July 13, 2018

Consolidated Financial Results for the Six Months Ended May 31, 2018

(Japanese Accounting Standards)

Name of listed company: **NCXX Group Inc.**
Listing: Tokyo Stock Exchange, JASDAQ Standard
Stock code: 6634
URL: http://www.ncxxgroup.co.jp/
Representative: Tsukasa Akiyama, Representative Director and President
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Scheduled date to file Quarterly Securities Report: July 13, 2018
Scheduled date to commence dividend payments: —
Supplementary explanatory materials prepared: None
Explanatory meetings: None

(Millions of yen with fractional amounts discarded, unless otherwise noted.)

1. Consolidated Financial Results for the Six Months Ended May 31, 2018 (From December 1, 2017 to May 31, 2018)

(1) Consolidated Operating Results

(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended May 31, 2018	6,009	(8.4)	835	—	411	—	1,020	(41.9)
Six months ended May 31, 2017	6,563	19.4	(236)	—	(296)	—	1,754	—

Note: Comprehensive income
Six months ended May 31, 2018: ¥1,064 million [(42.3)%]
Six months ended May 31, 2017: ¥1,846 million [—%]

	Earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended May 31, 2018	68.53	67.43
Six months ended May 31, 2017	117.95	106.62

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
May 31, 2018	11,463	5,591	42.7	328.51
November 30, 2017	11,532	4,526	33.5	259.74

Reference: Equity
As of May 31, 2018: ¥4,894 million
As of November 30, 2017: ¥3,865 million

2. Cash Dividends

	Annual dividends per share				
	First quarter	Second quarter	Third quarter	Fiscal year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended November 30, 2017	—	0.00	—	0.00	0.00
Fiscal year ending November 30, 2018	—	0.00			
Fiscal year ending November 30, 2018 (forecasts)			—	0.00	0.00

Note: Changes since most recently announced dividend forecast: None

3. Consolidated Financial Forecasts for the Fiscal Year Ending November 30, 2018 (From December 1, 2017 to November 30, 2018)

(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending November 30, 2018	11,398	(6.6)	743	—	698	—	563	(37.6)	37.84

Note: Changes since most recently announced earnings forecast: None

Notes:

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in a change in the scope of consolidation): Yes

Excluded: 2 companies (Corporate names) FISCO International (Cayman) Limited, FISCO International (Cayman) L.P.

(2) Application of special accounting practices for quarterly consolidated financial statements: None

(3) Changes in accounting policies, changes in accounting estimates, and restatement of revisions

a. Changes in accounting policies due to revisions to accounting standards and other guidelines: None
b. Changes in accounting policies due to reasons other than a. above: None
c. Changes in accounting estimates: None
d. Restatement of revisions: None

(4) Number of common shares issued

a. Total number of issued shares at the end of the period (including treasury stock)

As of May 31, 2018	15, 030,195 shares
As of November 30, 2017	15, 030,195 shares

b. Number of shares of treasury stock at the end of the period

As of May 31, 2018	130,034 shares
As of November 30, 2017	146,473 shares

c. Average number of shares (Quarterly cumulative total)

For the six months ended May 31, 2018	14,887,972 shares
For the six months ended May 31, 2017	14,875,254 shares

*This report falls outside the scope of quarterly review procedures by Certified Public Accountants or the independent auditor.

* Proper use of earnings forecasts and other special matters

The forward-looking statements, including earnings forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions deemed to be reasonable. These statements do not guarantee that the Company will achieve its earnings forecasts. In addition, actual business and other results may differ substantially due to various factors. For details on the conditions assumed and the cautionary notes and items in the financial forecasts, please refer to "(3) Description of Consolidated Earnings Forecasts and Other Forward-looking Information" in "1. Qualitative Information Concerning Quarterly Financial Statements" on page 6 of the Attachment to this report.

Attachment Contents

1. Qualitative Information Concerning Quarterly Financial Statements

Forward-looking statements in this document are judged to be appropriate by the Group (the Company and its consolidated subsidiaries) as of the date of filing this report.

(1) Description of Business Results

In the six months of the fiscal year ending November 30, 2018, the Japanese economy continued to expand moderately, stimulated by government measures. Overseas, however, the outlook was uncertain with concerns about destabilizing trends in politics and 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 2016, the size of the Cyber-Physical System / IoT market, a strategic focus for the Company, increased to ¥194.0 trillion globally and ¥11.1 trillion in Japan. By 2030, the market is expected to grow to ¥404.4 trillion globally and ¥19.7 trillion in Japan. Looking at fields that have outstanding growth rates in Japan, the agriculture sector has posted an average annual growth rate of 20.2%. (Source: 2017 Survey of Trends in Emerging Fields by the Japan Electronics and Information Technology Industries Association)

In this business environment, in April 2018 the Group procured funds of ¥200 million by issuing the 7th unsecured convertible bond-type bonds with share acquisition rights through a third-party allotment. These funds were raised to undertake basic research and development to provide AI solutions and distributed applications using blockchain technology, as well as to develop agricultural ICT systems.

Looking at the agricultural ICT business (NCXX FARM), in the “sixth-order industrialization business” initiatives, the Group expanded sales of ground cherries, which it began growing on a full scale in the current fiscal year, in addition to increasing sales of its existing cherry tomatoes. Moreover, the Group began limited sales of strawberries (Tochiotome), which it is growing on a trial basis, at certain retailers in Hanamaki City and Tokyo. In processed food products, the Group commenced sales of tomato juice (180 ml) available in a colorful selection of four different colors, specifically red, green, purple and yellow, in March 2018. The Group sold these products in the Hanamaki Product Fair held in March at Ginga Plaza, a shop selling regional specialties from Iwate Prefecture in Tokyo. The products were well received by customers.

In the franchise business, the Group regularly conducts presentations on the franchise business at its proprietary test plot. It has continued to address various needs, including the use of these presentations by local municipalities and various agricultural groups as part of their training programs. In addition, public recognition of the Group’s agricultural ICT business has been increasing as a result of several prominent media appearances. Notably, the agricultural ICT business was featured in the March 7 edition of Nosai Newspaper Iwate. The Group’s agricultural business was also presented in “Togin Special Furusato Yume Map,” a TV program produced by Television Iwate Corp., and was spotlighted as an example of smart agriculture on May 23 in “Prime News,” a news program produced by Iwate Menkoi Television.

Furthermore, in March, the Group’s business model was featured in the “Brochure on Promoting Widespread Adoption and Awareness of Intellectual Property in the Agriculture Field,” a brochure produced by the Ministry of Agriculture, Forestry and Fisheries. The purpose of this brochure is to promote widespread adoption and awareness of the value and the significance of intellectual property, such as agricultural production technology, expertise and other resources, among farmers and other members of the agriculture community.

Looking at consolidated business results, net sales decreased slightly due to the exclusion of NCXX Solutions Inc. (“NCXX Solutions”) from the scope of application of the equity method. However, operating income increased sharply from the same period of the previous fiscal year. This increase was mainly due to improved business performance at NCXX Inc. (“NCXX”) and the impact of the recognition of revenue from investment in cryptocurrency in a proprietary account using an AI trading system in the first quarter.

In addition, the Group transferred a portion of its shares of Terilogy Co., Ltd. (Listing: 3356 TSE JASDAQ; Headquarters: Chiyoda-ku, Tokyo; Chairman: Takao Tsubuki) in March 2018, and recorded extraordinary income on the transfer of shares.

As a result of these efforts, consolidated net sales were ¥6,009 million, down 8.4% year on year. Operating income was ¥835 million, compared to an operating loss of ¥236 million in the same period of the previous fiscal year. Ordinary income was ¥411 million, compared to an ordinary loss of ¥296 million. Income before income taxes was ¥1,082 million, down

44.1% year on year. Profit attributable to owners of parent was ¥1,020 million, down 41.9% year on year. EBITDA, a reference indicator reflecting the amortization of goodwill associated with the conversion of companies into subsidiaries was ¥934 million, compared to ¥75 million in the same period of the previous fiscal year.

EBITDA = operating income + depreciation + amortization of goodwill (selling, general and administrative expenses)

In the six months ended May 31, 2018, the Group has already posted operating income and profit attributable to owners of the parent that exceed its consolidated financial forecasts for the fiscal year ending November 30, 2018. However, the Group is still closely reviewing its financial forecasts for the full fiscal year. If it becomes necessary to revise the financial forecasts after this review, the Group will promptly disclose any revisions to its financial forecasts.

Business performance by segment in the six months ended May 31, 2018 was as follows:
From the three months ended February 28, 2018, the FinTech Systems Development Business and the Information Service Consulting Business were excluded from the reportable segments and the Cryptocurrency and Blockchain Business was added as a new reportable segment.

IoT-Related Business

NCXX has focused on the delivery of solutions such as Drive Care, an OBD II solution for shuttle vehicles using GX410NC/GX420NC, the OBD II-compliant automotive telematic data collecting unit; Bus Rides; Drive Live, an OBD II solution for delivery vehicles; and Device Gate, a gateway for data collection and transfer.

In addition, NCXX has developed UX302NC-R, a new product that has passed the Inter-Operability Testing (IoT) certification of NTT DOCOMO, INC. UX302NC-R is the successor model to UX302NC, an LTE/3G data telecommunications terminal with a strong track record of sales to many telecom operators, including major mobile virtual network operators (MVNOs), since 2014. UX302NC-R is scheduled for launch in August 2018.

Moreover, as a new initiative, the Group began research and development into real-time image recognition technology using deep learning methods driven by GPU computing. This technology can be applied to a wide range of fields, including image analysis for facial recognition systems and surveillance cameras in the security field, the detection of defective products on factory assembly lines, and automated driving and assisted driving of automobiles.

The Group will continue to provide automotive telematic solutions that integrate high-valued-added communication devices and software, as well as providing various M2M/IoT solutions.

Care Dynamics Limited (“Care Dynamics”) is a provider of ASP systems to nursing care businesses. It has already deployed ASP systems at more than 400 nursing care facilities. With the launch of new services such as support for the introduction of nursing care robots since the previous fiscal year 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, we offer nursing care robots as a sales agency, distribute instructive leaflets of corporations, and services for creating advertisements. We also plan tours of nursing care facilities that have adopted the “Drive Care” OBD II solution for nursing care transportation vehicles.

Moreover, we provide a replacement support service and reassess electricity providers to help nursing care facilities cut their electricity bills. We also offer a service that introduces systems for saving water. Additionally, we have launched a new service to present proposals for reducing insurance premiums.

As a result of the aforementioned reclassification of segments, the ICT, IoT, Device Business and the FinTech Systems Development Business have been integrated to form the IoT-Related Business. In addition, net sales and operating income decreased sharply following the conversion of NCXX Solutions Inc. into an equity-method affiliate.

As a result, segment sales for the six months ended May 31, 2018 were ¥479 million, down 83.4% year on year. The segment loss was ¥128 million, compared with a segment loss of ¥15 million in the same period in the previous fiscal year.

Internet Travel Business

Amid a flood of travel products, e-tabinet.com (“e-tabinet.com”) and its subsidiaries provide services that meet the diverse and increasingly advanced needs of consumers. It has received many comments from highly satisfied customers. Web travel Co., Ltd. (“Web travel”) has built an unparalleled reputation as Japan’s only Internet-based custom-itinerary travel agency that boasts a network of travel concierges who are hand-picked travel consultants with extensive experience.

In 2015, we launched a website specifically for foreign tourists, and raised our profile in search engine results targeting Asia as a part of efforts to promote travel services. Going forward, we remain committed to further improving our website for foreign tourists, widening our focus to cover not only Asia but also Europe and the U.S.

Gloria Tours Inc. ("Gloria Tours"), which joined the Group in October 2016, specializes in sending Paralympic athletes to various events and organizing numerous international para-sports tournaments. Interest in para-sports events has increased every year ahead of the 2020 Tokyo Olympic and Paralympic Games. This year, Gloria Tours provided travel agency services in the sponsor category for Paralympic athletes sent to the PyeongChang Paralympics from March 9 to 18, thereby assisting with the travel needs of the sponsors as well as athletes and their family members. Going forward, Gloria Tours will continue to redouble efforts in para-sports in the run-up to the 2020 Tokyo Olympic and Paralympic Games. In addition, as part of these efforts, Gloria Tours is working to raise awareness and encourage widespread adoption of para-sports. To this end, Gloria Tours supported the publication of a new para-sports journal with help from para-athlete associations and Jitsugyo no Nihon Sha, Ltd.

Meanwhile, with steady growth in the number of registered travel concierges, we are seeking talented personnel for crowd sourcing operations as a means to leverage the unique skills of these concierges in areas other than travel. More specifically, we are taking measures to enhance a sense of belonging by outsourcing work that leverages the skills of concierges, such as helping in the information publishing business of FISCO Ltd., writing short comments for investor relations news at FISCO IR Ltd., and translating web pages of interest to foreign tourists.

Furthermore, in February 2018, Web travel entered into a business alliance with Credit Saison Co., Ltd., thereby establishing a direct link between the Saison Card homepage to the Group's website for requesting estimates for travel packages proposed by travel concierges. The travel concierge service provided by Web travel is presented as a credit card function, not an advertisement, in Tentomushi, a magazine for UC Gold Card members published every month, and magazines for Saison Gold Card and AMEX Gold Card members. Notably, this partnership came about only because Credit Saison Co., Ltd. approached the Group with a request to form a business alliance, underscoring the high marks given to the Group's unique concierge service.

Amid a gradual recovery from terrorist attacks since the previous year, overseas travel business sales were ¥910 million, centered on mainstay honeymoon packages to Europe and Australia, and domestic travel business sales were ¥81 million. In total for the Web travel website and the e-tabinet.com website, the number of requests for travel estimates from customers increased 8% in the six months ended May 31, 2018, indicating a solid recovery in demand for travel to Europe. The number of orders received was up 25% year on year in the six months ended May 31, 2018 and the gross profit margin held steady at 15%. Conditions in Europe have returned to a stable footing, leading to a gradual recovery in the number of orders received, with a similar trend expected to continue in step with an increasing number of travelers to Europe and the Americas.

At Gloria Tours, the 2020 Tokyo Olympics and Paralympic Games are giving rise to a steadily increasing number of overseas group tours, and an increase in tours associated with yachting competitions and other sailing-association tours. Consequently, expectations are high moving forward.

As a result, segment sales in the six months ended May 31, 2018 were ¥991 million, up 2.6% year on year. The segment loss was ¥10 million, compared with a segment loss of ¥11 million in the same period in the previous fiscal year.

Brand Retail Platform Business

TITICACA, Co., Ltd. ("TITICACA") had 94 stores as of the end of April 2018, reflecting the opening of 2 stores (Yokohama World Porters, Aeon Mall Sapporo Hassamu) and the closure of 1 store (Aeon Mall Nagoya Dome Mae) in the six months ended May 31, 2018, after closing down 18 stores over the previous twelve-month period, compared with 111 stores as of the end of October 2016. Meanwhile, following on from the previous fiscal year, TITICACA pushed ahead with the closure of unprofitable stores and structural reforms, including revisions to the personnel structure.

In marketing initiatives, TITICACA proactively implemented tie-up campaigns with well-known brands. It worked to sell campaign merchandise tied to outdoor brands such as Yak Pak and Wild Things, as well as Coco, an animated film produced by Disney, thereby striving to increase market recognition, win new customers and encourage existing customers to visit stores and purchase products. Notably, in the tie-up campaign with Coco, TITICACA successfully distributed information to a broad range of consumers through publicity initiatives and external social media notifications, in addition to achieving steady sales of campaign merchandise.

Versatile Inc. 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 six months ended May 31, 2018, there were barely any sales. An operating loss was posted that represents SG&A expenses.

As a result, segment sales in the six months ended May 31, 2018 were ¥3,213 million, up 18.9% year on year. The segment loss was ¥208 million, compared with ¥56 million in the same period of the previous fiscal year.

Cryptocurrency and Blockchain Business

e frontier, Inc. ("e frontier") and TITICACA are conducting investment operations based on trading using an AI-based cryptocurrency trading system currently being developed by e frontier. In the event of a drastic decrease in cryptocurrency prices, e frontier and TITICACA execute stop-loss transactions as part of its risk control measures. In this manner, e frontier and TITICACA always conduct trading activities with an emphasis on funding efficiency. Moreover, the two companies conduct investment operations aimed at generating returns from margins. In these and other ways, they are establishing an investment style that does not rely on the direction (upward or downward movements) of market prices.

As a result, in the six months ended May 31, 2018, segment sales were ¥1,296 million and segment operating income came to ¥1,296 million.

(2) Description of Financial Position

1) Assets, Liabilities, and Net Assets

Assets

Total assets at May 31, 2018 decreased ¥68 million to ¥11,463 million compared with the end of the previous fiscal year.

The main factors behind this change comprised a decrease of ¥1,561 million in cash and deposits, a decrease of ¥571 million in advance payments - trade, an increase of ¥1,000 million in short-term loans receivable, and an increase of ¥929 million in trademark right.

Liabilities

Total liabilities were ¥5,871 million, a decrease of ¥1,134 million from a year earlier.

The main components of this change were decreases of ¥965 million in current portion of convertible bond-type bonds with share acquisition rights and ¥247 million in interest-bearing debt*, an increase of ¥200 million in convertible bond-type bonds with share acquisition rights, and a decrease of ¥194 million in accrued expenses.

Net Assets

Total net assets increased ¥1,065 million, compared with the end of the previous fiscal year, to ¥5,591 million. The main changes included increases of ¥1,020 million in retained earnings.

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

2) Cash Flows

Cash and cash equivalents ("cash") at May 31, 2018 totaled ¥962 million, a decrease of ¥1,567 million from the previous fiscal year-end.

Cash flows during the six months ended May 31, 2018, and analysis of the main components are as follows:

Cash Flows from Operating Activities

Net cash used in operating activities was ¥136 million, compared with ¥301 million in the previous fiscal year.

This was mainly due to an increase in notes and accounts receivable-trade of ¥1,028 million, a gain on sales of investment securities of ¥484 million, an increase in deposits paid of ¥411 million, and a gain on change in equity of ¥207 million. These cash outflows were partly offset by profit before income taxes of ¥1,082 million and a decrease in cryptocurrency of ¥602 million.

Cash Flows from Investing Activities

Net cash used in investing activities was ¥463 million, compared with net cash provided by investing activities of ¥1,954 million in the same period of the previous fiscal year.

The main uses of cash were purchase of cryptocurrency of ¥3,112 million, purchase of intangible assets of ¥334 million, payments of long-term loans receivable of ¥408 million, purchase of property, plant and equipment of ¥87 million, and purchase of investment securities of ¥44 million. The main sources of cash were proceeds from the sale of cryptocurrency of ¥1,961 million, proceeds from sales of investment securities of ¥1,247 million, and collection of long-term loans receivable of ¥340 million.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥964 million, compared with ¥897 million in the same period of the previous fiscal year.

This was mainly due to the repayment of long-term loans payable of ¥695 million, and the redemption of bonds of ¥965 million, the main factors reducing cash. These cash outflows were partly offset by a net increase in short-term loans payable of ¥125 million, proceeds from long-term loans payable of ¥372 million, and proceeds from issuance of bonds with share acquisition rights of ¥200 million, the main factors increasing cash.

(3) Description of Consolidated Earnings Forecasts and Other Forward-Looking Information

There have been no changes to the consolidated financial forecasts announced in the financial report (*kessan tanshin*) titled "Consolidated Financial Results for the Fiscal Year Ended November 30, 2017" published on January 19, 2018.

2. Notes in the Summary Information

(1) Changes in Significant Subsidiaries during the Period

1) Significant Changes in the Scope of Consolidation

The Company's consolidated subsidiaries FISCO International (Cayman) Limited and FISCO International (Cayman) L.P. were excluded from the scope of consolidation following the completion of their liquidation.

2) Significant Changes in the Scope of Application of the Equity Method

NCXX Solutions Inc., which had previously been an equity-method affiliate, was excluded from the scope of application of the equity method due to a share exchange conducted with CAICA Inc., an equity-method affiliate of the Company.

(2) Application of Special Accounting Practices for Quarterly Consolidated Financial Statements

None

(3) Changes in Accounting Policies, Changes in Accounting Estimates, and Restatement of Revisions

None

(4) Additional Information

None

3. Quarterly Consolidated Financial Statements and Key Notes

(1) Consolidated Balance Sheets

(Thousands of yen)

	Fiscal 2017 (As of November 30, 2017)	2Q Fiscal 2018 (As of May 31, 2018)
Assets		
Current assets		
Cash and deposits	2,529,595	968,528
Notes and accounts receivable - trade	599,269	627,845
Merchandise and finished goods	1,070,793	1,166,431
Work in process	245,736	238,149
Raw materials and supplies	3,632	8,778
Cryptocurrency	15,899	170,989
Accounts receivable - other	114,228	225,622
Advance payments - trade	970,582	399,543
Short-term loans receivable	15,000	1,015,000
Deferred tax assets	416	2,126
Other	314,951	708,787
Allowance for doubtful accounts	(53,097)	(50,936)
Total current assets	5,827,009	5,480,867
Non-current assets		
Property, plant and equipment	735,245	761,023
Intangible assets		
Software	62,710	59,977
Goodwill	397,006	318,936
Trademark right	6,300	935,869
Other	3,964	7,228
Total intangible assets	469,982	1,322,010
Investments and other assets		
Investment securities	3,531,593	2,871,110
Long-term accounts receivable - other	163,181	154,539
Long-term loans receivable	396,140	462,430
Other	628,537	620,978
Allowance for doubtful accounts	(219,321)	(208,969)
Total investments and other assets	4,500,130	3,900,089
Total non-current assets	5,705,358	5,983,123
Total assets	11,532,367	11,463,990

(Thousands of yen)

	Fiscal 2017 (As of November 30, 2017)	2Q Fiscal 2018 (As of May 31, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	600,601	520,835
Short-term loans payable	191,660	267,000
Current portion of convertible bond-type bonds with share acquisition rights	1,165,000	200,000
Current portion of long-term loans payable	836,382	661,279
Accounts payable - other	259,459	325,768
Accrued expenses	350,077	155,981
Income taxes payable	24,509	28,977
Accrued consumption taxes	16,601	54,352
Advances received	268,271	380,945
Asset retirement obligations	28,780	16,211
Deferred tax liabilities	2,076	2,070
Provision for bonuses	67,796	68,682
Provision for product warranties	106,000	85,000
Provision for sales returns	13,376	7,090
Provision for loss on store closing	16,592	13,002
Other	48,250	68,516
Total current liabilities	3,995,438	2,855,713
Noncurrent liabilities		
Convertible bond-type bonds with share acquisition rights	—	200,000
Long-term loans payable	1,637,685	1,489,646
Net defined benefit liability	29,708	28,099
Asset retirement obligations	360,907	360,758
Deferred tax liabilities	767,129	774,085
Other	215,450	163,695
Total noncurrent liabilities	3,010,881	3,016,285
Total liabilities	7,006,319	5,871,999
Net Assets		
Shareholders' equity		
Capital stock	10,000	10,000
Capital surplus	2,770,501	2,769,841
Retained earnings	935,697	1,955,939
Treasury stock	(86,159)	(76,865)
Total shareholders' equity	3,630,038	4,658,916
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	139,894	159,951
Deferred gains or losses on hedges	(57)	(739)
Foreign currency translation adjustments	95,981	76,797
Total accumulated other comprehensive income	235,818	236,009
Subscription rights to shares	22,211	24,869
Non-controlling interests	637,979	672,196
Total net assets	4,526,047	5,591,991
Total liabilities and net assets	11,532,367	11,463,990

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Consolidated Statements of Income

(Six months ended May 31, 2018)

(Thousands of yen)

	2Q Fiscal 2017 (From December 1, 2016 to May 31, 2017)	2Q Fiscal 2018 (From December 1, 2017 to May 31, 2018)
Net sales	6,563,785	6,009,732
Cost of sales	4,195,091	2,684,002
Gross profit	2,368,693	3,325,730
Selling, general and administrative expenses	2,605,375	2,489,913
Operating loss (profit)	(236,681)	835,817
Non-operating income		
Interest income	9,553	13,169
House rent income	3,134	—
Foreign exchange gains	37,645	—
Other	10,886	17,221
Total non-operating income	61,220	30,391
Non-operating expenses		
Interest expenses	41,050	21,926
Share of loss of entities accounted for using equity method	23,802	3,732
Foreign exchange losses	—	5,089
Commission fee	49,250	14,303
Loss on sales of cryptocurrency	—	201,021
Loss on valuation of cryptocurrency	—	192,004
Other	7,002	16,453
Total non-operating expenses	121,105	454,530
Ordinary profit (loss)	(296,567)	411,677
Extraordinary income		
Gain on sales of shares of subsidiaries	888,152	—
Gain on sales of non-current assets	553	31
Reversal of allowance for doubtful accounts	2,968	—
Gain on change in equity	7,499	207,547
Gain on sales of investment securities	1,327,902	484,025
Gain on liquidation of subsidiaries	4,889	—
Total extraordinary income	2,231,966	691,604
Extraordinary losses		
Loss on retirement of property, plant and equipment	8	8,903
Loss on sales of property, plant and equipment	450	—
Loss on valuation of investment securities	—	7,011
Impairment loss	—	5,353
Total extraordinary losses	458	21,269
Profit before income taxes	1,934,940	1,082,013
Income taxes	236,461	22,690
Income taxes - deferred	1,574	4,329
Total income taxes	238,036	27,019
Profit	1,696,904	1,054,993
Profit (loss) attributable to non-controlling interests	(57,642)	34,750
Profit attributable to owners of parent	1,754,547	1,020,242

Consolidated Statements of Comprehensive Income

(Six months ended May 31, 2018)

(Thousands of yen)

	2Q Fiscal 2017 (From December 1, 2016 to May 31, 2017)	2Q Fiscal 2018 (From December 1, 2017 to May 31, 2018)
Profit	1,696,904	1,054,993
Other comprehensive income		
Valuation difference on available-for-sale securities	123,689	1,947
Deferred gains or losses on hedges	(1,806)	(1,042)
Foreign currency translation adjustments	27,369	450
Share of other comprehensive income of entities accounted for using equity method	(6)	8,616
Total other comprehensive income	149,245	9,971
Total comprehensive income	1,846,149	1,064,964
Comprehensive income attributable to:		
Owners of the parent	1,903,429	1,030,747
Non-controlling interests	(57,279)	34,216

(3) Consolidated Cash Flow Statements

(Thousands of yen)

	2Q Fiscal 2017 (From December 1, 2016 to May 31, 2017)	2Q Fiscal 2018 (From December 1, 2017 to May 31, 2018)
Cash flows from operating activities		
Profit before income taxes	1,934,940	1,082,013
Depreciation and amortization	112,179	70,472
Amortization of goodwill	199,638	28,070
Increase (decrease) in allowance for doubtful accounts	123,919	(12,513)
Decrease in provision for product warranties	(21,000)	—
Interest and dividend income	(9,553)	(14,185)
Interest expenses	41,050	21,926
Decrease (increase) in notes and accounts receivable - trade	86,334	(1,028,612)
Decrease in cryptocurrency	—	602,611
Increase in inventories	(12,542)	(93,291)
Decrease in notes and accounts payable – trade	(70,461)	(79,591)
Loss on valuation of investment securities	—	7,011
Gain on sales of investment securities	(1,327,902)	(484,025)
Loss on retirement of noncurrent assets	8	8,903
Impairment loss	—	5,353
Gain on change in equity	(7,499)	(207,547)
Loss on sales of cryptocurrency	—	201,021
Loss on valuation of cryptocurrency	—	192,004
Increase in advances received	44,734	112,673
Increase in advance payments	(105,651)	(39,889)
Decrease (increase) in accounts receivable – other	(116,662)	111,141
Increase in deposits paid	—	(411,182)
Increase (decrease) in accounts payable – other	(117,556)	37,660
Decrease in accrued expenses	(91,496)	(215,555)
Gain on sales of shares of subsidiaries	(888,152)	—
Other, net	(28,059)	(8,287)
Subtotal	(253,734)	(113,816)
Interest and dividend income received	7,906	13,935
Interest paid	(36,309)	(33,694)
Income taxes paid	(19,522)	(3,338)
Net cash provided by (used in) operating activities	(301,660)	(136,914)

(Thousands of yen)

	2Q Fiscal 2017 (From December 1, 2016 to May 31, 2017)	2Q Fiscal 2018 (From December 1, 2017 to May 31, 2018)
Cash flows from investing activities		
Purchase of cryptocurrency	—	(3,112,542)
Proceeds from sales of cryptocurrency	—	1,961,815
Purchase of property, plant and equipment	(35,544)	(87,860)
Purchase of investment securities	(738,727)	(44,542)
Proceeds from sales of investment securities	2,559,581	1,247,000
Purchase of intangible assets	(26,471)	(334,993)
Proceeds from sales of intangible assets	3,243	—
Payments for asset retirement obligations	(51,446)	(16,727)
Payments of long-term loans receivable	(296,180)	(408,000)
Collection of long-term loans receivable	610,278	340,000
Payments for guarantee deposits	(11,222)	(25,169)
Proceeds from collection of guarantee deposits	87,691	27,075
Payments of short-term loans receivable	(20,000)	—
Collection of short-term loans receivable	280,000	—
Provisional payments for distribution of dividends	(509,642)	—
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(490,371)	—
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	577,075	—
Other, net	15,816	(9,264)
Net cash provided by investing activities	1,954,081	(463,208)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(135,300)	125,340
Proceeds from long-term loans payable	44,504	372,800
Repayment of long-term loans payable	(1,038,058)	(695,090)
Redemption of bonds	—	(965,000)
Proceeds from issuance of bonds with share acquisition rights	—	200,000
Proceeds from issuance of shares resulting from exercise of subscription rights to shares	244,999	—
Purchase of treasury stock	(12,982)	—
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(4,011)
Proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	2,460
Other	(847)	(794)
Net cash used in financing activities	(897,684)	(964,297)
Effect of exchange rate change on cash and cash equivalents	(18,870)	(2,647)
Net increase (decrease) in cash and cash equivalents	735,865	(1,567,067)
Cash and cash equivalents at beginning of the fiscal year	1,881,667	2,529,595
Cash and cash equivalents at end of the fiscal year	2,617,532	962,528

(4) Notes to Consolidated Financial Statements

(Note Concerning Going Concern Assumption)

None

(Notes Regarding Significant Change in Shareholders' Equity)

None

(Segment Information)

I Six months of the fiscal year ended November 30, 2017 (From December 1, 2016 to May 31, 2017)

1. Information on net sales, profit and loss by reportable segment

(Thousands of yen)

	Reportable segment						Adjustments	Amounts in the consolidated financial statements
	IoT-Related Business	Internet Travel Business	Brand Retail Platform Business	Cryptocurrency and Blockchain Business	Other	Total		
Net sales								
Sales to third parties	2,885,664	965,881	2,703,368	—	8,870	6,563,785	—	6,563,785
Inter-segment sales and transfers	35,778	381	184	—	—	36,344	(36,344)	—
Total	2,921,443	966,263	2,703,552	—	8,870	6,600,130	(36,344)	6,563,785
Segment profit (loss)	(15,061)	(11,960)	(56,770)	—	(56,536)	(140,329)	(96,352)	(236,681)

Note: Segment profit (loss) is adjusted to operating loss in the consolidated statements of income. Adjustments for segment profit mainly represent general and administration expenses that are not allocated to reportable segments.

II Six months of the fiscal year ending November 30, 2018 (From December 1, 2017 to May 31, 2018)

1. Information on net sales, profit and loss by reportable segment

(Thousands of yen)

	Reportable segment						Adjustments	Amounts in the consolidated financial statements
	IoT-Related Business	Internet Travel Business	Brand Retail Platform Business	Cryptocurrency and Blockchain Business	Other	Total		
Net sales								
Sales to third parties	479,418	991,342	3,213,542	1,296,921	28,508	6,009,732	—	6,009,732
Inter-segment sales and transfers	9,902	639	117	—	—	10,658	(10,658)	—
Total	489,320	991,981	3,213,659	1,296,921	28,508	6,020,391	(10,658)	6,009,732
Segment profit (loss)	(128,591)	(10,293)	(208,515)	1,296,921	(32,231)	917,289	(81,472)	835,817

Note: Segment profit (loss) is adjusted to operating profit in the consolidated statements of income. Adjustments for segment profit mainly represent general and administration expenses that are not allocated to reportable segments.

2. Note on Change in Reportable Segments

In the three months ended February 28, 2018, the Company changed its previous six segments, specifically the ICT, IoT, Device Business, the FinTech System Development Business, the Internet Travel Business, the Brand Retail Platform Business, the Information Service Consulting Business, and Other, to the five segments comprising the IoT-Related Business, Internet Travel Business, Brand Retail Platform Business, Cryptocurrency and Blockchain Business, and Other. The reasons for this change are outlined below.

The Company has integrated the FinTech System Development Business, which had previously been disclosed as a reportable segment, and the ICT, IoT, Device Business, which had also been disclosed as a reportable segment, into a single segment and has renamed the segment as the IoT-Related Business. In conjunction with the reshaping of the management structure, this change was made based on the similar methods for determining resource allocations and assessing business results in the relevant businesses.

In addition, the Company has renamed the cryptocurrency-related business, which had previously been included in Other in the previous fiscal year, as the Cryptocurrency and Blockchain Business, and has added it to the reportable segments. This change was made due to the increased significance of this business in terms of business volume.

Moreover, the Company has integrated the wine business, which had previously been included in Other in the previous fiscal year, into the Brand Retail Platform Business. In conjunction with the reshaping of the management structure, this change was made based on the similar methods for determining resource allocations and assessing business results in the relevant businesses.

Furthermore, the Company has excluded the Information Service Consulting Business, which had previously been disclosed as a reportable segment, and reclassified it as Other. This change was made due to the diminished importance of this business in terms of business volume owing mainly to the downsizing of business operations.

Segment information for the six months ended May 31, 2017 has been prepared and disclosed based on the reportable segments adopted after the aforementioned changes.