INTEGRATED REPORT 2018

NCXX Group Inc.

Next Communication with NCXX.

CONTENTS

Note on Forward-Looking Statements

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

Editorial Policy

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

User Guide

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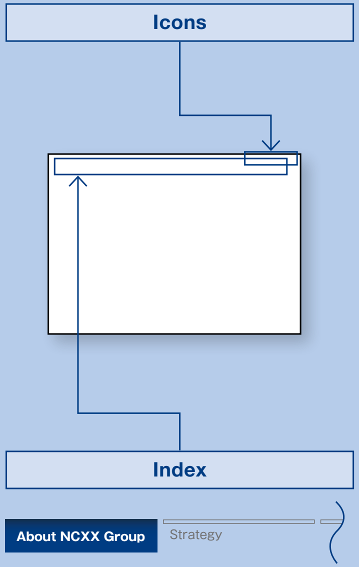

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Corporate Philosophy

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/
NCXX Solutions Inc.	http://www.ncxx-sl.co.jp/
CAICA Inc.	https://www.caica.jp/e-toppage/
Care Dynamics Limited	http://www.care-dynamics.jp/
e-tabinet.com	https://www.e-tabinet.com/
TITICACA, Co. Ltd.	http://www.titicaca.jp/english/

IoT Solutions

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

System Solutions

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

Internet Travel

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

Overall Image of the NCXX Group

Brand Retail Platform Business

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

Total Nursing Care Business Support Service

We will solve various problems faced by nursing care providers, including by the provision of Care Online, a business support system for nursing care providers, and by 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 inde-pendent device (equipment) operated autonomously.

Agricultural ICT Business

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

Business Domains

Other

¥53 million

ICT, IoT, Device Business

¥893 million

Information Service Consulting Business

¥71 million

Brand Retail Platform Business

¥5,926 million

FinTech System Development Business

¥3,070 million

Internet Travel Business

¥2,183 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

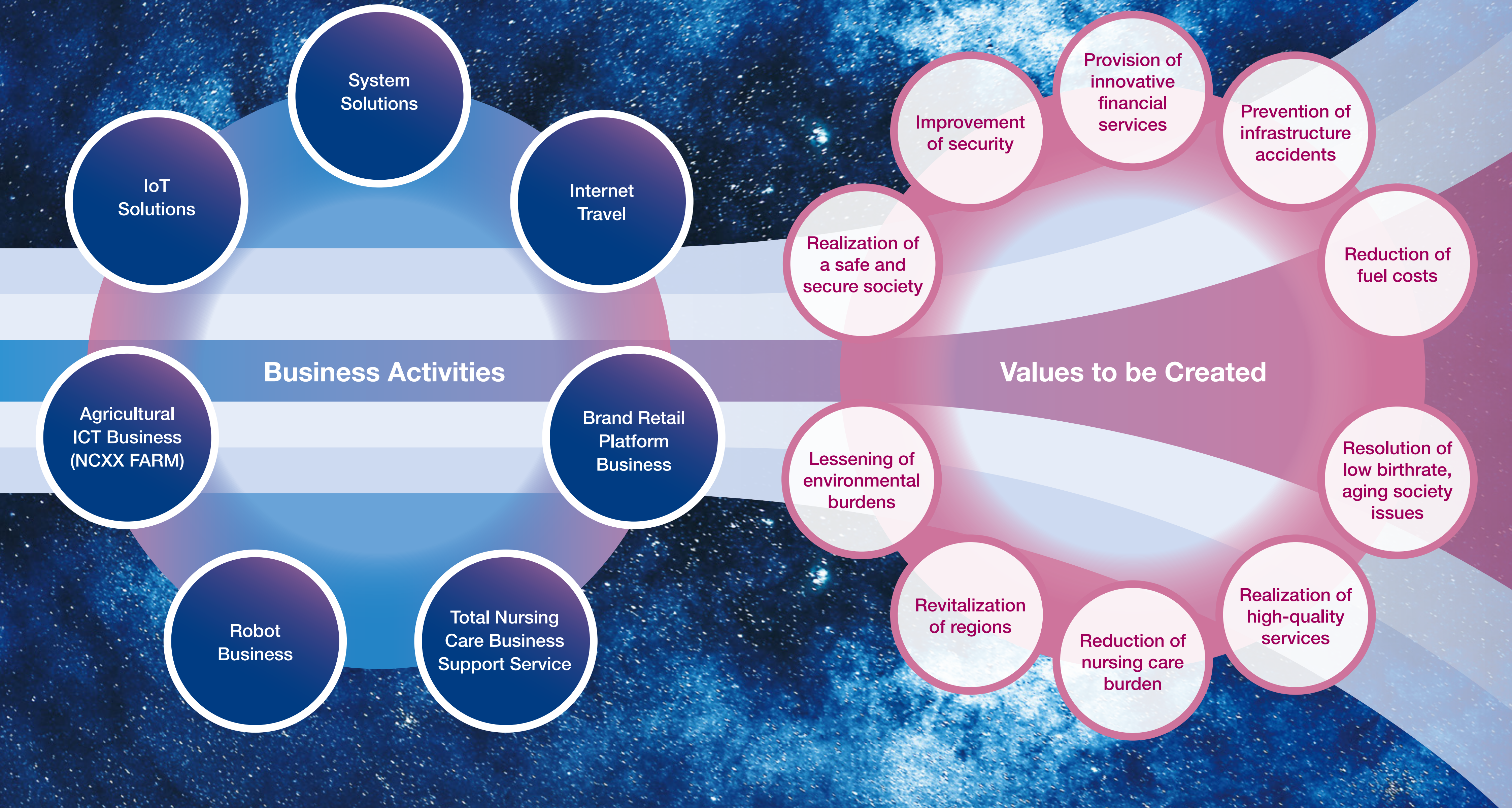
Conservation of the environment and food

- 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

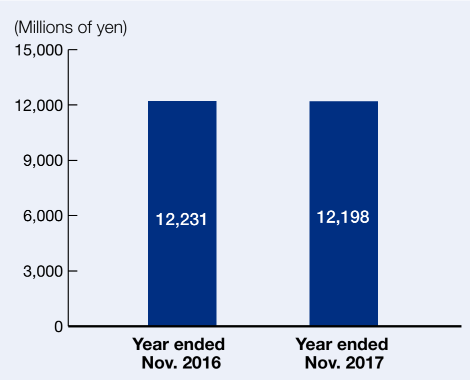
Value Creation Process



Financial Highlights

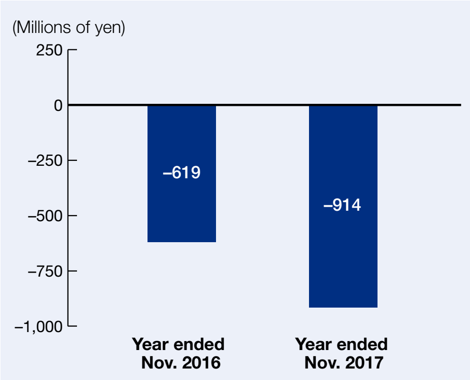
Net sales

¥12,198 million



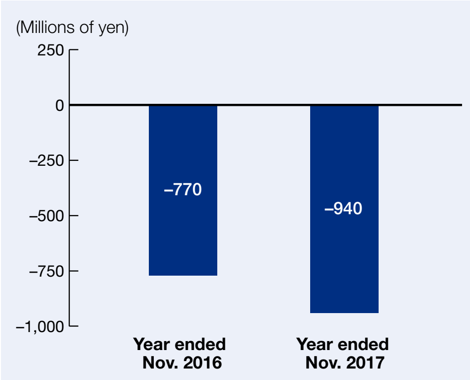
Operating loss

¥–914 million



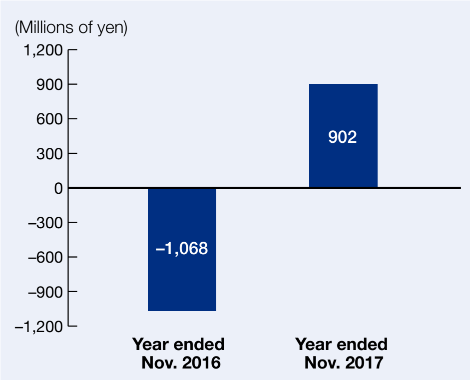
Ordinary loss

¥–940 million



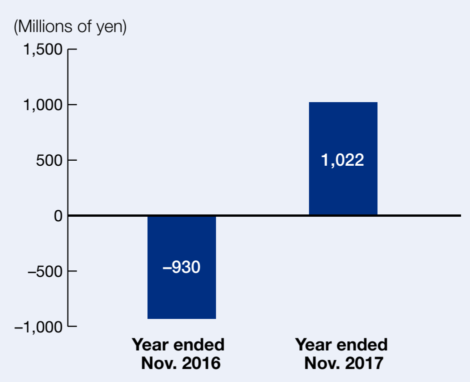
Profit (loss) attributable to owners of parent

¥902 million



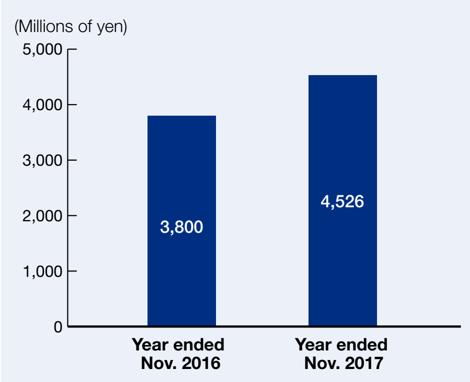
Comprehensive income

¥1,022 million



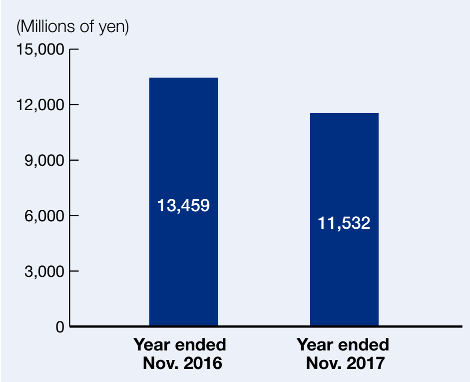
Net assets

¥4,526 million



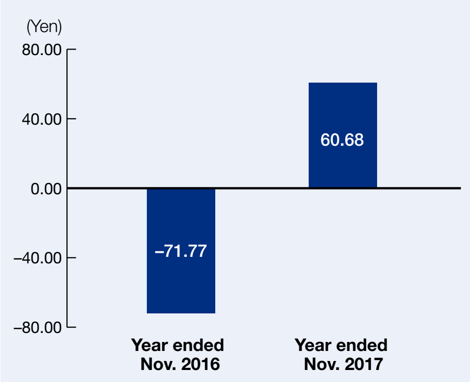
Total assets

¥11,532 million



Net income (loss) per share

¥60.68



Core Performance Indicators

NCXX Group Inc. and consolidated subsidiaries

(Thousands of yen)

Terms	30th term	31st term	32nd term	33rd term	34th term
Fiscal year-end	November 2013	November 2014	November 2015	November 2016	November 2017
Net sales	4,948,289	6,375,427	7,416,907	12,231,134	12,198,921
Ordinary income (loss)	487,207	692,055	(810,412)	(770,026)	(940,251)
Profit (loss) attributable to owners of parent	430,325	630,311	(45,483)	(1,068,435)	902,592
Comprehensive income (loss)	458,901	654,412	33,876	(930,013)	1,022,017
Net assets	2,665,168	3,551,077	4,726,400	3,800,538	4,526,047
Total assets	4,077,632	6,979,008	14,303,095	13,459,907	11,532,367
Net assets per share (Yen)	212.57	276.14	308.98	241.60	259.74
Net income (loss) per share (Yen)	39.79	54.07	(3.14)	(71.77)	60.68
Diluted net income per share (Yen)	–	51.60	–	–	–
Equity ratio (%)	60.6	48.7	32.0	26.7	33.5
Return on equity (%)	24.1	21.5	(1.1)	(26.1)	24.2
Price-earnings ratio (%)	17.9	9.3	–	–	6.5
Cash flows from operating activities	(409,985)	1,448,650	(1,090,008)	341,581	(1,388,039)
Cash flows from investing activities	75,496	(851,134)	(844,920)	686,866	3,929,054
Cash flows from financing activities	1,241,206	2,072,665	829,467	(2,047,010)	(1,851,972)
Cash and cash equivalents	1,253,266	3,930,484	2,905,141	1,881,667	2,529,595
Number of employees	66	235	712	873	272
(Average number of temporary employees)	(–)	(–)	(–)	(423)	(286)

Notes: 1. Consumption taxes are not included in net sales.
2. Although there were potentially dilutive shares for the 32nd term and 33rd term, the Company recorded a net loss per share. There were no potentially dilutive shares for the 30th term and 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 and 33rd term, because the Company recorded a net loss per share for those terms.
4. The Company conducted a 100-for-1 stock split of common shares on June 1, 2013. Net assets per share and net income (loss) per share are calculated as if the stock split had been conducted at the beginning of the 30th term.
5. Because the Company has adopted the Revised Accounting Standard for Business Combinations (ASBJ Statement No. 21, September 13, 2013), the Company's net income (loss) from the 30th term until the 32nd term is disclosed as profit (loss) attributable to owners of parent.
6. The average number of temporary employees has not been disclosed as the number from the 30th 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* is expected to grow to ¥404.4 trillion worldwide and ¥19.7 trillion in Japan by 2030.

Based on this vision for the future, NCXX Group Inc. has been strengthening businesses related to IoT and AI. Notably, we entered into a capital and business tie-up with Terilogy Co., Ltd. (Listing: 3356 TSE JASDAQ; Headquarters: Chiyoda-ku, Tokyo; President: Akihiko Abe), which provides cutting-edge network security solutions to major Japanese corporations. In parallel, we will focus on initiatives to deliver new services that will help to realize Cyber-Physical Systems for the Fourth Industrial Revolution. To this end, we will push ahead with priorities such as joint development that combines the blockchain and AI technologies of Group company CAICA Inc. and the IoT technologies of subsidiary NCXX Inc.

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

Tsukasa Akiyama

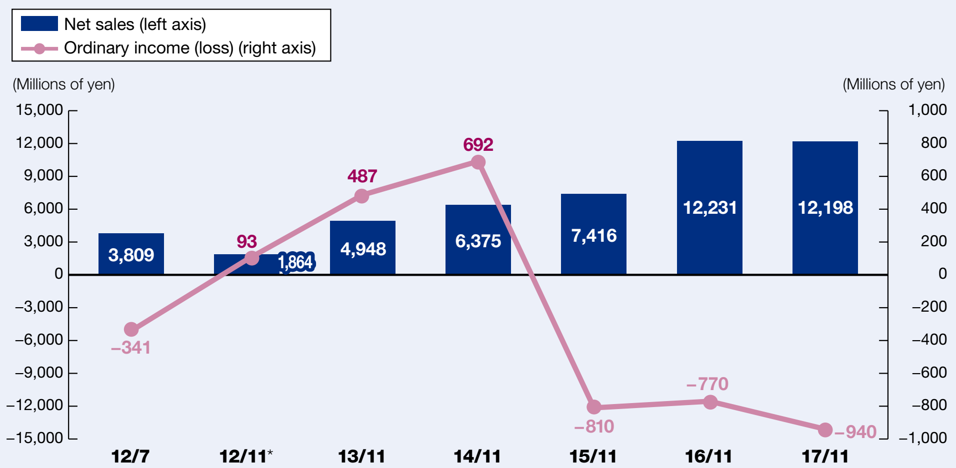
Representative Director and President
NCXX Group Inc.

Top Message

Results for Fiscal 2017

In fiscal 2017 (December 1, 2016 to November 30, 2017), the Company's consolidated net sales decreased slightly by 0.3% year on year to ¥12,198 million. This decrease reflected the fact that CAICA and NCXX Solutions became equity-method affiliates in February and August 2017, respectively. Another factor behind the decline involved LTE data telecommunications terminals, one of the core products of NCXX. Certain customers refrained from purchasing the currently available model based on expectations for the planned launch of a new successor model in 2018. These factors were partly offset by the inclusion in the scope of consolidation of the full-year business results of TITICACA, Co. Ltd. and Gloria Tours Inc., both of which joined the Group 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.

In addition, partly due to proactive advertising activities undertaken in the agricultural ICT business, we posted an operating loss of ¥914 million (¥619 million in the previous fiscal year) and an ordinary loss of ¥940 million (¥770 million in the previous fiscal year). However, we recorded extraordinary income on the transfer of shares. Consequently, profit before income taxes was ¥1,024 million (loss of ¥863 million in the previous fiscal year) and profit attributable to owners of parent was ¥902 million (loss of ¥1,068 million in the previous fiscal year).

ICT, IoT, Device Business (NCXX Inc.)

In collaboration with NCXX Solutions, in August 2016 NCXX rolled out the safe driving assistance service Drive Care (http://www.care-dynamics.jp/obd2/), an OBD II solution for businesses that operate shuttle vehicles to provide various transportation services for nursing care facilities and other customers. The system can monitor any dangerous driving behaviors (sudden starts, sudden stops, sharp turns) that may arise when multiple fleet vehicles are operated simultaneously, enabling managers and supervisors to better monitor the driving behavior of drivers and provide appropriate instructions tailored to each driver. In fiscal 2018, the Group will continue to provide automotive telematic solutions, as well as various other types of solutions.

e frontier became a subsidiary in July 2017. e frontier sells internally developed software, such as AI-driven programs such as AI Go, AI Shogi and AI Mahjong. The company has strengthened download-based sales of licenses to its approximately 500,000 e-mail newsletter subscribers. It also intends to strengthen its hand in creative fields through the sale of polygon data collections that can be easily used by creators of games, video and other content, and the production of digital books together with CG artists.

Segment sales in fiscal 2017 were ¥893 million, down 29.9% year on year. Segment loss was ¥438 million, compared with segment loss of ¥365 million in the previous fiscal year.

FinTech System Development Business (Care Dynamics Limited, NCXX Solutions Inc., and CAICA Inc.)

In addition to a continuous and consistent order intake from existing customers, NCXX Solutions steadily received orders in fiscal 2017, following on from fiscal 2016. These orders included a system reconstruction project for a regional bank, and systems development in connection with the liberalization of the energy sector from a major gas company. In addition, NCXX Solutions has been strengthening collaboration with Group companies. Notably,

Top Message

NCXX Solutions released upgraded versions of the free smartphone app "FISCO app" and the PC browser version "FISCO Web" featuring additional functions. FISCO app and FISCO Web are supplied to NCXX Solutions' parent company FISCO Ltd. In other areas, NCXX Solutions has developed and now provides "Bus Rides" as a smartphone app for businesses. This app displays the current location of shuttle buses for driving schools, preschools, and other organizations and any delays, and "Hazard Maps" as a service for displaying maps of hazardous areas (i.e., where drivers brake hard, accelerate fast, or turn suddenly) with a greater likelihood of accidents based on data acquired from IoT.

Furthermore, in the agricultural ICT business (NCXX FARM), NCXX Solutions is undertaking version upgrades in step with expansion in the Company's franchise business, including providing functions to perform automatic recovery in the event of an error in communications systems. Also, NCXX Solutions has become a member of the Council of Industry-Academia-Government Collaboration of the Ministry of Agriculture, Forestry and Fisheries, with plans to conduct a demonstration trial for developing a model for increasing the production volume of tomatoes.

CAICA steadily pushed ahead with various measures to improve its financial health, such as reducing interest-bearing debt and thoroughly cutting expenses. As a result, the shareholders' equity ratio improved sharply to 72.0% at the end of fiscal 2017 from 21.7% at the end of fiscal 2016. In November 2017, CAICA raised ¥2,330 million through the issuance of new shares via a third-party allotment. In fiscal 2018 onward, CAICA plans to continue to proactively conduct M&As and capital and business alliances.

Going forward, CAICA will strengthen coordination among its subsidiaries, Tokyo Tech Corporation and NCXX Solutions, by providing integration services for the construction of IoT settlement platforms using cryptocurrency and tokens, and conducting systems development leveraging IoT and blockchain technologies. This will be accomplished by sharing knowledge of FinTech-related businesses among the three companies. In addition, CAICA aims to expand business with end-user companies, along with expanding business with the major system integrators that make up its existing customer base.

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

As a result of the foregoing activities, segment sales in fiscal 2017 were ¥3,070 million, down 60.8% year on year. Segment loss was ¥36 million, compared with segment loss of ¥61 million in the previous fiscal year.

Internet Travel Business

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

Meanwhile, the number of inbound foreign tourists visiting Japan rose by 19.3% year on year to 28.69 million in 2017. One key priority for e-tabinet.com has been to enhance the content of tourism information available to inbound tourists. For this, e-tabinet.com has set up a new dedicated skiing website in English to address the strong demand for this information among such tourists. e-tabinet.com is striving to enhance the content of this website with the help of Jitsugyo no Nihon Sha, Ltd., a long-standing publisher and Group company. Moreover, e-tabinet.com converted Gloria Tours Inc. into a subsidiary in October 2016. Gloria Tours specializes in sending Paralympic athletes to various events and organizing international para-sports tournaments. It is focused on expanding the market for para-sports ahead of the Tokyo Olympic and Paralympic Games to be held in 2020.

Segment sales in fiscal 2017 rose 34.4% year on year to ¥2,183 million, comprising overseas travel business sales of ¥1,973 million and domestic travel business sales of ¥209 million. Segment loss was ¥1 million, compared with segment income of ¥10 million in the previous fiscal year.

Brand Retail Platform Business

The brand retail platform business was launched in 2016. To expand this business, in December 2016, Versatile Inc. and FISCO International Limited ("FIL") became consolidated subsidiaries of the NCXX Group after their shares were acquired from FISCO, the parent company. Together with these subsidiaries, the Company commenced the trademark licensing business of CoSTUME NATIONAL, which is engaged in import and sales operations. The Company has begun exploring business expansion initiatives with CoSTUME

Top Message

NATIONAL in Asia using fashion accessories, as well as wine and other retail business, as a foothold in the region. Additionally, in April 2017, the Company entered into a capital and business partnership agreement with CSMEN Co., Ltd. (Listing: 3083 TSE JASDAQ; Headquarters: Chuo-ku, Tokyo; President: Masao Aoki), acquiring 19.01% of its shares. CSMEN is a retail company focused on apparel sales, operating 50 stores in Japan (as of November 30, 2017) under brands including the METHOD and RyugiAssaku casual wear brands. Moreover, in May 2017, Versatile acquired a 51% stake in FACETASM, which is developing the FACETASM brand of casual fashion, turning it into a subsidiary.

TITICACA has been pushing ahead with structural reforms, such as the closure of unprofitable stores and revisions to its personnel system. As a result, it restored operating profitability in the fiscal year ended October 31, 2017. As a coordinated Group measure this fiscal year, TITICACA participated in a camping event sponsored by GARVY, a popular outdoor and family camping magazine published by Jitsugyo no Nihon Sha, Ltd., in August 2017, in a bid to raise recognition of its brand in this particular customer category.

As a result of the foregoing activities, segment sales in fiscal 2017 were ¥5,926 million, up 296.3% year on year. Segment loss was ¥30 million, compared with segment loss of ¥15 million in the previous fiscal year.

In fiscal 2017, the Group recorded a larger operating loss on lower net sales. In fiscal 2018, net sales are forecast to continue decreasing due to the impact of the exclusion of CAICA and NCXX Solutions from the scope of consolidation. However, we expect to restore profitability at the operating income level by improving earnings in each segment.

Going forward, we will accelerate the Company's pace of growth by stepping up efforts to create business opportunities that capitalize on trends in the Fourth Industrial Revolution driven by the integration of IoT and AI.

Outlook for Fiscal 2018

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

Specifically, we plan to establish the Cryptocurrency and Blockchain Business as a new operating segment, with a view to capturing even greater Group-wide synergies. The Cryptocurrency and Blockchain Business segment will seek to provide cryptocurrency services and other services related to the cryptocurrencies and various tokens issued by Group companies, such as NCXX Coin. The new segment will strengthen collaboration with CAICA and NCXX Solutions, both of which have become equity-method affiliates, with the aim of providing services as early as possible. Moreover, as a new initiative, we will promote the development of an AI-based cryptocurrency trading system at subsidiary e frontier, Inc., as well as investment in cryptocurrencies and various tokens using the system.

We will continue to enter growth fields that are attracting interest, such as the development of nursing care robots that offer optimal user friendliness at nursing care sites and the expansion of efficient agribusinesses through the introduction of ICT, in conjunction with upgrading and enhancing IoT-related services beginning with automotive telematic solutions. In fiscal 2018, we expect to restore profitability at the operating income level by improving earnings in each segment.

Tsukasa Akiyama

Representative Director and President
NCXX Group Inc.

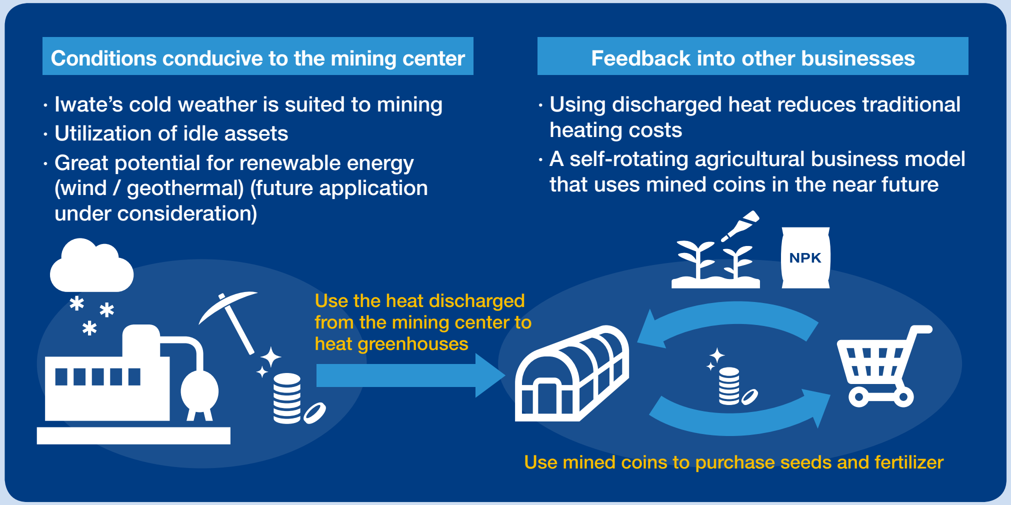
Feature 1 Launch of Cryptocurrency Mining Business in Hanamaki City, Iwate Prefecture

Contributing to Further Synergy among Our Businesses

The NCXX Group, along with its parent company FISCO Ltd. and an equity-method affiliate, CAICA Inc., have been focusing on promoting the cryptocurrency business as a growth strategy for some time. As a new initiative, the Group will launch a cryptocurrency mining business in early November 2018 at the company headquarters in Hanamaki City, Iwate Prefecture. The business is expected to start off as a small-scale trial operation before gradually expanding in scope.

Cryptocurrency mining is a verification process that ensures the consistency of chunks of transaction data ("blocks") that exist on a network. Calculations of vast amounts of data by high-performance computers are essential to the mining process, with the quickest verification yielding payment of cryptocurrency as a reward. The NCXX Group's mining business uses an application-specific integrated circuit (ASIC) and conducts mining activities for cryptocurrency supported by the Equihash algorithm (Bitcoin Gold, Zcash, ZenCash, Hush, etc).

Hanamaki Mining Business Concept



① Iwate Prefecture's Hanamaki has low temperatures throughout the year

In the mining business, there are tremendous electrical costs associated with cooling fans and air conditioner installations that suppress heat emitted from the mining equipment. Curbing these costs is integral to the success or failure of the business. That being said, Hanamaki experiences relatively low temperatures throughout the year—it drops below freezing in the winter, and in the summer only averages around 23.8°C (74.8°F) (Source: Japan Meteorological Agency). Therefore, we can anticipate high cooling efficiency through natural ventilation, which in turn greatly reduces electricity costs.

In addition, Iwate Prefecture is ranked second in Japan in terms of renewable energy potential, with exceptional potential for wind-powered or geothermal generation of electricity. The Group is working from the perspective of procuring low-cost electricity generation by utilizing these abundant renewable energies in the near future.

② Utilizing discharged heat in the agricultural business

The NCXX Group has been focusing efforts on its agricultural ICT business NCXX FARM, a vinyl greenhouse in Hanamaki that grows miniature tomatoes throughout the year. Due to Hanamaki's cold climate, it is necessary to maintain stable greenhouse temperatures in the winter, with heaters running 24 hours a day. The NCXX Group seeks to create a mechanism that utilizes heat discharged from mining machines, which also run 24 hours a day, in order to significantly reduce traditional heating costs for the agricultural business. In the near future, the Group also plans not only to utilize discharged heat from the mining business, but also set up a self-rotating agriculture system that uses mined coins to replenish stocks such as seeds, fertilizer, and chemicals.

With the mining business, the NCXX Group will proceed with creation of a mechanism that contributes to the efficiency of its other businesses, and strive to maximize profits by creating an original synergy effect unlike any other company.

Feature 2

Business Alliances with e frontier and Fisco Cryptocurrency Exchange

Launch of R&D into AI Trading Systems for Cryptocurrency

Cryptocurrency has been gaining social interest with financial value under the amended Payment Services Act that came into effect in April 2017, and other cryptocurrencies in addition to Bitcoin are gradually being defined as payment methods. Thus it is expected that cryptocurrency exchanges will see an increase in activity going forward.

As the Group sets its sights on the future, we are jointly participating in the development of AI trading systems for cryptocurrency through the conclusion of business tie-up agreements with Fisco Cryptocurrency Exchange Inc. (hereafter "FCCE") as well as our subsidiary, e frontier, Inc.

e frontier develops and sells a series of software products for strategy games, namely AI Shogi, AI Go, and AI Mahjong, which house AI programs with learning routines that recommend next moves by confirming the status of the game, automatically making decisions, and then learning from those decisions. AI Shogi took first place at the World Computer Shogi Championships, a computer-versus-computer shogi tournament, while AI Go took first place in the go division of a tournament hosted by the International Computer Games Association. As a new initiative that utilizes its high technological capabilities, e frontier has been undertaking development of a cryptocurrency trading system that addresses derivative trading for virtual currencies, including Fisco Coins, NCXX Coins, and CAICA Coins.*1 e frontier seeks to acquire past trade data accumulated in cryptocurrency exchanges in Japan and overseas (enormous amounts of data such as price, board information, price by volume, etc.), and utilize its knowledge of data analysis to develop AI functions that can conduct appropriate investment decisions.

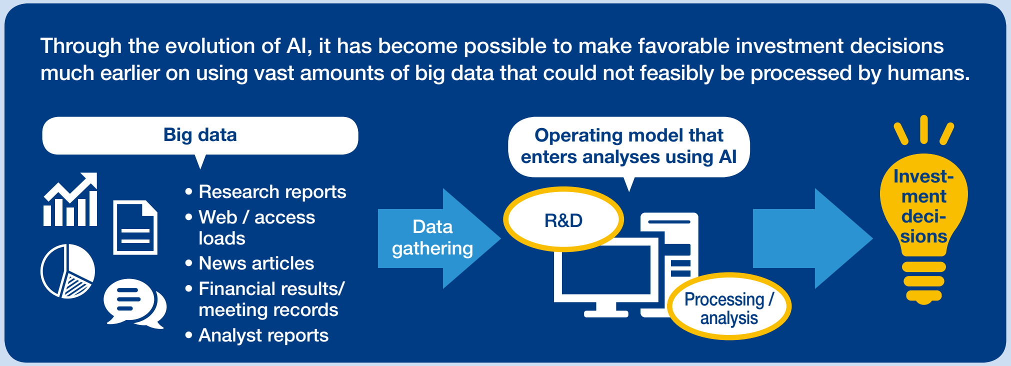
Meanwhile, with the business alliance agreement with FCCE, the Group will strive for a system with even stronger usability. The Group will receive guidance from FCCE as a user of derivative systems and high-frequency trading systems*2, in addition to receiving enormous amounts of past trade data from the cryptocurrency exchange that FCCE operates while the Group conducts verification testing for the new system. Furthermore, the NCXX Group has successfully introduced derivative and high-frequency trading systems for cryptocurrencies at FISCO Digital Asset Group Co., Ltd., FCCE's parent company, and partnering to develop systems with CAICA Inc., which is also in a business alliance with the Group.

The NCXX Group implements system development consulting for e frontier that includes planning and proposals for system designs, etc., as well as overall project management. The Company also plays a role in providing necessary investment.

These business tie-ups with e frontier and FCCE help strengthen our development framework, to which we strive for early implementation of both regular and corporate license sales of the AI trading systems for cryptocurrency.

However, we will not stop at business tie-ups; going forward, the NCXX Group will continue to integrate IoT and blockchain technology, bolstering our cryptocurrency services and services related to cryptocurrency tokens issued by Group companies, in addition to NCXX Coins.

AI Trading Systems for Cryptocurrency Concept Diagram



*1 Fisco Coins, NCXX Coins, and CAICA Coins are corporate tokens issued respectively by FISCO, the NCXX Group, and CAICA. As "virtual currency" stipulated by the amended Payment Services Act that came into effect from April 2017, these tokens have been approved by Japan's Financial Services Agency as cryptocurrency that can be handled by cryptocurrency exchange operators, and are used in trades on the Zaif cryptocurrency exchange, as well as FCCE's Fisco Cryptocurrency Exchange.

*2 Derivative systems and high-frequency trading systems seek to acquire profits while automatically curtailing risks by checking and analyzing trends through coverage of many cryptocurrency exchanges in Japan and overseas.

Introducing Our Businesses

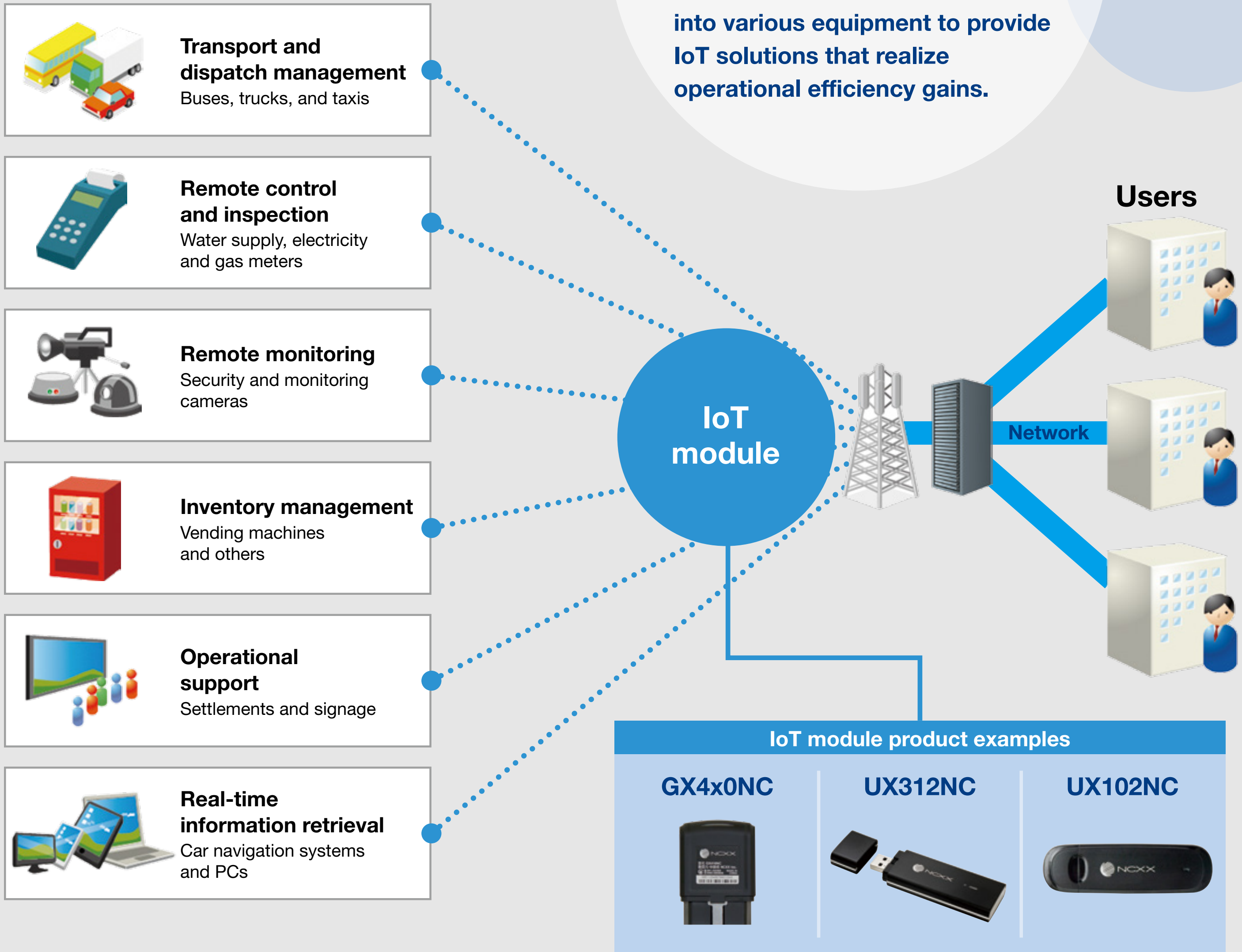
ICT·IoT·Device Business (NCXX Inc.)

IoT Solutions

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

Main Target Fields for IoT

NCXX works to incorporate wireless telecommunication functions into various equipment to provide IoT solutions that realize operational efficiency gains.



Introducing Our Businesses

FinTech System Development Business / (NCXX Solutions Inc.)

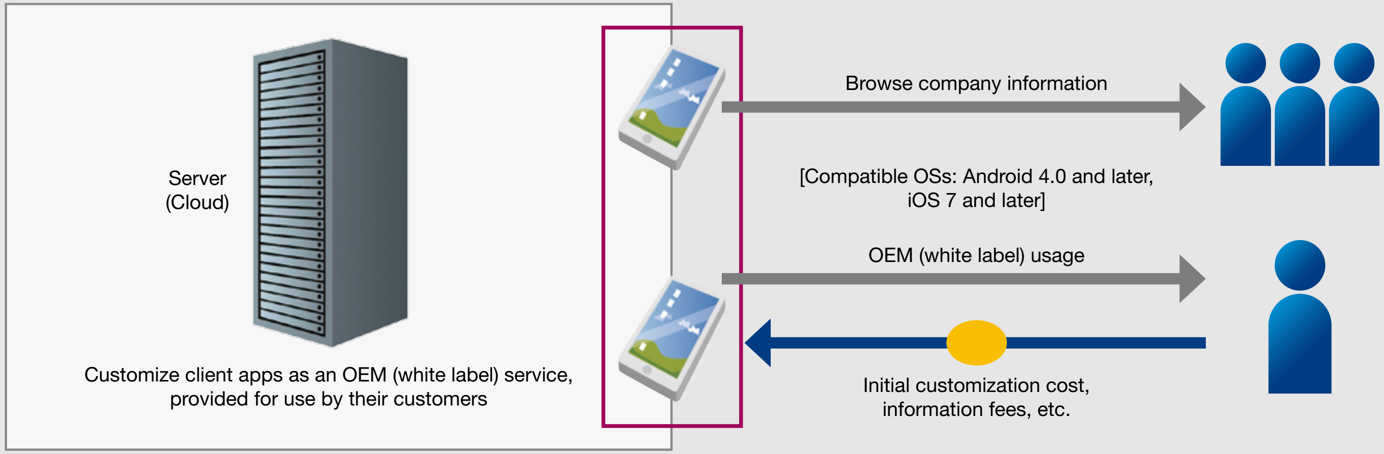
System Solutions

We provide integrated one-stop services in manufacturing, finance, distribution, and corporate and public sectors. Services cover all aspects from consulting to system development businesses, including design, construction, operation, and maintenance, as well as infrastructure construction such as networks and databases. Specifically, we offer various services, such as a telematics service and app for realizing lower fuel consumption and accident prevention through eco-driving and safe driving guidance. This service is provided as a cloud (ASP/SaaS) service, and enables a timely grasp of the driving status of a vehicle from a remote location, including its speed, travel time, travel distance, and sudden starts and stops. Furthermore, with future business development, we will develop various services, such as a corporate information provider service that provides apps as OEM (white label) solutions to companies (small- and medium-sized securities companies, human resource service companies, and so forth). We are also developing ICT services for the agriculture and nursing care sectors.

Corporate Information Provider Service

Original brand app

Provide customers with up-to-date information through original app	NCXX Solutions constantly updates information	Able to post stock promotions based on personalized customer marketing



Fees can be arranged flexibly based on initial cost + revenue share.

Implementation Example

Together with FISCO, NCXX Solutions developed and operates the smartphone app “FISCO app” for providing investment information on listed companies. The app includes a company information function that enables users to check all listed companies by stock code order, and a market flash report function that delivers the latest investment news from analysts. Other functions include the event schedule function that enables users to view a list of important recent event information and the favorites (portfolio) management function that lets users register and manage their favorite stocks easily.

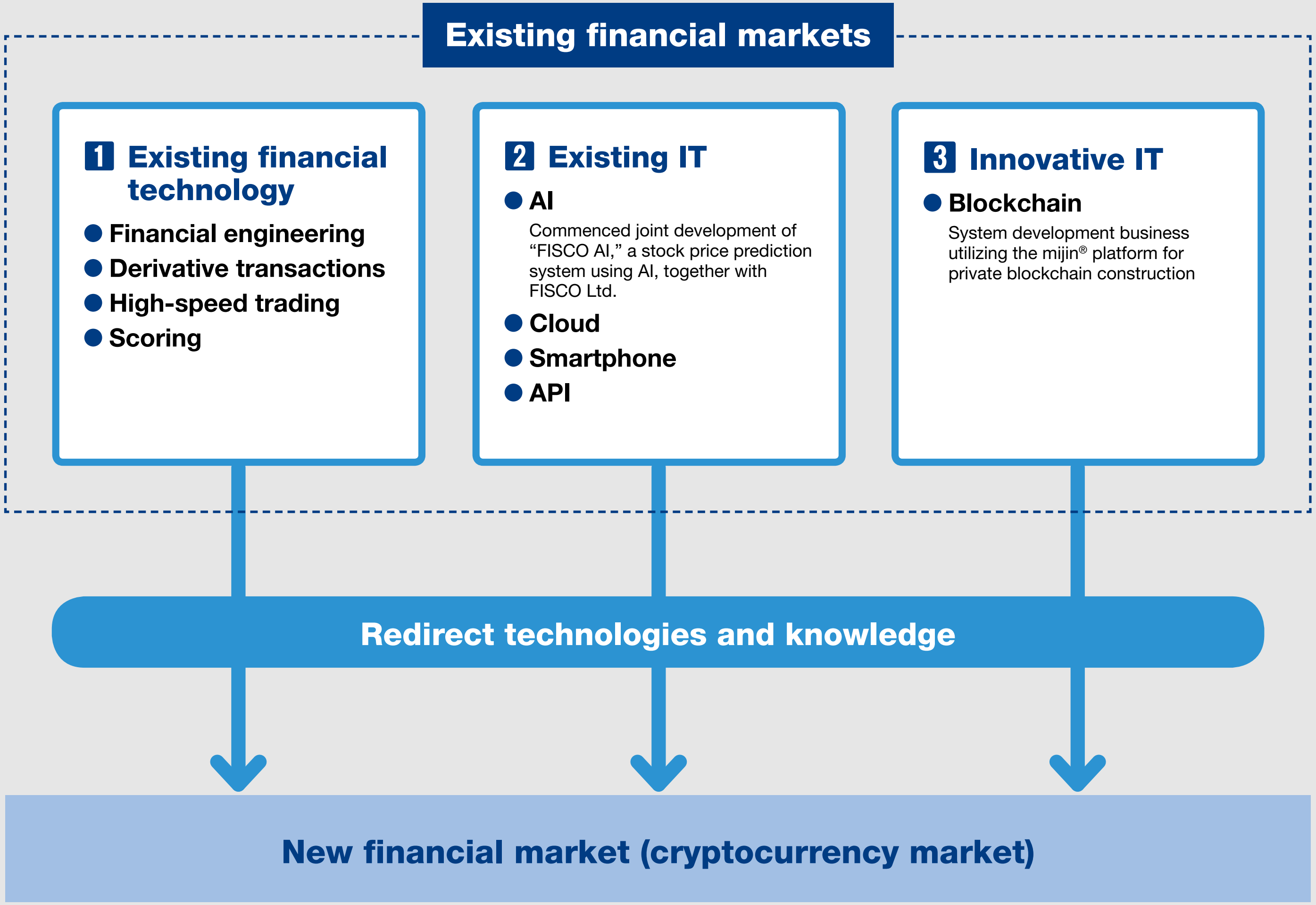
Introducing Our Businesses

FinTech System Development Business / (CAICA Inc.)

System Solutions

CAICA is involved in the existing device business, but also has strategic focus on development in the FinTech-related business, particularly in AI and blockchain technologies. In AI, CAICA is working on development of a stock price prediction system using AI together with its parent company FISCO. In blockchain ("distributed ledger") technology, CAICA is taking on new challenges, such as issuing CAICA Coin corporate tokens. There are high expectations that FinTech can deliver cheaper systems to replace financial services traditionally provided by large financial institutions and so forth. Demand in the FinTech field represents a huge opportunity for CAICA, which has acquired a deep knowledge of system infrastructure through developing systems for many financial institutions.

The NCXX Group's Existing Fields and New Service Domains in the FinTech Field



Technology flow between new and existing financial markets has begun and will accelerate going forward.
The NCXX Group has a wide range of potential domains for providing services.

Introducing Our Businesses

FinTech System Development Business / (Care Dynamics Limited)

Total Nursing Care Business Support Services

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

Nursing Care Robot Business

Care Dynamics aims to realize the highest level of nursing care service quality through the harmonization of people and robots. The company supports sales and introduction and operation of robots at nursing care facilities. Care Dynamics will provide introduction consulting 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.

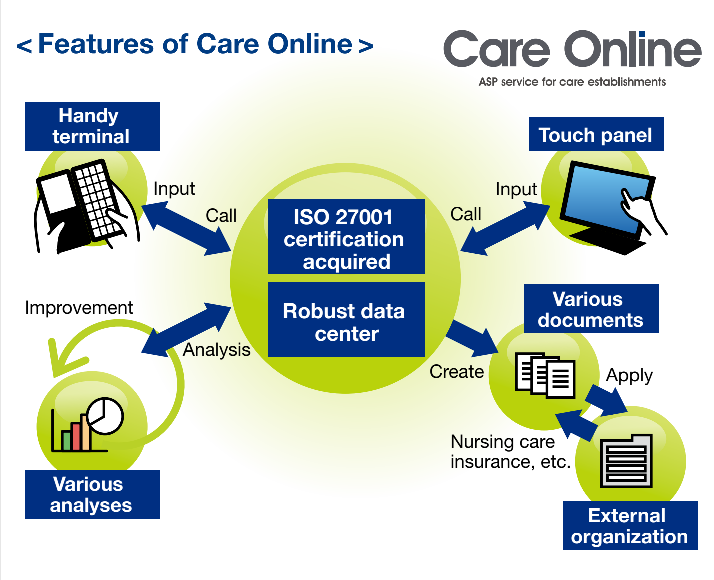

Prof. Sankai, University of Tsukuba/CYBERDYNE Inc.

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 cloud services 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. As of late December 2017, 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, image, 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.

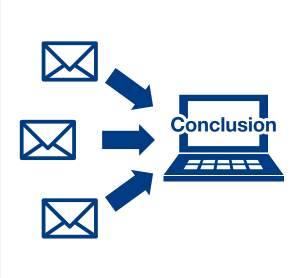
STEP 1

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.

As of September 2017, the service has over 450 unique and original travel concierges registered.

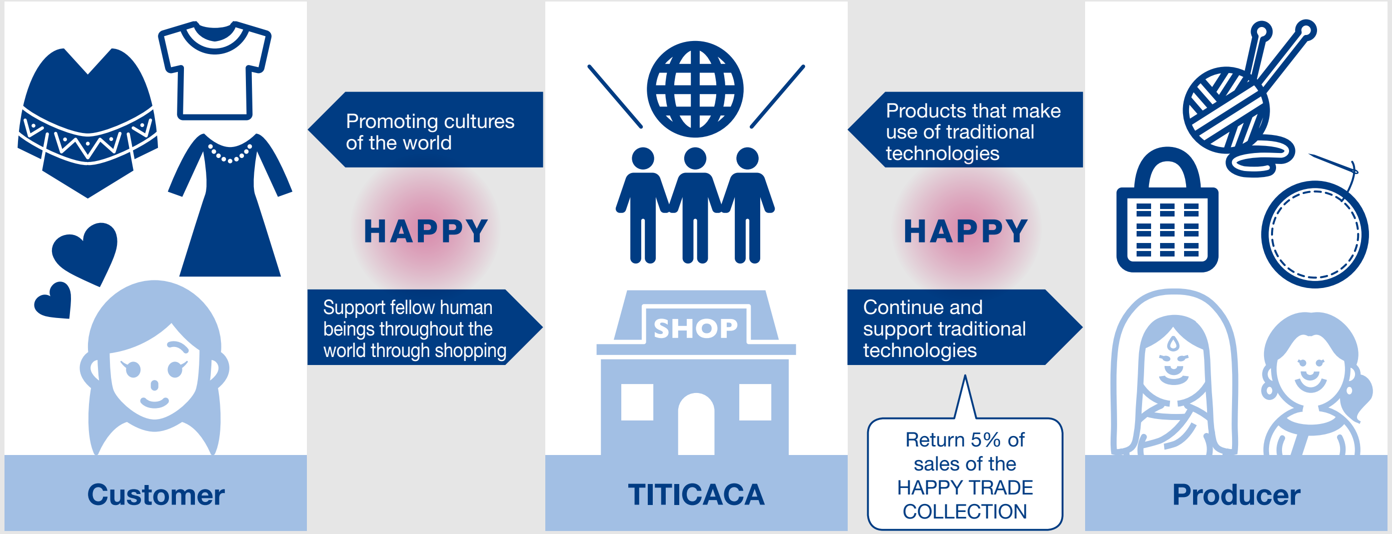
Introducing Our Businesses

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

Retail and Wholesale Sales of Clothing and Accessories

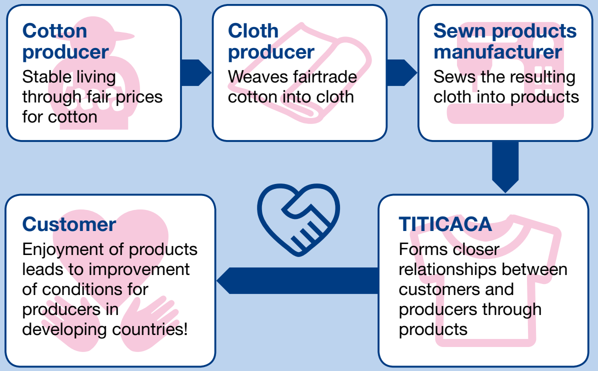
TITICACA deals directly with producers in countries around the world, such as Central and South America, with integrated in-house operations spanning planning, manufacture, and sale of original ethnic apparel and accessories. The company creates original products with a hand-crafted style designed to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

HAPPY TRADE COLLECTION



What Is Fairtrade?

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



The International Fairtrade Certification Mark

FAIRTRADE

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

Sustainability

Corporate Governance

I Corporate Governance System

1. Outline of Corporate Governance System

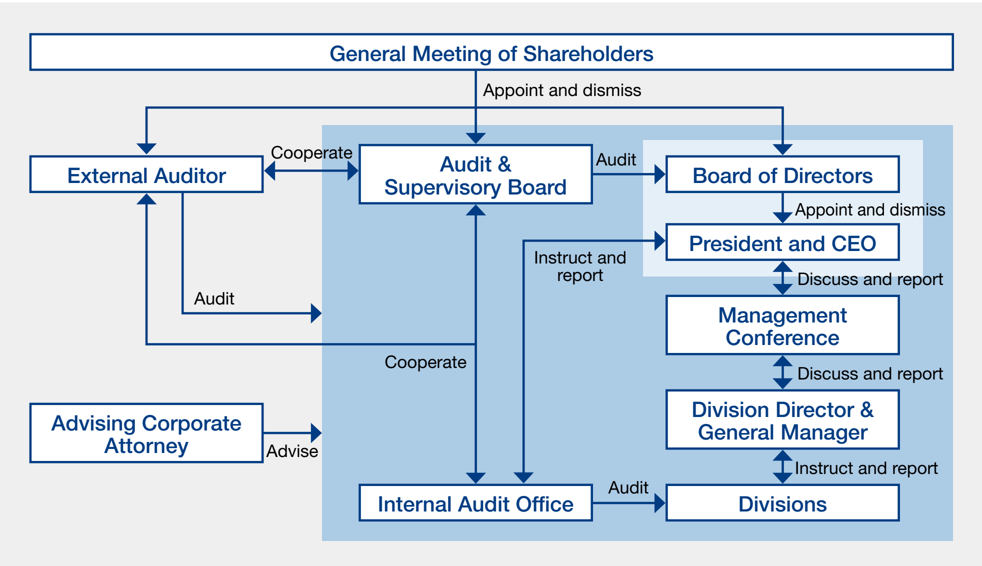
The Company has a corporate governance system comprising a Board of Directors, Audit & Supervisory Board members, an Audit & Supervisory Board, and an external auditor.

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)	4,904	3,860	1,044	–	–	4
Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members)	1,200	1,200	–	–	–	2
Outside officers	3,000	3,000	–	–	–	3

Notes: 1. The Extraordinary General Meeting of Shareholders, held on October 25, 2017, resolved that the total compensation for the Company's directors (excluding salary as an employee) shall be limited to within ¥100 million per year. Separately from the above, the 33rd Ordinary General Meeting of Shareholders, held on February 23, 2017, 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.
3. There was one director who received no compensation in fiscal 2017 (from December 1, 2016 to November 30, 2017).

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 Sadatomo Matsudaira has extensive knowledge developed through his career as a newscaster over many years. Mr. Matsudaira was appointed because his knowledge is expected to help strengthen the Company's management team. There are no conflicts of interest between this individual and the Company.

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

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

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

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

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

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

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

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

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

(Thousands of yen)

Classification	Fiscal 2016		Fiscal 2017	
	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	17,800	–	12,000	–
Consolidated subsidiaries	26,620	–	31,215	–
Total	44,420	–	43,215	–

Board of Directors and Audit & Supervisory Board Members

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

Interview with an Outside Director

I am looking forward to business development that builds a new social infrastructure

An Exciting Business that Connects Industries

It has been three years since I became an outside director, and the NCXX Group has continued to challenge itself in a number of ways during my term. The Group has been responding to topics that are relevant to today's society with cutting-edge technologies, such as undertaking various forms of verification testing that utilize blockchain technology and developing solutions for caretaking transportation that employ telematic technology.

One area in which I have great expectations is the NCXX Group's development of businesses from an overlook of its own capacities, while also working from the perspectives of all sorts of industries without preconceived notions. By utilizing the technology that it has cultivated over many years in transmission devices and systems development, the Group has been creating businesses with many facets to support people's lives, such as through agricultural ICT, robotics, caretaking support and Internet travel, in addition to its standard business of system solutions for the finance and distribution fields.

The NCXX Group's strong point is how it stands out in various fields in which it excels, while working with integrated horizontal connectivity. It is a company that I feel increasingly excited about regarding its business development going forward.

Quick and Careful Judgements in a Changing Era

With innovation accelerating at an unprecedented speed in the present, equally swift decision-making is required in management so as not to miss opportunities for business. On the other hand, the business environment itself is experiencing drastic changes, and our existing business frameworks will not necessarily last forever. Therefore, management must also act with careful insight that focuses on what lies ahead.

Under these circumstances, I believe it is essential for today's businesses to find compatibility between the contradictive notions of both speed and caution in decision-making. I want to offer my services on that front from the neutral standpoint of an outside director.

Sadatomo Matsudaira

Outside Director
NCXX Group Inc.

November	1944	Born
April	1969	Joined Japan Broadcasting Corporation
April	2010	Appointed Professor, Kyoto University of Art and Design (current)
June	2010	Appointed Guest Professor, Kokugakuin University (current)
February	2016	Appointed Director of the Company (current)

Interview with an Outside Director

For instance, when businesses are accelerated to a new stage such as entry into a new field or M&A activities and there is a point that cannot be agreed upon with that same sense of speed, I temporarily put on the breaks without hesitation to confirm whether the situation is truly all right or until those involved are satisfied.

Creating Substantiality for Corporate Governance

Maintaining transparency of corporate management and prompt disclosure of information to stakeholders, such as shareholders and investors, are par for the course for a listed company. However, asymmetry between shareholders and managers, as well as outside directors and managers eventually occurs. Company shareholders are faced with the tremendously difficult aspect of deciding whether new investment is appropriate or whether a contract is reasonable based on the information they have.

As an outside director, I carefully confirm from a third-party perspective whether an investment or contract is consistent with the medium- to long-term interests of stakeholders, such as a small group of shareholders, and then make reasonable judgements and evaluations. In addition, I think leadership is very important in keeping an overall balance in the diversification of management at the NCXX Group, which is involved in many industries. The Group must unify all of its businesses while determining the growth prospects of each, and strengthen management functions in a sustainable manner. To that end, I want to work towards increasing the NCXX Group's corporate value while ensuring impartiality.

Advancing Social Infrastructure and Contributing to QOL Improvements

The Fourth Industrial Revolution, which originates from a policy in Germany entitled "Industry 4.0," is already entrenched as a societal concept in which reality and cyberspace are seamlessly interconnected. As IoT technology is at the core of the phenomenon, it can be said that the NCXX Group's businesses are on the verge of playing an integral role in advancing the Fourth Industrial Revolution.

The NCXX Group is proposing a new social infrastructure by seamlessly linking various industrial technologies. Since 2012, the NCXX FARM agricultural ICT business has been striving to realize a decrease in agricultural chemicals, reduction in cultivation time periods, and improvements to produce quality through digitization and data analysis of cultivation conditions. The business also seeks to stabilize production so that the plants will not be influenced by climate. In another business, the NCXX Group is developing mechanisms to respond to needs on the ground while collecting data in real-time by linking caretaking robots to a network.

The quality of life will improve for each person if a new social infrastructure can be put in place; I have high hopes for the NCXX Group in further challenging itself to move towards realization of a society that is easier to live in.

CSR Activities

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.

Initiatives through Business

Suzuka 8 Hours Endurance Motorcycle Night Cruising Event
Volunteer Cosponsor of Motorcycle Sidecar Parade "Feel the Wind"

The NCXX Group encourages its employees to volunteer as an opportunity to interact directly with their communities. As a part of these efforts, we cosponsored the "Feel the Wind" event for people with disabilities, where participants ride in pairs on motorcycles around the race circuit at night. The main sponsor of the event is the volunteer group Association of Following the Wind. The NCXX Group co-sponsored this event which helps people with disabilities and the elderly experience something that they would not be able to experience on their own. In other words, the aim is to turn the dreams and ambitions of people into reality, which relates to the NCXX Group's mission of manufacturing goods. Our employees can grow as individuals by volunteering, and such events both vitalize companies and society and also bring them closer together. We intend to provide many of our employees with opportunities to actively participate in their communities as volunteers.

Riding tandem

Publicizing the Agricultural ICT Business
NCXX Group Food Stands at the 2018 Hanamaki Festival

The Hanamaki Festival was held in the city of Hanamaki in Iwate Prefecture for three days from September 7 to 9, 2018. The festival features a parade of over 100 portable shrines, lion dances, traditional *kagura* dances, and other Hanamaki folk dances. At the festival, the NCXX Group set up food stands that sold keema curry, hot sandwiches and curried potatoes as new festival food items, in addition to IT tomatoes, juice, and beer.

Food stands lining the street at the 2018 Hanamaki Festival

CSR Activities

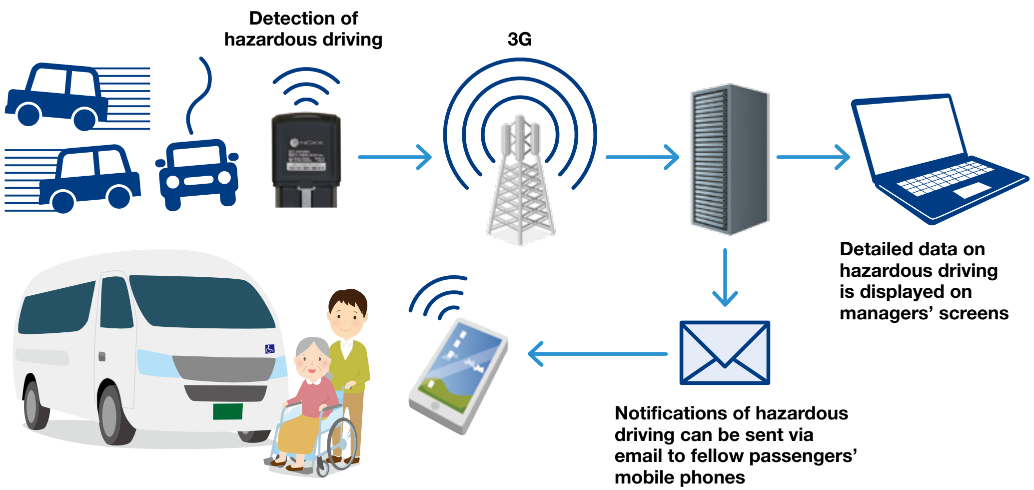
Reducing Risk in Delivering Nursing Care Services
OBD II-Type Automotive Telematics Data Collecting Unit GX4x0NC

NCXX offers the GX4x0NC, an OBD II-type automotive telematics data collecting unit that is compatible with more than 1,200 car models in Japan. It can be installed in a variety of welfare vehicle models as well. The unit can collect 10 types of basic vehicle data, including instantaneous mileage, vehicle speed, acceleration and GPS-based location. Driving data on vehicles with this device installed is sent over 3G networks to servers, where the data can be quantified and visualized to detect hazardous driving. With this system, fleet managers and supervisors can track driving conditions for multiple welfare vehicles at the same time, and be quickly notified of any hazardous driving while vehicles are sent out to pick people up.

OBD II Solution for Nursing Care Service Vehicles

It can prevent hazardous driving and reduce the risk of traffic accidents.

The system can detect hazardous driving (i.e., fast acceleration, hard braking, sharp turns) when vehicles are sent out to pick people up, allowing managers to accurately supervise drivers. It promotes safer transportation services by reducing the risk of traffic accidents by preventing hazardous driving.



Third Sale of Charity T-Shirts
¥500 Is Donated to Developing Countries for Each Double Smiles Charity T-Shirt and Tote Bag Sold

The NCXX Group collaborated with Japanese actress Alice Hirose to sell Double Smiles charity t-shirts and tote bags in May 2018 for World Fair Trade Day and Fair Trade Month. Alice Hirose's Double Smiles products express her wish for both "producers and shoppers to be happy," and the collaborative campaign was held at TITICACA stores for the purpose of spreading happiness to both manufacturing laborers in aid countries and to consumers by way of charity products. This collaborative campaign entered its third year in 2018, and helps create sustainable employment for manufacturing laborers every year.

Financial Section

Analysis of Operating Results and Financial Position

[Review of Operations]

In the fiscal year ended November 30, 2017, the Japanese economy saw corporate earnings follow a recovery trend, supported by the Japanese government's economic policies together with monetary policies. On the other hand, the economic outlook still remains uncertain, based partly on unstable political trends overseas and concerns about the impact of geopolitical risk.

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

In this operating environment, in January 2017, NCXX Group Inc. ("the Company") entered into a capital and business tie-up with Terilogy Co., Ltd. (Listing: 3356 TSE JASDAQ; Headquarters: Chiyoda-ku, Tokyo; President: Akihiko Abe) to jointly develop products that combine the NCXX Group's IoT device development technologies with Terilogy's security technologies. Terilogy provides cutting-edge solutions in network security for major Japanese corporations to create a society where IoT devices can be used safely, protecting key equipment, systems and information from various online threats.

In February 2017, CAICA Inc. ("CAICA") (Listing: 2315 TSE JASDAQ; Headquarters: Meguro-ku, Tokyo; President: Niu Yu) became an equity-method affiliate, instead of a consolidated subsidiary, in light of voting rights being below 50%. This decision was made because an adequate relationship of cooperation has been established based on a capital and business partnership, including the proactive exchange of personnel on a project basis, the introduction of a Bitcoin payment system for the TITICACA Online Shop operated by subsidiary TITICACA, Co. Ltd. ("TITICACA") and the development of an attendance management system using blockchain technology for subsidiary NCXX Inc. Further information can be found in the "Notice regarding capital and business alliance with SJI Inc., and conversion to a subsidiary by private placement of new shares and acceptance of share subscription rights, and loan" (Japanese only) issued on June 1, 2015. (SJI changed its trade name to CAICA in February 2017.) Since the capital and business partnership will remain in force without modification in the future, CAICA does not have to be a consolidated subsidiary of the Company, and as a Group company, CAICA will be able to continue working on new services for Cyber-Physical Systems for the Fourth Industrial Revolution envisioned by the Group, including participating in joint development projects that combine its blockchain and AI technologies with the IoT technologies of subsidiary NCXX Inc.

In August 2017, the Company transferred 51% of the shares outstanding in consolidated subsidiary NCXX Solutions Inc. ("NCXX Solutions") and 49% of the shares outstanding in NCXX Inc. to CAICA. As a result, NCXX Solutions changed from a consolidated subsidiary to an equity-method affiliate. The aim of this transaction is to spur growth at both companies by combining CAICA's latest AI and blockchain technologies with NCXX Solutions' know-how in IoT-related services through device products that are highly relevant to NCXX Inc. Moreover, this move is in line with our plan to create a business structure able to rapidly introduce products that address latent needs in the marketplace. We aim to accelerate the development of device products that link IoT and blockchain technology, such as IoT payment platform services that utilize crypto-currencies and tokens, through collaboration with Fisco Cryptocurrency Exchange Inc., a group member of FISCO Ltd. ("FISCO") (Listing: 3807 TSE JASDAQ; Headquarters: Minato-ku, Tokyo; President: Hitoshi Kano), the parent company, leveraging its cryptocurrency platform while providing information about cryptocurrency markets including Bitcoin. For example, this initiative entails providing smart locks*1 and settlement systems for condominiums and rental offices in the sharing economy, as well as providing smart keys*2 for rental cars and car sharing services, in addition to ride hailing services.

*1, *2: Smart locks and smart keys are devices that allow people who have paid and registered to then access a designated property or automobile, locking and unlocking access using their smartphones or other electronic devices.

Meanwhile, the brand retail platform business*3 was launched in 2016. To expand this business, in December 2016, Versatile Inc. ("Versatile") and FISCO International Limited became consolidated subsidiaries of the Company after their shares were acquired from FISCO, the parent company. Together with these subsidiaries, the Company commenced the trademark licensing business of CoSTUME NATIONAL, which is engaged in import and sales operations. The Company has begun exploring business expansion initiatives with CoSTUME NATIONAL in Asia using fashion accessories, as well as wine and other retail business, as a foothold in the region.

Additionally, in April 2017, the Company entered into a capital and business partnership agreement with CSMEN Co., Ltd. ("CSMEN") (Listing: 3083 TSE JASDAQ; Headquarters: Chuo-ku, Tokyo; President: Masao Aoki), acquiring 19.01% of its shares. CSMEN is a retail company focused on apparel sales, operating 50 stores in Japan (as of November 30, 2017) under brands including the METHOD and RyugiAssaku casual wear brands. Moreover, in May 2017, Versatile acquired a 51% stake in FACETASM, which operates 50 stores in Japan (as of April 30, 2017) under its FACETASM brand of casual fashion, turning it into a subsidiary.

*3 The brand retail platform business refers to the retail business including general merchandise and apparel and the licensing business for brand trademarks.

In regard to 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.

In terms of sixth-order industrialization initiatives, in July 2017, the Group's Keema Curry with Yellow Tomatoes, a pouched curry made from cherry tomatoes, won an award at the 2017 Iwate Unmei-mon!! Gran Prix (2017 Furusato Food Competition in Iwate Prefecture), a local food contest in Iwate Prefecture.

Analysis of Operating Results and Financial Position

In the franchise business, the Group regularly conducts presentations on the franchise business at its proprietary testing plot. It has seen an increase in tours and inquiries from across Japan, including the use of these presentations by local municipalities and educational institutions as part of their training programs. Looking at its track record of introducing systems for the fiscal year ended November 30, 2017, the Group delivered systems to companies in Iwate Prefecture. As a new development initiative, the Group developed and began trial operation of a prototype data recording and management app that can be used by farmers to easily monitor harvest and management data. Development has continued with a view to linking the app with weather and market information and to the Group's ICT and accounting systems in the future. In the area of ICT systems, the Group commenced the development of an environmental management prediction system, as a new function designed to automatically perform environmental management by comprehensively integrating factors essential to the growth of vegetables and health management. In addition, the current system has achieved a solid track record to date and the addition of new functions will significantly enhance its user friendliness. Considering those factors, the Group has proactively conducted advertising activities such as running magazine and video advertisements, as well as holding events to dramatically expand the franchise business from the next fiscal year onward.

The Group will continue working to establish a business model for harvesting safe food materials in a stable and efficient manner by upgrading ICT systems and accumulating expertise at its proprietary testing plot.

[Operating Results]

Looking at consolidated business results, net sales increased on account of additions to the scope of consolidation, namely TITICACA in August 2016 and Gloria Tours Inc. ("Gloria Tours") in October 2016. Meanwhile, net sales declined because CAICA and NCXX Solutions became equity-method affiliates, from February and August 2017, respectively. In addition, NCXX Inc. has been developing a successor model to its LTE data telecommunications terminal, one of its core products, and plans to introduce the new model to the market in 2018. In the run-up to the introduction of this new successor model, certain customers have refrained from purchasing the current model. As a result, sales proceeds fell short of target. In addition, e-tabinet.com had maintained a gradual recovery following a string of terrorist incidents by the Islamic State since the previous year. However, in April 2017, the bankruptcy of Tellmeclub Inc. became a social issue, leading to the outflow of customers to larger travel agencies. This resulted in a decline in the number of requests for travel estimates from customers at e-tabinet.com. Consequently, sales proceeds of e-tabinet.com fell short of target.

Turning to operating income, profits decreased in line with the aforementioned decrease in net sales. Operating income also declined because the Group proactively conducted advertising activities, such as running magazine and video advertisements, as well as holding agriculture-related events. These activities were undertaken to dramatically expand apps and systems in the agricultural ICT business, as well as the franchise business from fiscal 2018 onward.

As a result of these efforts, consolidated net sales were ¥12,198 million, down 0.3% year on year. Operating loss was ¥914 million, compared to an operating loss of ¥619 million in the previous fiscal year. The ordinary loss was ¥940 million, compared to an ordinary loss of ¥770 million in the previous fiscal year. Profit before income taxes was ¥1,024 million, compared with a loss before income taxes of ¥863 million in the previous fiscal year. Profit attributable to owners of parent was ¥902 million, compared with a loss attributable to owners of parent of ¥1,068 million in the previous fiscal year.

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

(ICT, IoT, Device Business)

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

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

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

In the fiscal year ending November 30, 2018, the Group will continue to provide automotive telematic solutions that integrate high-valued-added communication devices and software, as well as various other types of solutions.

e frontier, Inc. ("e frontier"), which conducts software development and sales, became a subsidiary in July 2017. e frontier sells internally developed software, such as AI-driven programs for the games of go, shogi and mahjong. The company has strengthened download-based sales of licenses to its approximately 500,000 e-mail newsletter subscribers. It will also bolster content sales in creative fields, such as software for computer graphics (CG) production. In terms of specific measures, e frontier is preparing to sell polygon data collections that can be used easily by creators of games, video and other content. It is also making preparations to produce digital books together with CG artists.

As a result, segment sales in the fiscal year ended November 30, 2017 were ¥893 million, down 29.9% year on year. Segment loss was ¥438 million, compared with segment loss of ¥365 million in the previous fiscal year.

Analysis of Operating Results and Financial Position

(FinTech System Development Business)

In addition to a continuous and consistent order intake from existing customers, NCXX Solutions steadily received orders from new customers in the current fiscal year, following on from the previous fiscal year. These orders included a system reconstruction project for a regional bank, and systems development in connection with the liberalization of the energy sector from a major gas company. NCXX Solutions has seen steady hiring of engineers and business order intake centered on financial systems at the Kanto Division, as well as at its offices in Chubu, Kansai and Kyushu.

In terms of collaboration with Group companies, NCXX Solutions is working to enhance services with respect to the free smartphone app “FISCO app” and the PC browser version “FISCO Web,” which it supplies to its parent company FISCO. We have been continuing our measures to enhance services, including the release of upgraded versions from time to time featuring faster search capabilities and additional functions such as coordination with favorites and alerts, as well as a job-hunting app aimed at graduating students who are looking for jobs.

In addition, NCXX Inc. has been pursuing initiatives in the area of IoT services. As one such initiative, NCXX Inc. has concentrated on the development of solutions utilizing the aforementioned GX410NC/GX420NC, OBD II-compliant automotive telematic data collecting units. We have developed and now provide “Bus Rides” as a smartphone app that displays the current location of shuttle buses for driving schools, preschools and other organizations and any delays, and “Hazard Maps” as a service for displaying maps of hazardous areas (i.e., where drivers brake hard, accelerate fast, or turn suddenly) with a greater likelihood of accidents based on data acquired from IoT.

Furthermore, in the field of agricultural ICT, NCXX Solutions is undertaking version upgrades in step with expansion in the Company’s franchise business, including providing functions to perform automatic recovery in the event of an error in communications systems. Also, NCXX Solutions has become a member of the Council of Industry-Academia-Government Collaboration of the Ministry of Agriculture, Forestry and Fisheries, with plans to conduct a demonstration trial for developing a model for increasing the production volume of tomatoes.

As noted earlier, in August 2017, the status of NCXX Solutions was changed from a consolidated subsidiary of the Company to an equity-method affiliate.

CAICA has steadily pushed ahead with various measures to improve its financial health, such as reducing interest-bearing debt and thoroughly cutting expenses. The shareholders’ equity ratio improved sharply to 72.0% from 21.7% at the end of the previous fiscal year, thanks to the steady repayment of interest-bearing debt, the execution of share acquisition rights, and the accumulation of profits. In November 2017, CAICA raised ¥2,330 million through the issuance of new shares via a third-party allotment to fund M&As and capital and business alliances.

In addition, as disclosed in the medium-term management plan “A Stage of Proactively Advancing to New Growth,” CAICA has adopted a policy of proactively conducting M&As and capital and business alliances to expand the scale of its business. Based on this policy, in the fiscal year ended November 30, 2017, CAICA implemented the M&As and capital and business alliances shown in the following table.

February 2017	Made Tokyo Tech Corporation, which handles systems development, into a subsidiary
August 2017	Made NCXX Solutions Inc. a subsidiary Converted NCXX Inc. into an equity-method affiliate
August 2017	Accepted capital increase by allotment of new shares to third parties for Fisco Cryptocurrency Exchange Inc.
August 2017	Formed a capital and business alliance with FISCO Ltd.
September 2017	Formed a capital and business alliance with Oceans inc.

CAICA has acquired systems development engineers and customers by conducting M&As and business alliances with peer companies in the same industry and companies that offer prospects for capturing synergies in FinTech-related businesses. CAICA conducts business primarily in Tokyo, whereas NCXX Solutions has bases in western Japan, specifically Nagoya, Osaka, and Fukuoka. By making NCXX Solutions a subsidiary, CAICA is now able to provide systems development services throughout Japan. CAICA aims to win orders for FinTech-related projects that could not previously be undertaken by each individual subsidiary. To this end, CAICA will share knowledge of FinTech-related businesses that it has amassed to date with the subsidiaries it has acquired to facilitate coordination on systems development among CAICA and its subsidiaries, Tokyo Tech Corporation and NCXX Solutions. For example, CAICA will provide integration services for the construction of IoT settlement platforms using cryptocurrency and tokens, as well as utilize IoT and blockchain technologies. With the capital and business alliance with Oceans inc. (“Oceans”), CAICA has begun implementing measures to undertake the initial development of the KIZUNA Platform system, as well as the development of various systems that will be needed in connection with upgrading and expanding services. Going forward, CAICA aims to expand business with end-user companies such as Oceans, along with expanding business with the major system integrators that make up its existing customer base.

As noted earlier, in February 2017, the status of CAICA was changed from a consolidated subsidiary of the Company to an equity-method affiliate.

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 provides a replacement support service and reassesses electricity providers to help nursing care facilities cut their electricity bills. Care Dynamics also offers a service that introduces systems for saving water.

Analysis of Operating Results and Financial Position

As a result, segment sales in the fiscal year ended November 30, 2017 were ¥3,070 million, down 60.8% year on year. Segment loss was ¥36 million, compared with segment loss of ¥61 million in the previous fiscal year.

(Internet Travel Business)

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

In 2015, e-tabinet.com launched a specialized site for inbound tourists visiting Japan from abroad, and implemented search engine optimization with a focus on Asia. The number of tourists visiting Japan is projected to increase by 19.3% to 28.69 million by the end of the fiscal year ended November 30, 2018, a pace far greater than what had been initially anticipated. This is expected to lead to shortages in the tourism facilities needed to support the large number of tourists visiting Japan. Against this backdrop, e-tabinet.com set up a new dedicated skiing website in English to address the strong demand for this information among inbound tourists visiting Japan. In October 2016, e-tabinet.com published information on 204 ski courses at resorts in Japan in cooperation with Jitsugyo no Nihon Sha, Ltd., a long-standing publisher founded in 1897. Jitsugyo no Nihon Sha publishes business and trade journals as well as literary works and other materials. Additionally, e-tabinet.com will also focus on the market for para-sports ahead of the Tokyo Olympic and Paralympic Games to be held in two years. In October 2016, it made Gloria Tours, a company specializing in sending Paralympic athletes to various events and organizing numerous international para-sports tournaments, a subsidiary. Along with the concierge business of Web travel Co., Ltd., e-tabinet.com seeks to build a niche market base that most general travel agencies would find difficult to serve.

Meanwhile, the number of travel concierges has been growing steadily, increasing sharply from 380 at the previous fiscal year-end to 450 as of September 30, 2017. In addition, e-tabinet.com has been advancing the crowdsourcing business as a platform for concierges to make the most of their unique talents in areas other than travel. By fostering a stronger sense of community and belonging among concierges, e-tabinet.com will work to recruit and retain talented personnel.

The travel concierges take the lead in planning Kodawari no Tabi ("Journeys for the Discerning Traveler") travel itineraries, an initiative that has continued for the past few years, coming up with a new travel itinerary every month. In September 2017, they released "Travel Canada by Rail," a trip featuring luxury, fine dining and stunning natural scenery. In October, their special travel package was "Feeling the Pulse of the Earth in New Zealand," a journey to the geothermally active regions and fjords steeped in Maori culture. In November, they released a travel package called "An Enjoyable Asian Cruise for First-Time Passengers," a trip to rediscover various well-trodden sites in Asia. Looking ahead, the travel concierges will continue to propose interesting Kodawari no Tabi.

Amid a gradual recovery from a string of terrorist attacks by the Islamic State since the previous year, overseas travel business sales were ¥1,973 million, centered on best-selling packages to Europe and honeymoon packages to Australia, and domestic travel business sales were ¥209 million. Business performance had remained on a gradual recovery path following the impact of the terrorist attacks. However, in April 2017, the bankruptcy of Tellmeclub Inc. became a social issue, leading to the outflow of customers to larger travel agencies. This had an impact on the number of requests for travel estimates. For the Web travel website, the number of requests for travel estimates decreased by 10% year on year. For the e-tabinet.com website, the number of requests for travel estimates also decreased by 10% year on year. However, as a result of measures to enhance order rates, the number of orders received increased by 11% year on year, and the gross profit margin was maintained at 16%, mostly the same as in the previous fiscal year.

As a result, segment sales in the fiscal year ended November 30, 2017 were ¥2,183 million, up 34.4% year on year. Segment loss was ¥1 million, compared with segment income of ¥10 million in the previous fiscal year.

(Brand Retail Platform Business)

TITICACA has closed 18 stores in a twelve-month period, reducing the number of stores from 111 as of October 31, 2016 to 93 as of the end of October 2017. TITICACA has been pushing ahead with structural reforms, such as the closure of unprofitable stores and revisions to its personnel system. As a result, it restored operating profitability in the fiscal year ended October 31, 2017.

As a coordinated Group measure in fiscal 2017, TITICACA participated in a camping event sponsored by GARVY, a popular outdoor and family camping magazine published by Jitsugyo no Nihon Sha in August 2017, in a bid to raise recognition of its brand in this particular customer category.

As a result, segment sales in the fiscal year ended November 30, 2017 were ¥5,926 million, up 296.3% year on year. Segment loss was ¥63 million, compared with segment loss of ¥15 million in the previous fiscal year.

(Information Service Consulting Business)

The information service consulting business provides consulting services on business strategy, recruiting assistance and other business matters, as well as advisory services for retail stores. Versatile, which became a subsidiary in December 2016, sells wine imported from overseas subsidiary MEC S.R.L. SOCIETA' AGRICOLA, operates a food business, and has a global licensing business for CoSTUME NATIONAL. Versatile aims to grow this business by acquiring trademarks in Europe and the United States to complement its existing trademark licensing business across Asia. In the fiscal year ended November 30, 2017, there were barely any sales. An operating loss was posted that represents SG&A expenses.

As a result, segment sales in the fiscal year ended November 30, 2017 were ¥71 million. Segment loss was ¥57 million.

Analysis of Operating Results and Financial Position

[Financial Position]

(Assets)

Total assets were ¥11,532 million as of November 30, 2017, a decrease of ¥1,927 million from a year earlier. The main components of this change were increases of ¥647 million in cash and deposits, ¥768 million in advance payments—trade, and ¥3,377 million in investment securities, and decreases of ¥1,137 million in notes and accounts receivable—trade, ¥350 million in short-term loans receivable, ¥3,974 million in goodwill, and ¥1,343 million in long-term loans receivable.

(Liabilities)

Total liabilities were ¥7,006 million, a decrease of ¥2,653 million from a year earlier. The main components of this change were decreases of ¥300 million in unsecured convertible bonds with subscription rights to shares, ¥2,148 million in interest-bearing debt*, and ¥118 million in provision for bonuses.

(Net Assets)

Total net assets were ¥4,526 million, an increase of ¥725 million from a year earlier. The main contributing factors were increases of ¥994 million in capital surplus, ¥902 million in retained earnings, ¥125 million in valuation difference on available-for-sale securities, and ¥468 million in non-controlling interests, which were partly offset by a decrease of ¥1,809 million in capital stock.

* 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, 2017 were ¥2,529 million, an increase of ¥647 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 ¥1,388 million, compared with net cash provided by operating activities of ¥341 million in the previous fiscal year. The primary reasons were a gain on sales of investment securities of ¥2,973 million, a gain on sales of shares of subsidiaries of ¥887 million and an increase in advance payments of ¥470 million, the main factors reducing cash. These factors were partly offset by profit before income taxes of ¥1,024 million and impairment loss of ¥1,830 million, the main factors increasing cash.

(Cash Flows from Investing Activities)

Net cash provided by investing activities was ¥3,929 million, compared with net cash provided by investing activities of ¥686 million in the previous fiscal year. The positive factors were ¥6,491 million in proceeds from sales of investment securities and ¥611 million from collection of long-term loans receivable. Negative factors were ¥2,797 million in payments for the purchase of investment securities and ¥490 million in payments for sales of investments in subsidiaries resulting in change in scope of consolidation.

(Cash Flows from Financing Activities)

Net cash used in financing activities was ¥1,851 million, compared with net cash used in financing activities of ¥2,047 million in the previous fiscal year. This was mainly due to repayment of long-term loans payable of ¥2,059 million and payments for redemption of bonds with subscription rights to shares of ¥300 million, the main factors reducing cash. These cash outflows were partly offset by proceeds from long-term loans payable of ¥342 million and proceeds from issuance of shares resulting from exercise of subscription rights to shares of ¥244 million, the main factors increasing cash.

[Risk Information]

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

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

The items in the following section that concern the future were assessed by the Group based on information available as of November 30, 2016. 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.

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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

Dependence on a Specific Outsourcing Contractor

In the year ended November 30, 2016, 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.

(3) Risks Related to Protection of Intellectual Property Rights

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

(4) Quality Control

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

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

(5) Statutory Regulations on Telecommunications

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

(6) Protection of Personal Information

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

(7) Corporate Organization

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

(8) Relationship with the Parent Company

FISCO is the parent company of the Company, holding 49.83% of the voting rights both directly and indirectly as of November 30, 2016. In addition, SEQUEDGE INVESTMENT INTERNATIONAL LIMITED is another

Analysis of Operating Results and Financial Position

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

(9) Fluctuations in the Foreign Exchange Market

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

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

(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

Group company TITICACA 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 company TITICACA 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 2016 (As of November 30, 2016)	Fiscal 2017 (As of November 30, 2017)
Assets		
Current assets		
Cash and deposits	¥ 1,881,667	¥ 2,529,595
Notes and accounts receivable—trade	1,736,837	599,269
Merchandise	884,860	1,070,793
Work in process	208,295	245,736
Raw materials	7,746	3,632
Accounts receivable—other	46,995	114,228
Advance payments—trade	202,436	970,582
Short-term loans receivable	365,760	15,000
Deferred tax assets	5,770	416
Cryptocurrency	–	15,899
Other	174,556	314,951
Allowance for doubtful accounts	(162,362)	(53,097)
Total current assets	5,352,563	5,827,009
Non-current assets		
Property, plant and equipment		
Buildings and structures	*1 1,328,715	*1 1,523,941
Accumulated depreciation	(707,310)	(1,174,291)
Buildings and structures, net	621,404	349,650
Machinery, equipment and vehicles	46,700	89,553
Accumulated depreciation	(33,013)	(65,410)
Machinery, equipment and vehicles, net	13,686	24,142
Tools, furniture and fixtures	1,077,483	1,119,713
Accumulated depreciation	(925,436)	(950,393)
Tools, furniture and fixtures, net	152,046	169,320
Land	*1 298,354	*1 192,132
Construction in progress	135	–
Total property, plant and equipment	1,085,626	735,245
Intangible assets		
Software	135,289	62,710
Goodwill	4,371,717	397,006
Trademark rights	436	6,300
Other	22,480	3,964
Total intangible assets	4,529,923	469,982
Investments and other assets		
Investment securities	*3 153,872	*1, 3 3,531,593
Long-term accounts receivable—other	1,551,743	163,181
Long-term loans receivable	1,739,624	396,140
Other	847,021	628,537
Allowance for doubtful accounts	(1,800,467)	(219,321)
Total investments and other assets	2,491,794	4,500,130
Total non-current assets	8,107,344	5,705,358
Total assets	¥13,459,907	¥11,532,367

Consolidated Financial Statements

(Thousands of yen)

	Fiscal 2016 (As of November 30, 2016)	Fiscal 2017 (As of November 30, 2017)
Liabilities		
Current liabilities		
Notes and accounts payable—trade	¥ 586,979	¥ 600,601
Short-term loans payable	*4 249,334	*4 191,660
Current portion of convertible bond-type bonds with share acquisition rights	300,000	1,165,000
Current portion of long-term loans payable	*1 1,844,650	*1 836,382
Accounts payable—other	338,608	259,459
Accrued expenses	283,738	350,077
Income taxes payable	51,059	24,509
Accrued consumption taxes	86,999	16,601
Advances received	258,231	268,271
Asset retirement obligations	63,815	28,780
Deferred tax assets	–	2,076
Provision for bonuses	186,659	67,796
Provision for product warranties	92,000	106,000
Provision for sales returns	–	13,376
Provision for loss on store closing	64,284	16,592
Other	93,844	48,250
Total current liabilities	4,500,206	3,995,438
Non-current liabilities		
Convertible bonds with subscription rights to shares	1,165,000	–
Long-term loans payable	*1 2,719,875	*1 1,637,685
Net defined benefit liability	29,724	29,708
Asset retirement obligations	335,224	360,907
Deferred tax liabilities	703,564	767,129
Other	205,774	215,450
Total non-current liabilities	5,159,163	3,010,881
Total liabilities	9,659,369	7,006,319

(Thousands of yen)

	Fiscal 2016 (As of November 30, 2016)	Fiscal 2017 (As of November 30, 2017)
Net assets		
Shareholders' equity		
Capital stock	1,819,748	10,000
Capital surplus	1,776,350	2,770,501
Retained earnings	33,104	935,697
Treasury stock	(107,897)	(86,159)
Total shareholders' equity	3,521,304	3,630,038
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	14,695	139,894
Deferred gains or losses on hedges	1,131	(57)
Foreign currency translation adjustments	56,533	95,981
Total accumulated other comprehensive income	72,359	235,818
Subscription rights to shares	37,539	22,211
Non-controlling interests	169,334	637,979
Total net assets	3,800,538	4,526,047
Total liabilities and net assets	¥13,459,907	¥11,532,367

Please refer to page 46 for *1 and 3
Please refer to page 47 for *4

Consolidated Financial Statements

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

(Thousands of yen)

	Fiscal 2016 (From December 1, 2015 to November 30, 2016)	Fiscal 2017 (From December 1, 2016 to November 30, 2017)
Net sales	¥12,231,134	¥12,198,921
Cost of sales	*1 9,848,278	*1 7,604,901
Gross profit	2,382,855	4,594,019
Selling, general and administrative expenses	*2, 3 3,002,419	*2, 3 5,508,575
Operating loss	(619,563)	(914,555)
Non-operating income		
Interest income	39,834	12,881
House rent income	14,432	4,293
Foreign exchange gains	–	43,082
Share of profit of entities accounted for using equity method	–	43,691
Miscellaneous income	14,031	–
Other	1,124	28,428
Total non-operating income	69,423	132,377
Non-operating expenses		
Interest expenses	148,261	71,540
Foreign exchange losses	54,228	–
Commission fees	–	49,196
Other	17,396	37,336
Total non-operating expenses	219,886	158,072
Ordinary loss	(770,026)	(940,251)
Extraordinary income		
Gain on sales of shares of subsidiaries	182,271	888,152
Reversal of provision for bonuses	14,936	–
Gain on sales of non-current assets	*4 933	*4 553
Gain on reversal of subscription rights to shares	600	–
Gain on reversal of estimated damages on delays	58,586	–
Reversal of allowance for doubtful accounts	28,665	2,968
Gain on bargain purchase	36,745	–
Gain on change in equity	–	25,605
Gain on sales of investment securities	–	2,973,909
Other	390	503
Total extraordinary income	323,130	3,891,693

(Thousands of yen)

	Fiscal 2016 (From December 1, 2015 to November 30, 2016)	Fiscal 2017 (From December 1, 2016 to November 30, 2017)
Extraordinary losses		
Loss on retirement of property, plant and equipment	*6 7,505	*6 6,912
Loss on valuation of investment securities	867	–
Loss on sales of subsidiaries' stocks	–	450
Impairment loss	*7 321,868	*7 1,830,642
Provision for loss on store closing	12,850	–
Loss on sales of non-current assets	*5 4,152	*5 81,790
Provision of allowance for doubtful accounts	66,070	–
Loss on liquidation of subsidiaries	–	4,145
Other	3,554	2,708
Total extraordinary losses	416,869	1,926,649
Profit (loss) before income taxes	(863,765)	1,024,792
Income taxes	35,136	157,377
Income taxes—deferred	(304)	8,856
Total income taxes	34,832	166,233
Profit (loss)	(898,597)	858,559
Profit (loss) attributable to non-controlling interests	169,837	(44,033)
Profit (loss) attributable to owners of parent	¥ (1,068,435)	¥ 902,592

Please refer to page 47 for *1 to 6
Please refer to page 48 for *7

[Consolidated Statements of Comprehensive Income]

(Thousands of yen)

	Fiscal 2016 (From December 1, 2015 to November 30, 2016)	Fiscal 2017 (From December 1, 2016 to November 30, 2017)
Loss	¥ (898,597)	¥ 858,559
Other comprehensive income (loss)		
Valuation difference on available-for-sale securities	15,015	125,199
Deferred gains or losses on hedges	1,116	(1,188)
Foreign currency translation adjustments	(47,548)	39,020
Share of other comprehensive income of entities accounted for using equity method	–	427
Total other comprehensive income (loss)	*1 (31,415)	*1 163,458
Total comprehensive income (loss)	¥ (930,013)	¥1,022,017
Comprehensive income (loss) attributable to:		
Owners of parent	¥(1,020,165)	¥1,065,710
Non-controlling interests	90,151	(43,692)

Please refer to page 49 for *1

Consolidated Financial Statements

[Consolidated Statements of Changes in Net Assets]

Fiscal 2016 (From December 1, 2015 to November 30, 2016)

(Thousands of yen)

	Shareholders' equity					Accumulated other comprehensive income						
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at beginning of the fiscal year	¥1,819,748	¥1,708,701	¥ 1,101,539	¥(150,840)	¥ 4,479,148	¥ (320)	¥ 14	¥104,081	¥103,775	¥30,185	¥113,290	¥ 4,726,400
Changes during the fiscal year												
Issuance of new shares		67,648			67,648							67,648
Loss attributable to owners of parent			(1,068,435)		(1,068,435)							(1,068,435)
Purchase of treasury stock				(10,324)	(10,324)							(10,324)
Transfer of treasury shares				53,267	53,267							53,267
Net changes of items other than shareholders' equity					–	15,015	1,116	(47,548)	(31,415)	7,353	56,043	31,981
Total changes during the fiscal year	–	67,648	(1,068,435)	42,942	(957,843)	15,015	1,116	(47,548)	(31,415)	7,353	56,043	(925,862)
Balance at end of the fiscal year	¥1,819,748	¥1,776,350	¥ 33,104	¥(107,897)	¥ 3,521,304	¥14,695	¥1,131	¥ 56,533	¥ 72,359	¥37,539	¥169,334	¥ 3,800,538

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

(Thousands of yen)

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

Consolidated Financial Statements

[Consolidated Statements of Cash Flows]

(Thousands of yen)

	Fiscal 2016 (From December 1, 2015 to November 30, 2016)	Fiscal 2017 (From December 1, 2016 to November 30, 2017)
Cash flows from operating activities		
Profit (loss) profit before income taxes	¥ (863,765)	¥ 1,024,792
Depreciation and amortization	120,956	212,551
Impairment loss	321,868	1,830,642
Amortization of goodwill	517,372	254,073
Gain on bargain purchases	(36,745)	–
(Decrease) increase in allowance for doubtful accounts	(249,973)	134,212
Decrease in provision for bonuses	(47,504)	(56,052)
(Decrease) increase in provision for product warranties	(1,000)	14,000
Decrease in provision for loss on store closing	(41,172)	(47,691)
Decrease in net defined benefit liability	(5,263)	(276)
Increase in other provision	–	143
Share-based compensation expenses	9,566	2,088
Interest and dividend income	(39,834)	(12,883)
Interest expenses	148,261	71,540
Foreign exchange losses (gains)	29,416	(2,970)
Share of profit of entities accounted for using equity method	–	(43,691)
Loss on valuation of investment securities	867	–
Gain on sales of investment securities	–	(2,973,909)
Gain on sales of shares of subsidiaries	(182,271)	(887,702)
Loss on retirement of property, plant and equipment	7,505	6,912
Loss on sales of property, plant and equipment	2,996	81,236
Difference on execution of asset retirement obligations	8,084	(3,967)
Gain on reversal of estimated damages on delays	(58,586)	–
Gain on reversal of subscription rights to shares	(600)	–
Gain on change in equity	–	(25,605)
Decrease in notes and accounts receivable—trade	1,470,894	86,678
Decrease (increase) in inventories	385,528	(214,177)
Decrease (increase) in advance payments	59,584	(470,126)
Decrease (increase) in accounts receivable—other	93,405	(209,323)
(Decrease) increase in notes and accounts payable—trade	(547,726)	149,635
Decrease in accounts payable—other	(619,079)	(155,899)
Decrease in accrued consumption taxes	(86,487)	(3,659)
(Decrease) increase in accrued expenses	(39,716)	142,874
Increase in advances received	52,265	11,658
Other, net	17,004	(171,237)
Subtotal	425,851	(1,256,135)
Interest and dividends income received	87,058	6,496
Interest paid	(110,995)	(80,004)
Income taxes paid	(60,334)	(58,396)
Net cash provided by (used in) operating activities	341,581	(1,388,039)

(Thousands of yen)

	Fiscal 2016 (From December 1, 2015 to November 30, 2016)	Fiscal 2017 (From December 1, 2016 to November 30, 2017)
Cash flows from investing activities		
Purchase of property, plant and equipment	(112,885)	(133,698)
Proceeds from sales of property, plant and equipment	34,591	9,456
Purchase of intangible assets	(38,203)	(97,002)
Proceeds from sales of intangible assets	2	8,273
Payments for asset retirement obligations	(50,964)	(27,228)
Purchase of investment securities	(59,950)	(2,797,907)
Proceeds from sales of investment securities	–	6,491,645
Proceeds from sales of shares of subsidiaries	554,359	–
Payments for investments in capital	(10)	(9,547)
Proceeds from sales of investments in capital	52,238	–
Payments for sales of investments in subsidiaries resulting in change in scope of consolidation	(5,748)	*2 (490,371)
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	512,670	*3 281,601
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	–	*4 577,075
Payments for sales of investments in subsidiaries resulting in change in scope of consolidation	(4,518)	*5 (60,964)
Increase in short-term loans receivable	(420,000)	(20,000)
Collection of short-term loans receivable	37,929	330,000
Increase in long-term loans receivable	–	(344,918)
Collection of long-term loans receivable	14,960	611,709
Payments for guarantee deposits	(10,068)	(136,080)
Proceeds from collection of guarantee deposits	180,629	260,893
Payments for distribution of dividends	–	(524,300)
Other, net	1,833	417
Net cash provided by investing activities	686,866	3,929,054
Cash flows from financing activities		
Net decrease in short-term loans payable	(434,714)	(295,340)
Proceeds from long-term loans payable	779,000	342,804
Repayment of long-term loans payable	(2,653,994)	(2,059,670)
Redemption of bonds	(100,000)	–
Proceeds from issuance of bonds with subscription rights to shares	300,000	–
Payments for redemption of bonds with subscription rights to shares	–	(300,000)
Repayments of lease obligations	(2,862)	(1,104)
Payments for installment payables—property and equipment	(7,266)	–
Proceeds from issuance of shares resulting from exercise of subscription rights to shares	84,700	244,999
Purchase of treasury stock	(10,284)	(12,982)
Cash dividends paid	(33)	–
Dividends paid to non-controlling interests	(1,554)	–
Proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	–	229,320
Net cash used in financing activities	(2,047,010)	(1,851,972)
Effect of exchange rate change on cash and cash equivalents	(4,910)	(41,113)
Net (decrease) increase in cash and cash equivalents	(1,023,474)	647,928
Cash and cash equivalents at beginning of the fiscal year	2,905,141	1,881,667
Cash and cash equivalents at end of the fiscal year	¥*1 1,881,667	¥*1 2,529,595

Please refer to page 51 for *1 and 2
Please refer to page 52 for *3 to 5

Notes

(Notes to the Consolidated Financial Statements)

1. Scope of consolidation

(1) Number of consolidated subsidiaries: 14

(2) Names of consolidated subsidiaries:

TITICACA, Co. Ltd., Gloria Tours Inc., NCXX Inc., Care Dynamics Limited, e-tabinet.com, Web travel Co., Ltd., e frontier, Inc., Versatile Inc., Versatile Milano S.R.L., MEC S.R.L. SOCIETA' AGRICOLA, FISCO International Limited, FISCO International (Cayman) Limited, FISCO International (Cayman) L.P., FACETASM

Among the abovementioned companies, Versatile Inc. and its subsidiaries were included in the scope of consolidation from fiscal 2017, subsequent to the Company acquiring Versatile Inc. shares and converting it into a subsidiary in fiscal 2017. FACETASM was included in the scope of consolidation from fiscal 2017, subsequent to Versatile Inc. acquiring its shares and converting it into a subsidiary.

e frontier, Inc. was included in the scope of consolidation from fiscal 2017, subsequent to the Company acquiring its shares and converting it into a subsidiary in fiscal 2017.

With regard to FISCO International Limited and its subsidiaries, FISCO International Limited was included in the scope of consolidation from fiscal 2017, subsequent to the Company acquiring its shares and converting it into a subsidiary in fiscal 2017.

CAICA Inc., a former consolidated subsidiary, and its subsidiaries were reclassified from consolidated subsidiaries to affiliates accounted for by the equity method from fiscal 2017, subsequent to the Company selling shares held in CAICA Inc.

NCXX Solutions Inc., a former consolidated subsidiary, was reclassified from a consolidated subsidiary to an affiliate accounted for by the equity method from fiscal 2017, subsequent to the Company selling shares held in NCXX Solutions Inc.

星際富通(福建)網絡科技有限公司, a former consolidated subsidiary, and its subsidiaries were removed from the scope of consolidation from fiscal 2017, subsequent to liquidation proceedings.

(3) Number of non-consolidated subsidiaries: 2

(4) Names of non-consolidated subsidiaries:

Webtravel Asia & Pacific Pty Limited
IOTA 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 accounted for by the equity method: 4

(2) Names of non-consolidated subsidiaries and affiliates accounted for by the equity method:

CAICA Inc., NCXX Solutions Inc., SJ Asia Pacific Limited, Tokyo Tech Corporation

Among the abovementioned companies, Tokyo Tech Corporation became an affiliate accounted for by the equity method from fiscal 2017, subsequent to CAICA Inc. acquiring Tokyo Tech Corporation and converting it into a subsidiary.

CAICA Inc. and its subsidiaries were included in the scope of application of the equity method from fiscal 2017, subsequent to the Company selling shares held in CAICA Inc.

NCXX Solutions Inc. was included in the scope of application of the equity method from fiscal 2017, subsequent to the Company selling shares held in NCXX Solutions Inc.

(3) Name of non-consolidated subsidiary and affiliate not accounted for by the equity method:

Webtravel Asia & Pacific Pty Limited, TICA HK Co. Limited, IOTA 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, Co. Ltd.	October 31*1
e frontier, Inc.	October 31*1
FACETASM	October 31*1

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

Notes

4. Accounting policies

(1) Valuation standards and accounting treatment for important assets

1. Investment securities
 Subsidiaries' stocks and affiliates' stocks
  Stated at cost determined by the moving average method.
 Investment securities—other
  With market quotations
  Stated at fair value based primarily on market prices as of the fiscal year-end (with all valuation differences, net of taxes, reported in a separate component of net assets, with the cost of securities sold calculated by the moving average method).
  Without market quotations
  Stated at cost determined by the moving average method.
2. Inventories
 Valued at cost (book value is written down when profitability declines).
 (i) Merchandise and finished goods
  Retail method
 (ii) Work in process
  Specific identification method
 (iii) Raw materials and supplies
  Moving average method
 (iv) Cryptocurrency held for trading purposes
  Stated at fair value (Cost of sales is calculated 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 39 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 2017.
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.

(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. Consolidated taxation

The Company has adopted consolidated taxation.

(Additional Information)

(1) Adoption of Implementation Guidance on Recoverability of Deferred Tax Assets

Effective from fiscal 2017, the Company has adopted Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016).

(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) Matters concerning the status of cryptocurrency

1. Policy regarding cryptocurrency

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

2. Content and risks of cryptocurrency

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

3. Risk management system for cryptocurrency

(i) Market risk

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

(ii) Credit risk

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

Notes

(4) Matters concerning the fair value of cryptocurrency

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

(Thousands of yen)

	Carrying amount	Fair value	Difference
Cryptocurrency	15,899	15,899	–

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

(Change in Presentation)

(Consolidated Balance Sheets)

Trademarks, which were previously included in other under intangible assets in fiscal 2016, have been presented separately from fiscal 2017 due to their increased qualitative importance. The consolidated financial statements in fiscal 2016 have been restated to reflect this change in presentation method.

As a result, the ¥22,916 thousand presented as other under intangible assets in the consolidated financial statements in fiscal 2016 has been restated as trademarks of ¥436 thousand and other of ¥22,480 thousand.

(Consolidated Balance Sheets)

*1 Collateral assets and collateralized liabilities

Assets pledged as collateral are as follows.

(Thousands of yen)

	Fiscal 2016 (As of November 30, 2016)	Fiscal 2017 (As of November 30, 2017)
Buildings	¥ 54,076	¥ 12,926
Land	297,214	151,097
Investment securities	–	506,781
Total	¥351,291	¥670,806

Note: In addition to the above, in fiscal 2016, assets pledged as collateral included shares of subsidiaries eliminated upon consolidation.

Collateralized liabilities are as follows.

(Thousands of yen)

	Fiscal 2016 (As of November 30, 2016)	Fiscal 2017 (As of November 30, 2017)
Current portion of long-term loans payable	¥ 160,204	¥148,012
Long-term loans payable	1,022,738	726,270

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

(Thousands of yen)

	Fiscal 2016 (As of November 30, 2016)	Fiscal 2017 (As of November 30, 2017)
FISCO Ltd.	¥26,200	¥ 9,400
NCXX Solution Inc.	–	148,456

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

(Thousands of yen)

	Fiscal 2016 (As of November 30, 2016)	Fiscal 2017 (As of November 30, 2017)
Investment securities (stocks)	¥15,739	¥2,331,955

Notes

*4 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, 2017 was as follows.

(Thousands of yen)

	Fiscal 2016 (As of November 30, 2016)	Fiscal 2017 (As of November 30, 2017)
Total amount of overdraft facilities and loan commitments	¥300,000	¥200,000
Outstanding loan balance	140,000	91,660
Difference	¥160,000	¥108,340

(Consolidated Statements of Income)

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

(Thousands of yen)

	Fiscal 2016 (From December 1, 2015 to November 30, 2016)	Fiscal 2017 (From December 1, 2016 to November 30, 2017)
Cost of sales	¥503,538	¥206,989

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

(Thousands of yen)

	Fiscal 2016 (From December 1, 2015 to November 30, 2016)	Fiscal 2017 (From December 1, 2016 to November 30, 2017)
Salaries and allowances	¥758,012	¥1,425,532
Retirement benefit expenses	16,944	9,619
Office rent	240,006	660,586
Provision of allowance for doubtful accounts	–	8,442
Amortization of goodwill	517,372	254,073

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

(Thousands of yen)

	Fiscal 2016 (From December 1, 2015 to November 30, 2016)	Fiscal 2017 (From December 1, 2016 to November 30, 2017)
Research and development expenses	¥25,587	¥98,623

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

(Thousands of yen)

	Fiscal 2016 (From December 1, 2015 to November 30, 2016)	Fiscal 2017 (From December 1, 2016 to November 30, 2017)
Tools, furniture and fixtures	¥933	¥553

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

(Thousands of yen)

	Fiscal 2016 (From December 1, 2015 to November 30, 2016)	Fiscal 2017 (From December 1, 2016 to November 30, 2017)
Memberships, etc.	¥4,152	¥ –
Buildings and structures, machinery	–	81,790

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

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

(Thousands of yen)

	Fiscal 2016 (From December 1, 2015 to November 30, 2016)	Fiscal 2017 (From December 1, 2016 to November 30, 2017)
Buildings and structures	¥5,480	¥ –
Tools, furniture and fixtures	1,982	11
Software	–	6,901
Other	43	–

Notes

*7 Impairment loss

Fiscal 2016 (From December 1, 2015 to November 30, 2016)

The Group recorded impairment losses on the following assets.

Use	Type	Location	Impairment loss (Thousands of yen)
Business assets	Telephone subscription rights	Meguro-ku, Tokyo	¥ 1,249
Store equipment	Buildings and structures	Koshigaya City, Saitama Prefecture Hamamatsu City, Shizuoka Prefecture Kisarazu City, Chiba Prefecture and other	251,478
	Tools, furniture and fixtures		50,008
	Software		634
	Other		18,497

(Background to recognizing impairment losses)

Regarding telephone subscription rights, the Company reduced the carrying amounts to the recoverable amounts and recognized the amounts of the reductions as impairment losses in fiscal 2016, as their market value has declined over a long period of time and is not expected to recover.

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 has decided to close or expects to continue to generate losses from operations, having revised its management policy in light of factors including impact from the external environment. This applies to 22 stores.

(Asset grouping method)

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

(Method of calculating the recoverable amount)

In principle, the Company uses the value in use to calculate the recoverable amount of business assets. However, the Company uses the estimated value of disposal to calculate the recoverable amount of telephone subscription rights.

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

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

The Group recorded impairment losses on the following assets.

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

(Background to recognizing impairment losses)

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

(Asset grouping method)

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

(Method of calculating the recoverable amount)

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

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

Notes

(Consolidated Statements of Comprehensive Income)

*1 Reclassification adjustments and tax effects for other comprehensive income

(Thousands of yen)

	Fiscal 2016 (From December 1, 2015 to November 30, 2016)	Fiscal 2017 (From December 1, 2016 to November 30, 2017)
Valuation difference on available-for-sale securities:		
Amount incurred during the fiscal year	¥ 15,015	¥202,142
Reclassification adjustments	–	(14,695)
Before tax effect adjustment	15,015	187,447
Tax effect	–	(62,247)
Valuation difference on available-for-sale securities	15,015	125,199
Deferred gains or losses on hedges:		
Amount incurred during the fiscal year	1,116	(1,188)
Reclassification adjustments	–	–
Before tax effect adjustment	1,116	(1,188)
Tax effect	–	–
Deferred gains or losses on hedges	1,116	(1,188)
Foreign currency translation adjustments:		
Amount incurred during the fiscal year	215,164	61,843
Reclassification adjustments	(262,712)	(22,822)
Before tax effect adjustment	(47,548)	39,020
Tax effect	–	–
Foreign currency translation adjustments	(47,548)	39,020
Share of other comprehensive income of entities accounted for using equity method:		
Amount incurred during the fiscal year	–	427
Reclassification adjustments	–	–
Before tax effect adjustment	–	427
Tax effect	–	–
Share of other comprehensive income of entities accounted for using equity method	–	427
Total other comprehensive income	¥ (31,415)	¥163,458

(Consolidated Statements of Changes in Net Assets)

Fiscal 2016 (From December 1, 2015 to November 30, 2016)

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

(Number of shares)

	Balance at the beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	Balance at the end of the fiscal year
Issued shares				
Common shares	15,030,195	–	–	15,030,195
Total	15,030,195	–	–	15,030,195
Treasury stock				
Common shares (Note)	72,516	83,542	–	156,058
Total	72,516	83,542	–	156,058

Note: The increase in treasury stock was mainly due to a share repurchase under the provisions of the Articles of Incorporation pursuant to Article 165, Paragraph 2 of the Companies Act.

2 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: Balance at the beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	Balance at the end of the fiscal year	Balance at the end of the fiscal year (Thousands of yen)
Filing company (parent company)							
	5th Series of Unsecured Convertible Bonds with Subscription Rights to Shares	Common shares	1,069,788	–	–	1,069,788	¥ –
	6th Series of Unsecured Convertible Bonds with Subscription Rights to Shares (Note 1)	Common shares	–	466,562	–	466,562	–
	Subscription rights to shares as stock options (11th series)	–	–	–	–	–	19,775
	Subscription rights to shares as stock options (13th series) (Note 2)	–	–	–	–	–	348
Consolidated subsidiaries							
	5th Series of Subscription Rights to Shares	–	–	–	–	–	17,416
Total		–	–	–	–	–	¥37,539

Notes: 1. The increase during fiscal 2016 was due to the issuance of bonds. The lump-sum method was adopted for reporting purposes.
2. The exercise period has not commenced for the 13th series of subscription rights to shares as stock options.

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

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

(Number of shares)

	Balance at the beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	Balance at the end of the fiscal year
Issued shares				
Common shares	15,030,195	–	–	15,030,195
Total	15,030,195	–	–	15,030,195
Treasury stock				
Common shares(Note)	156,058	32,900	42,485	146,473
Total	156,058	32,900	42,485	146,473

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

2 Subscription rights to shares

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

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

3 Dividends

(1) Dividends paid

Not applicable

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

Not applicable

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 2016 (From December 1, 2015 to November 30, 2016)	Fiscal 2017 (From December 1, 2016 to November 30, 2017)
Cash and deposits	¥1,881,667	¥2,529,595
Cash and cash equivalents	1,881,667	2,529,595

*2 The main breakdown of assets and liabilities of subsidiaries that were consolidated by acquiring new shares in fiscal 2017

The breakdown of assets and liabilities of Versatile Inc. at the point in time it was consolidated as a subsidiary through the acquisition of new shares, and the relationship between the acquisition price of Versatile Inc. shares and the net amount paid to acquire Versatile Inc. are as follows.

(Thousands of yen)

Current assets	¥ 332,695
Non-current assets	874,226
Goodwill	779,516
Current liabilities	(1,562,576)
Non-current liabilities	(20,260)
Non-controlling interests	(3,602)
Acquisition price of Versatile Inc. shares	400,000
Cash and cash equivalents of Versatile Inc.	(14,828)
Net: Amount paid to acquire Versatile Inc.	¥ 385,171

The breakdown of assets and liabilities of FISCO International Limited at the point in time it was consolidated as a subsidiary through the acquisition of new shares, and the relationship between the acquisition price of FISCO International Limited shares and the net amount paid to acquire FISCO International Limited are as follows.

(Thousands of yen)

Current assets	¥ 21,741
Non-current assets	736,777
Goodwill	20,445
Current liabilities	(37,007)
Non-controlling interests	(655,957)
Acquisition price of FISCO International Limited shares	86,000
Cash and cash equivalents of FISCO International Limited	(8,135)
Net: Amount paid to acquire FISCO International Limited	¥ 77,864

The breakdown of assets and liabilities of FACETASM at the point in time it was consolidated as a subsidiary through the acquisition of new shares, and the relationship between the acquisition price of FACETASM shares and the net amount paid to acquire FACETASM are as follows.

(Thousands of yen)

Current assets	¥ 139,758
Non-current assets	52,229
Goodwill	214,616
Current liabilities	(206,076)
Non-current liabilities	(158,708)
Acquisition price of FACETASM shares	41,820
Cash and cash equivalents of FACETASM	(14,484)
Net: Amount paid to acquire FACETASM	¥ 27,335

Notes

The breakdown of assets and liabilities of e frontier, Inc. at the point in time it was consolidated as a subsidiary through the acquisition of new shares, and the relationship between the acquisition price of e frontier, Inc. shares and the net amount paid to acquire e frontier, Inc. are as follows.

(Thousands of yen)

Current assets	¥ 308,519
Non-current assets	334
Goodwill	204,866
Current liabilities	(14,486)
Non-current liabilities	(479,229)
Acquisition price of e frontier, Inc. shares	20,002
Cash and cash equivalents of e frontier, Inc.	(301,604)
Net: Amount received to acquire e frontier, Inc.	¥(281,601)

*3 The main breakdown of assets and liabilities of subsidiaries that were no longer consolidated by selling their shares in fiscal 2017

The breakdown of assets and liabilities of CAICA Inc. and its subsidiaries at the time of sale, and the relationship between the sales amount and the net proceeds from the sale of shares of CAICA Inc. and its subsidiaries are as follows.

(Thousands of yen)

Current assets	¥ 1,532,429
Non-current assets	4,049,988
Current liabilities	(1,245,918)
Non-current liabilities	(49,589)
Treasury stock	4,913
Subscription rights to shares	(47,004)
Foreign currency translation adjustments	64,693
Non-controlling interests	(225,778)
Investment account after the sale of shares	(3,681,207)
Gain on sales of shares in affiliated companies	866,573
Proceeds from sales of shares	1,269,099
Cash and cash equivalents of CAICA Inc. and its subsidiaries	(692,024)
Net: Amount received on sales of investments in CAICA Inc. and its subsidiaries	¥ 577,075

The breakdown of assets and liabilities of NCXX Solutions Inc. at the time of sale, and the relationship between the sales amount and the net proceeds from the sale of shares of NCXX Solutions Inc. are as follows.

(Thousands of yen)

Current assets	¥ 657,327
Non-current assets	590,539
Current liabilities	(248,101)
Non-current liabilities	(439,669)
Investment account after the sale of shares	(274,390)
Proceeds from sales of shares	285,704
Cash and cash equivalents of NCXX Solutions Inc.	(346,669)
Net: Amount paid for sales of investments in NCXX Solutions Inc.	¥ (60,964)

(Lease Transactions)

(As a lessee)

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

(Financial Instruments)

1. Conditions of financial instruments

(1) Policy regarding financial instruments

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

Notes

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

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

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

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

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

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

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

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

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

2. Fair value of financial instruments

The carrying amounts in the consolidated balance sheets, fair values, and their differences as of November 30, 2016 and 2017 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 2016 (As of November 30, 2016)

(Thousands of yen)

	Carrying amount	Fair value	Difference
(1) Cash and deposits	¥ 1,881,667	¥1,881,667	¥ –
(2) Notes and accounts receivable—trade	1,736,837	–	–
Allowance for doubtful accounts*1	(111,674)	–	–
	1,625,162	1,625,162	–
(3) Accounts receivable—other	46,995	–	–
Allowance for doubtful accounts*2	(9,927)	–	–
	37,067	37,067	–
(4) Short-term loans receivable	325,000	325,000	–
(5) Long-term loans receivable	1,780,384	–	–
Allowance for doubtful accounts*3	(289,484)	–	–
	1,490,900	1,490,900	–
(6) Long-term accounts receivable—other	1,551,743	–	–
Allowance for doubtful accounts*4	(1,551,743)	–	–
	–	–	–
Total	¥ 5,359,797	¥5,359,797	¥ –
(1) Notes and accounts payable—trade	¥ 586,979	¥ 586,979	¥ –
(2) Short-term loans payable	249,334	249,334	–
(3) Accounts payable—other	338,608	338,608	–
(4) Convertible bonds with subscription rights to shares (including current portion)	1,465,000	1,455,619	(9,380)
(5) Long-term loans payable (including current portion)	4,564,526	4,592,474	27,948
Total	¥ 7,204,448	¥7,223,016	¥18,568
Derivative transactions	¥ –	¥ –	¥ –

Notes

*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.

Notes: 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 (4) Short-term loans receivable

Fair value is stated as the carrying amount because the fair value approximates the carrying amount given the short settlement period of these instruments.

(2) Notes and accounts receivable—trade and (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.

(5) Long-term loans receivable

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

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 bonds with subscription rights to shares (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

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

Fiscal 2017 (As of November 30, 2017)

(Thousands of yen)

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

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

Notes

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

Assets

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

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

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

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

Liabilities

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

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

Derivative transactions

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

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

(Thousands of yen)

	Fiscal 2016 (As of November 30, 2016)	Fiscal 2017 (As of November 30, 2017)
Unlisted stocks (investment securities)	¥153,872	¥305,962

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 2016 (As of November 30, 2016)

(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	¥1,881,667	¥ –	¥–	¥–
(2) Notes and accounts receivable—trade*1	1,625,162	–	–	–
(3) Accounts receivable—other*1	37,067	–	–	–
(4) Short-term loans payable	325,000	–	–	–
(5) Long-term loans receivable*1	–	1,490,900	–	–
(6) Long-term accounts receivable—other*1	–	–	–	–
Total	¥3,868,896	¥1,490,900	¥–	¥–

*1 The above table does not include accounts receivable with indefinite redemption schedules of ¥111,674 thousand (allowance for doubtful accounts of ¥111,674 thousand), accounts receivable—other of ¥9,927 thousand (allowance for doubtful accounts of ¥9,927 thousand), long-term loans receivable of ¥289,484 thousand (allowance for doubtful accounts of ¥289,484 thousand) and long-term accounts receivable—other of ¥1,551,743 thousand (allowance for doubtful accounts of ¥1,551,743 thousand).

Fiscal 2017 (As of November 30, 2017)

(Thousands of yen)

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

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

Notes

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

Fiscal 2016 (As of November 30, 2016)

(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	¥ 300,000	¥1,165,000	¥ –	¥ –	¥ –	¥ –
Long-term loans payable	1,844,650	985,874	633,871	855,634	133,606	110,888
Short-term loans payable	249,334	–	–	–	–	–
Accounts payable—installment purchase	14,802	9,773	8,931	9,158	9,191	12,075
Total	¥2,408,786	¥2,160,647	¥642,802	¥864,792	¥142,797	¥122,963

Fiscal 2017 (As of November 30, 2017)

(Thousands of yen)

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

(Investment Securities)

1. Investment securities—other

Fiscal 2016 (As of November 30, 2016)

Unlisted investment securities (carrying amount ¥153,872 thousand) are not disclosed because the fair value of these securities cannot be reliably determined given that they do not have market prices.

Fiscal 2017 (As of November 30, 2017)

(Thousands of yen)

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

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

2. Loss on valuation of investment securities

Fiscal 2016 (As of November 30, 2016)

The Company recorded a ¥867 thousand loss on valuation of investment securities (¥867 thousand on investment securities—other).

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 2017 (As of November 30, 2017)

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

Loss on valuation is recorded in full if the fair value at fiscal year-end falls 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.

Notes

(Derivative Transactions)
1. Derivative transactions to which hedge accounting is not applied

Currency related

Fiscal 2016 (As of November 30, 2016)

(Thousands of yen)

Category	Type of transaction	Contract amount	Amount of contract exceeding one year	Fair value	Valuation gain or loss
Off-market transaction	Foreign currency forward contract Purchased US dollars	¥300,604	¥–	(Note) ¥(29,424)	(Note) ¥(29,424)

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

Fiscal 2017 (As of November 30, 2017)

Not applicable

2. Derivative transactions to which hedge accounting is applied
(1) Currency related

Fiscal 2016 (As of November 30, 2016)

(Thousands of yen)

Hedge accounting method	Type of transaction	Main hedge target	Contract amount	Amount of contract exceeding one year	Fair value
Allocation method (*furiate shori*) for foreign currency forward contracts, etc.	Foreign currency forward contracts	Accounts payable	¥31,954	¥–	(Note) ¥31,811

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

Fiscal 2017 (As of November 30, 2017)

(Thousands of yen)

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

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

(2) Interest rate

Fiscal 2016 (As of November 30, 2016)

(Thousands of yen)

Hedge accounting method	Type of transaction	Main hedge target	Contract amount	Amount of contract exceeding one year	Fair value
Principled method	Interest rate swap transaction Variable interest—received Fixed interest—paid	Long-term loans payable	¥ 100,000	¥ –	(Note) ¥(497)
Special treatment of interest rate swaps	Interest rate swap transaction Variable interest—received Fixed interest—paid	Long-term loans payable	2,483,000	1,368,456	(Note)

Note: Calculation of fair value
(1) 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.
(2) The method of calculating fair value is based on the forward exchange rate.

Fiscal 2017 (As of November 30, 2017)

(Thousands of yen)

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

Note: Calculation of fair value
(1) 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.
(2) The method of calculating fair value is based on the forward exchange rate.

(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.

In addition, certain consolidated subsidiaries have adopted a lump-sum payment plan and an employee pension fund 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.

Notes

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 2016 (From December 1, 2015 to November 30, 2016)	Fiscal 2017 (From December 1, 2016 to November 30, 2017)
Balance of liability for retirement benefit at the beginning of the fiscal year	¥ 3,511	¥29,724
Increase from new consolidation	23,097	260
Retirement benefit expenses	3,115	6,047
Retirement benefits paid	–	(6,323)
Balance of liability for retirement benefit at the end of the fiscal year	¥29,724	¥29,708

(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 2016 (As of November 30, 2016)	Fiscal 2017 (As of November 30, 2017)
Retirement benefit obligations for non-funded plans	¥29,724	¥29,708
Net liability on the consolidated balance sheets	29,724	29,708

(3) Retirement benefit expenses

(Thousands of yen)

	Fiscal 2016 (From December 1, 2015 to November 30, 2016)	Fiscal 2017 (From December 1, 2016 to November 30, 2017)
Retirement benefit expenses based on the simplified method	¥3,115	¥6,047

3. Defined contribution pension plan

The required contributions to the defined contribution pension plans of the Company and its consolidated subsidiaries were ¥71,697 thousand in fiscal 2016 and ¥4,260 thousand in fiscal 2017.

4. Prepaid retirement benefit plan

Payments made to the prepaid retirement benefit plans of the Company and its consolidated subsidiaries were ¥38,970 thousand in fiscal 2016 and ¥499 thousand in fiscal 2017.

(Stock Options)

1. Stock option expense item and amount

(Thousands of yen)

	Fiscal 2016 (From December 1, 2015 to November 30, 2016)	Fiscal 2017 (From December 1, 2016 to November 30, 2017)
Stock compensation expense under selling, general and administrative expenses	¥9,566	¥2,088

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
Status and number of option holders	NCXX Group Inc. directors: 5 NCXX Group Inc. employees: 3 NCXX Group Inc. subsidiary director: 1	NCXX Group Inc. directors: 3 NCXX Group Inc. subsidiary directors: 8 NCXX Group Inc. subsidiary employees: 3
Type of share and number of stock options(Note)	Common shares: 100,000 shares	Common shares: 100,000 shares
Grant date	October 30, 2014	October 5, 2016
Vesting condition	An option holder must remain in continued service from the grant date (October 30, 2014) to the vesting date (October 30, 2016)	Not applicable
Required service period	October 30, 2014 to October 30, 2016	Not applicable
Exercise period	October 31, 2016 to October 30, 2020	October 6, 2018 to October 5, 2021

Note: Recorded based on the number of eligible shares

Notes

(2) Stock option scale and change

Existing stock options as of fiscal 2017 (ended November 2017) 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
Before vesting		
As of November 30, 2016	–	100,000
Granted	–	–
Forfeited	–	–
Vested	–	–
Outstanding	–	100,000
After vesting		
As of November 30, 2016	96,000	–
Vested	–	–
Exercised	–	–
Forfeited	–	–
Exercisable	96,000	–

2. Unit price information

(Yen)

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

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 2016 (As of November 30, 2016)	Fiscal 2017 (As of November 30, 2017)
Deferred tax assets		
Accrued enterprise taxes	¥ 5,350	¥ 3,637
Provision for product warranties	28,391	32,711
Provision for bonuses	70,992	20,922
Allowance for doubtful accounts	1,275,037	457,011
Liability for retirement benefit	9,173	9,168
Excess depreciation and amortization	5,935	247,644
Loss on valuation of telephone subscription rights	1,553	862
Loss on valuation of inventories	620,483	62,383
Loss on valuation of subsidiaries' stocks	111,065	489,409
Loss on valuation of investment securities	3,209	–
Loss on valuation of investments in capital of subsidiaries and affiliates	3,033,926	–
Carryforwards of unused tax losses	1,682,976	1,966,716
Impairment loss	347,616	226,633
Others	425,308	99,813
Deferred tax assets subtotal	7,621,019	3,616,915
Valuation allowance	(7,615,249)	(3,616,456)
Deferred tax assets total	5,770	458
Deferred tax liabilities		
Goodwill adjustment	(29,649)	–
Valuation difference on available-for-sale securities	–	(62,247)
Fund balance difference	(673,914)	(662,408)
Others	–	(44,592)
Deferred tax liabilities total	(703,564)	(769,248)
Net deferred tax liabilities	¥ (697,793)	¥ (768,789)

Notes

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

(%)

	Fiscal 2016 (As of November 30, 2016)	Fiscal 2017 (As of November 30, 2017)
Statutory income tax rate	–%	30.86%
(Adjustments)		
Entertainment and other non-deductible expenses	–	0.42
Inhabitants taxes—per capita levy	–	1.38
Share of profit of entities accounted for using equity method	–	(1.32)
Amortization of goodwill	–	7.65
Change in valuation allowance	–	15.85
Carryforwards of unused tax losses and other deductions	–	(49.06)
Income taxes recognized for difference on capital surplus	–	11.98
Others	–	(1.54)
Effective income tax rate	–%	16.22%

Note: Disclosure on the difference in the statutory income tax rate and the effective income tax rate in fiscal 2016 is omitted as loss before income taxes was recorded.

(Business Combination)

I Business Combination through Acquisition (Versatile Inc.)

1. Overview of business combination

(1) Name and business of acquired company

Name of the acquired company: Versatile Inc.

Business: Consulting business, import and sales of alcoholic beverages, sales of fashion accessories, and restaurant business

(2) Main reason for the business combination

To develop the brand retail platform business, which is a focus for the Group going forward.

(3) Business combination date

December 29, 2016

(4) Statutory basis of business combination

Share acquisition

(5) Name of company after business combination

No change

(6) Ratio of voting rights acquired

(%)

Voting rights owned before the business combination	–
Voting rights acquired on the business combination date	93.68
Voting rights after the acquisition	93.68

(7) Main rationale for deciding on the acquisition target

The Company had acquired 93.68% of the voting rights of Versatile Inc. by offsetting the purchase of Versatile Inc. shares with a loan claim against FISCO Ltd.

2. Period of business results of the acquisition target included in the consolidated financial statements

January 1, 2017 to November 30, 2017

3. Acquisition cost of acquisition target and breakdown by consideration type

(Thousands of yen)

Consideration for acquisition	Cash and other payments	¥400,000
Acquisition cost		¥400,000

4. Main acquisition-related expenses and amounts

Advisory and other fees: ¥500 thousand

Notes

5. Amount of goodwill, reason for goodwill, amortization method and amortization period

(1) Amount of goodwill
¥350,030 thousand

(2) Reason for goodwill
Goodwill consists mainly of the premium expected from streamlining back-office operations in regions where NCXX Group Inc. conducts the brand retail business.

(3) Amortization method and amortization period
Straight-line method over 10 years

6. Amount of assets and liabilities transferred on the business combination date and the main components

(Thousands of yen)

Current assets	¥ 332,695
Non-current assets	1,653,743
Total assets	¥1,986,438
Current liabilities	¥1,562,576
Non-current liabilities	20,260
Total liabilities	¥1,582,836

7. Estimated impact on NCXX Group Inc.'s consolidated statements of income for fiscal 2017, and the estimation method, assuming the business combination was completed on December 1, 2016

(Thousands of yen)

Net sales	¥ –
Operating loss	(60,831)
Ordinary loss	(63,167)
Loss before income taxes	(63,167)
Loss attributable to owners of parent	(63,433)

(Estimation method)
The estimated impact is calculated by subtracting information on sales and profits in the consolidated statements of income of the Company from the information on sales and profits calculated on the assumption that the business combination was completed on December 1, 2016.

Notes on this business combination have not received accounting audit certification.

II Business Combination through Acquisition (FISCO International Limited)

1. Overview of business combination

(1) Name and business of acquired company
Name of the acquired company: FISCO International Limited

Business: Information services business, investment education business, and consulting business

(2) Main reason for the business combination
To develop the brand retail platform business, which is a focus for the Group going forward.

(3) Business combination date
December 29, 2016

(4) Statutory basis of business combination
Share acquisition

(5) Name of company after business combination
No change

(6) Ratio of voting rights acquired

(%)

Voting rights owned before the business combination	–
Voting rights acquired on the business combination date	100.00
Voting rights after the acquisition	100.00

Notes

(7) Main rationale for deciding on the acquisition target

The Company acquired the shares for cash consideration.

2. Period of business results of the acquisition target included in the consolidated financial statements

January 1, 2017 to November 30, 2017

3. Acquisition cost of acquisition target and breakdown by consideration type

(Thousands of yen)

Consideration for acquisition	Cash and other payments	¥86,000
Acquisition cost		¥86,000

4. Main acquisition-related expenses and amounts

Advisory and other fees: ¥500 thousand

5. Amount of goodwill, reason for goodwill, amortization method and amortization period

(1) Amount of goodwill

¥20,445 thousand

(2) Reason for goodwill

Goodwill consists mainly of the premium expected from streamlining back-office operations in regions where NCXX Group Inc. conducts the brand retail business.

(3) Amortization method and amortization period

Immediate amortization

6. Amount of assets and liabilities transferred on the business combination date and the main components

(Thousands of yen)

Current assets	¥ 21,741
Non-current assets	757,223
Total assets	¥778,964
Current liabilities	¥ 37,007
Non-current liabilities	–
Total liabilities	¥ 37,007

7. Estimated impact on NCXX Group Inc.'s consolidated statements of income for fiscal 2017, and the estimation method, assuming the business combination was completed on December 1, 2016

(Thousands of yen)

Net sales	¥ 223,950
Operating loss	(621,550)
Ordinary loss	(1,448,748)
Loss before income taxes	(1,448,748)
Loss attributable to owners of parent	(1,450,209)

(Estimation method)

The estimated impact is calculated by subtracting information on sales and profits in the consolidated statements of income of the Company from the information on sales and profits calculated on the assumption that the business combination was completed on December 1, 2016.

Notes on this business combination have not received accounting audit certification.

III Business Combination through Acquisition (FACETASM)

1. Overview of business combination

(1) Name and business of acquired company

Name of the acquired company: FACETASM
Business: Retail business primarily offering casual wear

Notes

(2) Main reason for the business combination
To develop the brand retail platform business, which is a focus for the Group going forward.

(3) Business combination date
May 24, 2017

(4) Statutory basis of business combination
Share acquisition

(5) Name of company after business combination
No change

(6) Ratio of voting rights acquired

	(%)
Voting rights owned before the business combination	–
Voting rights acquired on the business combination date	51.00
Voting rights after the acquisition	51.00

(7) Main rationale for deciding on the acquisition target
The Company's consolidated subsidiary (voting interest of 51.00%) acquired the shares for cash consideration.

2. Period of business results of the acquisition target included in the consolidated financial statements
June 1, 2017 to October 31, 2017

3. Acquisition cost of acquisition target and breakdown by consideration type

		(Thousands of yen)
Consideration for acquisition	Cash and other payments	¥41,820
Acquisition cost		¥41,820

4. Main acquisition-related expenses and amounts
Advisory and other fees: ¥9,062 thousand

5. Amount of goodwill, reason for goodwill, amortization method and amortization period

(1) Amount of goodwill
¥214,616 thousand

(2) Reason for goodwill
Goodwill consists mainly of the premium expected from streamlining back-office operations in regions where NCXX Group Inc. conducts the brand retail business.

(3) Amortization method and amortization period
Straight-line method over 10 years

6. Amount of assets and liabilities transferred on the business combination date and the main components

	(Thousands of yen)
Current assets	¥139,758
Non-current assets	266,846
Total assets	¥406,605
Current liabilities	¥206,076
Non-current liabilities	158,708
Total liabilities	¥364,785

Notes

7. Estimated impact on NCXX Group Inc.'s consolidated statements of income for fiscal 2017, and the estimation method, assuming the business combination was completed on December 1, 2016

(Thousands of yen)

Net sales	¥ 310,092
Operating loss	(174,972)
Ordinary loss	(175,366)
Loss before income taxes	(53,310)
Loss attributable to owners of parent	(53,376)

(Estimation method)

The estimated impact is calculated by subtracting information on sales and profits in the consolidated statements of income of the Company from the information on sales and profits calculated on the assumption that the business combination was completed on December 1, 2016.

Notes on this business combination have not received accounting audit certification.

IV Business Combination through Acquisition (e frontier, Inc.)

1. Overview of business combination

(1) Name and business of acquired company

Name of the acquired company: e frontier, Inc.

Business: Development and sales of PC software, sales of 3D computer graphics software and provision of services

(2) Main reason for the business combination

The purpose of the business combination is to develop new services using the software development and sales capabilities of e frontier, Inc. and to utilize its customer network, thereby making a significant contribution to growth in the NCXX Group's customer network (particularly in the B2C sector) in its existing businesses. In addition, e frontier, Inc. expects to derive benefits such as the development of a new customer base, increased sales through new product development and cost cutting through the flexible use of human resources. Accordingly, the Group purchased the shares of e frontier, Inc. and turned it into a subsidiary.

(3) Business combination date

July 7, 2017

(4) Statutory basis of business combination

Share acquisition

(5) Name of company after business combination

No change

(6) Ratio of voting rights acquired

(%)

Voting rights owned before the business combination	–
Voting rights acquired on the business combination date	99.9
Voting rights after the acquisition	99.9

(7) Main rationale for deciding on the acquisition target

The Company acquired the shares for cash consideration.

2. Period of business results of the acquisition target included in the consolidated financial statements

September 1, 2017 to November 30, 2017

3. Acquisition cost of acquisition target and breakdown by consideration type

(Thousands of yen)

Consideration for acquisition	Cash and other payments	¥20,002
Acquisition cost		¥20,002

4. Amount of goodwill, reason for goodwill, amortization method and amortization period

(1) Amount of goodwill

¥204,866 thousand

Notes

(2) Reason for goodwill

Goodwill consists mainly of the premium expected from future business expansion at e frontier, Inc. in the areas of PC software development and sales, sales of 3D computer graphics software and provision of services.

(3) Amortization method and amortization period

The full amount is recorded as an impairment loss.

5. Amount of assets and liabilities transferred on the business combination date and the main components

(Thousands of yen)

Current assets	¥308,519
Non-current assets	205,200
Total assets	¥513,719
Current liabilities	¥ 14,486
Non-current liabilities	479,229
Total liabilities	¥493,716

6. Estimated impact on NCXX Group Inc.'s consolidated statements of income for fiscal 2017, and the estimation method, assuming the business combination was completed on December 1, 2016

(Thousands of yen)

Net sales	¥ 69,639
Operating loss	(3,555)
Ordinary loss	(28,009)
Loss before income taxes	(43,969)
Loss attributable to owners of parent	(44,332)

(Estimation method)

The estimated impact is calculated by subtracting information on sales and profits in the consolidated statements of income of the Company from the information on sales and profits calculated on the assumption that the business combination was completed on December 1, 2016.

Notes on this business combination have not received accounting audit certification.

V Business Divestiture (CAICA Inc.)

On January 25, 2017, the Company transferred a portion of its shares in CAICA Inc. (13,000,000 shares) via the stock market, thereby reducing its voting rights in CAICA to below 50%. At a meeting of the Board of Directors held on April 14, 2017, the Company passed a resolution to reclassify CAICA Inc. from a consolidated subsidiary to an equity-method affiliate.

1. Overview of share transfer

(1) Name and business of transferred subsidiary

Name of the transferred subsidiary: CAICA Inc.
Business: Information services business

(2) Main reason for the share transfer

The Company decided to transfer a portion of its shares in CAICA Inc. to secure adequate working capital and cash in hand for the next several months, along with preparing for new business funding requirements and other priorities.

(3) Share transfer date

January 25, 2017

2. Overview of accounting treatment

(1) Amount of gain or loss on transfer

Gain on sales of shares of subsidiaries: ¥866,573 thousand

(2) Appropriate carrying amounts of assets and liabilities related to the transferred subsidiary and the main components

(Thousands of yen)

Current assets	¥1,532,429
Non-current assets	4,049,988
Total assets	¥5,582,417
Current liabilities	¥1,245,918
Non-current liabilities	49,589
Total liabilities	¥1,295,507

Notes

(3) Accounting treatment
The difference between the consolidated carrying amounts of CAICA Inc. and the sales amount was recorded as gain on sales of shares of subsidiaries under extraordinary income.

3. Name of the reportable segment to which the transferred subsidiary was included
FinTech system development business

4. Estimated amount of income or loss related to the transferred subsidiary recorded on the consolidated statements of income for fiscal 2017

	(Thousands of yen)
Net sales	¥1,174,094
Operating income	32,067

VI Business Divestiture (NCXX Solutions Inc.)
At a meeting of the Board of Directors held on August 10, 2017, the Company passed a resolution to transfer 51% of the shares outstanding in NCXX Solutions Inc. ("NCXX Solutions"), a consolidated subsidiary of the Company, to CAICA Inc. ("CAICA") and reclassify NCXX Solutions from a consolidated subsidiary of the Company to an equity-method affiliate.

1. Overview of share transfer
(1) Name of the counterparty
CAICA

(2) Name and business of transferred subsidiary
Name of the transferred subsidiary: NCXX Solutions
Business: Design, development, sale and maintenance of computer software and systems, as well as management and consulting services

(3) Main reason for the share transfer
When considering the future growth prospects of NCXX Solutions, the Company believes that putting NCXX Solutions under the CAICA Group, which conducts software development like NCXX Solutions, will be more advantageous than keeping it in the NCXX Group, which originated from a manufacturer of telecommunications device hardware. NCXX Solutions has a strong affinity with the CAICA Group in terms of underlying technologies and employed personnel, and the potential for gaining knowledge of new technologies and other benefits will lead to growth at NCXX Solutions and to stronger collaboration on joint development with the NCXX Group. Moreover, even if NCXX Solutions becomes an equity-method affiliate, the Company believes that it could derive higher profits from NCXX Solutions than it does now based on the future growth that NCXX Solutions could achieve as a member of the CAICA Group.

(4) Share transfer date
October 10, 2017

2. Overview of accounting treatment
(1) Amount of gain or loss on transfer
Gain on sales of shares of subsidiaries: ¥— thousand

(2) Appropriate carrying amounts of assets and liabilities related to the transferred subsidiary and the main components

	(Thousands of yen)
Current assets	¥ 657,327
Non-current assets	590,539
Total assets	¥1,247,866
Current liabilities	¥ 248,101
Non-current liabilities	439,669
Total liabilities	¥ 687,770

(3) Accounting treatment
The shares were sold at the consolidated carrying amount of NCXX Solutions.

3. Name of the reportable segment to which the transferred subsidiary was included
FinTech system development business

Notes

4. Estimated amount of income or loss related to the transferred subsidiary recorded on the consolidated statements of income for fiscal 2017

(Thousands of yen)

Net sales	¥1,807,987
Operating income	(10,194)

(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 1.0% and 1.9% is used to calculate the asset retirement obligation amounts.

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

(Thousands of yen)

	Fiscal 2016 (From December 1, 2015 to November 30, 2016)	Fiscal 2017 (From December 1, 2016 to November 30, 2017)
Balance at the beginning of the fiscal year	¥ –	¥399,040
Increase from consolidated subsidiary acquisition	455,237	49,866
Adjustment reflecting the passage of time	955	4,349
Decrease from execution of obligations	(57,152)	(63,567)
Balance at the end of the fiscal year	¥399,040	¥389,687

(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 2016 (From December 1, 2015 to November 30, 2016)

Certain consolidated subsidiaries hold idle real estate in Shizuoka Prefecture. Certain other consolidated subsidiaries hold idle real estate in Tochigi Prefecture, and these consolidated subsidiaries have also acquired new properties in Fukuoka Prefecture and other regions and are using them as offices and for other purposes. However, since some of these properties are rented, real estate is treated as including the portion used as real estate for rent. Rental income (loss) related to real estate including the portion used as real estate for rent during the fiscal year under review was ¥5 million (Rental income is recorded under non-operating income, while main rental expenses are recorded under non-operating expenses). The carrying amount of idle real estate and real estate including the portion used as real estate for rent, as well as the main changes, fair value at the fiscal year-end, and the method of calculating fair value are shown as follows:

(Thousands of yen)

	Carrying amount			
	Balance at December 1, 2015	Change during fiscal 2016	Balance at November 30, 2016	Fair value at fiscal year-end
Idle real estate	¥ 2,000	¥ –	¥ 2,000	¥ 2,010
Real estate including the portion used as real estate for rent	317,443	(11,341)	306,102	306,102

Notes: 1. The carrying amount represents the acquisition cost less cumulative depreciation.
2. Method of calculating fair value
For certain idle real estate, there have been no material changes in the indicators believed to appropriately reflect market prices from the time of the most recent appraisal, and the changes have been negligible. As a result, fair value has been determined by recent principled calculations.
For other idle real estate and real estate including the portion used as real estate for rent, the carrying amount is stated as the fair value because the real estate was newly purchased during the fiscal year under review, and any changes in fair value are thus deemed to be negligible.

Notes

Fiscal 2017 (From December 1, 2016 to November 30, 2017)
Certain consolidated subsidiaries had previously held idle real estate in Shizuoka Prefecture and Tochigi Prefecture. In addition, certain subsidiaries have acquired new properties in Fukuoka Prefecture and other regions and are using them as offices and for other purposes. Since some of these properties are rented, real estate had been treated as including the portion used as real estate for rent.

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

(Thousands of yen)

	Carrying amount			
	Balance at December 1, 2016	Change during fiscal 2017	Balance at November 30, 2017	Fair value at fiscal year-end
Idle real estate	¥ 2,000	¥ (2,000)	¥–	¥–
Real estate including the portion used as real estate for rent	306,102	(306,102)	–	–

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

(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.

Effective from fiscal 2017, due to an increase in consolidated subsidiaries, the number of segments has been increased from three to five segments. The Company's five new segments are the ICT, IoT, Device Business, FinTech System Development Business, Internet Travel Business, Brand Retail Platform Business and Information Service Consulting Business. Previously, the Company had three segments: the Device Business, the Internet Travel Business, and the Brand Retail Platform Business.

Segment information for fiscal 2016 has been prepared and disclosed based on the reportable segments adopted after the corporate reorganization.

Segment	Description of business
ICT, IoT, Device Business	Management of Group businesses and research and development (R&D) activities in the agricultural ICT business and robotics business Development and sale of communication devices applying various wireless systems Provision of systems solutions and maintenance services incidental to the above systems development Purchasing and sale of mobile communication-related products in China
FinTech System Development Business	Systems development Cloud services 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 Brand license business Restaurant business
Information Service Consulting Business	Various consulting services, including investor relations (IR) support services, financial strategies, business strategies, and recruitment support services Fund arrangement and administration services
Other	Grape farming Winemaking and sales

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

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

Segment income for reportable segments is based on operating income.

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

Notes

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

Fiscal 2016 (From December 1, 2015 to November 30, 2016)

(Thousands of yen)

	Reportable segment								
	ICT, IoT, Device Business	FinTech System Development Business	Internet Travel Business	Brand Retail Platform Business	Information Service Consulting Business	Other	Total	Adjustments	Consolidated
Net sales									
Sales to third parties	¥1,274,595	¥7,836,945	¥1,623,855	¥1,495,738	¥–	¥–	¥12,231,134	¥ –	¥12,231,134
Inter-segment sales and transfers	623	2,216	–	–	–	–	2,840	(2,840)	–
Total	1,275,218	7,839,162	1,623,855	1,495,738	–	–	12,233,975	(2,840)	12,231,134
Segment income (loss)	(365,311)	(61,244)	10,894	(15,223)	–	–	(430,886)	(188,677)	(619,563)
Segment assets	982,318	5,655,077	640,079	2,196,350	–	–	9,473,826	3,986,080	13,459,907
Other items									
Depreciation and amortization	1,381	49,835	539	22,337	–	–	74,094	46,862	120,956
Amortization of goodwill	–	486,523	30,848	–	–	–	517,372	–	517,372
Increase in property, plant and equipment and intangible assets	1,763	57,665	1,266	14,621	–	–	75,317	153,074	228,391

Notes: 1. Segment income (loss) is adjusted to operating income in the consolidated statements of income. Adjustments for segment income mainly represent general and administration expenses that are not allocated to reportable segments.
2. Adjustments for segment assets represent corporate assets that are not allocated to reportable segments.
3. Adjustments for depreciation and amortization represent depreciation and amortization related to corporate assets.
4. Increase in property, plant and equipment and intangible assets mainly represent the increase in corporate assets.
5. Prices for transactions and transfers between reportable segments are determined based on arm’s length transactions between independent third parties.

Notes

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

(Thousands of yen)

	Reportable segment								
	ICT, IoT, Device Business	FinTech System Development Business	Internet Travel Business	Brand Retail Platform Business	Information Service Consulting Business	Other	Total	Adjustments	Consolidated
Net sales									
Sales to third parties	¥ 893,294	¥3,070,723	¥2,183,047	¥5,926,905	¥ 71,419	¥ 53,531	¥12,198,921	¥ –	¥12,198,921
Inter-segment sales and transfers	43,011	88	7,601	54,805	2,176	–	107,683	(107,683)	–
Total	936,305	3,070,811	2,190,648	5,981,711	73,595	53,531	12,306,604	(107,683)	12,198,921
Segment income (loss)	(438,154)	(36,276)	(1,154)	(30,434)	(57,779)	(9,910)	(573,709)	(340,846)	(914,555)
Segment assets	704,657	9,114	371,007	3,519,940	115,650	222,997	4,943,368	6,588,998	11,532,367
Other items									
Depreciation and amortization	20,761	44,227	539	130,927	8,221	–	204,676	7,875	212,551
Amortization of goodwill	–	137,037	30,848	32,277	20,445	33,463	254,073	–	254,073
Increase in property, plant and equipment and intangible assets	29,292	6,453	1,250	107,074	–	–	144,071	82,505	226,576

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

Notes

[Related Information]

Fiscal 2016 (From December 1, 2015 to November 30, 2016)

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

1. Information by product and service

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

2. Information by region

(1) Net sales

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

(2) Property, plant and equipment

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

3. Information by major customer

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

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

Fiscal 2016 (From December 1, 2015 to November 30, 2016)

(Thousands of yen)

	ICT, IoT, Device Business	FinTech System Development Business	Internet Travel Business	Brand Retail Platform Business	Information Service Consulting Business	Other	Corporate and elimination	Total
Impairment loss	¥1,249	¥–	¥–	¥320,618	¥–	¥–	¥–	¥321,868

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

(Thousands of yen)

	ICT, IoT, Device Business	FinTech System Development Business	Internet Travel Business	Brand Retail Platform Business	Information Service Consulting Business	Other	Corporate and elimination	Total
Impairment loss	¥204,866	¥107,773	¥–	¥1,086,293	¥–	¥431,709	¥–	¥1,830,642

Notes

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

Fiscal 2016 (From December 1, 2015 to November 30, 2016)

(Thousands of yen)

	ICT, IoT, Device Business	FinTech System Development Business	Internet Travel Business	Brand Retail Platform Business	Information Service Consulting Business	Other	Corporate and elimination	Total
Amortized amount	¥–	¥ 486,523	¥ 30,848	¥–	¥–	¥–	¥–	¥ 517,372
Unamortized balance	–	4,172,839	198,877	–	–	–	–	4,371,717

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

(Thousands of yen)

	ICT, IoT, Device Business	FinTech System Development Business	Internet Travel Business	Brand Retail Platform Business	Information Service Consulting Business	Other	Corporate and elimination	Total
Amortized amount	¥–	¥137,037	¥ 30,848	¥ 32,277	¥20,445	¥33,463	¥–	¥254,073
Unamortized balance	–	23,303	168,028	205,674	–	–	–	397,006

[Information on Gain on Bargain Purchase by Reportable Segment]

Fiscal 2016 (From December 1, 2015 to November 30, 2016)

A ¥32,282 thousand gain on bargain purchase was recorded as extraordinary income subsequent to the acquisition of additional shares in a consolidated subsidiary in the Internet travel business.

A ¥4,462 thousand gain on bargain purchase was recorded as extraordinary income subsequent to the acquisition of additional shares in a consolidated subsidiary in the brand retail platform business.

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

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 2016 (From December 1, 2015 to November 30, 2016)

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	¥1,235	Information services business, consulting business	Direct (29.58) Indirect (20.25)	Concurrent officers	Funds lent	¥350,000	Long-term loans receivable	¥ 400,000
							Interest received	4,887	–	–
							Interest on bonds	–	Accounts payable—other	4,183
							Debt guarantees received	–	–	1,078,139

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

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

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

Notes

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

Fiscal 2016 (From December 1, 2015 to November 30, 2016)

Type	Name of company or other entity	Head office location	Paid-in capital or investment (Millions of yen)	Description of business or occupation	Percentage of voting rights held (%)	Relationship with related party	Nature of transaction	Amount of transaction (Thousands of yen)	Item	Ending balance (Thousands of yen)
Companies with the same parent company as the filing company	Versatile Inc.	Minato-ku, Tokyo	¥95	Consulting business	–	Concurrent officers	Funds lent	¥30,000	Long-term loans receivable	¥930,000
							Interest received	18,606	–	–
	Chanty Co., Ltd.	Minato-ku, Tokyo	32	Advertising agency business	–	Concurrent officers	Funds lent	–	Long-term loans receivable	160,000
							Interest received	3,208	–	–

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

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

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

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

Fiscal 2016 (From December 1, 2015 to November 30, 2016)

Type	Name of company or other entity	Description of business or occupation	Percentage of voting rights held (%)	Relationship with related party	Nature of transaction	Amount of transaction (Thousands of yen)	Item	Ending balance (Thousands of yen)
Officer and his relatives	Tsukasa Akiyama	Officer	–	Representative Director and President of NCXX Group Inc.	Debt guarantee received	¥–	–	¥37,312

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

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

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

Notes

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

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

Fiscal 2016 (From December 1, 2015 to November 30, 2016)

Type	Name of company or other entity	Head office location	Paid-in capital or investment (Millions of yen)	Description of business or occupation	Percentage of voting rights held (%)	Relationship with related party	Nature of transaction	Amount of transaction (Thousands of yen)	Item	Ending balance (Thousands of yen)
Parent company	FISCO Ltd.	Kishiwada, Osaka	¥1,235	Information services business, consulting business	(Ownership ratio) Direct (29.58) Indirect (20.25)	Concurrent officers	Funds lent	¥ –	Short-term loans receivable	¥200,000
							Interest received	4,010	–	–

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

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

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

(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 2016 (From December 1, 2015 to November 30, 2016)

Not applicable

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

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

Notes

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

Fiscal 2016 (From December 1, 2015 to November 30, 2016)

Not applicable

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

Not applicable

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

Fiscal 2016 (From December 1, 2015 to November 30, 2016)

Type	Name of company or other entity	Description of business or occupation	Percentage of voting rights held (%)	Relationship with related party	Nature of transaction	Amount of transaction (Thousands of yen)	Item	Ending balance (Thousands of yen)
Officer of a significant subsidiary	Takao Hayashi	Officer	–	Debt guarantee received	Debt guarantee received	¥–	–	¥78,261

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

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

2. Notes on the parent company or significant related companies

(1) Parent company information

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

(2) Summary of financial information on significant related companies

Not applicable

Notes

(Per Share Information)

(Yen)

	Fiscal 2016 (From December 1, 2015 to November 30, 2016)	Fiscal 2017 (From December 1, 2016 to November 30, 2017)
Net assets per share	¥241.60	¥259.74
Amounts for net income (loss) per share	(71.77)	60.68
Diluted net income per share	–	–

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

(Thousands of yen)

	Fiscal 2016 (From December 1, 2015 to November 30, 2016)	Fiscal 2017 (From December 1, 2016 to November 30, 2017)
Net income (loss) per share		
Gain (loss) attributable to owners of parent	¥ (1,068,435)	¥ 902,592
Amounts not attributable to common shareholders	–	–
Gain (loss) attributable to owners of parent related to common shares	(1,068,435)	902,592
Average number of common shares during the period (Shares)	14,885,214	14,875,370
Diluted net income per share		
Adjustments to profit attributable to owners of parent	–	–
Increase in number of common shares (Shares)	–	–

	Fiscal 2016 (From December 1, 2015 to November 30, 2016)	Fiscal 2017 (From December 1, 2016 to November 30, 2017)
Outline of dilutive shares excluded from the calculation of diluted net income per share because of not having a dilutive effect	Subscription rights to shares attached to NCXX Group Inc.'s 11th Series of Subscription Rights to Shares (960 subscription rights for 96,000 underlying shares) Subscription rights to shares attached to NCXX Group Inc.'s 5th Series of Unsecured Convertible Bonds with Subscription Rights to Shares (1,165 subscription rights for 1,069,788 underlying shares) Subscription rights to shares attached to NCXX Group Inc.'s 6th Series of Unsecured Convertible Bonds with Subscription Rights to Shares (30 subscription rights for 466,562 underlying shares) Subscription rights to shares attached to NCXX Group Inc.'s 13th Series of Subscription Rights to Shares (1,000 subscription rights for 100,000 underlying shares)	Subscription rights to shares attached to NCXX Group Inc.'s 11th Series of Subscription Rights to Shares (960 subscription rights for 96,000 underlying shares) Subscription rights to shares attached to NCXX Group Inc.'s 5th Series of Unsecured Convertible Bonds with Subscription Rights to Shares (1,165 subscription rights for 1,069,788 underlying shares) Subscription rights to shares attached to NCXX Group Inc.'s 13th Series of Subscription Rights to Shares (1,000 subscription rights for 100,000 underlying shares)

2. Although there were potentially dilutive shares, diluted net income per share for fiscal 2016 is not disclosed as a net loss per share was recorded.
3. Diluted net income per share for fiscal 2017 is not disclosed as there were no shares with a potentially dilutive effect.

Notes

(Subsequent Events)

I Signing of Syndicated Loan Agreement by Consolidated Subsidiary

TITICACA, Co. Ltd. ("TITICACA"), a consolidated subsidiary of the Company, has signed a syndicated loan agreement with The Bank of Yokohama, Ltd., the arranger, based on a resolution passed by TITICACA's Board of Directors at a meeting held on November 30, 2017, and executed the syndicated loan agreement on December 15, 2017.

1. Purpose of signing the syndicated loan agreement

The purpose of the syndicated loan agreement is to ensure flexible and stable fund procurement by securing a commitment line through the syndication method, stabilize fundraising by refinancing existing long-term debt according to cash flows, and systematically reduce interest-bearing debt, in order to strengthen the financial position in addition to executing growth strategies.

2. Outline of the syndicated loan agreement

	Syndicated loan agreement	
Agreement format	Commitment line	Term loan
Agreement amount	¥250 million	¥300 million
Agreement date	December 13, 2017	
Execution date	December 15, 2017	
Agreement period	1 year	5 years
Use of funds	Working capital	Refinancing funds
Repayment method	Lump-sum repayment on maturity date	From the end of January 2018, repayment of 5.0% of the total amount every three months (a total of 14 payments) and repayment of 30.0% of the total amount on the maturity date (a total of 1 payment)
Guarantor	The Company (TITICACA's parent)	
Collateral	Unsecured	
Arranger and agent	The Bank of Yokohama, Ltd.	
Participating financial institutions	THE SHIGA BANK, LTD. THE HOKURIKU BANK, LTD.	

II Other Important Investments

TITICACA, Co. Ltd., a consolidated subsidiary of the Company, commenced investment in cryptocurrency on January 11, 2018, based on a resolution passed by the Board of Directors at a meeting held on January 10, 2018, as follows:

1. Purpose of investment

TITICACA is considering undertaking new cryptocurrency-related businesses. By harnessing experience and data obtained through this investment in cryptocurrency, TITICACA will work to generate new earnings streams through the integration of existing businesses and cryptocurrency-related businesses.

2. Description of cryptocurrency investment

1. Name of main cryptocurrency: Bitcoin
2. Amount of investment (acquisition cost): 600 BTC (approximately ¥1,000 million)

3. Significant impact on business activities

TITICACA has determined that this investment will help to improve business performance over the medium and long terms.

4. Fund procurement method

Financing from Group companies and internal funds

III Transfer of Affiliate Accounted for by the Equity Method (Share Exchange)

NCXX Solutions Inc. ("NCXX Solutions"), the Company's affiliate accounted for by the equity method, has decided to conduct a share exchange with CAICA Inc. ("CAICA") to convert NCXX Solutions into a wholly owned subsidiary of CAICA based on a resolution in writing by the Board of Directors on January 29, 2018. NCXX Solutions entered into a share exchange agreement with CAICA on the same day.

1. Reason for the transfer

As announced in the "Notice of Transfer of Subsidiary (Share Exchange) and Extraordinary Loss on the Transfer of a Portion of the Shares of a Consolidated Subsidiary," the Company has transferred 51% of the shares outstanding in NCXX Solutions and 49% of the shares outstanding in NCXX Inc. ("NCXX") to CAICA. As a result, NCXX Solutions changed from a consolidated subsidiary of the Company to an equity-method affiliate.

Notes

The share exchange is expected to spur growth at both companies by combining CAICA's latest AI and blockchain technologies with NCXX Solutions' know-how in IoT-related services through device products that are highly relevant to NCXX. In addition, through the accelerated development of device products that link IoT and blockchain technology and IoT payment platform services that utilize cryptocurrencies and tokens, the Company and NCXX will create a business structure capable of rapidly introducing products that address latent needs in the marketplace.

CAICA had approached the Company with a proposal to further increase operational efficiency and synergies, as well as bolster consolidated profitability and enhance Group-wide corporate value, by converting NCXX Solutions into a wholly owned subsidiary.

The Company and NCXX Solutions accepted this proposal, after determining that further growth of CAICA and NCXX Solutions in the future will also contribute positively to the future growth of the Company. This determination is based on the fact that the Company and NCXX Solutions have continued to undertake IoT-related joint development even after the transfer of the aforementioned subsidiary and have maintained a cooperative relationship with CAICA based on a pre-existing business alliance agreement, as indicated in the press release issued on January 12, 2018 titled "Signing of a Business Alliance Agreement with Fisco Cryptocurrency Exchange Inc. and the Start of R&D Focused on an AI Trading System for Cryptocurrency by a Subsidiary of the Company."

In addition, in the course of acquiring the shares, CAICA had requested that it would like to acquire the shares through a share exchange, given that it plans to continue to proactively conduct M&As and capital and business alliances in the future and that it would like to retain the cash it currently holds for M&As and capital and business alliance deals that will be restricted to acquisitions through cash. Accordingly, the Company agreed to this request.

2. Overview of the affiliate accounted for by the equity method to be transferred

(1) Name	NCXX Solutions Inc.
(2) Name and title of representative	Naoki Ishihara, Representative Director
(3) Location	5-4-30 Minamiaoyama, Minato-ku, Tokyo, Japan
(4) Establishment	September 16, 2010
(5) Main business	Design, development, sale and maintenance of computer software and systems, as well as management and consulting services
(6) Capital stock	¥300 million
(7) Major shareholders and their shareholding ratio	CAICA Inc. 51.0% NCXX Group Inc. 49.0%

3. Share exchange counterparty

(1) Name	CAICA Inc.	
(2) Name and title of representative	Niu Yu, President and COO	
(3) Location	1-5-1 Ohashi, Meguro-ku, Tokyo, Japan	
(4) Main business	Information services business centered on the systems development business	
(5) Relationships with the Company	Capital relationships	The Company owns 18.31% of the shares of CAICA Inc.
	Personnel relationships	One director of the Company concurrently serves as a director of CAICA Inc.
	Trading relationships	None
	Classification as a related party	CAICA Inc. is classified as a related party, as it is an equity-method affiliate of NCXX Group Inc.

4. Number of shares held after the share exchange

(1) Number of shares held before the transfer 5,889 shares (Shareholding ratio: 49.0%)
(2) Number of shares held after the transfer 0 shares

5. Conditions for the share exchange

(1) Share exchange ratio
CAICA Inc. will allocate and exchange 705.63 shares of common stock for every share of common stock of NCXX Solutions Inc.
(2) Number of shares to be allocated to the Company
4,155,455 shares of common stock of CAICA Inc.

6. Schedule

Effective date of the share exchange: March 1, 2018

7. Outlook

The share exchange will have a negligible impact on the consolidated business results of the Company.

Notes

IV Issuance of Stock Compensation-Type Stock Options

On January 29, 2018, the Board of Directors of the Company decided to submit a resolution for approval by the 33rd Ordinary General Meeting of Shareholders to be held on February 22, 2018, 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 the Company 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.

Details regarding the subscription rights to shares are as follows.

(1) Total number of subscription rights to shares

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

(2) Class and number of underlying shares

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(5) Exercise period of subscription rights to shares

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

(6) Conditions for exercising subscription rights to shares

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

(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).

Notes

2. Following the allotment date of particular subscription rights to shares, the Company shall be able to acquire the particular subscription rights to shares from the holders free of charge if the closing price of ordinary transactions of the Company's common stock traded on the Tokyo Stock Exchange on any business day falls to 50% or lower than the exercise price of the particular subscription rights to shares (with fractions less than one (1) yen rounded down).
3. The Company may buy back any and all subscription rights to shares of a particular holder free of charge, on a date specified separately by the Board of Directors, in the event that the particular holder no longer satisfies the provisions set forth above in "(6) Conditions for exercising subscription rights to shares."

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

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

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

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

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

(10) Handling of fractions

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

(11) Other

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

Consolidated Supplementary Schedules

[Schedule of Corporate Bonds]

Issuer	Series	Issuance date	Starting balance in fiscal 2017 (Thousands of yen)	Ending balance in fiscal 2017 (Thousands of yen)	Interest (%)	Collateral	Maturity date
NCXX Group Inc.	5th Series of Unsecured Convertible Bonds with Subscription Rights to Shares	March 30, 2015	¥1,165,000 [–]	¥1,165,000 [1,165,000]	0.5	None	March 29, 2018
NCXX Group Inc.	6th Series of Unsecured Convertible Bonds with Subscription Rights to Shares	June 13, 2016	300,000 [300,000]	– [–]	0.7	None	June 12, 2017
Total	–	–	¥1,465,000 [300,000]	¥1,165,000 [1,165,000]	–	–	–

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

Series	5th Series of Unsecured Convertible Bonds with Subscription Rights to Shares
Type of shares to be issued	Common shares
Issue price of subscription rights (Yen)	Gratis
Issue price of shares (Yen)	¥1,089
Total face amount (Thousands of yen)	¥1,165,000
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 March 30, 2015 to March 29, 2018

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, 2016 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
¥1,165,000	¥–	¥–	¥–	¥–

Consolidated Supplementary Schedules

[Schedule of Borrowings]

(Thousands of yen)

Category	Starting balance in fiscal 2017	Ending balance in fiscal 2017	Average interest rate (%)	Repayment
Short-term loans payable	¥ 249,334	¥ 191,660	0.9	–
Current portion of long-term loans payable	1,844,650	836,382	1.2	–
Long-term loans payable (excluding current portion)	2,719,875	1,637,685	1.2	2018 to 2029
Total	¥4,883,068	¥2,868,475	–	–

Notes: 1. Average interest rate represents the weighted-average interest rate for the balance at November 30, 2017.
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, 2017 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	¥618,057	¥856,628	¥144,812	¥18,186	¥–

[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 15-3 of the Ordinance on Consolidated Financial Statements.

[Other]

Quarterly and other information for fiscal 2017

(Thousands of yen)

(Cumulative period)	First quarter	Second quarter	Third quarter	Fiscal year
Net sales	¥4,074,676	¥6,563,785	¥9,745,344	¥12,198,921
Profit before income taxes and non-controlling interests	769,189	1,934,940	1,750,497	1,024,792
Profit attributable to owners of parent	622,794	1,754,547	1,403,675	902,592
Net income per share (Yen)	¥41.84	¥117.95	¥94.34	¥60.68

(Yen)

(Quarterly period)	First quarter	Second quarter	Third quarter	Fiscal year
Net income (loss) per share	¥41.84	¥76.11	¥(23.57)	¥(33.66)

Company Overview

Name	NCXX Group Inc.
Date of establishment	April 21, 1984
Capital stock	¥1,000,000,000 (as of November 30, 2017)
Consolidated Group employees	272 (as of November 30, 2017)
Business operations	■ Management strategy formulation and management of Group companies ■ Planning, development, and sale of nursing care and rehabilitation robots, etc. ■ Planning, development, and sale of agricultural ICT ■ Businesses associated with or related to the above
Location	Hanamaki Head Office: 2-32-1 Kunuginome, Hanamaki City, Iwate Prefecture, Japan TEL: +81-198-27-2851 FAX: +81-198-27-2850 Tokyo Head Office: 2F CoSTUME NATIONAL Aoyama Complex, 5-4-30 Minamiaoyama, Minato-ku, Tokyo, Japan TEL: +81-3-5766-9870 FAX: +81-3-5766-9871

History

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

Shareholder Information (As of November 30, 2017)

Overview of shares

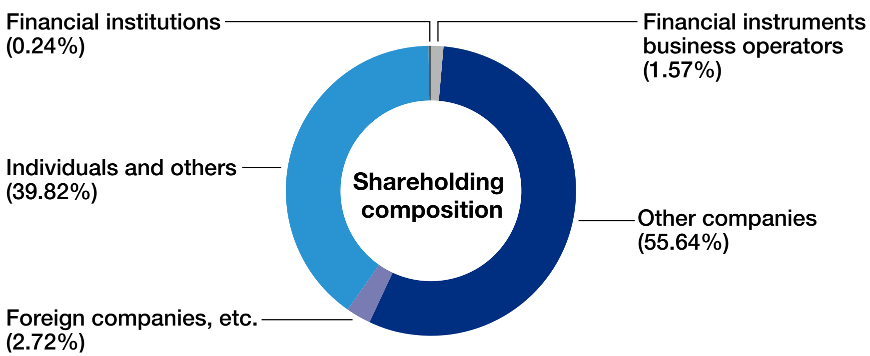
Total number of issuable shares: 30,000,000
Total number of shares issued: 15,030,195
Number of shareholders: 5,343

Major shareholders

Shareholder name	Number of shares held (shares)	Shareholding percentage of issued shares (%)
FISCO Ltd.	4,229,700	28.14
FISCO DIAMOND AGENCY, Inc.	3,000,000	19.96
Sequedge Japan Holdings Inc.	512,400	3.41
Investment Business Limited Partnership Digital Asset Fund	450,400	3.00
Hideaki Oka	390,400	2.60
Heringu Handeru K.K.	202,000	1.34
CAICA Inc.	125,008	0.83
SEQUEDGE INVESTMENT INTERNATIONAL LIMITED	97,000	0.65
CA INDOSUEZ (SWITZERLAND) SA SINGAPORE BRANCH	90,000	0.60
Tachibana Securities Co., Ltd.	81,100	0.54

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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