2018 have been restated to reflect this change in presentation method.

As a result, the ¥16,281 thousand in commission fees under non-operating expenses has been restated as ¥63,719 thousand under other.

(Consolidated statements of cash flows)

Regarding items which were presented separately under cash flows from operating activities in the fiscal year ended November 30, 2018, increase (decrease) in provisions for bonuses, increase (decrease) in provisions for product warranties, increase (decrease) in net defined benefit liability, share-based compensation expenses, foreign exchange (gains) losses, share of (profit) loss of entities accounted for using equity method, (gain) loss on sales of property, plant and equipment, and increase (decrease) in deposits received have been included in other for the fiscal year ended November 30, 2019 due to their decreased monetary importance. The consolidated financial statements for the fiscal year ended November 30, 2018 have been restated to reflect this change in presentation method.

As a result, ¥6,369 thousand presented as increase in provisions for bonuses, ¥(40,000) thousand presented as decrease in provisions for product warranties, ¥1,624 thousand presented as increase in net defined benefit liability, ¥5,290 thousand presented as share-based compensation expenses, ¥576 thousand presented as foreign exchange losses, ¥38,696 presented as share of loss of entities accounted for using equity method, ¥(31) thousand presented as gain on sales of property, plant and equipment, and ¥2,768 thousand presented as increase in deposits received in the consolidated statements of cash flow from operating activities for the fiscal year ended November 30, 2018 have been restated as ¥54,569 thousand under other.

Proceeds from sales of property, plant and equipment and payments for asset retirement obligations, which were presented separately under cash flows from investing activities in the fiscal year ended November 30, 2018, have been included in other for the fiscal year ended November 30, 2019 due to their decreased monetary importance. The consolidated financial statements for the fiscal year ended November 30, 2018 have been restated to reflect this change in presentation method.

As a result, ¥55 thousand in proceeds from sales of property, plant and equipment and ¥(33,677) thousand in payments for asset retirement obligations under cash flows from investing activities in the consolidated statements of cash flows for the fiscal year ended November 30, 2018 have been restated as ¥(37,317) thousand under other.

Notes

(Consolidated Balance Sheets)

*1 Collateral assets and collateralized liabilities

Assets pledged as collateral are as follows.

(Thousands of yen)

	Fiscal 2018 (As of November 30, 2018)	Fiscal 2019 (As of November 30, 2019)
Time deposits	¥ –	¥ 3,000
Buildings	10,907	9,002
Land	151,097	188,001
Investment securities	542,868	400,008
Total	¥704,873	¥600,012

Collateralized liabilities are as follows.

(Thousands of yen)

	Fiscal 2018 (As of November 30, 2018)	Fiscal 2019 (As of November 30, 2019)
Current portion of long-term loans payable	¥137,303	¥609,769
Long-term loans payable	588,967	42,278

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

(Thousands of yen)

	Fiscal 2018 (As of November 30, 2018)	Fiscal 2019 (As of November 30, 2019)
NCXX Solution Inc.	¥136,264	¥124,072

*3 Accumulated depreciation on property, plant and equipment

(Thousands of yen)

	Fiscal 2018 (As of November 30, 2018)	Fiscal 2019 (As of November 30, 2019)
Accumulated depreciation on property, plant and equipment	¥2,373,919	¥2,464,707

Accumulated depreciation includes accumulated impairment loss.

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

(Thousands of yen)

	Fiscal 2018 (As of November 30, 2018)	Fiscal 2019 (As of November 30, 2019)
Investment securities (stocks)	¥10,904	¥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, 2019 was as follows.

(Thousands of yen)

	Fiscal 2018 (As of November 30, 2018)	Fiscal 2019 (As of November 30, 2019)
Total amount of overdraft facilities and loan commitments	¥250,000	¥50,000
Outstanding loan balance	250,000	–
Difference	¥ –	¥50,000

Notes

(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 2018 (From December 1, 2017 to November 30, 2018)	Fiscal 2019 (From December 1, 2018 to November 30, 2019)
Cost of sales	¥81,585	¥74,884

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

(Thousands of yen)

	Fiscal 2018 (From December 1, 2017 to November 30, 2018)	Fiscal 2019 (From December 1, 2018 to November 30, 2019)
Salaries and allowances	¥1,353,800	¥1,304,428
Retirement benefit expenses	12,835	31,670
Commission fees	678,384	579,947
Office rent	658,404	658,935
Provision of allowance for doubtful accounts	(5,360)	–
Provision for point card certificates	12,650	(7,706)
Amortization of goodwill	53,388	34,679

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

(Thousands of yen)

	Fiscal 2018 (From December 1, 2017 to November 30, 2018)	Fiscal 2019 (From December 1, 2018 to November 30, 2019)
Research and development expenses	¥29,957	¥34,036

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

(Thousands of yen)

	Fiscal 2018 (From December 1, 2017 to November 30, 2018)	Fiscal 2019 (From December 1, 2018 to November 30, 2019)
Tools, furniture and fixtures	¥ –	¥421
Vehicles	31	185

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

(Thousands of yen)

	Fiscal 2018 (From December 1, 2017 to November 30, 2018)	Fiscal 2019 (From December 1, 2018 to November 30, 2019)
Buildings and structures	¥10,411	¥31,110
Tools, furniture and fixtures	46	3,152
Other	–	560

Notes

*6 Impairment loss

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
	Buildings and structures	Hanamaki-shi, Iwate	34,170
	Machinery, equipment and vehicles		2,038
	Software		9,634
Store equipment	Buildings and structures	Shibuya-ku, Tokyo and other Nishitama-gun, Tokyo Kurashiki-shi, Okayama and other	34,945
	Tools, furniture and fixtures		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.

Fiscal 2019 (From December 1, 2018 to November 30, 2019)

The Group recorded impairment losses on the following assets.

Use	Type	Location	Impairment loss (Thousands of yen)
Business assets	Trademarks	Shibuya-ku, Tokyo	¥ 3,600
	Buildings and structures	Shibuya-ku, Tokyo Hanamaki-shi, Iwate	5,874
	Tools, furniture and fixtures		9,350
	Software	Shibuya-ku, Tokyo and other	8,440
Store equipment	Buildings and structures	Akita-shi, Akita Yokohama-shi, Kanagawa Hirosaki-shi, Aomori and other	84,182
	Tools, furniture and fixtures		8,219
	Other		4,435

(Background to recognizing impairment losses)

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 Capital Co., Ltd. and TITICACA expect to continue to generate losses from operations. This applies to 28 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.

Notes

(Consolidated Statements of Comprehensive Income)

*1 Reclassification adjustments and tax effects for other comprehensive income

(Thousands of yen)

	Fiscal 2018 (From December 1, 2017 to November 30, 2018)	Fiscal 2019 (From December 1, 2018 to November 30, 2019)
Valuation difference on available-for-sale securities:		
Amount incurred during the fiscal year	¥ 461,734	¥(867,943)
Reclassification adjustments	(573,006)	381,092
Before tax effect adjustment	(111,272)	(486,851)
Tax effect	(33,743)	(28,504)
Valuation difference on available-for-sale securities	(77,528)	(458,347)
Deferred gains or losses on hedges:		
Amount incurred during the fiscal year	(40)	590
Reclassification adjustments	–	–
Before tax effect adjustment	(40)	590
Tax effect	–	–
Deferred gains or losses on hedges	(40)	590
Foreign currency translation adjustments:		
Amount incurred during the fiscal year	14,691	5,924
Reclassification adjustments	(10,313)	–
Before tax effect adjustment	4,377	5,924
Tax effect	–	–
Foreign currency translation adjustments	4,377	5,924
Share of other comprehensive income of entities accounted for using equity method:		
Amount incurred during the fiscal year	14,487	–
Reclassification adjustments	(16,861)	–
Share of other comprehensive income of entities accounted for using equity method	(2,373)	–
Total other comprehensive income	¥ (75,564)	¥(451,832)

(Consolidated Statements of Changes in Net Assets)

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.

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 2018	Increase during fiscal 2018	Decrease during fiscal 2018	Ending balance in fiscal 2018	Ending balance in fiscal 2018 (Thousands of yen)
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.

Notes

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 2019 (From December 1, 2018 to November 30, 2019)

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

(Number of shares)

	Starting balance in fiscal 2019	Increase during fiscal 2019	Decrease during fiscal 2019	Ending balance in fiscal 2019
Issued shares				
Common shares	15,030,195	–	–	15,030,195
Total	15,030,195	–	–	15,030,195
Treasury stock				
Common shares	125,816	–	–	125,816
Total	125,816	–	–	125,816

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 2019	Increase during fiscal 2019	Decrease during fiscal 2019	Ending balance in fiscal 2019	Ending balance in fiscal 2019 (Thousands of yen)
Filing company (parent company)							
	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)	–	–	–	–	–	7,422
Total		–	–	–	–	–	¥31,374

Note: 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

Notes

(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 2018 (As of November 30, 2018)	Fiscal 2019 (As of November 30, 2019)
Cash and deposits	¥1,028,774	¥920,039
Term deposits with periods exceeding three months	(6,000)	(6,000)
Cash and cash equivalents	¥1,022,774	¥914,039

*2 Contents of important non-cash transactions

In the fiscal year ended November 30, 2019, the Company assumed additional investments through investment in kind (a debt equity swap), and acquired investment securities with a market value of ¥1,399,983 thousand.

These investment securities have been appraised at market value as of November 30, 2019.

(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 NCXX Group receives loans from banks and other 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 Group companies. This is done in conformity with the financial policy of optimizing funding efficiency by adjusting the surplus and shortage of funds among 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.

(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.

Loans receivable the Company makes are for managing funds in conformity with the aforementioned NCXX 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 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.

Notes

2. Fair value of financial instruments

The carrying amounts in the consolidated balance sheets, fair values, and their differences as of November 30, 2018 and 2019 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 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	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*4	¥ (120)	¥ (120)	¥ –

*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 Net receivables and obligations arising from derivative trading are presented as net amounts. Items that are net obligations are shown as totals in parentheses.

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 the 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.

Notes

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.

Fiscal 2019 (As of November 30, 2019)

(Thousands of yen)

	Carrying amount	Fair value	Difference
(1) Cash and deposits	¥ 920,039	¥ 920,039	¥ –
(2) Notes and accounts receivable—trade	571,891	–	–
Allowance for doubtful accounts*1	(265)	–	–
	571,626	571,626	–
(3) Accounts receivable—other	78,795	–	–
Allowance for doubtful accounts*2	(5,971)	–	–
	72,824	72,824	–
(4) Cryptocurrencies	26,940	26,940	–
(5) Long-term loans receivable	79,280	–	–
Allowance for doubtful accounts*3	(62,280)	–	–
	17,000	17,000	–
(6) Long-term accounts receivable—other	93,463	–	–
Allowance for doubtful accounts*4	(93,463)	–	–
	–	–	–
(7) Investment securities	1,758,811	1,758,811	–
Total	¥3,367,243	¥3,367,243	¥ –
(1) Notes and accounts payable—trade	¥ 629,364	¥ 629,364	¥ –
(2) Short-term loans payable	350,000	350,000	–
(3) Accounts payable—other	133,758	133,758	–
(4) Convertible bond-type bonds with share acquisition rights (including current portion)	200,000	201,866	1,866
(5) Long-term loans payable (including current portion)	1,112,504	1,097,768	(14,735)
Total	¥2,425,627	¥2,412,757	¥(12,869)
Derivative transactions*5	¥ 469	¥ 469	¥ –

*1 Excludes the allowance for doubtful accounts recorded for notes and accounts receivable—trade.
*2 Excludes the allowance for doubtful accounts recorded for accounts receivable—other.
*3 Excludes the allowance for doubtful accounts recorded for long-term loans receivable.
*4 Excludes the allowance for doubtful accounts recorded for long-term accounts receivable—other.
*5 Net receivables and obligations arising from derivative trading are presented as net amounts. Items that are net obligations are shown as totals in parentheses.

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 and (3) Accounts receivable—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) Cryptocurrencies

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 the moving average method), while for those that do not have active markets the amount is stated at cost based on the moving average method.

(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.

(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 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 (including current portion)

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

Calculated based on quoted prices obtained from financial institution counterparties.

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.

Notes

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

(Thousands of yen)

	Fiscal 2018 (As of November 30, 2018)	Fiscal 2019 (As of November 30, 2019)
Unlisted stocks (investment securities)	¥215,904	¥215,904
Guarantee deposits	623,576	528,979

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 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).

Fiscal 2019 (As of November 30, 2019)

(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	¥ 920,039	¥ –	¥–	¥–
(2) Notes and accounts receivable—trade*1	571,626	–	–	–
(3) Accounts receivable—other*1	72,824	–	–	–
(4) Cryptocurrencies	26,940	–	–	–
(5) Long-term loans receivable*1	–	17,000	–	–
(6) Long-term accounts receivable—other*1	–	–	–	–
Total	¥1,591,431	¥17,000	¥–	¥–

*1 The above table does not include accounts receivable with indefinite redemption schedules of ¥265 thousand (allowance for doubtful accounts of ¥265 thousand), accounts receivable—other of ¥5,971 thousand (allowance for doubtful accounts of ¥5,971 thousand), long-term loans receivable of ¥62,280 thousand (allowance for doubtful accounts of ¥62,280 thousand) and long-term accounts receivable—other of ¥93,463 thousand (allowance for doubtful accounts of ¥93,463 thousand).

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

Notes

Fiscal 2019 (As of November 30, 2019)

(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	901,417	133,774	77,312	–	–	–
Short-term loans payable	350,000	–	–	–	–	–
Total	¥1,451,417	¥133,744	¥77,312	¥–	¥–	¥–

(Investment Securities)

1. Investment securities—other

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.

Fiscal 2019 (As of November 30, 2019)

(Thousands of yen)

	Type	Carrying amount	Acquisition cost	Difference
Securities whose carrying amounts exceed the acquisition cost	Share	¥ –	¥ –	¥ –
Securities whose carrying amounts do not exceed the acquisition cost	Share	1,758,811	2,155,225	(396,413)
	Total	¥1,758,811	¥2,155,225	¥(396,413)

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

(Thousands of yen)

	Sale amount	Total gain on sale	Total loss on sale
Share	¥1,473,209	¥573,006	¥–
Total	¥1,473,209	¥573,006	¥–

Fiscal 2019 (From December 1, 2018 to November 30, 2019)

(Thousands of yen)

	Sale amount	Total gain on sale	Total loss on sale
Share	¥1,056,212	¥–	¥381,092
Total	¥1,056,212	¥–	¥381,092

3. Loss on valuation of investment securities

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.

Fiscal 2019 (As of November 30, 2019)

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 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 2018 (As of November 30, 2018)

Not applicable

Fiscal 2019 (As of November 30, 2019)

Not applicable

Notes

2. Derivative transactions to which hedge accounting is applied

(1) Currency related

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.

Fiscal 2019 (As of November 30, 2019)

(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	¥86,668	¥–	(Note) ¥87,137

Note: Calculation of fair value
Calculated based on quoted prices obtained from financial institution counterparties.

(2) Interest related

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.

Fiscal 2019 (As of November 30, 2019)

(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	¥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.

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 2018 (From December 1, 2017 to November 30, 2018)	Fiscal 2019 (From December 1, 2018 to November 30, 2019)
Balance of liability for retirement benefit at the beginning of the fiscal year	¥29,708	¥ 31,333
Retirement benefit expenses	9,094	27,494
Retirement benefits paid	(7,469)	(12,964)
Balance of liability for retirement benefit at the end of the fiscal year	¥31,333	¥ 45,863

Notes

(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 2018 (As of November 30, 2018)	Fiscal 2019 (As of November 30, 2019)
Retirement benefit obligations for non-funded plans	¥31,333	¥45,863
Net liability on the consolidated balance sheets	31,333	45,863

(3) Retirement benefit expenses

(Thousands of yen)

	Fiscal 2018 (From December 1, 2017 to November 30, 2018)	Fiscal 2019 (From December 1, 2018 to November 30, 2019)
Retirement benefit expenses based on the simplified method	¥9,094	¥27,494

3. Defined contribution pension plan

The required contributions to the defined contribution pension plans of the Company and its consolidated subsidiaries were ¥2,929 thousand in fiscal 2018 and ¥3,216 thousand in fiscal 2019.

4. Prepaid retirement benefit plan

Payments made to the prepaid retirement benefit plans of the Company and its consolidated subsidiaries were ¥1,679 thousand in fiscal 2018 and ¥2,988 thousand in fiscal 2019.

(Stock Options)

1. Stock option expense item and amount

(Thousands of yen)

	Fiscal 2018 (From December 1, 2017 to November 30, 2018)	Fiscal 2019 (From December 1, 2018 to November 30, 2019)
Stock compensation expense under selling, general and administrative expenses	¥5,290	¥3,872

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. subsidiary directors: 1 NCXX Group Inc. employees: 3	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. Does not include cases when the Board of Directors makes a special exception.	An option holder must remain in continued service from the grant date (October 5, 2016) to the option exercise date. Does not include cases when the Board of Directors makes a special exception.	An option holder must remain in continued service from the grant date (January 15, 2018) to the option exercise date. Does not include cases when the Board of Directors makes a special exception.
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 2019 (ended November 2019) 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, 2018	–	–	90,000
Granted	–	–	–
Forfeited	–	–	–
Vested	–	–	–
Outstanding	–	–	90,000
After vesting			
As of November 30, 2018	96,000	100,000	–
Vested	–	–	–
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 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.

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

(Thousands of yen)

	Fiscal 2018 (As of November 30, 2018)	Fiscal 2019 (As of November 30, 2019)
Deferred tax assets		
Inventories	¥ 74,984	¥ 71,184
Accrued enterprise taxes	3,417	2,352
Provision for bonuses	26,749	20,082
Provision for product warranties	22,756	17,646
Non-current assets	298,525	276,078
Shares of affiliated companies	14,678	–
Allowance for doubtful accounts	58,282	54,488
Carryforwards of unused tax losses	3,381,601	3,231,250
Liability for retirement benefit	9,626	15,440
Asset retirement obligations	130,019	122,620
Valuation difference on available-for-sale securities	–	136,655
Others	15,489	9,439
Subtotal deferred tax assets	4,036,133	3,957,239
Valuation allowance for tax loss carryforwards	–	(3,231,250)
Valuation allowance for total deductible temporary differences	–	(725,988)
Subtotal valuation allowance	(4,034,102)	(3,957,239)
Total deferred tax assets	2,030	–
Deferred tax liabilities		
Valuation difference on available-for-sale securities	(28,504)	–
Fund balance difference	(757,050)	(757,050)
Reserve for special depreciation	(8,671)	–
Others	(43,417)	(41,328)
Total deferred tax liabilities	(837,642)	(798,378)
Net deferred tax liabilities	¥ (835,611)	¥ (798,378)

Notes

Note: Amount of tax loss carryforwards and their deferred tax assets by expiration period
Fiscal 2019 (As of November 30, 2019)

(Thousands of yen)

	Due in one year or less	Due after one year through two years	Due after two year through three years	Due after three year through four years	Due after four years through five years	Due after five years	Total
Tax loss carryforwards*	¥–	¥–	¥–	¥–	¥ 221,115	¥ 3,010,135	¥ 3,231,250
Valuation allowance	–	–	–	–	(221,115)	(3,010,135)	(3,231,250)
Deferred tax assets	–	–	–	–	–	–	–

* Tax loss carryforwards are multiplied by the statutory income tax rate.

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

Disclosure on the difference in the statutory income tax rate and the effective income tax rate in fiscal 2018 and 2019 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: TITICACA Capital Co., Ltd.
Business: Apparel business, Cryptocurrency and blockchain business
Absorbed company
Name: TITICACA, Co. Ltd.
Business: Apparel business

(2) Business combination date

April 26, 2019

(3) Statutory basis of business combination

An incorporation-type company split with TITICACA Capital Co., Ltd. as the splitting company and TITICACA, Co. Ltd. as the newly incorporated company

(4) Name of company after business combination

TITICACA, Co. Ltd.

(5) Purpose of the business combination

Previously, the splitting company, which is a consolidated subsidiary of the Company, operated both the apparel business and the cryptocurrency and blockchain business. However, the Company conducted an incorporation-type split of the aforementioned businesses, constructed a system to allow for more speedy management decisions, and clarified the jurisdiction, responsibilities and governance of each business. While implementing rapid enhancement and efficiency of indirect departments and further reevaluation of unprofitable stores, it aims to achieve even swifter profit recovery by having the employees of each company concentrate efforts together on their respective specialized fields.

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.

Notes

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

(Thousands of yen)

	Fiscal 2018 (From December 1, 2017 to November 30, 2018)	Fiscal 2019 (From December 1, 2018 to November 30, 2019)
Balance at the beginning of the fiscal year	¥389,687	¥377,087
Increase from acquisition of property, plant and equipment	13,909	13,536
Adjustment reflecting the passage of time	181	170
Decrease from execution of obligations	(26,690)	(25,744)
Balance at the end of the fiscal year	¥377,087	¥365,050

(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.

(Real Estate Leasing)

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

Not applicable

Fiscal 2019 (From December 1, 2018 to November 30, 2019)

Certain consolidated subsidiaries have facilities in Hanamaki, Iwate Prefecture that are used 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.

(Thousands of yen)

	Carrying amount			
	Starting balance in fiscal 2019	Change during fiscal 2019	Ending balance in fiscal 2019	Fair value at fiscal year-end
Real estate including the portion used as real estate for rent	¥10,907	¥(1,905)	¥9,002	¥–

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

(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.

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

Notes

2. Calculation method for amounts of net sales, income or 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.

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

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 administrative 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. Adjustments for increase in property, plant and equipment and intangible assets mainly represent increases in corporate assets.

Notes

Fiscal 2019 (From December 1, 2018 to November 30, 2019)

(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	¥1,243,704	¥2,632,953	¥5,776,145	¥ 9,877	¥7,541	¥9,670,223	¥ –	¥9,670,223
Inter-segment sales and transfers	18,005	2,329	14,178	–	–	34,512	(34,512)	–
Total	1,261,709	2,635,283	5,790,323	9,877	7,541	9,704,735	(34,512)	9,670,223
Segment income (loss)	115,772	(13,969)	(423,879)	(16,487)	7,541	(331,022)	(302,096)	(633,118)
Segment assets	1,672,109	643,228	2,043,873	27,941	–	4,387,153	2,297,945	6,685,099
Other items								
Depreciation and amortization	5,767	2,472	64,965	10,391	–	83,597	29,242	112,840
Amortization of goodwill	3,830	30,848	–	–	–	34,679	–	34,679
Increase in property, plant and equipment and intangible assets	4,261	409	60,309	1,272	–	66,253	13,769	80,022

Notes: 1. Segment income (loss) is adjusted to operating income in the consolidated statements of income. Adjustments for segment income mainly represent general and administrative expenses that are not allocated to reportable segments.
2. Adjustments for segment assets mainly include corporate assets of ¥2,297,945 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 ¥29,242 thousand.
4. Adjustments for increase in property, plant and equipment and intangible assets mainly represent increases in corporate assets.

Notes

[Related Information]

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.

Fiscal 2019 (From December 1, 2018 to November 30, 2019)

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

(Thousands of yen)

Japan	Italy	Hong Kong	Total
¥482,216	¥36,904	¥71,115	¥590,235

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 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

Fiscal 2019 (From December 1, 2018 to November 30, 2019)

(Thousands of yen)

	IoT-related business	Internet travel business	Brand retail platform business	Cryptocurrency and blockchain business	Other	Corporate and elimination	Total
Impairment loss	¥–	¥–	¥109,209	¥14,893	¥–	¥–	¥124,103

Notes

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

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

Fiscal 2019 (From December 1, 2018 to November 30, 2019)

(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	¥–	¥–	¥–	¥–	¥ 34,679
Unamortized balance	15,641	106,331	–	–	–	–	121,973

[Information on Gain on Bargain Purchase by Reportable Segment]

Fiscal 2018 (From December 1, 2017 to November 30, 2018)
Not applicable

Fiscal 2019 (From December 1, 2018 to November 30, 2019)
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 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.

Fiscal 2019 (From December 1, 2018 to November 30, 2019)

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)
Major shareholders	FISCO Ltd.	Kishiwada, Osaka	¥799	Information services business, consulting business	Direct (19.96)	Shareholder, funds lent, capital increase assumed, transfer of receivables, and debt guarantees received	Funds lent	¥ 150,000	Long-term loans receivable	¥ –
							Funds recovered	50,017	–	–
							Capital increase assumed	1,399,983	–	–
							Transfer of receivables	1,000,000	–	–
							Interest received	5,123	–	–
							Debt guarantees received	587,500	–	–
	Jitsugyo no Nihon Sha, Ltd.	Kishiwada, Osaka	33	Publishing business	Direct (11.42)	Shareholder, issue of corporate bonds	Issuance of convertible bond-type bonds with stock acquisition rights	–	Current portion of convertible bond-type bonds with stock acquisition rights	200,000

Notes: 1. Consumption taxes are not included in the amounts of transactions and the ending balances.
2. The interest rate on funds lent is determined reasonably based on prevailing market interest rates. The funds lent are unsecured.
3. FISCO Ltd., the former parent company of the Company, is no longer classified as the Company's parent company because FISCO Ltd. transferred its common shares of the Company on July 8, 2019. As FISCO Ltd. will continue to serve as a major shareholder of the Company, it is considered a related party.
4. Capital increase assumed refers to investment in kind through a debt equity swap, which the Company assumed at a rate of ¥195 per share.
5. Transfer of receivables refers to a transfer of long-term loans receivable to Vulcan Crypto Currency Financial Products K.K.

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 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	Cryptocurrency and blockchain business	–	–	Interest income	¥19,068	Short-term loans receivable	¥1,000,000

Fiscal 2019 (From December 1, 2018 to November 30, 2019)

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)
Other related subsidiaries	Vulcan Crypto Currency Financial Products K.K.	Kishiwada, Osaka	¥10	Cryptocurrency and blockchain business	–	Funds lent	Interest received	¥12,164	–	¥–

Notes: 1. Consumption taxes are not included in the amounts of transactions and the ending balances. * Items resulting from transfer of accounts receivable to major shareholders.
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.
3. FISCO Ltd., a major corporate shareholder of the Company, owns 99.85% of voting rights directly.
4. With regard to the long-term loans receivable of ¥1,000,000 thousand to Vulcan Crypto Currency Financial Products K.K., the receivable for this long-term loan was transferred to FISCO Ltd., a major shareholder.

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

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

Type	Name of individual	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

Fiscal 2019 (From December 1, 2018 to November 30, 2019)

Type	Name of individual	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	¥13,967	–	¥–

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 aforementioned transaction was determined with conditions similar to those of a typical transaction in consideration of market value and other factors.
(2) The debt guarantees received are debt guarantees for bank loans. A guarantee fee is not paid.

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

Not applicable

Fiscal 2019 (From December 1, 2018 to November 30, 2019)

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 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)
Subsidiary of the parent company	Vulcan Crypto Currency Financial Products K.K.	Kishiwada, Osaka	¥10	Cryptocurrency 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.

Fiscal 2019 (From December 1, 2018 to November 30, 2019)

Not applicable

Notes

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

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

Not applicable

Fiscal 2019 (From December 1, 2018 to November 30, 2019)

Not applicable

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

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

Type	Name of individual	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.

Fiscal 2019 (From December 1, 2018 to November 30, 2019)

Not applicable

2. Notes on the parent company or significant related companies

(1) Parent company information

Not applicable

(2) Summary of financial information on significant related companies

Not applicable

Notes

(Per Share Information)

(Yen)

	Fiscal 2018 (From December 1, 2017 to November 30, 2018)	Fiscal 2019 (From December 1, 2018 to November 30, 2019)
Net assets per share	¥216.02	¥100.22
Amounts for net loss per share	(31.82)	(85.40)
Diluted net income per share	–	–

Notes: 1. Although there were potentially dilutive shares, diluted net income per share is not disclosed as a net loss per share was recorded.
2. The basis for calculating the amounts for net loss per share is as follows:

(Thousands of yen)

	Fiscal 2018 (From December 1, 2017 to November 30, 2018)	Fiscal 2019 (From December 1, 2018 to November 30, 2019)
Loss attributable to owners of parent	¥(473,969)	¥(1,272,860)
Amounts not attributable to common shareholders	–	–
Loss attributable to owners of parent related to common shares	(473,969)	(1,272,860)
Average number of common shares during the period (Shares)	14,894,159	14,904,379

	Fiscal 2018 (From December 1, 2017 to November 30, 2018)	Fiscal 2019 (From December 1, 2018 to November 30, 2019)
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 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 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 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)	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)

Notes

(Subsequent Events)

Issuance of Stock Compensation-Type Stock Options

On January 23, 2020, the Board of Directors of NCXX decided to submit a resolution for approval by the 36th 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 subsidiaries 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 36th Ordinary General Meeting of Shareholders, held on February 27, 2020, approved the proposal in its original form.

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.

$$\text{Number of underlying shares after adjustment} = \text{Number of underlying shares before adjustment} \times \text{Stock split or consolidation ratio}$$

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 (1) 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 2019 (Thousands of yen)	Ending balance in fiscal 2019 (Thousands of yen)	Interest (%)	Collateral	Maturity date
NCXX Group Inc.	7th Series of Unsecured Convertible Bonds with Subscription Rights to Shares	May 1, 2018	¥200,000 [–]	¥ 200,000 [200,000]	0.7	None	April 30, 2020
Total	–	–	¥200,000 [–]	¥ 200,000 [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	7th Series of Unsecured Convertible Bonds with Subscription Rights to Shares
Type of shares to be issued	Common shares
Issue price of subscription rights (Yen)	Gratis
Issue price of shares (Yen)	¥410
Total face value (Thousands of yen)	¥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%
Exercise period of the subscription rights	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, 2019 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 2019	Ending balance in fiscal 2019	Average interest rate (%)	Repayment
Short-term loans payable	¥ 383,200	¥ 350,000	0.9	–
Current portion of long-term loans payable	587,606	901,417	1.8	–
Long-term loans payable (excluding current portion)	1,223,263	211,086	1.7	2020 to 2022
Total	¥2,194,069	¥1,462,504	–	–

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, 2019 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	¥133,774	¥77,312	¥–	¥–	¥–

[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 2019

(Thousands of yen)

(Cumulative period)	First quarter	Second quarter	Third quarter	Fiscal year
Net sales	¥ 2,369,284	¥ 4,622,744	¥ 7,212,013	¥ 9,670,223
Loss before income taxes	(308,402)	(950,558)	(1,021,836)	(1,218,088)
Loss attributable to owners of parent	(327,160)	(1,011,461)	(1,168,960)	(1,272,860)
Net loss per share (Yen)	¥ (21.95)	¥ (67.86)	¥ (78.43)	¥ (85.40)

(Yen)

(Quarterly period)	First quarter	Second quarter	Third quarter	Fiscal year
Net loss per share	¥(21.95)	¥(45.91)	¥(10.57)	¥(6.97)

Company Overview

Name	NCXX Group Inc.
Date of establishment	April 21, 1984
Capital stock	¥10,000,000 (as of November 30, 2019)
Consolidated Group employees	280 (as of November 30, 2019)
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: 5-13-3 Minamiaoyama, Minato-ku, Tokyo, Japan TEL: +81-3-5766-9872 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 the 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 the Head Office to Shibaura, Minato-ku, Tokyo
Sept. 1998	HOKUBU Communication & Industrial Co., Ltd. and its group company became 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 the 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 the 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 the 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 and 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. as 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
Apr. 2019	TITICACA, Co. Ltd. changed its name to TITICACA Capital Co., Ltd. TITICACA Capital Co., Ltd. was established through an incorporation-type split from TITICACA, Co. Ltd.
July 2019	FISCO Ltd. transitioned from the parent company to other related companies through a share transfer

Shareholder Information (As of November 30, 2019)

Overview of shares

Total number of issuable shares: 30,000,000
Total number of shares issued: 15,030,195
Number of shareholders: 5,739

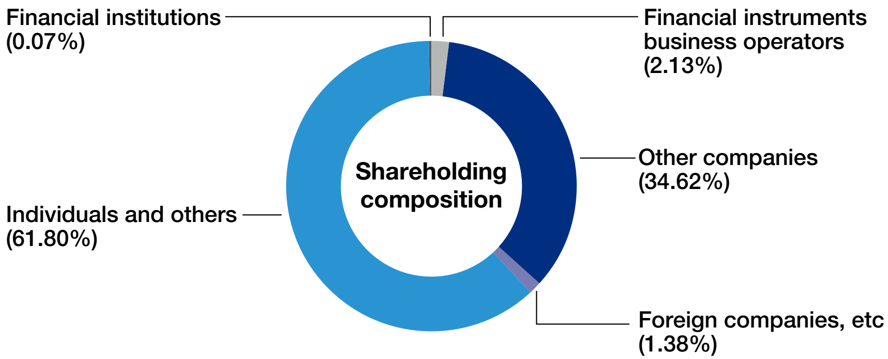
Major shareholders

Shareholder name	Number of shares held (shares)	Shareholding percentage of issued shares (%)
FISCO Ltd.	2,974,700	19.96
Investment Business Limited Partnership Digital Asset Fund*1	2,553,000	17.13
Jitsugyo no Nihon Sha, Ltd.*2	1,702,000	11.42
Hideaki Oka	750,800	5.03
Ken Kazama	124,300	0.83
Shouei Mizuno	123,400	0.82
Shuhari Initiative Ltd.	102,000	0.68
Shuhari Initiative Ltd.	100,000	0.67
Rakuten Securities, Inc.	94,700	0.63
Yuya Takada	81,100	0.54

*1. Investment Business Limited Partnership Digital Asset Fund, which was not a major shareholder as of November 30, 2018, became a major shareholder as of November 30, 2019.
*2. Jitsugyo no Nihon Sha, Ltd., which was not a major shareholder as of November 30, 2018, became a major shareholder as of November 30, 2019.

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



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