

***Money Forward, Inc.
and Subsidiaries***

*Consolidated Financial Statements for
the Year Ended November 30, 2020
(Unaudited)*

Money Forward, Inc. and Subsidiaries

Consolidated Balance Sheet November 30, 2020 (Unaudited)

ASSETS	Thousands of Yen	
	2020	2019
CURRENT ASSETS:		
Cash and cash equivalents (Note 3)	¥ 8,719,850	¥ 7,192,537
Time deposits (Note 3)	200,000	
Trade notes and accounts receivable (Note 3)	1,228,255	890,638
Operational investment securities (Notes 3 and 4)	219,851	
Allowance for doubtful receivables (Note 3)	(56,747)	(41,953)
Inventories (Note 5)	83,005	7,297
Purchased receivables (Note 3)	2,210,303	2,068,872
Other current assets	855,801	750,749
Total current assets	13,460,320	10,868,142
PROPERTY AND EQUIPMENT:		
Buildings	424,973	321,304
Tools, furniture and fixtures	252,597	183,220
Total	677,570	504,524
Accumulated depreciation	(199,338)	(117,140)
Net property and equipment	478,231	387,384
INVESTMENTS AND OTHER ASSETS:		
Investment securities (Notes 3 and 4)	2,230,427	1,789,955
Goodwill (Note 18)	3,547,877	2,621,095
Software	623,057	18,870
Software in progress	393,400	
Lease and guarantee deposits (Note 3)	580,220	465,730
Other	410,833	174,657
Allowance for doubtful receivables (Note 3)	(12,619)	(12,619)
Total investments and other assets	7,773,196	5,057,687
TOTAL	¥ 21,711,748	¥ 16,313,216

Money Forward, Inc. and Subsidiaries

Consolidated Balance Sheet November 30, 2020 (Unaudited)

LIABILITIES AND EQUITY	Thousands of Yen	
	2020	2019
CURRENT LIABILITIES:		
Short-term loans (Notes 3 and 6)	¥ 2,510,000	¥ 2,000,000
Current portion of long-term loans (Notes 3 and 6)	968,344	620,776
Trade accounts payable (Note 3)	175,032	184,730
Other payables (Note 3)	1,664,797	755,661
Accrued expenses (Note 3)	717,171	646,781
Accrued bonuses (Note 3)	16,874	11,641
Income taxes payable (Note 3)	89,930	77,188
Unearned revenue	1,454,299	872,713
Other current liabilities	643,955	225,189
Total current liabilities	8,240,405	5,394,682
LONG-TERM LIABILITIES:		
Long-term loans (Notes 3 and 6)	3,067,741	2,809,533
Other long-term liabilities	165,833	78,840
Total long-term liabilities	3,233,574	2,888,373
COMMITMENT (Note 10)		
EQUITY (Notes 7 and 8):		
Capital stock	9,614,410	6,942,818
Capital surplus	2,910,162	4,026,306
Accumulated deficit	(3,111,275)	(3,211,257)
Treasury stock	(146)	(146)
Total shareholders' equity	9,413,150	7,757,721
Accumulated other comprehensive income		
Unrealized gain (loss) on available-for-sale securities	214,893	120,126
Foreign currency translation adjustment	(9,752)	(6,917)
Total accumulated other comprehensive income (loss)	205,140	113,208
Stock acquisition rights	46,549	54,541
Noncontrolling interests	572,927	104,687
Total equity	10,237,768	8,030,159
TOTAL	¥ 21,711,748	¥ 16,313,216

See notes to consolidated financial statements.

Money Forward, Inc. and Subsidiaries

Consolidated Statement of Operations Year Ended November 30, 2020 (Unaudited)

	Thousands of Yen	
	2020	2019
NET SALES	¥ 11,318,217	¥ 7,156,784
COST OF SALES	<u>3,700,849</u>	<u>2,832,672</u>
Gross profit	7,617,367	4,324,112
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 11)	<u>10,422,150</u>	<u>6,770,263</u>
Operating loss	<u>(2,804,783)</u>	<u>(2,446,151)</u>
OTHER INCOME (EXPENSES):		
Interest income	113	293
Gain on sale of investment securities (Note 4)	325,233	
Gain on step acquisitions (Note 16)	100,000	
Interest expense	(37,035)	(28,524)
Stock issuance costs	(25,351)	(90,735)
Loss on valuation of investment securities (Note 4)	(17,690)	
Impairment losses (Note 12)		(12,533)
Loss on business restructuring (Note 12)		(61,395)
Other—net	<u>4,858</u>	<u>(439)</u>
Other income (expenses)—net	<u>350,127</u>	<u>(193,333)</u>
LOSS BEFORE INCOME TAXES	(2,454,655)	(2,639,484)
INCOME TAXES (Note 9)		
Current	49,616	32,381
Deferred	<u>(25,792)</u>	<u>(51,283)</u>
Total income taxes	<u>23,824</u>	<u>(18,901)</u>
NET LOSS	<u>(2,478,479)</u>	<u>(2,620,583)</u>
NET LOSS ATTRIBUTABLE TO:		
Noncontrolling interests	(55,197)	(48,532)
Owners of the parent	<u>¥ (2,423,282)</u>	<u>¥ (2,572,050)</u>
	<u>Yen</u>	
PER SHARE INFORMATION (Note 2.r)—Basic net loss	¥ (52.08)	¥ (58.95)

See notes to consolidated financial statements.

Money Forward, Inc. and Subsidiaries

Consolidated Statement of Comprehensive Income Year Ended November 30, 2020 (Unaudited)

	Thousands of Yen	
	2020	2019
NET LOSS	¥ (2,478,479)	¥ (2,620,583)
OTHER COMPREHENSIVE INCOME (LOSS) (Note 13):		
Unrealized gain (loss) on available-for-sale securities	94,859	124,803
Foreign currency translation adjustment	(2,835)	(8,679)
Total other comprehensive income (loss)	<u>92,023</u>	<u>116,124</u>
COMPREHENSIVE LOSS	<u>¥ (2,386,455)</u>	<u>¥ (2,504,458)</u>
TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO:		
Owners of the parent	¥ (2,331,350)	¥ (2,455,926)
Noncontrolling interests	(55,105)	(48,532)

See notes to consolidated financial statements.

Money Forward, Inc. and Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended November 30, 2020 (Unaudited)

	Thousands of Yen										
	Shareholders' Equity				Accumulated Other Comprehensive Income (Loss)						
	Capital Stock	Capital Surplus	Accumulated Deficit	Treasury Stock	Total Shareholders' Equity	Unrealized Gain (Loss) on Available-for-sale Securities	Foreign Currency Translation Adjustment	Total Accumulated Other Comprehensive Income (Loss)	Stock Acquisition Rights	Noncontrolling Interests	Total Equity
BALANCE, NOVEMBER 30, 2018	¥ 3,378,155	¥ 726,723	¥ (873,822)		¥ 3,231,057	¥ (4,677)	¥ 1,761	¥ (2,915)	¥ 60,007	¥ 95,284	¥ 3,383,433
Net loss			(2,572,050)		(2,572,050)						(2,572,050)
Issuance of new shares (Note 7)	3,375,312	3,375,312			6,750,624						6,750,624
Exercise of stock options (Notes 7 and 8)	70,206	70,206			140,413						140,413
Share-based payment—transfer restricted stock	119,143	119,143			238,287						238,287
Purchase of shares of a consolidated subsidiary		(768)			(768)						(768)
Disposition of deficit (Note 7)		(264,310)	264,310								
Effect of change of consolidated subsidiaries' closing date			(29,694)		(29,694)						(29,694)
Purchase of treasury stock (Note 7)				¥ (146)	(146)						(146)
Net change in the year						124,803	(8,679)	116,124	(5,466)	9,403	120,061
BALANCE, DECEMBER 1, 2019	6,942,818	4,026,306	(3,211,257)	(146)	7,757,721	120,126	(6,917)	113,208	54,541	104,687	8,030,159
Net loss			(2,423,282)		(2,423,282)						(2,423,282)
Issuance of new shares (Note 7)	2,394,216	2,394,216			4,788,432						4,788,432
Exercise of stock options (Notes 7 and 8)	110,744	110,744			221,489						221,489
Share-based payment—transfer restricted stock	166,631	166,631			333,262						333,262
Increase by share exchanges (Note 16)		449,998			449,998						449,998
Purchase of shares of a consolidated subsidiary (Note 16)		(1,714,697)			(1,714,697)						(1,714,697)
Change in ownership interest of parent due to transactions with noncontrolling interests (Note 16)		226			226						226
Disposition of deficit (Note 7)		(2,523,264)	2,523,264								
Net change in the year						94,766	(2,835)	91,931	(7,991)	468,239	552,179
BALANCE, NOVEMBER 30, 2020	¥ 9,614,410	¥ 2,910,162	¥ (3,111,275)	¥ (146)	¥ 9,413,150	¥ 214,893	¥ (9,752)	¥ 205,140	¥ 46,549	¥ 572,927	¥ 10,237,768

See notes to consolidated financial statements.

Money Forward, Inc. and Subsidiaries

Consolidated Statement of Cash Flows Year Ended November 30, 2020 (Unaudited)

	Thousands of Yen	
	2020	2019
OPERATING ACTIVITIES:		
Loss before income taxes	¥ (2,454,655)	¥ (2,639,484)
Adjustments for:		
Income taxes—paid	(31,562)	(22,263)
Depreciation and amortization	120,578	66,924
Amortization of goodwill	369,962	110,184
Loss (gain) on step acquisitions	(100,000)	
Loss (gain) on sale of investment securities	(325,233)	
Loss (gain) on valuation of investment securities	17,690	
Stock issuance costs	25,351	90,735
Impairment losses		12,533
Loss on business restructuring		61,395
Changes in assets and liabilities:		
Decrease (increase) in trade notes and accounts receivable	(274,608)	(175,085)
Decrease (increase) in inventories	(64,949)	1,870
Decrease (increase) in purchased receivables	(141,431)	(1,706,756)
Decrease (increase) in investment securities for sale	(219,851)	
Increase (decrease) in allowance for doubtful receivables	14,793	48,907
Increase (decrease) in trade accounts payable	(16,784)	(5,186)
Increase (decrease) in other payables	874,817	483,480
Increase (decrease) in accrued expenses	45,279	160,212
Increase (decrease) in accrued bonuses	5,232	11,641
Increase (decrease) in unearned revenue	581,586	98,063
Other—net	454,127	(202,192)
Total adjustments	<u>1,334,998</u>	<u>(965,535)</u>
Net cash used in operating activities	<u>(1,119,657)</u>	<u>(3,605,019)</u>
INVESTING ACTIVITIES:		
Payments into time deposits	(400,000)	
Proceeds from withdrawal of time deposits	200,000	
Purchase of property and equipment	(123,639)	(117,549)
Payment for intangible assets	(1,042,643)	(13,520)
Purchases of investment securities	(459,497)	(778,611)
Proceeds from sale of investment securities	349,881	
Payment for lease and guarantee deposits	(156,923)	(16,302)
Proceeds from collection of lease and guarantee deposits	15,227	4,112
Payment for purchase of newly consolidated subsidiary's stock (Note 14)	(988,862)	(1,836,200)
Other—net	79	(26,309)
Net cash used in investing activities	<u>(2,606,378)</u>	<u>(2,784,380)</u>
FINANCING ACTIVITIES:		
Increase (decrease) in short-term loans	510,000	1,445,000
Proceeds from long-term loans	1,222,000	1,200,000
Repayment of long-term loans	(632,724)	(800,000)
Proceeds from issuance of new shares	4,978,368	6,796,736
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	(1,390,629)	(3,390)
Proceeds from partnership	570,000	
Other—net	(334)	(480)
Net cash provided by financing activities	<u>5,256,681</u>	<u>8,637,865</u>

Money Forward, Inc. and Subsidiaries

Consolidated Statement of Cash Flows Year Ended November 30, 2020 (Unaudited)

	Thousands of Yen	
	2020	2019
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(3,332)	(7,457)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,527,313	2,241,006
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>7,192,537</u>	<u>4,951,530</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>¥ 8,719,850</u>	<u>¥ 7,192,537</u>

See notes to consolidated financial statements.

Money Forward, Inc. and Subsidiaries

Notes to Consolidated Financial Statements Year Ended November 30, 2020 (Unaudited)

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects from International Financial Reporting Standards ("IFRS") as to the application and disclosure requirements.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The Japanese yen amounts in thousands are rounded down to the nearest thousand.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—The consolidated financial statements include the accounts of the Company and its 14 (11 in 2019) subsidiaries (together, the "Group"), namely, Money Forward Fine, Inc. ("MF Fine"), Money Forward Kessai, Inc. ("MF KESSAI", previously MF KESSAI, Inc.), Money Forward Hoshō, Inc. ("MF HOSHŌ", previously MF HOSHŌ, Inc.), mirai talk, Inc. ("mirai talk"), Klavis, Inc. ("Klavis"), Money Forward Financial, Inc. ("MF Financial"), Knowledge Labo, Inc. ("Knowledge Labo"), Wakufuri, Inc. ("Wakufuri"), MONEY FORWARD VIETNAM CO., LTD ("MF Vietnam"), Money Forward Synca, Inc. ("MF Synca"), SMARTCAMP CO., LTD. ("SMARTCAMP"), Money Forward Venture Partners, Inc. ("MFVP"), Series 1 HIRAC FUND Investment Limited Liability Partnership ("HIRAC FUND") and R&AC Co., Ltd. ("R&AC") as of November 30, 2020.

During the year ended November 30, 2020, the Company newly established MFVP and HIRAC FUND and acquired 100% of R&AC's shares.

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

The Company did not have any unconsolidated subsidiaries or associated companies as of November 30, 2020.

The excess of the acquisition cost over the fair value of the net assets of an acquired subsidiary at the date of acquisition is recognized as goodwill, and amortized by using the straight-line method over 5 to 10 years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

For a subsidiary whose closing date is different from that of the Company, certain adjustments necessary for consolidation have been made. MF Vietnam closes its accounts on its closing date, September 30, to prepare financial statements to be used in the consolidated financial statements.

b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements—In accordance with the Accounting Standards Board of Japan (“ASBJ”) Practical Issues Task Force (“PITF”) No. 18, “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements,” the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should, in principle, be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either IFRSs or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification) tentatively may be used for the consolidation process, except for the following items which should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of research and development; and (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign subsidiary elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.

c. Business Combinations—Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees and professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period, the Group will report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the Group will retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. The Group recognizes any bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of a noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

During the year ended November 30, 2020, the Company acquired 100% of R&AC's shares. Details for material transaction are discussed in Note 16.

d. Cash Equivalents—Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value. Cash equivalents include short-term investments which mature or become due within three months of the date of acquisition.

e. Inventories—Merchandise and work in process are stated at the lower of cost, determined by the specific identification method, or net selling value. Supplies are stated at the lower of cost, determined by the last purchase method, or net selling value.

f. Marketable and Investment Securities—Under Japanese GAAP, marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value, and the related unrealized gains and losses are included in earnings; (2) held-to-maturity debt securities, for which there is a positive intent and ability to hold to maturity, are reported at amortized cost; and (3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of equity.

All the Group's investment securities in investments and other assets as of November 30, 2020 and 2019 were available-for-sale securities.

Nonmarketable available-for-sale securities are stated at cost as determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to their net realizable value by a charge to income.

- g. Property and Equipment**—Property and equipment are stated at cost. Depreciation of property and equipment is calculated under the straight-line method based on the estimated useful lives of the assets.

The range of estimated useful lives is principally from 6 to 50 years for buildings and from 4 to 15 years for tools, furniture and fixtures.

- h. Impairment of Long-Lived Assets**—The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. Impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.
- i. Software**—Software for internal use is amortized using the straight-line method over five years based on the estimated useful life of the software.
- j. Allowance for Doubtful Receivables**—The allowance for doubtful receivables is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the outstanding receivables.
- k. Accrued Bonuses to Employees**—Bonuses to employees are accrued at the year-end to which such bonuses are attributable.
- l. Retirement and Pension Plans**—The Group has a defined contribution pension plan and a life planning allowance plan, one of which each employee is entitled to participate in. Employees who select the life planning allowance plan are entitled to receive additions to their salaries instead of receiving benefits from the pension plan.

The required amount of contribution to the defined contribution pension plan for the years ended November 30, 2020 and 2019, was ¥102,697 thousand and ¥72,917 thousand, respectively.

- m. Stock Options**—The cost of employee stock options is measured based on the fair value at the date of grant and recognized as compensation expense over the vesting period as consideration for receiving goods or services. In the consolidated balance sheet, stock options are presented as stock acquisition rights, as a separate component of equity, until exercised.

On January 12, 2018, the ASBJ issued PITF No. 36, "Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions," which requires transactions granting employees and others stock acquisition rights, which involve considerations, with vesting conditions to be accounted for in accordance with ASBJ Statement No. 8, "Accounting Standard for Share-based Payment." The Company adopted PITF No. 36 on April 1, 2018, and has accounted for the transactions granting employees and others stock acquisition rights, which involve considerations, with vesting conditions that occurred prior to the application of PITF No. 36 in accordance with the accounting policy previously applied.

- n. Income Taxes**—The provision for income taxes is computed based on the pretax income included in the consolidated statement of operations and comprehensive income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

Effective December 1, 2018, the Group adopted ASBJ Statement No. 28, "Partial Amendments to Accounting Standard for Tax Effect Accounting" (the "Partial Amendments," issued on February 16, 2018). Under the amended accounting standard, deferred tax assets and deferred tax liabilities are included within investments and other assets and long-term liabilities, respectively, and related income tax disclosures have been expanded.

- o. Research and Development Costs*—Research and development ("R&D") costs are charged to income as incurred.

R&D costs included in selling, general and administrative expenses for the years ended November 30, 2020 and 2019, were ¥102,101 thousand and ¥67,600 thousand, respectively.

- p. Foreign Currency Transactions*—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the consolidated balance sheet date and the foreign exchange gains and losses from translation are recognized in the consolidated statement of income (operations). Available-for-sale securities denominated in foreign currencies are translated into Japanese yen at the exchange rates at the consolidated balance sheet date and the foreign exchange gains and losses from translation are recognized in equity.
- q. Foreign Currency Financial Statements*—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Revenue and expense accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate. Differences arising from such translations are shown as "foreign currency translation adjustment" under accumulated other comprehensive income.
- r. Per Share Information*—Basic net income or loss per share is computed by dividing net income or loss attributable to shareholders by the weighted-average number of shares outstanding for the period, retroactively adjusted for stock splits. The weighted-average number of shares for the years ended November 30, 2020 and 2019, was 46,530,118 shares and 43,633,089 shares, respectively.

Diluted net income per share is not disclosed, as it is anti-dilutive, given the Group's net loss position.

- s. Change in Accounting Standard for Depreciation of Property and Equipment*— Previously, the Group had applied the declining-balance method for depreciation of property and equipment, except for buildings (excluding facilities attached to buildings acquired on or before March 31, 2016), which were depreciated by the straight-line method. Starting from the fiscal year ended November 30, 2020, however, the straight-line method is adopted for depreciation of all property and equipment.

In the fiscal year ended November 30, 2019, the Company introduced a new pricing plan that bundles five services and facilitates the use of multiple modules, which led to the increase in revenue of the Group. The demand for the services has been stable.

In light of this situation, the Group changed its hiring and facility plan and reassessed the depreciation method. As property and equipment owned by the Group are expected to be used and wear out evenly over the useful life due to the generation of stable recurring revenue, the Group judged that it would be more appropriate to allocate depreciation expenses evenly over the useful life in the future and changed to the straight-line method.

Due to this change, operating income and income before income taxes for the year ended November 30, 2020 increased by ¥23,032 thousand, respectively.

- t. New Accounting Pronouncements*

(1) Revenue Recognition

- ASBJ Statement No. 29 Accounting Standard for Revenue Recognition (March 31, 2020)
- ASBJ Guidance No. 30 Implementation Guidance on Accounting Standard for Revenue Recognition (March 31, 2020)
- ASBJ Guidance No. 19 Implementation Guidance on Disclosures about Fair Value of Financial Instruments (March 31, 2020)

(a) Outline

The International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB) jointly developed comprehensive revenue recognition standards and issued "Revenue from Contracts with Customers" in May 2014 (IASB's IFRS 15 and FASB's Topic 606). Considering that IFRS 15 is applied from fiscal years beginning on or after January 1,

2018, and Topic 606 is applied from fiscal years beginning after December 15, 2017, the ASBJ developed a comprehensive accounting standard on revenue recognition and thus issued the accounting standard together with the implementation guidance.

The ASBJ established the accounting standard on revenue recognition by following the basic policies in developing it. The basic policies were: firstly, incorporating the core principle of IFRS 15 as the starting point from the perspective of facilitating comparability among financial statements, which is one of the benefits of ensuring consistency with IFRS 15; secondly, adding alternative treatments, but to the extent not impairing comparability, where consideration should be given to the practice having been used in Japan.

(b) Scheduled date of application

The aforementioned standard and guidance will be applied from the beginning of the fiscal year ending November 30, 2022.

(c) Effect of application of the accounting standards

The effect of the application of the aforementioned standard and guidance on the Group's consolidated financial statements are under evaluation.

(2) Fair Value Measurement

- ASBJ Statement No. 30 Accounting Standard for Fair Value Measurement (July 4, 2019)
- ASBJ Guidance No. 31 Implementation Guidance on Accounting Standard for Fair Value Measurement (July 4, 2019)
- ASBJ Statement No. 9 Accounting Standard for Measurement of Inventories (July 4, 2019)
- ASBJ Statement No. 10 Accounting Standard for Financial Instruments (July 4, 2019)
- ASBJ Guidance No. 19 Implementation Guidance on Disclosures about Fair Value of Financial Instruments (March 31, 2020)

(a) Overview

In light of the IASB and the FASB issuing basically similar detailed guidance on fair value measurement (IFRS Article 13, Fair Value Measurement; GAAP Accounting Standards Codification Topic 820, Fair Value Measurement), the ASBJ has released the Accounting Standards for Fair Value Measurement, which set out measures to ensure consistency between Japanese and international accounting standards with regard to the guidance and disclosure of the value mainly of financial instruments.

The basic policy in developing the accounting standard for fair value measurement by the ASBJ was to incorporate the principles of IFRS 13 to ensure the comparability between financial statements. In addition, alternative accounting treatments are provided for common business practices in Japan to the extent that they do not impair comparability. The core principle of the standard and guidance is that an entity should use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

(b) Scheduled date of application

The aforementioned standard and guidance will be applied from the beginning of the fiscal year ending November 30, 2022.

(c) Effect of application of the accounting standards

The effect of the application of the aforementioned standard and guidance on the Group's consolidated financial statements are under evaluation.

(3) Disclosure of Accounting Estimates

- ASBJ Statement No. 31 Accounting Standard for Disclosure of Accounting Estimates (March 31, 2020)

(a) Overview

With regard to “sources of estimation uncertainty,” which is required to be disclosed in paragraph 125 of International Accounting Standard (IAS) 1 “Presentation of Financial Statements” (“IAS 1”) issued by the IASB in 2003, in order to oblige requests to consider requiring that those sources of estimation uncertainty to be treated as information that is highly useful for users of financial statements and disclosed in the form of notes in the Japanese GAAP as well, the ASBJ developed and issued the Accounting Standard for Disclosure of Accounting Estimates (“Accounting Standard”).

The ASBJ’s basic policy in developing the Accounting Standard is to present the principle (disclosure purpose) instead of enhancing individual notes, and place the onus on entities to determine the specific information to be disclosed according to the disclosure purpose, while referring to the provision of paragraph 125 of IAS 1 in the development.

(b) Scheduled date of application

The aforementioned standard will be applied at the year end of the fiscal year ending November 30, 2021.

(4) Disclosure of Accounting Policies, Accounting Changes and Correction of Errors

- ASBJ Statement No. 24 Accounting Standard for Disclosure of Accounting Policies, Accounting Changes and Correction of Errors (March 31, 2020)

(a) Overview

In response to the proposal to consider the enhancement of the notes related to "Principles and procedures of accounting treatment adopted when the provisions of related accounting standards, etc. are not clear", required amendments were made by the Corporate Accounting Standards Committee, and published as an accounting standard for disclosure of accounting policies, accounting changes and correction of errors.

In addition, on the occasion of attempting to enhance the notes pertaining to “Principles and procedures of accounting treatment adopted when the provisions of related accounting standards, etc. are not clear”, if the provisions of related accounting standards, etc. are clear, the provisions of the Note on Corporate Accounting Principles (Note 1-2) will be taken over in order not to affect the practice.

(b) Scheduled date of application

The aforementioned standard will be applied at the year end of the fiscal year ending November 30, 2021.

u. Accounting Estimates for the Impact of the New Coronavirus Infection

With regard to the impact of the new coronavirus infection, it is difficult to accurately predict how the disease will spread or end. At this time, the Group believes that the impact of the new coronavirus infection will have a limited impact on the Group's future cash flows and business environment. In addition, the Group believes that it will not have a significant impact on accounting estimates such as the impairment of noncurrent assets and the recoverability of deferred tax assets. However, the Group will continue to monitor the situation closely, as it may affect its consolidated financial statements, depending on future changes in circumstances.

3. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) *Group Policy for Financial Instruments*

The Group raises funds through issuance of new shares and bank loans in accordance with internal funds management plans. The Group's use of its surplus funds is limited to short-term deposits and other low-risk investments. The Group does not enter into derivative contracts for speculation and uses only for avoiding risks.

(2) *Nature and Extent of Risks Arising from Financial Instruments*

Receivables such as trade notes receivable, trade accounts receivable, and purchased receivables are exposed to credit risks of the debtors and assignors. Operational investment securities and investment securities held by the Group mainly consist of equity securities and investments in partnership for net investment purpose or business promotion purpose that are exposed to the issuers' credit risks. Listed securities are exposed to market risks. Lease and guarantee deposits are mainly related to the lease agreement of the headquarter office and exposed to the counterparty's credit risks.

Most payables, such as trade accounts payable and other payables, are due within two months. Loans are utilized for working capital requirements. Payables and loans are exposed to liquidity risks.

(3) *Risk Management for Financial Instruments*

Credit risk management

As to receivables, in accordance with internal rules of credit control, the Group controls due dates and balances of individual customers and monitors their financial conditions to identify and reduce the default risk of the counterparties at an early stage. As to lease and guarantee deposits, the relevant department monitors the counterparty's financial condition to identify and reduce the default risk of the counterparty at an early stage.

Market risk management

As to operational investment securities and investment securities, the Group periodically reviews the financial condition of the issuer and relationships with business partners to revise the holding status on a regular basis. Market values of listed equity securities are monitored on a quarterly basis.

Liquidity risk management

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on their maturity dates. In order to control liquidity risks of payables and loans, the relevant department prepares and updates internal funds management plans in a timely manner based on the reports submitted by each department. In addition, the Group maintains a certain level of liquidity on hand.

(4) *Fair Values of Financial Instruments*

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, other rational valuation techniques are used instead. Such valuation techniques include certain assumptions. Results may differ if different assumptions are used in the valuation.

Financial instruments whose fair values are readily determinable as of November 30, 2020 and 2019, are as follows:

November 30, 2020	Thousands of Yen		
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Assets:			
(1) Cash and cash equivalents	¥ 8,719,850	¥ 8,719,850	
(2) Time deposits	200,000	200,000	
(3) Trade notes and accounts receivable	1,228,255		
Allowance for doubtful receivables	(56,747)		
	<u>1,171,508</u>	<u>1,171,508</u>	
(4) Purchased receivables	2,210,303	2,210,303	
(5) Investment securities—available-for-sale securities	527,390	527,390	
(6) Lease and guarantee deposits	<u>580,220</u>	<u>580,220</u>	
Total	<u><u>¥ 13,409,272</u></u>	<u><u>¥ 13,409,272</u></u>	
Liabilities:			
(7) Trade accounts payable	¥ 175,032	¥ 175,032	
(8) Short-term loans	2,510,000	2,510,000	
(9) Other payables	1,664,797	1,664,797	
(10) Accrued expenses	717,171	717,171	
(11) Income taxes payable	89,930	89,930	
(12) Long-term loans, including current portion	<u>3,706,085</u>	<u>3,706,238</u>	<u>¥ 153</u>
Total	<u><u>¥ 8,863,017</u></u>	<u><u>¥ 8,863,170</u></u>	<u><u>¥ 153</u></u>

November 30, 2019	Thousands of Yen		
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Assets:			
(1) Cash and cash equivalents	¥ 7,192,537	¥ 7,192,537	
(3) Trade notes and accounts receivable	890,638		
Allowance for doubtful receivables	(41,953)		
	<u>848,685</u>	<u>848,685</u>	
(4) Purchased receivables	2,068,872	2,068,872	
(5) Investment securities—available-for-sale securities	312,648	312,648	
(6) Lease and guarantee deposits	<u>465,730</u>	<u>465,730</u>	
Total	<u><u>¥ 10,888,473</u></u>	<u><u>¥ 10,888,473</u></u>	
Liabilities:			
(7) Trade accounts payable	¥ 184,730	¥ 184,730	
(8) Short-term loans	2,000,000	2,000,000	
(9) Other payables	755,661	755,661	
(10) Accrued expenses	646,781	646,781	
(11) Income taxes payable	77,188	77,188	
(12) Long-term loans, including current portion	<u>3,100,309</u>	<u>3,102,588</u>	<u>¥ 2,279</u>
Total	<u><u>¥ 6,764,669</u></u>	<u><u>¥ 6,766,948</u></u>	<u><u>¥ 2,279</u></u>

Notes: (1), (2), (3), (4), (7), (8), (9), (10) and (11)—As these items are settled within one year and have fair values approximately equal to their carrying amounts, they are stated at their carrying amounts.

(5)—Fair value of investment securities is stated at the quoted prices in active markets. Details are discussed in Note 4, "Investment securities."

(6)—Fair value of lease and guarantee deposits is measured at the present value discounted by the corresponding yield of Japanese government bonds over the expected deposit period based on the lease contract. The carrying amount and fair value of lease and guarantee deposits include a portion not expected to be collectible, which is equivalent to the unamortized balance of asset retirement obligations. If the corresponding yield of Japanese government bonds is negative, the discount rate to be used for measurement will be zero.

(12)— Long-term loans with variable interest rates are measured at book value as the interest rate on these loans reflects the market rate in the short term and financial status of the Company has not changed significantly after the transaction and as a result, their market values approximate book values. Long-term loans with fixed interest rates are measured at the present value of the total amount of the principal and interest taken as a whole discounted by an expected rate that would be applied for loans with the same terms and conditions.

Financial instruments which do not have quoted market prices and whose fair values are not reliably determinable are not included in the table above. The carrying amounts of such financial instruments as of November 30, 2020 and 2019, are as follows:

	<u>Carrying Amount</u>	
	<u>Thousands of Yen</u>	
	<u>2020</u>	<u>2019</u>
Investment securities—unlisted equity securities	¥ 1,491,351	¥ 1,382,564
Operational investment securities—unlisted equity securities	219,851	
Investment securities—unlisted share subscription rights	69,989	20,000
Investment securities—investments in partnership	141,696	74,742
Long-term loans	330,000	330,000

Unlisted equity securities, unlisted share subscription rights, and investments in partnership do not have quoted prices. Because it is extremely difficult to determine their fair values, information regarding fair values of such investment securities is not disclosed.

Long-term loans in the preceding table have variable repayment terms and conditions that are subject to the operating results of the Company. Because it is extremely difficult to determine their fair values, fair values of such loans are not presented.

A maturity analysis of financial assets as of November 30, 2020 and 2019, is as follows:

	<u>Due within 1 Year</u>	
	<u>Thousands of Yen</u>	
	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	¥ 8,719,850	¥ 7,192,537
Time deposits	200,000	
Trade notes and accounts receivable	1,228,255	890,638
Purchased receivables	<u>2,210,303</u>	<u>2,068,872</u>
Total	<u>¥ 12,358,409</u>	<u>¥ 10,152,048</u>

4. INVESTMENT SECURITIES

Operational investment securities and investment securities as of November 30, 2020 and 2019, consisted of the following:

	Thousands of Yen	
	2020	2019
Current:		
Unlisted equity securities	¥ 219,851	_____
Total	<u>¥ 219,851</u>	<u>_____</u>
Noncurrent:		
Marketable equity securities	¥ 527,390	¥ 312,648
Unlisted equity securities	1,511,341	1,382,564
Unlisted share subscription rights	50,000	20,000
Investments in partnership	<u>141,696</u>	<u>74,742</u>
Total	<u>¥ 2,230,427</u>	<u>¥ 1,789,955</u>

The carrying amounts and aggregate fair value of marketable equity securities as of November 30, 2020 and 2019, were as follows:

	Thousands of Yen			
	Carrying Amount	Unrealized Gains	Unrealized Losses	Fair Value
November 30, 2020				
Securities classified as available-for-sale equity securities:				
Marketable equity securities	¥ 74,688	¥ 452,702		¥ 527,390
Other	6,066	2,037		8,104
November 30, 2019				
Securities classified as available-for-sale equity securities:				
Marketable equity securities	¥ 99,336	¥ 213,312		¥ 312,648

The proceeds, realized gains and realized losses of the available-for-sale securities which were sold during the years ended November 30, 2020 were as follows. No such gains or losses were recorded for the year ended November 30, 2019.

	Thousands of Yen		
	Proceeds	Realized Gains	Realized Losses
November 30, 2020			
Securities classified as available-for-sale equity securities:			
Equity securities	¥ 350,305	¥ 325,233	

The impairment losses on available-for-sale equity securities for the year ended November 30, 2020 were ¥17,690 thousand. No such losses were recorded for the year ended November 30, 2019.

5. INVENTORIES

Inventories as of November 30, 2020 and 2019, consisted of the following:

	Thousands of Yen	
	2020	2019
Work in process	¥ 66,707	¥ 1,658
Supplies	16,298	5,639
Total	<u>¥ 83,005</u>	<u>¥ 7,297</u>

6. SHORT-TERM AND LONG-TERM LOANS

Short-term loans and long-term loans as of November 30, 2020 and 2019, are as follows:

	Thousands of Yen	
	2020	2019
Short-term loans	¥ 2,510,000	¥ 2,000,000
Current portion of long-term loans	968,344	620,776
Long-term loans	<u>3,067,741</u>	<u>2,809,533</u>
Total	<u>¥ 6,546,085</u>	<u>¥ 5,430,309</u>

The weighted-average interest rates of short-term loans and long-term loans as of November 30, 2020 and 2019, are summarized as follows:

	2020	2019
Short-term loans	0.5%	0.5%
Current portion of long-term loans	0.7	0.8
Long-term loans	0.7	0.8

Certain long-term loans have variable repayment terms and conditions that are subject to the operating results of the Company. As of November 30, 2020 and 2019, such long-term loans amounted to ¥330,000 thousand.

Long-term loans have annual maturities through 2026. The details are as follows:

Year Ending November 30	Thousands of Yen
2021	¥ 968,344
2022	1,380,995
2023	719,530
2024	770,138
2025	182,788
2026	<u>14,290</u>
Total	<u>¥ 4,036,085</u>

As of November 30, 2020 and 2019, no assets were pledged as collateral for the long-term loans above.

7. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). Significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria and, accordingly, the Board of Directors may declare dividends at any time during the fiscal year.

Semi-annual interim dividends may also be paid once a year upon resolution by the Board of Directors if stipulated by the articles of incorporation of the company. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred between the accounts within equity under certain conditions, upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

On December 20, 2018, according to the resolution of the Board of Directors' meeting held on December 5, 2018, the Company issued 2,400,000 shares of its common stock by way of an international offering. The issue price was ¥2,946 per share and the total amount of issuance was ¥7,070,400 thousand. As a result, common stock and capital surplus increased by ¥3,375,312 thousand each.

On February 24, 2019, the Company carried out reduction of additional paid in capital and appropriation of other capital surplus in order to dispose of the accumulated deficit as of November 30, 2018. In accordance with Article 452 of the Companies Act, the Company first transferred ¥264,310 thousand of additional paid in capital to other capital surplus. Subsequently, the Company appropriated ¥264,310 thousand of other capital surplus to offset the deficit. (Additional paid in capital and other capital surplus are included in "capital surplus" in the consolidated financial statements.)

On February 6, 2020, according to the resolution of the Board of Directors' meeting held on January 22, 2020, the Company issued 1,100,000 shares of its common stock by way of an international offering. The issue price was ¥4,577 per share and the total amount of issuance was ¥5,034,700 thousand. As a result, common stock and capital surplus increased by ¥2,394,216 thousand each.

On February 20, 2020, the Company carried out reduction of additional paid in capital and appropriation of

other capital surplus in order to dispose of the accumulated deficit as of November 30, 2019. In accordance with Article 452 of the Companies Act, the Company first transferred ¥2,523,264 thousand of additional paid in capital to other capital surplus. Subsequently, the Company appropriated ¥2,523,264 thousand of other capital surplus to offset the deficit. (Additional paid in capital and other capital surplus are included in "capital surplus" in the consolidated financial statements.)

Number of authorized shares of common stock as of November 30, 2020 and 2019, was 44,978,000 shares.

Changes in number of issued shares of common stock and treasury stock for the years ended November 30, 2020 and 2019, are as follows:

	Shares	
	<u>Common Stock</u>	<u>Treasury Stock</u>
Balance, November 30, 2018	19,329,640	
Issuance of new shares	2,400,000	
Exercise of stock options	370,880	
Share-based payments—transfer restricted stock	64,840	
Acquisition of transfer restricted stocks without consideration		1,120
Purchase of treasury stocks that are less than one trading unit		38
Balance, November 30, 2019	22,165,360	1,158
Issuance of new shares	1,100,000	
Exercise of stock options	437,760	
Share-based payments—transfer restricted stock	85,452	
Issuance of new shares for stock exchange	62,646	
Acquisition of transfer restricted stocks without consideration		7,760
Balance, November 30, 2020	<u>23,851,218</u>	<u>8,918</u>

8. STOCK OPTIONS

Gain on reversal of stock acquisition rights, which was recorded due to forfeiture of stock options, for the years ended November 30, 2020 and 2019, was ¥1,790 thousand and ¥1,901 thousand, respectively.

The Company conducted a 100-for-1 stock split effective on December 15, 2014, a 20-for-1 stock split effective on June 24, 2017, a 2-for-1 stock split effective on December 1, 2020. Number of shares and exercise price are retroactively adjusted.

Stock options outstanding as of November 30, 2020, are as follows:

Stock Options	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
#2	4 directors 12 employees 4 outside consultants	1,188,000 shares	February 8, 2014	¥100	From February 8, 2016 to February 7, 2024
#3	1 director 5 outside consultants	18,000 shares	April 22, 2015	¥175	From February 8, 2016 to February 7, 2024
#4	4 directors 38 employees	1,400,000 shares	April 30, 2015	¥175	From February 8, 2016 to February 7, 2024
#5	2 outside directors 3 external statutory auditors 39 outside consultants	102,000 shares	March 23, 2016	¥275	From March 17, 2018 to March 16, 2025
#6	4 directors 55 employees 1 outside consultant	1,498,000 shares	March 23, 2016	¥275	From March 17, 2017 to March 16, 2025
#7	2 business partners	403,680 shares	March 23, 2016	¥750	From March 17, 2018 to March 16, 2025
#8	6 directors 79 employees	684,000 shares	March 15, 2017	¥375	From March 15, 2020 to March 14, 2026
#9	2 outside directors 3 external statutory auditors 6 outside consultants	62,000 shares	March 15, 2017	¥375	From March 15, 2020 to March 14, 2026
#10	1 outside director	8,000 shares	June 23, 2017	¥375	From June 23, 2020 to June 22, 2026
#11	7 directors 1 outside director 1 external statutory auditor 2 outside consultants 61 employees 6 directors of subsidiaries	640,000 shares	February 5, 2018	¥1,578	From February 5, 2019 to February 4, 2025

Note: At the time the options are exercised, the holder of the stock options shall occupy the position of a director or employee of the Company or a director or employee of its subsidiaries or affiliate companies or an outside consultant unless otherwise approved by the Board of Directors of the Company. If the right holder of the stock options is a corporation, the stock options may not be exercised when an order of the following proceedings is made: bankruptcy proceeding, civil rehabilitation proceeding, corporate reorganization proceeding, special liquidation proceeding, and similar proceedings.

Stock option activity is as follows:

	#2	#3	#4	#5	#6	#7	#8	#9	#10	#11
<u>Non-vested</u> (Shares)										
November 30, 2018—Outstanding		9,000	473,280	72,000	650,400	403,680	542,000	62,000	8,000	625,000
Granted										
Forfeited							(30,000)			(21,700)
Vested		(4,400)	(246,880)	(23,840)	(200,960)					(43,900)
November 31, 2019—Outstanding		4,600	226,400	48,160	449,440	403,680	512,000	62,000	8,000	559,400
Granted										
Forfeited					(800)		(23,200)			(18,400)
Vested		(4,600)	(226,400)	(23,360)	(227,040)		(132,800)	(15,480)	(2,000)	(101,200)
November 31, 2020—Outstanding				24,800	221,600	403,680	356,000	46,520	6,000	439,800
<u>Vested</u> (Shares)										
November 30, 2018—Outstanding	560,000	4,000	345,520	14,520	322,600					
Vested		4,400	246,880	23,840	200,960					43,900
Exercised	(236,000)	(2,960)	(258,000)	(8,600)	(236,000)					(200)
Cancelled			(800)		(5,920)					(3,300)
November 31, 2019—Outstanding	324,000	5,440	333,600	29,760	281,640					40,400
Vested		4,600	226,400	23,360	227,040		132,800	15,480	2,000	101,200
Exercised	(152,000)	(4,000)	(326,400)	(14,960)	(305,920)		(43,840)	(6,000)		(22,400)
Cancelled					(2,560)		(6,360)			(5,400)
November 31, 2020—Outstanding	172,000	6,040	233,600	38,160	200,200		82,600	9,480	2,000	113,800
Exercise price (Yen)	¥ 100	¥ 175	¥ 175	¥ 275	¥ 275	¥ 750	¥ 375	¥ 375	¥ 375	¥ 1,578
Average stock price at exercise (Yen)	¥ 3,788	¥ 3,276	¥ 3,662	¥ 3,020	¥ 3,991		¥ 3,265	¥ 3,085		¥ 3,517
Fair value at grant date (Yen)										¥ 73,475

Assumptions Used to Measure the Fair Value of Stock Options

Because the Company was an unlisted company at the grant date of stock options #2 through #10, these stock options are measured at their intrinsic values instead of their fair values. The intrinsic value of each stock option is estimated based on the stock price determined under the discounted cash flow method.

Estimation of the Number of Vested Stock Options

Because it is difficult to reasonably estimate the number of options that will expire in the future, actual forfeiture is used.

Total Amount of the Intrinsic Values of Stock Options

The total amount of the intrinsic values of the stock options as of November 30, 2020, was ¥7,824,968 thousand. The total amount of the intrinsic values of the stock options, which were exercised during the year ended November 30, 2020, at the date of exercise was ¥ 1,630,474 thousand.

9. INCOME TAXES

The Company and its subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 31% for the years ended November 30, 2020 and 2019.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities as of November 30, 2020 and 2019, are as follows:

	Thousands of Yen	
	2020	2019
Deferred tax assets:		
Enterprise taxes payable	¥ 16,947	¥ 17,520
Business office taxes payable	3,331	2,564
Allowance for doubtful receivables	20,557	18,504
Depreciation and amortization	645,122	762,379
Lease and guarantee deposits	23,216	11,444
Software in progress	89,797	89,797
Unrealized loss on available-for-sale securities	30,855	8,533
Tax loss carryforwards	2,217,845	1,435,507
Share-based payments—transfer restricted stock	55,403	29,311
Other	23,064	11,450
Total of tax loss carryforwards and temporary differences	3,126,141	2,387,012
Less valuation allowance for tax loss carryforwards	(2,205,914)	(1,405,671)
Less valuation allowance for temporary differences	(835,382)	(926,554)
Total valuation allowance	(3,041,296)	(2,332,226)
Deferred tax assets	84,844	54,786
Deferred tax liabilities:		
Amortization of goodwill	5,890	3,748
Reserved profit of a subsidiary	2,252	1,004
Unrealized gains on available-for-sale securities	138,984	65,316
Total deferred tax liabilities	147,127	70,068
Net deferred tax assets (liabilities)	¥ (62,282)	¥ (15,282)

The expiration of tax loss carryforwards, the related valuation allowances, and the resulting net deferred tax assets as of November 30, 2020, were as follows:

	Thousands of Yen		
	2020		
	Tax Loss Carryforwards (Note)	Valuation Allowance	Deferred Tax Assets
Assets:			
Due within 1 year	¥ 2,459	¥ (2,459)	
Due after 1 year through 2 years	31,385	(31,385)	
Due after 2 years through 3 years	164,373	(164,373)	
Due after 3 years through 4 years	268,197	(268,197)	
Due after 4 years through 5 years	160,585	(160,585)	
Due after 5 years	<u>1,590,844</u>	<u>(1,578,912)</u>	¥ 11,931
Total	<u>¥ 2,217,845</u>	<u>¥ (2,205,914)</u>	<u>¥ 11,931</u>

Note: The amounts above are determined by multiplying the corresponding tax loss carryforwards by the effective statutory tax rate.

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of operations and comprehensive income for the years ended November 30, 2020 and 2019, is not presented as the Group recorded losses before income taxes.

10. COMMITMENT

The Group has bank overdraft agreements with two financial institutions in order to raise funds efficiently. The total amount of the maximum amount of the bank overdrafts, outstanding balance, and remaining balance as of November 30, 2020 and 2019, were as follows:

	Thousands of Yen	
	2020	2019
Total amount of the maximum amount of the bank overdrafts	¥ 5,000,000	¥ 2,000,000
Outstanding balance	<u>2,510,000</u>	<u>¥ 2,000,000</u>
Remaining balance	<u>¥ 2,490,000</u>	<u> </u>

11. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major components of selling, general and administrative expenses for the years ended November 30, 2020 and 2019, are as follows:

	Thousands of Yen	
	2020	2019
Salaries	¥ 2,638,322	¥ 2,097,171
Advertising	3,361,671	1,520,673
Retirement benefit expenses	68,628	56,014
Provision of allowance for doubtful receivables	8,996	5,287
Allowance for bonuses	9,527	7,510
Amortization of goodwill	369,962	110,184

12. OTHER INCOME AND EXPENSES

Impairment losses of ¥12,533 thousand for the year ended November 30, 2019 corresponds to the assets of mirai talk's business that the Company decided to downsize during the year.

Loss on business restructuring of ¥61,395 thousand for the year ended November 30, 2019 corresponds to the postponement of entering into the cryptocurrency business that the Company decided during the year.

13. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended November 30, 2020 and 2019, were as follows:

	Thousands of Yen	
	2020	2019
Unrealized gain (loss) on available-for-sale securities:		
Gains (losses) arising during the year	¥ 493,760	¥ 189,679
Reclassification adjustment	(325,233)	
Amount before income tax effect	168,527	189,679
Income tax effect	(73,668)	(64,875)
Total	<u>94,859</u>	<u>124,803</u>
Foreign currency translation adjustment:		
Adjustments arising during the year	<u>(2,835)</u>	<u>(8,679)</u>
Total other comprehensive income (loss)	<u>¥ 92,023</u>	<u>¥ 116,124</u>

14. ADDITIONAL CASH FLOW INFORMATION

For the year ended November 30, 2020

The major components of payment for purchase of newly consolidated subsidiary's stock were as follows:

	<u>Thousands of Yen</u> <u>2020</u>
<u>R&AC</u>	
Current assets	¥ (423,513)
Noncurrent assets	(39,231)
Goodwill	(1,296,744)
Current liabilities	88,488
Noncurrent liabilities	16,500
Noncontrolling interests	79,501
Amount acquired before the acquisition of control	150,000
Gain on step acquisitions	100,000
Acquisition costs	<u>(1,325,000)</u>
Cash and cash equivalents acquired	<u>336,137</u>
Payment for purchase of newly consolidated subsidiary's stocks	<u>¥ (988,862)</u>

For the year ended November 30, 2019

The major components of payment for purchase of newly consolidated subsidiary's stock were as follows:

	<u>Thousands of Yen</u> <u>2019</u>
<u>SMARTCAMP</u>	
Current assets	¥ (326,466)
Noncurrent assets	(107,763)
Goodwill	(1,837,872)
Current liabilities	142,755
Noncurrent liabilities	69,533
Noncontrolling interests	61,477
Acquisition costs	<u>(1,998,335)</u>
Cash and cash equivalents acquired	<u>162,134</u>
Payment for purchase of newly consolidated subsidiary's stocks	<u>¥ (1,836,200)</u>

15. RELATED PARTY TRANSACTIONS

Transactions between the Company and related parties for the years ended November 30, 2020 and 2019, consisted of exercises of stock options by the board of directors of the Company. Details are as follows:

For the year ended November 30, 2020

Name	Position at the Company	Ownership Percentage (%)	Thousands of Yen
Yosuke Tsuji	Representative Director	14.69	¥ 52,081
Toshio Taki	Director	2.22	13,170
Naoya Kanesaka	Director	0.13	34,020

For the year ended November 30, 2019

Name	Position at the Company	Ownership Percentage (%)	Thousands of Yen
Yosuke Tsuji	Representative Director	16.21	¥ 94,990

Transactions between the Company's subsidiaries and related parties for the year ended November 30, 2020, consisted of investment in HIRAC FUND. HIRAC FUND is an investment business limited partnership, and MFVP, a consolidated subsidiary of the Company, is its unlimited liability partner. Related parties made investment in accordance with the Investment Business Limited Liability Partnership Agreement. The investment funds are deposited in anticipation of future appropriation to capital calls. Details are as follows:

For the year ended November 30, 2020

Name	Amount of Capital (Thousands of Yen)	Nature of Business or Position at the Company	Ownership Percentage (%)	Relationship	Description of the Transactions	Transaction of the Year (Thousands of Yen)	Account Name	Balance at the Year End (Thousands of Yen)
Takashi Ichikawa		Director	4.79	Director	Investment	¥ 6,000	Other (deposit)	¥ 24,000
					Deposit	24,000		
Pay Forward 2, Inc.	¥ 50,000	Investment Business		Investment	Investment	20,000	Other (deposit)	80,000
					Deposit	80,000		
Tou, Inc.	54,000	Investment Business		Investment	Investment	6,000	Other (deposit)	24,000
					Deposit	24,000		

Note: All the voting rights of Pay Forward 2, Inc. are held by Yosuke Tsuji, Representative Director of the Company, and his relatives. All the voting rights of Tou, Inc. are held by Naoya Kanesaka, Director of the Company, and his relatives.

There were no transactions between the Company's subsidiaries and related parties in the year ending November 30, 2019.

16. BUSINESS COMBINATIONS

Business Combination by Acquisition

(1) Outline of the business combination

(a) Name of acquired company and its business outline

Name of acquired company:	R&AC Co., Ltd.
Business outline:	Development and sales of cash reconciliation and receivable management system Victory-ONE Series

(b) Major reasons for the business combination

Victory-ONE® and V-ONE Cloud® offered by R&AC are Japan's No.1* software specialized in cash reconciliation and receivable management that are widely used in both large corporates and SMEs. R&AC offers not only cloud-based versions but also on-premise versions, having strength in offering value-added services for medium-to large-sized corporates. The Company has been focusing on expanding the medium-sized customer base including pre-IPO companies by offering Money Forward Cloud Accounting Plus, Money Forward Cloud Expense and Money Forward Cloud Payroll to enhance medium to long-term shareholder and corporate value. By consolidating R&AC, the Company aims to enhance the product lineup for medium-to large-sized corporates, and to promote V-ONE Cloud® using its current network and customer base.

Note: According to research by Shopper's Eye Inc. (July 22, 2020): No.1 in number of companies using cloud-based cash reconciliation software

(c) Date of business combination

August 11, 2020 (deemed date: August 1, 2020)

(d) Legal form of business combination

Share acquisition by cash

(e) Name of the company after the combination

No change

(f) Ratio of voting rights acquired

Ratio of voting rights before the acquisition	12.35%
Ratio of voting rights acquired at the date of business combination	<u>65.43</u>
Ratio of voting rights after the business combination	<u><u>77.78</u></u>

(g) Basis for determining the acquirer

It is based on the fact that the Company additionally acquired 65.43% of the voting rights of R&AC.

(2) The period for which the operations of the acquired company is included in the consolidated financial statements

From August 1, 2020 to November 30, 2020

(3) Acquisition cost of the acquired company and related details of each class of consideration

	<u>Thousands of Yen</u>
Fair value of the shares held immediately before the acquisition on the date of acquisition	¥ 250,000
Consideration for acquisition—Cash	<u>1,325,000</u>
Acquisition cost	<u><u>¥ 1,575,000</u></u>

(4) Major acquisition-related costs

Advisory fee ¥ 4,370 thousand

(5) Gain on step acquisitions

As a result of remeasuring 12.35% of R&AC's shares held by the Company immediately before the acquisition at fair value on the date of acquisition, gain on step acquisitions of ¥100,000 thousand was recognized.

(6) Amount of goodwill, basis of recognizing goodwill, and the method and period of amortization

(a) Amount of goodwill

¥ 1,296,744 thousand

(b) Basis of recognizing goodwill

The acquisition cost exceeded the fair value of the net assets of the acquired company as of the date of the business combination, which resulted in goodwill. Goodwill mainly represents the expected future profitability of the acquired company's business.

(c) Method and period of amortization

Goodwill is amortized on a straight-line basis over eight years.

(7) The assets acquired and the liabilities assumed at the acquisition date are as follows:

	<u>Thousands of Yen</u>
Assets:	
Current assets	¥ 423,513
Noncurrent assets	<u>39,231</u>
Total	<u>462,744</u>
Liabilities:	
Current liabilities	88,488
Noncurrent liabilities	<u>16,500</u>
Total	<u><u>¥ 104,988</u></u>

(8) Pro forma information

The effect on the consolidated statement of operations and comprehensive income for the year ended November 30, 2020, assuming this business combination had been completed as of December 1, 2019, the beginning of the fiscal year, is not presented because the estimated amount is not significant.

Transactions Under Common Control

Additional acquisition of shares of a consolidated subsidiary

(1) Outline of the transaction

(a) Name of counterparty and its business outline

Name of counterparty: SMARTCAMP CO., LTD.
Business outline: Development and operation of BOXIL, a SaaS marketing platform

(b) Major reasons for wholly owning the shares of counterparty

The Company intends to make the most of the management resources of both companies and to make management decisions more expeditiously in order to accelerate business growth and enhance the Company's corporate value by wholly owning SMARTCAMP.

(c) Date of business combination

February 27, 2020

(d) Legal form of business combination

Acquisition of shares from noncontrolling interests by cash

(e) Name of the company after the combination

No change

(2) Outline of the accounting treatment implemented

This transaction is treated as a transaction with noncontrolling interests, which falls under the category of a transaction under common control, etc., based on "Accounting Standard for Business Combinations" and "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures".

(3) Acquisition cost of the acquired company and related details of each class of consideration

	<u>Thousands of Yen</u>
Consideration for acquisition—Cash	<u>¥ 1,390,629</u>
Acquisition cost	<u>¥ 1,390,629</u>

(4) Matters concerning changes in the Company's equity as a result of transaction with noncontrolling interests

(a) Main cause of change in capital surplus

Additional acquisition of shares of consolidated subsidiary

(b) Amount of capital surplus decreased due to the transaction with noncontrolling interests

¥ 1,342,366 thousand

Conversion of a consolidated subsidiary into a wholly owned subsidiary via share exchange

(1) Outline of transaction

(a) Name of counterparty and its business outline

Name of counterparty: R&AC Co., Ltd.
Business outline: Development and sales of cash reconciliation and receivable management system Victory-ONE Series

(b) Major reasons for wholly owning the shares of counterparty

The Company intends to make the most of the management resources of both companies and to make management decisions more expeditiously in order to accelerate business growth and enhance the Company's corporate value by wholly owning R&AC.

(c) Date of business combination

October 12, 2020

(d) Legal form of business combination

Share exchange in which R&AC becomes a wholly owned subsidiary of the Company

(e) Name of the company after the combination

No change

(2) Outline of the accounting treatment implemented

This transaction is treated as a transaction with noncontrolling interests, which falls under the category of a transaction under common control, etc., based on "Accounting Standard for Business Combinations" and "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures".

(3) Matters concerning additional acquisition of the subsidiary's shares by way of stock exchange

(a) Acquisition cost of the acquired company and related details of each class of consideration

	<u>Thousands of Yen</u>
Consideration for acquisition—Common stock of the Company	¥ 449,998
Acquisition cost	<u>¥ 449,998</u>

(b) Exchange ratio by type of shares, basis of the calculation for allotment and number of shares allotted

(i) Exchange ratio by type of shares

The Company allotted 348.034 ordinary shares of the Company for each ordinary share of R&AC.

(ii) Basis of the calculation for allotment

After careful deliberation between the Company and R&AC based on a comprehensive review of factors such as financial condition, asset condition, and future prospects referring to the result of share value calculation conducted by the Company and by WARC Inc., an independent third party, the companies agreed that the formula for the share exchange ratio was appropriate and this business combination would contribute to the interests of shareholders of both companies.

(iii) Number of shares issued

62,646 shares

- (4) Matters concerning changes in the Company's equity as a result of transaction with noncontrolling interests
- (a) Main cause of change in capital surplus
- Additional acquisition of shares of the subsidiary
- (b) Amount of capital surplus decreased due to the transaction with noncontrolling interests
- ¥ 372,330 thousand

17. SUBSEQUENT EVENTS

The Company executed a stock split effective December 1, 2020, by a resolution of its Board of Directors on October 15, 2020.

(1) Purpose of stock split

The purpose of the stock split is to expand the Company's investor base and enhance liquidity of its shares by lowering trading unit amount.

(2) Outline of stock split

(a) Method of stock split

The Company conducted a 2-for-1 split for each common share held by shareholders written or recorded in the closing shareholder registry on the record date of November 30, 2020

(b) Increase in the number of shares due to the stock split

Number of issued shares before stock split	23,851,218
Increase in number of shares resulting from the announced stock split	23,851,218
Number of issued shares after stock split	47,702,436
Total number of authorized shares after stock split	89,956,000

(c) Timeline

Announcement date of record date	November 13, 2020
Record date	November 30, 2020
Effective date	December 1, 2020

(3) Partial amendment to the Articles of Incorporation

(a) Reason for amendment

Pursuant to the stock split, the Company partially amended its Articles of Incorporation effective December 1, 2020 by a resolution of its Board of Directors based on the provisions of Article 184, paragraph 2 of the Companies Act.

(b) Details of the amendment

Detail of the amendment is as follows. (Amendment is underlined.)

Articles of Incorporation Before Amendment	Articles of Incorporation after Amendment
(Total number of authorized shares) Article 6: The Company's total number of authorized shares is <u>44,978,000</u> shares.	(Total number of authorized shares) Article 6: The Company's total number of authorized shares is <u>89,956,000</u> shares.

(c) Timeline

Effective date of the amendment to the Articles of Incorporation: December 1, 2020

(4) Other matters

(a) Change in capital stock

The amount of the Company's capital stock remains unchanged through this stock split.

(b) Adjustment of exercise prices of stock options

Pursuant to the stock split, exercise prices of stock options to be exercised on and after December 1, 2020 are adjusted as follows:

<u>Stock Options</u>	<u>Exercise Price Before Adjustment</u>	<u>Exercise Price After Adjustment</u>
#2	¥200	¥100
#3	¥350	¥175
#4	¥350	¥175
#5	¥550	¥275
#6	¥550	¥275
#7	¥1,500	¥750
#8	¥750	¥375
#9	¥750	¥375
#10	¥750	¥375
#11	¥3,155	¥1,578

18. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and for which such information is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as it is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

Because the Group engages in a single segment, namely, the platform service business, segment information is not presented.

Related Information

(1) Information about sales to customers

Sales to customers by business domain for the years ended November 30, 2020 and 2019, were as follows:

	Thousands of Yen	
	2020	2019
Business Domain	¥ 7,299,786	¥ 4,165,747
Home Domain	1,894,460	1,671,162
X Domain	1,372,592	967,510
Finance Domain	743,016	339,312
Other	8,361	13,050
Total sales to customers	<u>¥ 11,318,217</u>	<u>¥ 7,156,784</u>

(2) Information about goodwill

Amortization of goodwill and remaining balance of goodwill as of and for the years ended November 30, 2020 and 2019, were as follows:

	Thousands of Yen	
	2020	2019
The platform service business:		
Amortization of goodwill	¥ 369,962	¥ 110,184
Remaining balance of goodwill	¥ 3,547,877	¥ 2,621,095
	* * * * *	

Additional Information on the Consolidated Financial Statements

All the figures in the accompanying consolidated financial statements are unaudited.

The accompanying consolidated financial statements are summarized and translated from the original Japanese version submitted to the Tokyo Securities Exchange with certain rearrangements and reclassifications therein. The consolidated financial statements in the original Japanese Securities Report were audited by Deloitte Touche Tohmatsu whose report, dated February 26, 2021, expressed an unmodified opinion on those consolidated financial statements.