

# Annual Securities Report

(Report based on Article 24, Paragraph 1 of the  
Financial Instruments and Exchange Act of Japan)

(The 39th Fiscal Year)

From November 1, 2018 to October 31, 2019

H.I.S. Co., Ltd.

6-8-1 Nishishinjuku, Shinjuku-ku, Tokyo

(E04358)

## Table of Contents

Page

Cover	
Part I Information on the Company	1
I. Overview of the Company	1
1. Key Financial Data and Trends	1
2. Corporate History	3
3. Description of Business	6
4. Information on Subsidiaries and Associates	9
5. Employees	14
II. Business Overview	15
1. Management Policy, Management Environment, and Issues to be Addressed, etc.	15
2. Business and Other Risks	15
3. Analyses of Financial Position, Business Results, and Cash Flows	16
4. Material Business Agreements, etc.	22
5. Research and Development Activities	22
III. Equipment and Facilities	23
1. Capital Expenditures	23
2. Principal Facilities	24
3. Plans for Additions and Disposals of Facilities	25
IV. Information on the Company	26
1. Information on the Company's Shares	26
(1) Total number of shares, etc.	26
(2) Information on share acquisition rights, etc.	26
(3) Information on moving strike convertible bonds, etc.	30
(4) Changes in the total number of issued shares, capital stock, etc.	30
(5) Composition of issued shares by type of shareholders	30
(6) Major shareholders	31
(7) Information on voting rights	31
(8) Details of stock ownership plan for officers and employees	32
2. Information on Acquisition of Treasury Shares, etc.	32
3. Dividend Policy	33
4. Corporate Governance, etc.	34
(1) Overview of corporate governance	34
(2) Directors and other officers	37
(3) Status of audits	43
(4) Executive remuneration, etc.	45
(5) Information on shareholdings	47
V. Financial Information	48
1. Consolidated Financial Statements, etc.	49
(1) Consolidated Financial Statements	49
(2) Others	101
2. Non-consolidated Financial Statements, etc.	102
(1) Non-consolidated Financial Statements	102
(2) Major Assets and Liabilities	114
(3) Others	114
VI. Stock-related Administration for the Company	115
VII. Reference Information on the Company	116
1. Information on the Parent Company, etc. of the Company	116
2. Other Reference Information	116
Part II Information on Guarantors, etc. for the Company	116
[Independent Auditor's Report]	

## [Cover]

[Document Filed]	Annual Securities Report (“Yukashoken Hokokusho”)
[Article of Applicable Law Requiring Filing of This Document]	Article 24, Paragraph 1 of the Financial Instruments and Exchange Act of Japan
[Filed with]	Director, Kanto Local Finance Bureau
[Filing Date]	January 30, 2020
[Fiscal Year]	The 39th Fiscal Year (from November 1, 2018 to October 31, 2019)
[Company Name]	Kabushiki Kaisha Eichi Ai Esu
[Company Name in English]	H.I.S. Co., Ltd.
[Title and Name of Representative]	Hideo Sawada, Representative Director, Chairman and President; Chief Executive Officer; Group Chief Executive Officer (CEO)
[Location of Head Office]	6-8-1 Nishishinjuku, Shinjuku-ku, Tokyo
[Phone No.]	+81-3-6388-0707
[Contact Person]	Shigeru Nakatani, Director, Senior Executive Officer; Chief Financial Officer (CFO)
[Contact Address]	6-8-1 Nishishinjuku, Shinjuku-ku, Tokyo (Sumitomo Fudosan Shinjuku Oak Tower)
[Phone No.]	+81-3-6388-0707
[Contact Person]	Shigeru Nakatani, Director, Senior Executive Officer; Chief Financial Officer (CFO)
[Place Where the Filed Document is Available for Public Inspection]	Tokyo Stock Exchange, Inc. (2-1, Nihonbashi Kabutocho, Chuo-ku, Tokyo)

## Part I Information on the Company

### I. Overview of the Company

#### 1. Key Financial Data and Trends

(1) Consolidated financial data

Fiscal year		35th	36th	37th	38th	39th
Year end		October 2015	October 2016	October 2017	October 2018	October 2019
Net sales	(millions of yen)	537,456	523,705	606,024	728,554	808,510
Ordinary profit	(millions of yen)	22,685	8,648	19,647	19,499	17,089
Profit attributable to owners of parent	(millions of yen)	10,890	267	13,259	11,067	12,249
Comprehensive income	(millions of yen)	14,583	(5,928)	20,386	11,606	11,432
Net assets	(millions of yen)	113,990	95,139	111,247	115,641	123,909
Total assets	(millions of yen)	308,245	332,385	422,809	516,468	577,399
Net assets per share	(yen)	1,534.77	1,295.35	1,466.13	1,539.98	1,686.22
Earnings per share	(yen)	167.94	4.25	219.52	192.96	213.63
Diluted earnings per share	(yen)	157.22	3.58	204.60	166.87	197.66
Shareholders' equity ratio	(%)	32.3	23.9	20.3	17.1	16.8
Return on equity	(%)	11.6	0.3	16.0	12.7	13.2
Price-earnings ratio	(times)	24.4	674.8	17.3	17.7	13.2
Cash flows from operating activities	(millions of yen)	12,597	5,149	32,369	20,397	39,344
Cash flows from investing activities	(millions of yen)	(28,177)	(15,440)	(26,209)	(44,841)	(52,116)
Cash flows from financing activities	(millions of yen)	16,253	30,181	29,769	48,304	15,362
Cash and cash equivalents at end of fiscal year	(millions of yen)	113,330	129,842	168,659	191,440	192,541
Number of employees		10,143	10,845	13,510	13,875	15,202
[Average number of temporary employees not included in the above]	(persons)	[3,469]	[3,535]	[3,422]	[3,179]	[3,191]

(Notes)

- Consumption taxes, etc. are not included in net sales.
- The Company has applied the Revised Accounting Standard for Business Combinations (ASBJ Statement No. 21 issued on September 13, 2013), and from the 36th consolidated fiscal year, "Profit" is presented as "Profit attributable to owners of parent."
- The Company introduced the E-Ship® trust-type employee stock ownership incentive plan. In the consolidated financial statements, it records the shares held by the H.I.S. Employee Stock Ownership Association Dedicated Trust (the "Trust") as treasury shares. Accordingly, in calculating the amount of net assets per share in the 36th, 37th, 38th, and 39th fiscal years, "the number of common stock held as treasury shares at fiscal year-end" is calculated by including the shares held by the Trust. In calculating earnings per share and diluted earnings per share for the 36th, 37th, 38th, and 39th fiscal years, "average number of shares of common stock during the period" is calculated by including shares held by the Trust in the treasury shares.
- The provisional accounting treatment for business combinations was finalized in the first quarter of the 39th fiscal year, and key financial indicators, etc., for the 38th fiscal year reflect significant revisions to the initial allocation of acquisition costs following the finalization of the provisional accounting treatment.

## (2) Non-consolidated financial data

Fiscal year		35th	36th	37th	38th	39th
Year end		October 2015	October 2016	October 2017	October 2018	October 2019
Net sales	(millions of yen)	402,112	395,278	428,734	459,627	479,445
Ordinary profit (loss)	(millions of yen)	5,730	(636)	4,642	6,557	6,551
Profit (loss)	(millions of yen)	2,461	(2,358)	(108)	2,038	6,848
Capital stock	(millions of yen)	11,000	11,000	11,000	11,000	11,000
Shares issued and outstanding	(shares)	68,522,936	68,522,936	68,522,936	68,522,936	68,522,936
Net assets	(millions of yen)	55,465	39,822	23,593	19,099	24,741
Total assets	(millions of yen)	209,435	234,489	264,887	322,107	335,222
Net assets per share	(yen)	855.30	646.86	398.96	325.85	431.11
Total dividends per share (interim dividend amount)	(yen)	22.00 (—)	22.00 (—)	29.00 (—)	29.00 (—)	33.00 (—)
Earnings (loss) per share	(yen)	37.96	(37.51)	(1.80)	35.53	119.44
Diluted earnings per share	(yen)	35.25	—	—	30.25	110.25
Shareholders' equity ratio	(%)	26.5	16.9	8.8	5.8	7.4
Return on equity	(%)	4.4	—	—	9.7	31.6
Price-earnings ratio	(times)	107.7	—	—	96.4	23.6
Dividend payout ratio	(%)	58.0	—	—	81.6	27.6
Number of employees [Average number of temporary employees not included in the above]	(persons)	4,910 [1,060]	5,353 [1,041]	5,581 [897]	5,498 [722]	5,638 [791]
Total shareholder return	(%)	487.7	291.2	323.4	134.0	103.0
(Benchmark: TOPIX incl. dividends)	(%)	(203.5)	(194.9)	(252.4)	(147.9)	(135.2)
Highest share price	(yen)	4,765	4,340	3,935	4,250	4,520
Lowest share price	(yen)	2,491	2,524	2,465	2,970	2,346

## (Notes)

- Consumption taxes, etc. are not included in net sales.
- The Company introduced the E-Ship® trust-type employee stock ownership incentive plan. In the consolidated financial statements, it records the shares held by the H.I.S. Employee Stock Ownership Association Dedicated Trust (the "Trust") as treasury shares. Accordingly, in calculating the amount of net assets per share in the 36th, 37th, 38th, and 39th fiscal years, the "number of common stock held as treasury shares at fiscal year-end" is calculated by including the shares held by the Trust. In calculating earnings (loss) per share and diluted earnings per share for the 36th, 37th, 38th, and 39th fiscal years, the "average number of shares of common stock during the period" is calculated by including the shares held by the Trust in the treasury shares.
- Although there were dilutive shares in the 36th and 37th fiscal years, diluted earnings per share is not stated due to recording of a net loss per share.
- In the 36th and 37th fiscal years, return on equity, price-earnings ratio, and dividend payout ratio are not stated due to recording of a net loss.
- The highest and lowest share prices are those on the First Section of the Tokyo Stock Exchange.

## 2. Corporate History

Month/Year	Events
December 1980	Established International Tours Co., Ltd. (capital: 10 million yen) at 1-4-6 Nishishinjuku, Shinjuku-ku, Tokyo for the purpose of selling overseas air tickets
April 1981	Opened Osaka Branch (currently Umeda Head Office) in Kita-ku, Osaka Obtained Retail Agency License (No. 3034) from Ministry of Transportation
December 1983	Opened Fukuoka Branch (currently Fukuoka Tenjin Head Office) in Chuo-ku, Fukuoka
September 1984	Opened Nagoya Branch (currently Sakae Head Office) in Nakamura-ku, Nagoya
May 1985	Established HIS (HONG KONG) COMPANY LIMITED
June 1986	Obtained General Travel Agency License (No. 724) from Ministry of Transportation
January 1988	Established H.I.S. INTERNATIONAL TOURS (NY) INC.
October 1989	Established H.I.S. Deutschland Touristik GmbH
April 1990	Changed Company name to H.I.S. Co., Ltd.
August 1990	Established Passaporte Co., Ltd. (currently QUALITA Co., Ltd.)
September 1990	Established No. 1 Travel Shibuya Co., Ltd.
December 1990	Received approval as a certified International Air Transport Association (IATA) agent Established H.I.S. AUSTRALIA PTY. LTD.
April 1991	Established H.I.S. KOREA CO., LTD.
November 1991	Established Central Sales Division as a headquarters organization; established Kanto, Chubu, Kansai and Kyushu Area Sales Divisions as regional organizations
August 1992	Established H.I.S. INTERNATIONAL TOURS FRANCE SARL (currently HIS INTERNATIONAL TOURS FRANCE SAS)
April 1993	Established H.I.S. INTERNATIONAL TRAVEL PTE LTD
May 1993	Opened Shinjuku Headquarters Branch (currently Shinjuku Head Office) at Southgate Shinjuku 5-33-8 Sendagaya, Shibuya-ku, Tokyo
September 1993	Acquired equity stake in HAWAII HIS CORPORATION
January 1994	Consolidated the Nagoya Branch and the Nagoya Sakae Branch in Higashi-ku, Nagoya, to establish the Nagoya Branch (currently Sakae Head Office) as a large retail branch Established H.I.S. AUSTRALIA HOLDINGS PTY LTD Established H.I.S. INVESTMENTS PTY LTD
September 1994	Consolidated the Fukuoka Branch, Tenjin Branch, and Head Office Branch in Hakata-ku, Fukuoka, to establish Travel Wonderland Kyushu as a large retail branch
October 1994	Moved and expanded the Osaka Branch to establish Travel Wonderland Kansai (currently Umeda Head Office) as a large retail branch
March 1995	Shares registered with Japan Securities Dealers Association for over-the-counter sales
May 1995	Established H.I.S. INTERNATIONAL TOURS (BC) INC. (currently H.I.S. CANADA INC.)
September 1995	Established THE WATERMARK HOTEL GROUP PTY LTD
December 1995	Established PT. HARUM INDAH SARI TOURS & TRAVEL
January 1996	Established H.I.S. INTERNATIONAL TOURS KOREA INC.
March 1996	Established H.I.S. ITALIA S.R.L. (currently H.I.S. EUROPE ITALY S.R.L.)
November 1996	Opened THE WATERMARK HOTEL, GOLD COAST
March 1997	Established H.I.S. Tours Co., Ltd.
July 1997	Moved Yokohama Branch to Nishi-ku, Yokohama and established Travel Wonderland Yokohama (currently Yokohama Head Office) as a large retail branch
October 1997	Established H.I.S. GUAM, INC. Established H.I.S. SAIPAN, INC.
April 1998	Opened large retail branch Travel Wonderland Shibuya (currently Shibuya Head Office) in Shibuya-ku, Tokyo
June 1998	Opened large retail branch Travel Wonderland Omiya (currently Omiya Head Office) in Omiya-ku, Saitama
October 1999	Opened large retail branch Travel Wonderland Sapporo (currently Sapporo Head Office) in Chuo-ku, Sapporo
December 1999	Acquired equity stake in H.I.S. TAIWAN COMPANY LIMITED
March 2000	Made H.I.S. Kyoritsu Securities Co., Ltd. (currently Sawada Holdings Co., Ltd.) a subsidiary
April 2000	Moved headquarters function and Kanto Area Sales Division to the Shibuya Mark City West Building, 1-12-1 Dogenzaka, Shibuya-ku, Tokyo

Month/Year	Events
May 2000	Acquired Towa Travel Service (currently Orion Tour Co., Ltd.) and made it a subsidiary
December 2000	Established H.I.S. EUROPE LIMITED
February 2001	Dissolved capital relationship with H.I.S. Kyoritsu Securities Co., Ltd. (currently Sawada Holdings Co., Ltd.)
August 2002	Established H.I.S. U.S.A. INC. (currently H.I.S. U.S.A. HOLDING, INC.)
November 2002	Acquired Cruise Planet Co., Ltd. and made it a subsidiary
December 2002	Listed shares on the 2nd Section of the Tokyo Stock Exchange
December 2003	Established HIS (FIJI) LIMITED
April 2004	Moved headquarters function and Kanto Area Sales Division to the Sumitomo Fudosan Shinjuku Oak Tower, 6-8-1 Nishishinjuku, Shinjuku-ku, Tokyo
September 2004	Opened Travel Station Marunouchi Oazo Office (currently Marunouchi Head Office) in Chiyoda-ku, Tokyo
October 2004	Listed shares on the 1st Section of the Tokyo Stock Exchange Established H.I.S. (Austria) Travel GmbH
September 2005	Opened WHG INVESTMENTS BRISBANE PTY LTD
October 2005	Acquired equity stake in Kyushu Industrial Transportation Co., Ltd. (currently KYUSHU INDUSTRIAL TRANSPORTATION HOLDINGS CO., LTD.)
May 2006	Acquired equity stake in H.I.S.-SONGHAN VIETNAM TOURIST JOINT VENTURE COMPANY LTD. (currently H.I.S SONGHAN VIETNAM TOURIST COMPANY LTD.)
July 2006	Established H.I.S. Travel Switzerland AG
September 2007	Established H.I.S. TRAVEL (UAE) L.L.C. (currently H I S TRAVEL & TOURISM L.L.C.)
April 2008	Reorganized four regional bases (Kanto, Chubu, Kansai, and Kyushu/Chugoku Area Sales Divisions) into the East Japan (Kanto, Tohoku, Hokkaido) and West Japan (Chubu, Kansai, Kyushu, and Chugoku) sales regions Established H.I.S. Travel Nederland B.V.
June 2008	Established H.I.S. (PHILIPPINES) TRAVEL CORP.
July 2008	Acquired equity stake in H.I.S. (HAINAN) INTERNATIONAL TRAVEL SERVICE CO., LTD
December 2008	Opened the Company's first hotel in Japan, the Watermark Hotel Sapporo
January 2009	Made Ohshu Express Ltd. a subsidiary
April 2009	Established H.I.S. NEW ZEALAND LIMITED
April 2010	Made Huis Ten Bosch Co., Ltd. a subsidiary
May 2010	Established H.I.S. (SHANGHAI) INTERNATIONAL TRAVEL SERVICE CO., LTD
January 2011	Established HTB CRUISE Co., Ltd.
July 2011	Opened Watermark Hotel Nagasaki Huis Ten Bosch
April 2012	Made GUAM REEF HOTEL, INC. a subsidiary
July 2012	Made KYUSHU INDUSTRIAL TRANSPORTATION HOLDINGS CO., LTD. a subsidiary
September 2012	Expanded opening of Travel Wonderland Jakarta
December 2012	Established ASIA ATLANTIC AIRLINES CO., LTD.
March 2013	Expanded opening of Travel Wonderland Bangkok
April 2013	Expanded opening of Travel Wonderland Saigon Opened Shinjuku Sanhome Head Office (currently HAWAII Shinjuku Sanhome Office) as a large retail branch in Shinjuku-ku, Tokyo
May 2014	Established LAGUNA TEN BOSCH CO., LTD.
June 2014	Expanded opening of Travel Wonderland Phnom Penh
May 2015	Opened Watermark Hotel & Spa Bali, Jimbaran on Bali Island, Indonesia
July 2015	Opened Henn-na Hotel, showcasing cutting-edge technologies, at Huis Ten Bosch
November 2015	Established LY-HIS Co., Ltd., a joint venture with LY.com
December 2015	Established INTERPARK TOUR JAPAN Co., Ltd., a joint venture with INTERPARK
March 2016	Opened second wing at Henn-na Hotel in Huis Ten Bosch
April 2016	Began electric power sales
November 2016	Established H.I.S. Hotel Holdings Co., Ltd.
December 2016	Made Merit Holdings Inc. a subsidiary Made H.S. Insurance Co., Ltd. a subsidiary
March 2017	Established H.I.S. SUPER POWER Co., Ltd. Opened Henn-na Hotel Maihama Tokyo Bay

Month/Year	Events
May 2017	Established H.I.S. OKINAWA Co., Ltd.
	Made GROUP MIKI HOLDINGS LIMITED a subsidiary
	Made Green World Hotels Co., Ltd. a subsidiary
August 2017	Opened Henn-na Hotel Laguna Ten Bosch
November 2017	Made JONVIEW CANADA INC. a subsidiary
December 2017	Opened Henn-na Hotel Tokyo Nishikasai
January 2018	Opened Henn-na Hotel Tokyo Ginza
April 2018	Opened Henn-na Hotel Tokyo Hamamatsucho
May 2018	Established H.I.S. Energy Holdings Co., Ltd.
July 2018	Opened Henn-na Hotel Tokyo Asakusabashi
	Opened Henn-na Hotel Tokyo Akasaka
October 2018	Opened Henn-na Hotel Tokyo Haneda
January 2019	Opened Henn-na Hotel Fukuoka Hakata
	Opened Henn-na Hotel Osaka Shinsaibashi
March 2019	Opened Henn-na Hotel Osaka Namba
	Made RED LABEL VACATIONS INC. a subsidiary
April 2019	Opened Henn-na Hotel Kyoto Hachijoguchi-ekimae
September 2019	Opened Henn-na Hotel Tokyo Asakusa Tawaramachi
	Opened large-scale commercial facility SAKURA MACHI Kumamoto in Sakuramachi, Kumamoto



### 3. Description of Business

The H.I.S. Group (H.I.S. Co., Ltd. and associated companies; hereinafter, the “H.I.S. Group” or the “Group”) comprises H.I.S. Co., Ltd. (hereinafter, the “Company”), 186 subsidiaries and 25 associates. The main businesses operated by the Group and the positioning of the Company and associated companies in these businesses are shown below.

The Group added the Energy Business as a new reportable segment from the consolidated fiscal year ended October 31, 2019 with the aim of expanding the business through such initiatives as constructing a biomass power plant in Kakuda City, Miyagi Prefecture.

The six business groupings of Travel Business, Huis Ten Bosch Group, Hotel Business, Kyushu Sanko Group, Energy Business, and Other herebelow are consistent with the reportable segments stated in the “Notes to Consolidated Financial Statements” in “(1) Consolidated Financial Statements, 1. Consolidated Financial Statements, etc.” under “V. Financial Information, Part I: Information on the Company.”

#### (1) Travel Business

The H.I.S. Group businesses undertake domestic and overseas travel and other ancillary businesses.

[Associated Companies]

HAWAII HIS CORPORATION	H.I.S. EUROPE LIMITED
H.I.S. INTERNATIONAL TOURS (NY) INC.	HIS INTERNATIONAL TOURS FRANCE SAS
H.I.S. GUAM, INC.	H.I.S. Deutschland Touristik GmbH
H.I.S. CANADA INC.	H.I.S. EUROPE ITALY S.R.L.
H.I.S. – MERIT TRAVEL INC.	HIS ULUSLARARASI TURIZM SEYAHAT ACENTASI LIMITED SIRKETI
H.I.S. SAIPAN, INC.	GROUP MIKI HOLDINGS LIMITED
JONVIEW CANADA INC.	Orion Tour Co., Ltd.
H.I.S. – RED LABEL VACATIONS INC.	QUALITA Co., Ltd.
H.I.S. KOREA CO., LTD.	Ohshu Express Ltd.
H.I.S. Tours Co., Ltd.	TOUR WAVE CO., LTD
PT. HARUM INDAH SARI TOURS & TRAVEL	Japan Holiday Travel CO., LTD
HIS (HONG KONG) COMPANY LIMITED	Cruise Planet Co., Ltd.
H.I.S. TAIWAN COMPANY LIMITED	
H.I.S. INTERNATIONAL TRAVEL PTE LTD	
H.I.S. AUSTRALIA PTY. LTD.	and 111 other companies

#### (2) Huis Ten Bosch Group

The H.I.S. Group owns and operates theme parks located in Sasebo, Nagasaki Prefecture and Gamagori, Aichi Prefecture.

[Subsidiaries and Associates]

Huis Ten Bosch Co., Ltd.	LAGUNA TEN BOSCH CO., LTD. and 11 other companies
--------------------------	--

#### (3) Hotel Business

The H.I.S. Group operates hotels and other ancillary businesses in Japan, Taiwan, the U.S., Indonesia, etc.

[Associated Companies]

H.I.S. Hotel Holdings Co., Ltd.	HHH. USA. INC.
The Watermark Hotel Nagasaki Co., Ltd.	PT. HARUM INDAH SARI INDONESIA
Green World Hotels Co., Ltd.	
GUAM REEF HOTEL, INC.	and 12 other companies

(4) Kyushu Sanko Group

The Kyushu Sanko Group, whose holding company is KYUSHU INDUSTRIAL TRANSPORTATION HOLDINGS CO., LTD., operates businesses including automobile transport, real estate rental, etc.

[Associated Companies]

KYUSHU INDUSTRIAL TRANSPORTATION  
HOLDINGS CO., LTD.

and 18 other companies

(5) Energy Business

The H.I.S. Group engages in electricity retail, the development of new electric power including renewable energy, and other ancillary businesses.

[Associated Companies]

H.I.S. Energy Holdings Co., Ltd.  
HTB ENERGY CO., LTD.

H.I.S. SUPER POWER Co., Ltd.  
and one other company

(6) Other businesses

H.S. Insurance Co., Ltd. handles property and casualty insurance, mainly for overseas travel.

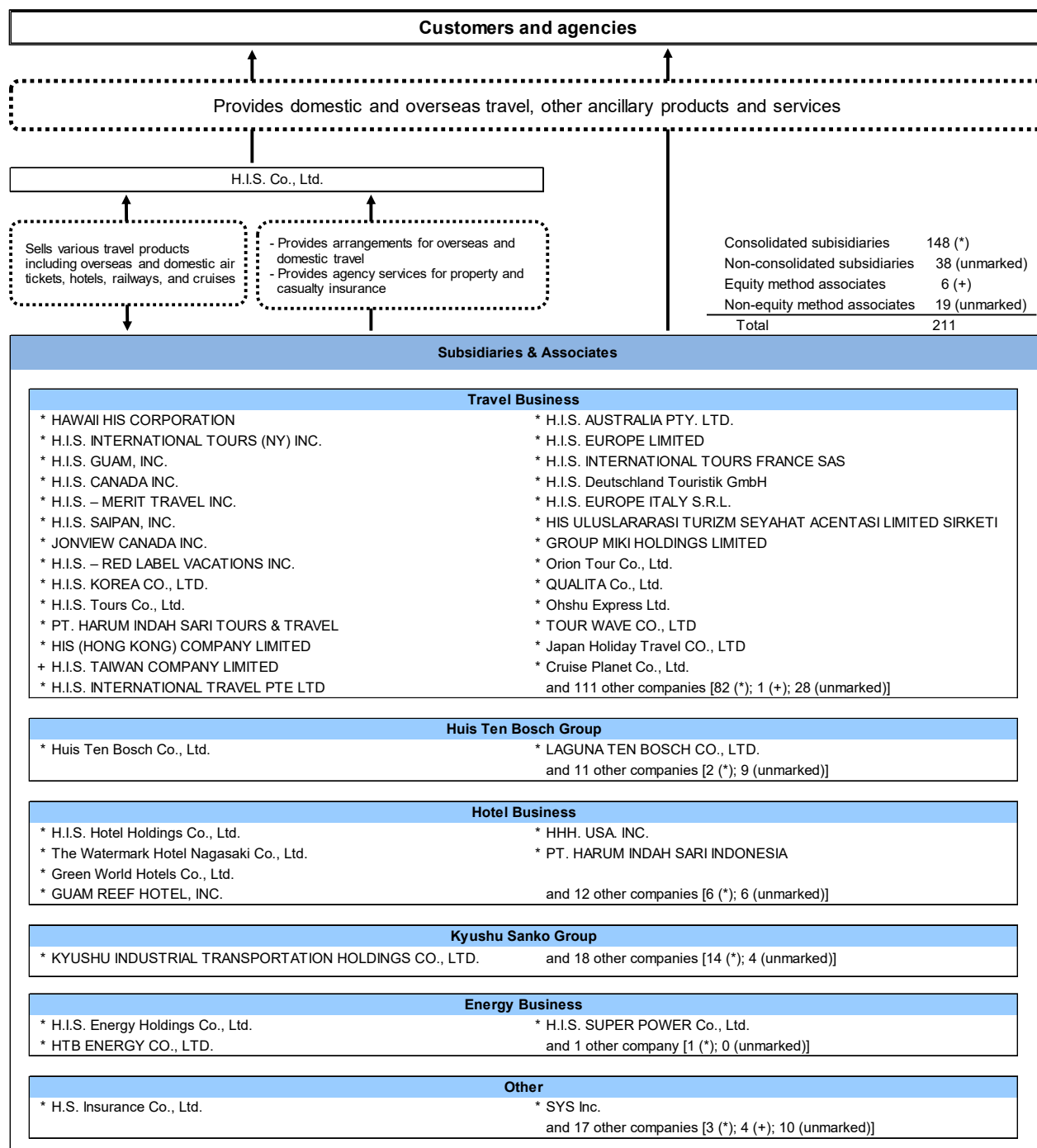
SYS Inc. develops and manages guest room reservation systems, and operates other ancillary businesses.

[Associated Companies]

H.S. Insurance Co., Ltd.

SYS Inc.  
and 17 other companies

The following table illustrates the H.I.S. Group's operating relationships.



#### 4. Information on Subsidiaries and Associates

##### (1) Consolidated Subsidiaries

Company name	Location	Capital	Main business	Ownership of voting rights (%)	Relationship
H.I.S. U.S.A. HOLDING, INC. (Note 3)	Delaware, U.S.A.	847 thousand USD	Travel Business	100.0	1) Concurrent Director One concurrent director at said company
HAWAII HIS CORPORATION (Note 2)	Honolulu, Hawaii, U.S.A.	100 thousand USD	Travel Business	100.0 (100.0)	1) Business Transaction Purchasing and sales of travel products between the companies
H.I.S. INTERNATIONAL TOURS (NY) INC. (Note 2)	New York City, New York, U.S.A.	150 thousand USD	Travel Business	100.0 (100.0)	1) Business Transaction Purchasing and sales of travel products between the companies
H.I.S. GUAM, INC. (Note 2)	Guam, Territory of U.S.A.	200 thousand USD	Travel Business	100.0 (100.0)	1) Concurrent Director One concurrent director at said company 2) Business Transaction Purchasing and sales of travel products between the companies
H.I.S. SAIPAN, INC. (Note 2)	Saipan, Commonwealth of the Northern Mariana Islands, U.S.A.	200 thousand USD	Travel Business	100.0 (100.0)	1) Business Transaction Purchasing of travel products from the said company
H.I.S. CANADA INC.	Yukon Territory, Canada	100 thousand CAD	Travel Business	100.0 (100.0)	1) Business Transaction Purchasing and sales of travel products between the companies
H.I.S. – MERIT TRAVEL INC. (Note 2) (Note 3)	Vancouver, British Columbia, Canada	45,395 thousand CAD	Travel Business	100.0 (100.0)	1) Concurrent Director One concurrent director at said company
JONVIEW CANADA INC. (Note 2) (Note 3)	Toronto, Ontario, Canada	48,899 thousand CAD	Travel Business	100.0 (100.0)	1) Concurrent Director One concurrent director at said company
H.I.S. CANADA HOLDINGS INC. (Note 3)	Vancouver, British Columbia, Canada	247,804 thousand CAD	Travel Business	100.0	1) Concurrent Director Two concurrent directors at said company
H.I.S. – RED LABEL VACATIONS INC. (Note 2) (Note 3)	Vancouver, British Columbia, Canada	142,993 thousand CAD	Travel Business	100.0 (100.0)	1) Concurrent Director Two concurrent directors at said company 2) Business Transaction Purchasing and sales of travel products between the companies
H.I.S. (China) Holding Co., Limited (Note 3)	Hong Kong Special Administrative Region, People's Republic of China	87,257 thousand HKD	Travel Business	100.0	1) Concurrent Director Two concurrent directors at said company
H.I.S. KOREA CO., LTD.	Seoul, Republic of Korea	425,000 thousand KRW	Travel Business	58.8	1) Business Transaction Purchasing of travel products from said company
H.I.S. Tours Co., Ltd.	Bangkok, Kingdom of Thailand	20,000 thousand THB	Travel Business	100.0	1) Business Transaction Purchasing and sales of travel products between the companies

Company name	Location	Capital	Main business	Ownership of voting rights (%)	Relationship
PT. HARUM INDAH SARI TOURS & TRAVEL	Denpasar, Republic of Indonesia	168 thousand USD	Travel Business	90.0	1) Concurrent Director One concurrent director at said company 2) Business Transaction Purchasing and sales of travel products between the companies
HIS (HONG KONG) COMPANY LIMITED (Note 2)	Hong Kong Special Administrative Region, People's Republic of China	1,500 thousand HKD	Travel Business	100.0 (100.0)	1) Concurrent Director Two concurrent directors at said company 2) Business Transaction Purchasing and sales of travel products between the companies
H.I.S. INTERNATIONAL MANAGEMENT PTE. LTD. (Note 2) (Note 3)	Republic of Singapore	20,000 thousand USD	Travel Business	100.0 (0.1)	1) Business Transaction Purchasing of travel products from said company
H.I.S. INTERNATIONAL TRAVEL PTE LTD (Note 2)	Republic of Singapore	400 thousand SGD	Travel Business	100.0 (100.0)	1) Business Transaction Purchasing and sales of travel products between the companies
H.I.S. AUSTRALIA PTY. LTD. (Note 2)	Queensland, Australia	25 thousand AUD	Travel Business	100.0 (100.0)	1) Concurrent Director One concurrent director at said company 2) Business Transaction Purchasing and sales of travel products between the companies
H.I.S. EUROPE LIMITED (Note 2)	London, England	100 thousand GBP	Travel Business	100.0 (100.0)	1) Business Transaction Purchasing and sales of travel products between the companies
GROUP MIKI HOLDINGS LIMITED (Note 3)	London, England	116 thousand EUR	Travel Business	70.3	1) Concurrent Director One concurrent director at said company 2) Business Transaction Purchasing and sales of travel products between the companies
HIS INTERNATIONAL TOURS FRANCE SAS (Note 2)	Paris, France	2,030 thousand EUR	Travel Business	100.0 (100.0)	1) Concurrent Director One concurrent director at said company 2) Business Transaction Purchasing and sales of travel products between the companies
H.I.S. Deutschland Touristik GmbH (Note 2)	Frankfurt, Germany	25 thousand EUR	Travel Business	100.0 (100.0)	1) Business Transaction Purchasing and sales of travel products between the companies
H.I.S. EUROPE ITALY S.R.L. (Note 2)	Rome, Italy	83 thousand EUR	Travel Business	100.0 (100.0)	1) Business Transaction Purchasing and sales of travel products between the companies
HIS ULUSLARARASI TURIZM SEYAHAT ACENTASI LIMITED SIRKETI	Istanbul, Turkey	9,132 thousand TRY	Travel Business	100.0	1) Business Transaction Purchasing and sales of travel products between the companies 2) Capital Assistance The Company provides payment guarantee (up to 217 million yen) for notes and accounts payable – trade

Company name	Location	Capital	Main business	Ownership of voting rights (%)	Relationship
Orion Tour Co., Ltd.	Chuo-ku, Tokyo	248 million yen	Travel Business	100.0	1) Concurrent Director Two concurrent directors at said company 2) Business Transaction Purchasing and sales of travel products between the companies
QUALITA Co., Ltd.	Shinjuku-ku, Tokyo	51 million yen	Travel Business	100.0	1) Concurrent Director Two concurrent directors at said company 2) Business Transaction Purchasing and sales of travel products between the companies 3) Capital Assistance The Company provides payment guarantee (up to 35 million yen) for notes and accounts payable – trade
Ohshu Express Ltd.	Shibuya-ku, Tokyo	132 million yen	Travel Business	100.0	1) Concurrent Director Two concurrent directors at said company 2) Business Transaction Purchasing and sales of travel products between the companies
TOUR WAVE CO., LTD (Note 2)	Aoba-ku, Sendai, Miyagi Prefecture	80 million yen	Travel Business	100.0 (100.0)	1) Concurrent Director Two concurrent directors at said company 2) Business Transaction Purchasing and sales of travel products between the companies
Japan Holiday Travel CO., LTD	Chuo-ku, Osaka, Osaka Prefecture	30 million yen	Travel Business	66.7	1) Concurrent Director Two concurrent directors at said company 2) Business Transaction Purchasing and sales of travel products between the companies 3) Capital Assistance The Company provides payment guarantee (up to 40 million yen) for notes and accounts payable – trade
Cruise Planet Co., Ltd.	Chiyoda-ku, Tokyo	25 million yen	Travel Business	100.0	1) Concurrent Director Two concurrent directors at said company 2) Business Transaction Purchasing and sales of travel products between the companies
Huis Ten Bosch Co., Ltd. (Note 3)	Sasebo, Nagasaki Prefecture	1,500 million yen	Huis Ten Bosch Group	66.7	1) Concurrent Director Three concurrent directors at said company 2) Business Transaction Purchasing and sales of travel products between the companies

Company name	Location	Capital	Main business	Ownership of voting rights (%)	Relationship
LAGUNA TEN BOSCH CO., LTD. (Note 2) (Note 3)	Gamagori, Aichi Prefecture	1,588 million yen	Huis Ten Bosch Group	66.0 (61.0)	1) Concurrent Director Three concurrent directors at said company 2) Business Transaction Purchasing and sales of travel products between the companies
H.I.S. Hotel Holdings Co., Ltd.	Shinjuku-ku, Tokyo	10 million yen	Hotel Business	100.0	1) Concurrent Director Two concurrent directors at said company 2) Business Transaction Purchasing and sales of hotel products between the companies 3) Capital Assistance The Company guarantees liabilities (up to 235 million yen) against bank guarantees. In addition, it loans 45,893 million yen in capital expenditure funding
The Watermark Hotel Nagasaki Co., Ltd. (Note 2)	Shinjuku-ku, Tokyo	250 million yen	Hotel Business	100.0 (100.0)	1) Concurrent Director Two concurrent directors at said company 2) Business Transaction Purchasing of travel products from the said company
HHH. USA. INC. (Note 2) (Note 3)	New York City, New York, U.S.A.	10,000 thousand USD	Hotel Business	100.0 (100.0)	—————
GUAM REEF HOTEL, INC. (Note 2)	Guam, Territory of U.S.A.	10 thousand USD	Hotel Business	100.0 (100.0)	—————
PT. HARUM INDAH SARI INDONESIA (Note 2) (Note 3)	Badung, Bali, Republic of Indonesia	180 billion IDR	Hotel Business	100.0 (1.0)	—————
Green World Hotels Co., Ltd. (Note 2) (Note 3)	Taipei City, Taiwan	1,097 million TWD	Hotel Business	51.0 (51.0)	1) Capital Assistance The Company guarantees liabilities (up to 1,396 million yen) against bank guarantees
KYUSHU INDUSTRIAL TRANSPORTATION HOLDINGS CO., LTD. (Note 3) (Note 4)	Chuo-ku, Kumamoto, Kumamoto Prefecture	1,065 million yen	Kyushu Sanko Group	91.6	1) Concurrent Director One concurrent director at said company 2) Business Transaction Purchasing and sales of travel products between the companies 3) Capital Assistance The Company loans 2,000 million yen in capital expenditure funding
H.I.S. Energy Holdings Co. Ltd.	Shinjuku-ku, Tokyo	382 million yen	Energy Business	100.0	1) Concurrent Director Three concurrent directors at said company

Company name	Location	Capital	Main business	Ownership of voting rights (%)	Relationship
HTB ENERGY CO., LTD. (Note 2)	Chuo-ku, Fukuoka, Fukuoka Prefecture	95 million yen	Energy Business	100.0 (100.0)	1) Concurrent Director Three concurrent directors at said company 2) Business Transaction Purchasing and sales of travel products between the companies 3) Capital Assistance The Company loans 3,800 million yen in working capital
H.I.S. SUPER POWER Co., Ltd. (Note 2)	Shinjuku-ku, Tokyo	50 million yen	Energy Business	100.0 (100.0)	1) Concurrent Director Three concurrent directors at said company 2) Capital Assistance The Company loans 6,896 million yen in capital expenditure funding
H.S. Insurance Co., Ltd. (Note 3)	Minato-ku, Tokyo	1,612 million yen	Other	100.0	1) Business Transaction The Company is a sales representative for travel insurance
SYS Inc.	Minato-ku, Tokyo	100 million yen	Other	91.4	1) Concurrent Director Two concurrent directors at said company 2) Business Transaction The Company outsources development of accommodation reservation systems, etc. 3) Capital Assistance The Company guarantees liabilities (up to 900 million yen) against bank guarantees. In addition, it loans 1,313 million yen in working capital
And 104 other companies					

(Notes)

1. The “Main business” column indicates segment names stated in “Segment information, etc.”
2. Figures in parentheses in the “Ownership of voting rights” column represent percentage of voting rights held indirectly by the Company.
3. These companies fall under the category of specified subsidiaries.
4. The company files an Annual Securities Report (Yukashoken Hokokusho).

(2) Entities accounted for using equity-method

Company name	Location	Capital	Main business	Ownership of voting rights (%)	Relationship
H.I.S. TAIWAN COMPANY LIMITED	Taipei, Taiwan	42 million TWD	Travel Business	50.0	1) Concurrent Director One concurrent director at said company 2) Business Transaction Purchasing and sales of travel products between the companies
And 5 other companies					

(Note) The “Main business” column indicates segment names stated in “Segment information, etc.”



## 5. Employees

### (1) Consolidated Companies

As of October 31, 2019

Name of business segment	Number of employees	
Travel Business	11,983	[1,265]
Huis Ten Bosch Group	663	[1,061]
Hotel Business	624	[405]
Kyushu Sanko Group	1,628	[366]
Energy Business	46	[37]
Reportable segments total	14,944	[3,134]
Other	166	[50]
Corporate-wide (shared)	92	[7]
Total	15,202	[3,191]

(Notes)

1. “Number of employees” represents full-time employees only. An additional figure for the average number of temporary staff employed during the fiscal year is provided in square brackets.
2. The employees in “Corporate-wide (shared)” are those belonging to administrative departments and thus do not fall under any business segment.

### (2) The Filing Company

As of October 31, 2019

Number of employees	Average age	Average length of service	Average annual pay (yen)
5,638 [791]	32.6 years old	8.4 years	5,033,555

Name of business segment	Number of employees	
Travel Business	5,546	[784]
Reportable segments total	5,546	[784]
Other	—	[—]
Corporate-wide (shared)	92	[7]
Total	5,638	[791]

(Notes)

1. “Number of employees” represents full-time employees only. An additional figure for the average number of temporary staff employed during the fiscal year is provided in square brackets.
2. Average annual salary includes bonuses and extra wages.
3. The employees in “Corporate-wide (shared)” are those belonging to administrative departments and thus do not fall under any business segment.

### (3) Labor Unions

There are no applicable matters to report.

## II. Business Overview

### 1. Management Policy, Management Environment, and Issues to be Addressed, etc.

#### (1) Management Policy of the Company

Guided by its corporate philosophy (“In accordance with the laws of the universe, we contribute to the creative development of humanity and world peace”), the H.I.S. Group aims to build new business models that allow it to contribute to world peace not only through travel but through a wide range of other businesses, as a company that consistently pursues change and advancement.

#### (2) Key Performance Indicators

The H.I.S. Group regards the company-wide and business-specific net sales, operating profit, ordinary profit and corresponding growth rates as important management indicators. In addition, in the Travel Business, it focuses on the number of customers serviced (an indicator of support received from customers) and its transaction value-based share, and looks to achieve sustainable growth and improved profitability, thereby securing a solid position to amass growing travel demand in the world.

#### (3) Medium- to Long-Term Corporate Management Strategy

In addition to operating in the existing core business domains of travel, theme parks, hotels, energy, and regional revitalization, the H.I.S. Group endeavors to create new value and actively expand its presence in growth fields. It aims to build a sustainable, next-generation operating structure to support a more diverse portfolio of businesses.

#### (4) Issues to be Addressed

The Group must address the following issues.

##### - Pursuit of customer satisfaction and provision of safe and secure products

To become a global company trusted worldwide and supported by the customers, H.I.S. believes it is necessary to provide comfortable, safe, and secure services. Through optimized use of the Group’s global network and infrastructure, the company intends to further provide products, services, and information that are safe, secure, and high-quality, by creating new experience-driven value and offering expanded services. An effort will also be made to please and gain the support of customers throughout the world by working to improve the level of Group’s services in Japan and overseas.

##### - Response to globalization

As new businesses and services are rolled out on the global stage, the H.I.S. Group will pursue business expansion with a global outlook and develop human resources who can lead global businesses with the aim of advancing into new business areas and further developing existing businesses at an accelerated pace going forward.

##### - Development of operation structure for the next era

In addition to operating in its existing business domains, the H.I.S. Group will actively expand its presence in new fields that create new value. It will build a next-generation operating structure to support a more diversified portfolio of businesses.

### 2. Business and Other Risks

Risks that could have an impact on the business performance, share price, and financial position of the H.I.S. Group are outlined below. Being mindful of the possibility that these risks may occur, the Group will make every effort to avoid such risks and take appropriate action in the event of their occurrence.

All matters relating to the future in the sections below are based on the current views of the H.I.S. Group as of the date of filing this Securities Report in Japanese (January 30, 2020) and business risks are not limited to those discussed below.

#### 1) Risks related to travel demand and industry trends

The Travel Business accounts for 89.4% of Group net sales, and 78.8% of net sales are concentrated in Japan. Consequently, changes in the environment surrounding the Travel Business in Japan could affect the Group’s financial position and operating results. Further, although the Group works to ensure sustainable competitiveness, its businesses face intense competition from other companies, prompted by such factors as business model changes of partner companies and market entries by companies from other industries. Future developments in the competitive landscape could therefore affect the Group’s financial position and operating results.

#### 2) Impact of natural and man-made disasters

The environment surrounding the Group’s businesses is vulnerable to disruption of tourism and related infrastructure caused by natural disasters (such as typhoons, tsunamis, and earthquakes), outbreak of contagious diseases, and political and social instability in various countries or regions caused by airplane crashes, terrorist attacks, wars, and other factors. The occurrence of any of these could affect the Group’s financial position and operating results.

3) Risks related to information leaks and system management

The Group makes use of computer systems for operations including reservation arrangements, and it accordingly manages personal information of a large number of its customers. It makes every effort to ensure sufficient security when building and operating such systems, but the occurrence of failures in communication networks/programs, problems caused by computer viruses, and other factors may lead to serious disruptions such as system failures, information leaks, and data falsification/alteration, which could gravely affect Group operations. In addition, depending on the scale of a system failure, services to customers may be interrupted or repair costs may increase, which could affect the Group's financial position, operating results, and public trust.

4) Risks related to provision of products and services

The Group provides restaurant recommendations under its travel products. It also operates restaurants in its other businesses, and compiles manuals for quality control standards and takes sufficient caution to ensure food safety. However, the occurrence of health problems such as food poisoning could lead to a loss of trust or other problems, affecting the Group's financial position and operating results.

5) Exchange rate and crude oil price fluctuations

The Group conducts business in foreign currencies, which results in income and expenses as well as assets and liabilities in foreign currencies. The Group hedges risk through forward exchange contracts and other instruments to mitigate the impact of exchange rate fluctuations. However, sharp fluctuations in exchange rates could affect the Group's financial position and operating results. Further, the Group converts figures in the financial statements of consolidated overseas subsidiaries into Japanese yen when preparing the consolidated financial statements, and changes in exchange rates could thus affect the Group's financial position and operating results. In addition, the Group adds a fuel surcharge to overseas travel fares in its Travel Business to reflect changes in crude oil prices, and a notable rise in this surcharge may dampen overall travel demand. Consequently, sharp changes in crude oil prices could affect the Group's financial position and operating results.

6) Fluctuations in the valuation of owned assets including securities

The Group holds both listed and unlisted stocks, bonds, and other instruments. Hence, sales or valuation losses could occur from fluctuations in stock and bond markets in the case of securities with determinable fair market value, and from changes in the financial status of investee companies in the case of securities without determinable fair market value, and the Group's financial position and operating results could be affected as a result.

7) Impairment of fixed assets

The H.I.S. Group records property, plant and equipment, intangible assets, stocks, goodwill, and other items arising from investment activities or acquisitions in Japan or abroad as assets on its consolidated balance sheet, and amortizes these over reasonable periods during which future synergies from business value and business integration are expected to manifest. However, if the Group determines that expected effects cannot be obtained, it books impairment losses for the relevant assets, and this could affect the Group's financial position and operating results.

8) Compliance

When conducting business activities, the Group is subject to various laws, regulations, business customs, and social norms in Japan and all countries where its sales offices are located, of which it strives to be in full compliance. However, there is a possibility that conditions considered to be in violation of compliance may arise due to the introduction of unexpected and new regulations, changes in policies of the enforcement authorities, or other causes such as differences in understanding and interpretation. The Group's financial position and operating results could be adversely affected if conditions that are in violation of compliance arise, resulting in expenses related to legal procedures and damage to the H.I.S. brand image.

### 3. Analyses of Financial Position, Business Results, and Cash Flows

The following is an overview, management perspective, analysis, and examination of the Company's financial position, business results, and cash flows in the consolidated fiscal year ended October 31, 2019.

(1) Business Results

In the consolidated fiscal year ended October 31, 2019, the management environment was affected by tension from trade friction and lingering uncertainty over the economic outlook in the international arena, but the Japanese economy recovered gradually as the improvement in employment and income conditions and the effects of various policies offset prolonged weakness in exports and other areas.

Against this backdrop, the H.I.S. Group implemented organizational reforms and promoted work style reforms to accommodate expansion in its business domains. Guided by its corporate philosophy (“In accordance with the laws of the universe, we contribute to the creative development of humanity and world peace”), the Group aimed to build new business models that allow it to contribute to world peace not only through travel but through a wide range of other businesses, as a company that consistently pursues change and advancement.

Business performance by segment was as follows. Figures in each segment reflect the amounts before offsetting and eliminating inter-segment transactions. In the consolidated fiscal year ended October 31, 2019, the Group changed its reportable segment classification, and it has adjusted figures for the previous fiscal year to allow for year-on-year comparisons. For more information, see the “Segment information, etc.” section in “Notes to Consolidated Financial Statements” under “(1) Consolidated Financial Statements, 1. Consolidated Financial Statements, etc., V. Financial Information.” Figures in each segment reflect the amounts before offsetting and eliminating inter-segment transactions.

#### [Travel Business]

In the consolidated fiscal year ended October 31, 2019, the number of outbound travelers from Japan rose a strong 7.3% year on year to a record-high 20,020,000 as overall travel demand remained firm despite a decline in travel to East Asia driven by concerns over public order and security. The number of inbound travelers to Japan similarly rose 3.2% year on year to a record-high 31,990,000 as a temporary boost from the 2019 Rugby World Cup (hosted in Japan) offset a slump in visitors from South Korea (source: Japan National Tourism Organization [JNTO]).

Despite impact from large typhoons and a decline in travel amid uncertainty over conditions in Hong Kong and South Korea, the Travel Business in Japan held strong buoyed by travel demand during the unprecedented 10-day Golden Week holidays, continued demand for travel to Europe, a recovery in travel to Guam driven by an increase in flight seatings, and expanded travel to Hokkaido due to chartered flight services. The Company worked to improve its services from a customer standpoint through initiatives such as developing a new cancellation support service (which reimburses travel fees in case of cancellation due to business trips, insufficient passport validity, pregnancy, or other reasons) and undertaking a major overhaul of its product websites. In inbound travel, profitability for visitors from East Asia remained an issue amid fierce competition, but the Group reinforced its organization for other areas, which led to an increase in visitors, especially from Europe and the US. In corporate travel, the Company pursued several new initiatives such as operating a support business for Japanese companies expanding overseas, and strengthening its trading company business by entering into a strategic alliance agreement with a local government organization (Mie Prefecture).

In overseas travel, the Company pushed ahead with business expansion in North America, and consolidated RED LABEL VACATIONS INC. from the third quarter of the fiscal year ended October 31, 2019. In addition to strong performance in inbound travel in various countries, including growth in South Korea and Guam, newly consolidated companies delivered significant contributions.

After factoring in new, scrapped, and consolidated outlets, the H.I.S. Group’s global sales network comprised 259 locations in Japan, and 270 overseas in 163 cities across 69 countries (as of October 31, 2019).

Consequently, the Travel Business recorded net sales of 722,464 million yen (an increase of 10.9% from a year earlier) and operating profit of 13,754 million yen (an increase of 12.7%).

#### [Huis Ten Bosch Group]

At Huis Ten Bosch, the Company adjusted its admission fee structure to reflect demands from customers. It introduced a discount on early purchases of the 1-day passport from April, set a separate admission fee category for preschoolers as their access to some of the existing facilities is restricted, made admission for accompanying pets free, and offered birthday perks. Turning to events, the Company unveiled “Water Magic,” Japan’s largest light fountain show, in the “Kingdom of Light” themed area (the main attraction during the winter), and held the new Canal Parade Show of Light & Music, the first such parade in Japan. These events were well received by customers, and the company secured the top spot in the Japan Illumination Ranking for a seventh consecutive year. However, despite these efforts, the number of visitors fell 6.4% to 2,547,000 as result of adverse weather during busy periods and a decline in inbound tourists.

As a result of the above, the Huis Ten Bosch Group recorded net sales of 28,086 million yen (a decrease of 8.5% from a year earlier) and operating profit of 5,075 million yen (a decrease of 30.6%).

#### [Hotel Business]

In the Hotel Business, which the H.I.S. Group is developing into a third earnings driver after the Travel Business and the Huis Ten Bosch Group, the Company continued to expand operations centered on its Henn-na Hotels, which aim to be the world’s

most efficient hotels. In the consolidated fiscal year ended October 31, 2019, the Company opened six Henn-na Hotels mainly in West Japan (Fukuoka, Osaka, and Kyoto). Although the sale of the Watermark Hotel properties in the previous fiscal year weighed on sales, the increase in the number of Henn-na Hotels and steady operation at existing hotels kept net sales strong. Operating profit fell due to the booking of additional costs related to hotel openings.

Based on the above, the Hotel Business reported net sales of 12,676 million yen (an increase of 5.3% from a year earlier), an operating loss of 217 million yen (versus an operating profit of 808 million yen a year earlier), and EBITDA of 1,059 million yen (a decrease of 50.0%).

#### [Kyushu Sanko Group]

The Kyushu Sanko Group was adversely affected by a reactionary decline in reconstruction demand associated with the 2016 Kumamoto earthquake, weather conditions, a volcanic eruption at Mt. Aso in Kumamoto, and a higher cost burden for redevelopment projects. As a result, it recorded net sales of 22,230 million yen (an increase of 2.7% from a year earlier) and operating profit of 158 million yen (a decrease of 60.3%). In the Sakuramachi Redevelopment Project, the Kyushu Sanko Group opened SAKURA MACHI Kumamoto on September 14, 2019, a large commercial facility that attracted a total of 3.2 million visitors by end-October, and continues to work to revitalize urban centers.

#### [Energy Business]

In the electricity retail business, the Company increased its number of contracts thanks to a significant expansion in agents and other sales channels, and generated revenues from balancing group arrangements and electricity wholesale, and bilateral contracts with new suppliers. As a result, in the consolidated fiscal year ended October 31, 2019, the Energy Business recorded net sales of 20,461 million yen (an increase of 70.7% from a year earlier) and operating profit of 974 million yen (versus an operating loss of 428 million yen a year earlier).

Based on the above, the Company's consolidated results for the consolidated fiscal year ended October 31, 2019 were 808,510 million yen in net sales (an increase of 11.0% from a year earlier), a record high, 17,540 million yen in operating profit (a decrease of 3.0%), 17,089 million yen in ordinary profit (a decrease of 12.4%), and 12,249 million yen in profit attributable to owners of parent (an increase of 10.7%) after recording a 3,627 million yen gain on sales of investment securities.

## (2) Cash Flows

The amount of cash and cash equivalents (hereinafter, "funds") at the end of the consolidated fiscal year ended October 31, 2019 was 192,541 million yen, an increase of 1,101 million yen compared to the end of the previous fiscal year. Cash flows from operating activities increased 39,344 million yen, cash flows from investing activities decreased 52,116 million yen, and cash flows from financing activities increased 15,362 million yen.

The status of each cash flow item is presented in detail below.

#### [Cash flows from operating activities]

Funds from operating activities saw an increase of 39,344 million yen in the fiscal year under review. This mainly reflected an increase in funds from the booking of 20,352 million yen in profit before income taxes, depreciation (8,850 million yen) as a non-cash item, and an increase in travel advances received (5,438 million yen).

In the previous fiscal year, funds saw an increase of 20,397 million yen. This mainly reflected an increase in funds from the booking of profit before income taxes (20,753 million yen) and an increase in travel advances received (9,676 million yen), alongside a decrease in funds resulting from income taxes paid (8,009 million yen).

As a result, in the fiscal year under review, cash flows from operating activities increased 18,946 million yen compared to the previous fiscal year.

#### [Cash flows from investing activities]

Funds from investing activities saw a decrease of 52,116 million yen in the fiscal year under review. This was mainly because purchases of property, plant and equipment and intangible assets (75,885 million yen), and purchases of investment securities (6,987 million yen) exceeded revenue from redevelopment projects (27,658 million yen).

In the previous fiscal year, funds saw a decrease of 44,841 million yen. This was mainly because purchases of property, plant and equipment and intangible assets (45,440 million yen) and purchases of investment securities (6,973 million yen) exceeded the proceeds from sales of property, plant and equipment and intangible assets (9,709 million yen).

As a result, in the fiscal year under review, cash flows from investing activities declined 7,274 million yen compared to the

previous fiscal year.

[Cash flows from financing activities]

Funds from financing activities saw an increase of 15,362 million yen in the fiscal year under review. This mainly reflected an increase in funds from proceeds from long- and short-term loans payable (218,391 million yen), and a decrease in funds from repayments of long- and short-term loans payable (169,737 million yen), and redemption of corporate and convertible bonds (30,000 million yen).

In the previous fiscal year, funds saw an increase of 48,304 million yen. This mainly reflected an increase in funds from proceeds from long- and short-term loans payable (59,020 million yen), proceeds from issuance of bonds with share acquisition rights (25,100 million yen [Note]), alongside a decrease in funds from repayments of long- and short-term loans payable (27,646 million yen), purchases of treasury shares (5,001 million yen), and cash dividends paid (1,707 million yen).

As result, in the fiscal year under review, cash flows from financing activities declined 32,942 million yen compared to the previous fiscal year.

(Note) Amount after subtracting issuance-related costs from issuance proceeds.

(3) Production, Orders Received, and Sales

1) Purchasing

Purchasing by segment during the consolidated fiscal year ended October 31, 2019 is as follows.

Segment name	Year ended October 31, 2019 [November 1, 2018 to October 31, 2019] (millions of yen)	Versus previous fiscal year (%)
Travel Business	614,079	111.2
Huis Ten Bosch Group	3,682	76.7
Hotel Business	4,428	101.1
Kyushu Sanko Group	20,249	104.8
Energy Business	17,792	154.2
Reportable segment total	660,231	111.4
Other	4,143	155.7
Total	664,375	111.6

(Notes)

1. Intersegment transactions have been eliminated.
2. The businesses of the H.I.S. Group (H.I.S. Co., Ltd., and consolidated subsidiaries, hereinafter the same) are not operated based on production; as such, information on purchasing is stated in the place of production overview.
3. Figures do not include consumption taxes.

2) Orders received

Information on orders received has been omitted as the H.I.S. Group's businesses are not operated based on orders received.

### 3) Sales

Sales by segment during the consolidated fiscal year ended October 31, 2019 are as follows.

Segment name	Year ended October 31, 2019 [November 1, 2018 to October 31, 2019] (millions of yen)	Versus previous fiscal year (%)
Travel Business	720,465	110.9
Huis Ten Bosch Group	26,372	91.1
Hotel Business	11,757	105.4
Kyushu Sanko Group	22,208	102.7
Energy Business	20,345	171.0
Reportable segment total	801,149	110.8
Other	7,360	139.6
Total	808,510	111.0

(Notes)

1. Intersegment transactions have been eliminated.
2. The H.I.S. Group calculates total transaction value (selling price) as net sales.
3. Figures do not include consumption taxes.

#### (4) Analyses of Consolidated Business Results, Financial Position, and Cash Flows

Analysis of financial conditions, operating results, and cash flows during the consolidated fiscal year ended October 31, 2019 are as follows. All matters relating to the future in the sections below are based on the current views of the Group as of the end of the fiscal year under review.

##### 1) Significant accounting policies and estimates

The consolidated financial statements of the Group are prepared in conformity with accounting standards that are generally accepted in Japan. In preparing the consolidated financial statements, estimates have been made in the calculation of allowance for doubtful accounts, provision for bonuses, and retirement benefit liability, etc. These estimates are rationally determined in consideration of past results; however, because of uncertainties characteristic of estimates, they may differ from the actual results.

##### 2) Analysis of financial position

###### (i) Current assets

The balance of current assets at the end of the fiscal year under review was 348,280 million yen, an increase of 28,351 million yen from the end of previous fiscal year.

This was mainly due to increases in travel advance payments (up 17,755 million yen from the end of the previous fiscal year) and in accounts receivable - other (up 11,332 million yen).

###### (ii) Non-current assets

The balance of non-current assets at the end of the fiscal year under review was 228,951 million yen, an increase of 32,845 million yen from the end of previous fiscal year.

This was mainly due to an increase in property, plant and equipment (up 30,996 million yen from the end of previous fiscal year).

###### (iii) Current liabilities

The balance of current liabilities at the end of the fiscal year under review was 231,572 million yen, an increase of 17,639 million yen from the end of previous fiscal year.

This was mainly due to increases in travel advances received (up 24,415 million yen from the end of previous fiscal year) and in accounts payable - other (up 18,614 million yen), alongside redemptions of the current portion of bonds and the current portion of convertible bond-type bonds with share acquisition rights (down 30,000 million yen).

###### (iv) Non-current liabilities

The balance of non-current liabilities at the end of the fiscal year under review was 221,918 million yen, an increase of

35,024 million yen from the end of previous fiscal year.

This was mainly due to an increase in long-term loans payable (up 33,094 million yen from the end of the previous fiscal year).

(v) Net assets

The balance of net assets at the end of the fiscal year under review was 123,909 million yen, an increase of 8,268 million yen from the end of previous fiscal year.

This was mainly due to an increase in retained earnings resulting from the booking of profit attributable to owners of parent (up 10,326 million yen from the end of the previous fiscal year), alongside a decrease in foreign currency translation adjustments (down 2,529 million yen).

3) Analysis of operating results

(i) Net sales

In the fiscal year under review, net sales were 808,510 million yen, an increase of 79,956 million yen (up 11.0%) from the previous fiscal year. By reportable segment, Travel Business net sales were 722,464 million yen (up 10.9%), Huis Ten Bosch Group net sales were 28,086 million yen (down 8.5%), Hotel Business net sales were 12,676 million yen (up 5.3%), Kyushu Sanko Group net sales were 22,230 million yen (up 2.7%), and Energy Group net sales were 20,461 million yen (up 70.7%). The figures for each reportable segment represent amounts before the elimination of transactions among segments.

(ii) Operating expenses

Operating expenses in the fiscal year under review were 790,969 million yen, an increase of 80,499 million yen (up 11.3%) from the previous fiscal year.

Within operating expenses, cost of sales was 664,375 million yen, an increase of 69,190 million yen (up 11.6%) from the previous fiscal year.

Selling, general and administrative expenses was 126,594 million yen, an increase of 11,308 million yen (up 9.8%) from the previous fiscal year. The ratio of selling, general and administrative expenses to sales declined 0.1 points compared to the previous fiscal year, to 15.7%.

(iii) Operating profit

Operating profit in the fiscal year under review was 17,540 million yen, a decrease of 542 million yen (down 3.0%) from the previous fiscal year. The ratio of operating profit to sales decreased 0.3 points compared to the previous fiscal year, to 2.2%.

(iv) Ordinary profit

Ordinary profit in the fiscal year under review was 17,089 million yen, a decrease of 2,410 million yen (down 12.4%) from the previous fiscal year. The ratio of ordinary profit to sales fell 0.6 points compared to the previous year, to 2.1%.

Main non-operating income included interest income (1,599 million yen) and subsidy income (397 million yen), and non-operating expenses included interest expenses (788 million yen) and foreign exchange losses (977 million yen).

(v) Profit attributable to owners of parent

Profit before income taxes in the fiscal year under review was 20,352 million yen, a decrease of 400 million yen (down 1.9%) from the previous fiscal year. This reflected a 3,627 million yen gain from sales of investment securities.

Total income taxes in the fiscal year under review were 6,477 million yen, a decrease of 549 million yen (down 7.8%) from the previous fiscal year.

As a result, profit attributable to owners of parent in the fiscal year under review was 12,249 million yen, an increase of 1,182 million yen (up 10.7%) from the previous fiscal year.

4) Analysis of cash flows

For an analysis of cash flows, see the “(2) Cash Flows” section in “3. Analyses of Financial Position, Business Results, and Cash Flows; II. Business Overview; Part I Information on the Company.”



[Capital resources and liquidity of funds]

The H.I.S. Group mainly needs funding for working capital, capital expenditures, and M&A. It uses cash flows from operating activities, loans from financial institutions, corporate bonds, and convertible bond-type bonds with share acquisition rights to procure funds.

#### 4. Material Business Agreements, etc.

The Company received approval to become a certified International Air Transport Association (IATA) passenger sales agent on December 31, 1990 (effective until cancellation of approval), and has entered into a passenger sales agency agreement.

(Note) About the International Air Transport Association (IATA)

Founded in 1945, this private institution is an affiliation mainly of airlines engaged in international flights. Headquarters are in Montreal, Canada, and Geneva, Switzerland. Determination of various measures associated with IATA certified agents and settlement of accounts is done in Geneva.

The authority of IATA comprises determination of fares, conditions on transport, agency measures, and other flight-related rules as well as fare settlements.

An approval as a certified IATA sales agent allows travel agents to issue international flight tickets in-house.

#### 5. Research and Development Activities

There are no applicable matters to report.

### III. Equipment and Facilities

#### 1. Capital Expenditures

In the Travel business, the H.I.S. Group works to expand its sales network while saving labor and streamlining operations, and makes investments to improve profitability. In addition, the Group is also focusing on investments in the Huis Ten Bosch Group, the Hotel Business, and the Kyushu Sanko Group, which are expected to grow over the long term.

The breakdown of capital expenditures during the consolidated fiscal year ended October 31, 2019 (based on the amounts recorded as property, plant and equipment, guarantee deposits, and hardware/software; figures do not include consumption tax, etc.) is as follows.

Segment name	Capital expenditure amount (millions of yen)
Travel Business	3,954
Huis Ten Bosch Group	2,680
Hotel Business	26,278
Kyushu Sanko Group	47,794
Energy Business	1,625
Reportable segment total	82,333
Other	2,137
Corporate-wide (shared)	6,854
Total	91,324

Amounts and purposes of major investments included in the above are as follows.

Travel Business:	The Company mainly invested in branch and office facilities (1,831 million yen), developed and improved travel reservation systems, etc. (1,482 million yen), and acquired tour buses and other vehicle equipment (639 million yen).
Huis Ten Bosch Group:	Huis Ten Bosch Co., Ltd. invested a total of 2,305 million yen, with the bulk directed toward theme park facilities such as Palace Huis Ten Bosch (532 million yen).
Hotel Business:	The Company mainly invested in the construction of Henn-na Hotels (24,182 million yen).
Kyushu Sanko Group:	The Kyushu Sanko Group mainly invested in the Sakuramachi Redevelopment Project (45,482 million yen, including ancillary expenses).
Energy Business:	The Company mainly invested in the construction of a power plant at H.I.S. SUPER POWER Co., Ltd. (1,587 million yen).
Other:	The Company mainly purchased two real estate properties (1,925 million yen).
Corporate-wide (shared):	The Company mainly invested in the relocation of its head office scheduled for 2020 (6,854 million yen).

## 2. Principal Facilities

The Group's principal facilities are as follows.

### (1) The Filing Company

Facility name (Location)	Segment	Facility type	Book value (millions of yen)							Number of employees (persons)	Number of temporary employees (persons)
			Buildings	Tools, furniture and fixtures	Land (thousand m <sup>2</sup> )	Leased assets	Construction in progress	Guarantee deposits	Other		
Headquarters/ Offices (Shinjuku-ku, Tokyo)	Travel Business	Branch facilities; reservation systems	1,764	287	— (—)	25	4	2,927	2,284	7,294	5,546 (784)
Headquarters (Shinjuku-ku, Tokyo)	Other	Real estate	3,133	1	7,923 (9)	—	50	—	—	11,109	— (—)
Headquarters (Shinjuku-ku, Tokyo)	Corporate- wide (shared)	Office facilities; software	82	146	— (—)	—	6,848	—	—	7,077	92 (7)

(Notes)

1. Of the book value, "Other" comprises vehicles and software, etc. The amounts do not include consumption tax, etc.
2. "Numbers of temporary employees" stated in parentheses refer to the annual average number of temporary workers, which is not included in the number of employees.
3. Of leased facilities, the leasing fees incurred during the fiscal year under review was 3,691 million yen.

### (2) Domestic subsidiaries

Company name Facility name (Location)	Segment	Facility type	Book value (millions of yen)							Number of employees (persons)	Number of temporary employees (persons)
			Buildings	Tools, furniture and fixtures	Land (thousand m <sup>2</sup> )	Leased assets	Construction in progress	Guarantee deposits	Other		
Huis Ten Bosch Co., Ltd. (Sasebo, Nagasaki Prefecture)	Huis Ten Bosch Group	Theme park facilities	4,993	3,959	402 (1,181)	1	506	7	5,016	14,888	540 (858)
H.I.S. Hotel Holdings Co., Ltd. (Shinjuku-ku, Tokyo, etc.)	Hotel Business	Hotel facilities	12,707	616	13,900 (3)	—	8,287	852	128	36,492	118 (26)
Kyushu Sanko Bus Co., Ltd. (Nishi- ku, Kumamoto, Kumamoto Prefecture)	Kyushu Sanko Group	Business facilities, etc.	879	120	7,379 (123)	2,153	42	7	76	10,659	539 (51)
Kyushu Sanko Landmark Co., Ltd., etc. (Chuo- ku, Kumamoto, Kumamoto Prefecture)	Kyushu Sanko Group	Business facilities	13,828	568	13,431 (17)	—	1,573	—	3	29,405	14 (—)
H.I.S. SUPER POWER Co., Ltd. (Shinjuku-ku, Tokyo)	Energy Business	Power plant facilities	2	—	— (—)	—	5,883	—	—	5,886	3 (—)

(Notes)

1. Of the book value, "Other" comprises vehicles, vessels, machinery, equipment, structures, and software, etc. The amounts do not include consumption tax, etc.
2. "Numbers of temporary employees" stated in parentheses refer to the annual average number of temporary workers, which is not included in the number of employees.
3. Of facilities leased by domestic subsidiaries, leasing fees incurred during the fiscal year under review was 2,148 million yen.

4. Facility names of domestic subsidiaries are consistent with company names.

5. The “Kyushu Sanko Landmark Co., Ltd., etc.” row states the combined book value and employee numbers of Kyushu Sanko Landmark Co., Ltd., and the Kumamoto Sakuramachi Development Co., Ltd.; the two entities operate the Kumamoto Sakuramachi Development Project.

(3) Overseas subsidiaries

There are no applicable matters to report.

3. Plans for Additions and Disposals of Facilities

Plans for addition of a major facility as of the end of the fiscal year ended October 31, 2019 are listed below. Amounts do not include consumption tax, etc.

Company name Facility name	Segment name	Facility details	Planned investment amount		Scheduled commencement/completion		Increased capacity after completion
			Total amount (millions of yen)	Amount already paid (millions of yen)	Commencement	Completion	
H.I.S. Co., Ltd.	Corporate-wide (shared)	Land, building, facilities of new head office	41,110	6,843	May 2019	August 2020	—
H.I.S. Hotel Holdings Co., Ltd.	Hotel Business	Hotel facilities	20,861	8,287	January 2018	October 2022	1,345 guest rooms

## IV. Information on the Company

### 1. Information on the Company's Shares

#### (1) Total number of shares, etc.

##### 1) Total number of shares

Class	Total number of shares authorized to be issued
Common stock	88,551,450
Total	88,551,450

##### 2) Number of shares issued

Class	Number of shares issued as of end of fiscal year (October 31, 2019)	Number of shares issued as of filing date (January 30, 2020)	Stock exchange on which the Company is listed	Description
Common stock	68,522,936	68,522,936	First Section of the Tokyo Stock Exchange	Standard Company shares with no restricted rights; 100 shares constitute one unit.
Total	68,522,936	68,522,936	—	—

#### (2) Information on share acquisition rights, etc.

##### 1) Details of stock option program

The exercise period for the first series of share acquisition rights issued by a resolution of the Board of Directors on April 22, 2016, and for the second series of share acquisition rights issued by a resolution of the General Meeting of Shareholders on January 26, 2017, ended on July 31, 2019.

##### 2) Details of rights plans

There are no applicable matters to report.

3) Status of other share acquisition rights, etc.

Euro-Yen Denominated Convertible Bond-Type Bonds with Share Acquisition Rights due 2024

Resolution date	October 31, 2017
Number of share acquisition rights (*)	2,500 units
Of which, number of share acquisition rights held by the Company (*)	—
Class, content, and number of shares subject to share acquisition rights (*)	Common shares, 4,452,756 [4,461,099] (Notes 1, 8)
Amount payable on the exercise of share acquisition rights (*)	5,614.5 [5,604] yen (Notes 2, 8)
Exercise period of share acquisition rights (*)	From November 30, 2017 to November 1, 2024 (local time for reception of exercise request) (Note 3)
Share issue price and additional paid-in capital per share in the event of issuance of shares upon exercise of share acquisition rights (*)	Issue price: 5,614.5 [5,604] yen Additional paid-in capital per share: 2,808 [2,802] yen (Notes 4, 8)
Conditions for exercise of share acquisition rights (*)	(Note 5)
Matters regarding transfer of share acquisition rights (*)	Subject share acquisition rights are attached to convertible bond-type bonds with share acquisition rights and cannot be transferred separately.
Matters regarding grant of share acquisition rights accompanying corporate reorganization (*)	(Note 6)
Description and value of assets contributed upon the exercise of the share acquisition rights (*)	(Note 7)
Balance of bonds with share acquisition rights (*)	25,000 million yen

(\*) The information above is as of the end of the fiscal year under review (October 31, 2019). For items for which the information had changed by the end of the month preceding the filing date (December 31, 2019), the information as of the end of the month preceding the filing date is presented in square brackets ([ ]). For other items, there is no change from the end of the fiscal year under review.

(Notes)

- The number of shares of the Company's common stock to be delivered upon the exercise of the share acquisition rights shall be the total of the par value of the bonds pertaining to the exercise request divided by the conversion price as described in (Note 2) below. However, fractions of less than one share resulting from the exercise shall be rounded down and no adjustment by cash shall be made.
- (1) Initially, the conversion price will be 5,616 yen.  
(2) Regarding the conversion price, following the issuance of bonds with share acquisition rights, in the event the Company issues or disposes of shares of its common stock at a payment amount below the market price of the Company's common stock, the conversion price will be adjusted according to the formula below. In the formula below, "number of shares already issued" means the total number of outstanding common shares of the Company (excluding those owned by the Company).

$$\text{Post-adjustment conversion price} = \text{Pre-adjustment conversion price} \times \frac{\text{Number of shares already issued} + \frac{\text{Number of shares Issued or disposed of} \times \text{Amount payable per share}}{\text{Market price}}}{\text{Number of shares already issued} + \text{Number of shares issued or disposed of}}$$

In addition, in the event the Company implements a stock split or stock consolidation of its common stock, issues share acquisition rights (including those attached to bonds with share acquisition rights) for which issuance of Company's common stock can be requested at a payment amount below the market price of the Company's common stock, or pays dividends exceeding a certain limit, or upon occurrence of certain other events, the conversion price will be adjusted as appropriate.

3. The period during which share acquisition rights can be exercised shall be November 30, 2017 through November 1, 2024 (local time for reception of exercise request).

However, rights can be exercised (i) up to three business days before the redemption date in Tokyo in the event of early redemption due to a clean-up clause prescribed in the terms of subject bonds, changes in tax regulations, reorganization, delisting of shares, squeeze outs, etc. (this does not apply to share acquisition rights attached to bonds not selected for early redemption in the case of early redemption on changes in tax regulations as prescribed in the terms of subject bonds); (ii) until subject bonds are cancelled, in the event these bonds are purchased and cancelled; (iii) until the loss of the benefit of time, in the event subject bonds lose the benefit of time.

In all of the aforementioned situations, the exercise of subject share acquisition rights will not be possible after November 1, 2024 (local time for reception of exercise request).

Notwithstanding the above, in the event the Company reasonably determines it necessary not to permit the exercise of share acquisition rights in light of conducting a corporate reorganization, the exercise of subject share acquisition rights shall not be permitted during a period designated by the Company, the term of which shall be 30 days or less, and shall end within 14 days from the day following the effective date of the reorganization.

In addition, with regard to the period beginning two business days in Tokyo (or, in the event said date is not a business day in Tokyo, then three business days) preceding the record date determined by the Company, or preceding the date designated for confirmation of shareholders as per Article 151, paragraph (1) of the Act on Book-Entry Transfer of Company Bonds, Shares, etc. (hereinafter, "shareholder confirmation date") and ending on the said shareholder confirmation date (or, in the event the said shareholder confirmation date is not a business day in Tokyo, the next business day in Tokyo), in the event the date on which the exercise of subject share acquisition rights takes effect (or, in the event said date is not a business day in Tokyo, the next business day in Tokyo) falls within such period, the exercise of subject share acquisition rights will not be possible. However, in the event laws or practices related to the issuance of shares pertaining to the exercise of share acquisition rights through transfer systems based on the Act on Book-Entry Transfer of Company Bonds, Shares, etc., are amended, the limitation on the period during which the subject share acquisition rights can be exercised pursuant to this paragraph may be revised by the Company to reflect such changes.

4. The increase in capital stock arising from the issuance of shares upon exercise of subject share acquisition rights shall equal one half of the maximum amount by which capital stock can be increased as calculated in accordance with Article 17 of the Ordinance on Company Accounting; any fraction less than one yen arising therefrom shall be rounded up to the nearest one yen.

5. (1) Partial exercise of each share acquisition right is not possible.

(2) Until August 15, 2024 (inclusive), if the closing prices of the Company's common shares over the 20 consecutive Trading Days ending on the last Trading Day (defined below) of any particular quarter (referring to the three-month periods that make up a calendar year; same herebelow within this (2)) are each more than 130% of the conversion price in effect on the last Trading Day of such quarter, the holders of subject bonds may exercise the share acquisition rights on or after the first day of the immediately following quarter until the end of such quarter (or, in the case of the quarter starting from July 1, 2024, until August 15, 2024); provided, however, that the condition for the exercise of share acquisition rights specified in this (2) shall not apply to the periods set forth in 1), 2), and 3) below.

1) (i) periods during which the Company is assigned an issuer rating of BB+ or lower by the Japan Credit Rating Agency or its successors (hereinafter, "JCR"), (ii) periods during which the Company is no longer assigned an issuer rating by JCR, or (iii) periods during which the Company's issuer rating by JCR has been suspended or withdrawn.

2) Period starting from the date on which the company announces an early redemption due to a clean-up clause prescribed in the terms of subject bonds, changes in tax regulations, reorganization, delisting of shares, squeeze outs, etc. (this does not apply to share acquisition rights attached to bonds not selected for early redemption in the case of early redemption on changes in tax regulations as prescribed in the terms of subject bonds).

3) In the case of a reorganization, unless the exercise of the share acquisition rights is suspended by the Company as outlined in (Note 3) above, the period from the date on which the Company announces the reorganization to the holders of the subject bonds prescribed in the terms of subject bonds to the effective date of the reorganization. "Trading Day" means a day on which the Tokyo Stock Exchange, Inc. is open for business, but does not include days on which no closing price for shares is reported.

6. (1) In the event of corporate reorganization, the Company shall make the best effort to have the Succeeding Company (defined below) assume the position of the principal debtor of subject bonds based on the terms of the subject bonds, and issue new share acquisition rights in lieu of these share acquisition rights. However, succession and issuance will be executed based on the assumption that (i) it can be conducted based on applicable laws at the time of execution, (ii) a mechanism for execution has already been created or can be created, and (iii) the Company or Succeeding Company will not bear unreasonable

(determined by the Company) costs (including taxes) from the perspective of overall reorganization. In such a case, the Company shall make the best effort to ensure that the Succeeding Company is a listed company in Japan at the effective date of the reorganization. The Company's effort obligations as described in (1) is not applicable when the Company delivers to its financial agent a certificate prescribed in the clause pertaining to early redemption resulting from reorganization.

“Succeeding Company” refers to the other party in corporate reorganization, which undertakes the obligations of the Company concerning subject bonds and/or subject share acquisition rights.

- (2) The details of the share acquisition rights of the Succeeding Company that are to be issued pursuant to the above provisions in (Note 6 (1)) are as follows.
- 1) Number of share acquisition rights  
A number equal to the number of share acquisition rights attached to subject bonds that are outstanding as of the timing immediately before the effective date of reorganization.
  - 2) Class of shares subject to share acquisition rights  
Common stock of the Succeeding Company
  - 3) Number of shares subject to share acquisition rights  
The number of shares of the Succeeding Company's common stock delivered upon exercise of such company's share acquisition rights shall be determined by the Succeeding Company, taking into consideration the conditions of the reorganization. In addition to making decisions by referring to the terms of subject bonds, (i) or (ii) below shall be followed. The conversion price shall be subject to the same adjustment as in (Note 2 (2)) above.
    - (i) In the case of a merger, share exchange, or share transfer, the conversion price shall be determined so that the holder of the Company's common shares, the number of which amounting to the number of shares obtainable when subject share acquisition rights are exercised immediately before the effective date of reorganization, shall be able to receive the number of Succeeding Company's common shares the holder is eligible to receive from such reorganization by exercising the share acquisition rights immediately following the effective date of reorganization. If securities or other assets other than the common stock of the Succeeding Company are deliverable at the time of reorganization, the same number of shares of common stock of the Succeeding Company may be received as calculated by dividing the fair value of such securities or assets by the market price of the common stock of the Succeeding Company.
    - (ii) In the event of reorganization other than the above, the conversion price shall be determined so that the economic benefit received by exercising the Succeeding Company's share acquisition rights immediately after the effective date of reorganization will be equivalent to the economic benefit the holder of subject bonds would have received, had such holder exercised the subject share acquisition rights immediately prior to the effective date of such reorganization.
  - 4) Assets to be contributed upon exercise of share acquisition rights and their value  
Upon the exercise of the share acquisition rights of the Succeeding Company, the succeeded bonds shall be contributed; the value thereof shall be the same as the face value of the succeeded bonds.
  - 5) Exercise period of share acquisition rights of the Succeeding Company  
The exercise period of share acquisition rights of the Succeeding Company shall be from the effective date of the reorganization (or a specified date within 14 days after the effective date) until the expiration date of the exercise period of subject share acquisition rights as outlined in (Note 3) above.
  - 6) Other conditions for exercising share acquisition rights  
Partial exercise of each share acquisition right of the Succeeding Company is not possible. The exercise of share acquisition rights of the Succeeding Company is subject to the same limitations described in (Note 5 (2)) above.
  - 7) Increase in capital stock and capital reserve in the case of issuing shares upon exercise of share acquisition rights  
The increase in capital stock arising from the issuance of shares upon exercise of share acquisition rights of the Succeeding Company shall equal one half of the maximum amount by which capital stock can be increased as calculated in accordance with Article 17 of the Ordinance on Company Accounting; any fraction less than one yen arising therefrom shall be rounded up to the nearest one yen. The increase in capital reserve shall be obtained by subtracting the amount of increase in capital stock from such maximum amount by which capital stock can be increased.
  - 8) In the event of corporate reorganization  
Even in the event the Succeeding Company undergoes reorganization, the same procedures as with the subject bonds shall apply.
  - 9) Other  
Any fractions less than one share resulting from the exercise of the share acquisition rights of the Succeeding Company shall be rounded down and no adjustment in cash shall be made. Share acquisition rights of the Succeeding Company cannot be transferred separately from the succeeded bonds.



(3) In the event the Company has the Succeeding Company undertake or succeed the Company's obligations associated with subject bonds in accordance with the provisions of (Note 6 (1)) above, the Company shall abide by the terms of subject bonds and also bear a guarantee in certain cases specified in such terms.

7. Upon the exercise of each share acquisition right, the bonds attached to the subject share acquisition rights shall be contributed, and the price of the bond shall be the same as the par value thereof.
8. At the 39th General Meeting of Shareholders held on January 29, 2020, a surplus dividend plan was approved for a year-end dividend of 33 yen per share. Along with the decision to provide an annual dividend of 33 yen per share for the fiscal year ended October 31, 2019, and in accordance with conversion price adjustment provisions of bond terms of the Euro-yen Denominated Convertible Bond Type-Bonds with Share Acquisition Rights due 2024, the Company adjusted the conversion price from 5,614.5 yen to 5,604 yen dating back to November 1, 2019. Each numerical value as of the end of the month preceding the date of filing shows the numerical value reflecting the effect of such conversion price adjustments.

On August 30, 2019, the Company redeemed at maturity the total issuance amount of 20 billion yen for its Euro-Yen Denominated Convertible Bond-Type Bonds with Share Acquisition Rights due 2019 issued by a resolution of the Board of Directors on July 30, 2014.

(3) Information on moving strike convertible bonds, etc.

There are no applicable matters to report.

(4) Changes in the total number of issued shares, capital stock, etc.

Date	Increase/ decrease in total number of issued shares (shares)	Balance of issued shares (shares)	Increase/decrease in capital stock (millions of yen)	Balance of capital stock (millions of yen)	Increase/ decrease in capital reserve (millions of yen)	Balance of capital reserve (millions of yen)
February 1, 2015	—	68,522,936	4,117	11,000	(4,117)	3,661

(Note) In accordance with the provisions of Article 448, Paragraph 1 of the Companies Act, capital reserve has been reduced and incorporated into capital stock.

(5) Composition of issued shares by type of shareholders

As of October 31, 2019

Category	Status of shares (one unit of stock: 100 shares)								Number of shares less than one unit (shares)
	Government and municipality	Financial institutions	Financial instruments business operators	Other corporations	Foreign corporations, etc.		Individuals and others	Total	
					Non- individuals	Individuals			
Number of shareholders	—	37	45	141	254	60	18,784	19,321	—
Share ownership (units)	—	122,402	6,735	40,432	119,812	204	395,191	684,776	45,336
Ownership percentage of shares (%)	—	17.87	0.98	5.90	17.50	0.03	57.72	100.00	—

(Notes)

- Of the 10,943,498 treasury shares, 109,434 units are included in the "Individuals and others" column, while 98 shares are included in the "Number of shares less than one unit" column.
- Of the shares registered in the name of Japan Securities Depository Center, Incorporated, 18 units are included in the "Other corporations" column and 40 shares are included in the "Number of shares less than one unit" column.

## (6) Major shareholders

As of October 31, 2019

Name	Address	Share Ownership (thousands of shares)	Ownership percentage to the total number of issued shares (excluding treasury shares) (%)
Hideo Sawada	Shibuya-ku, Tokyo	17,940	31.16
Japan Trustee Services Bank, Ltd.	1-8-11 Harumi, Chuo-ku, Tokyo	5,769	10.02
Hide Inter Ltd.	1-7-26 Shoto, Shibuya-ku, Tokyo	3,458	6.01
The Master Trust Bank of Japan, Ltd.	2-11-3 Hamamatsucho, Minato-ku, Tokyo	2,642	4.59
The Bank of New York Mellon (Standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Department)	240 GREENWICH STREET, NEW YORK, NY 10286, U.S.A. (2-15-1 Konan, Minato-ku, Tokyo)	1,743	3.03
National Mutual Insurance Federation of Agricultural Cooperatives	2-7-9, Hirakawacho, Chiyoda-ku, Tokyo	1,740	3.02
Trust & Custody Services Bank, Ltd.	1-8-12, Harumi, Chuo-ku, Tokyo	1,417	2.46
Kazumasa Namekata	Ageo, Saitama Prefecture	1,002	1.74
CB New York Orbis SICAV (Standing proxy: Citibank, N.A., Tokyo Branch)	31, Z.A. BOURMICH, L-8070 BERTRANGE, LUXEMBOURG (6-27-30, Shinjuku, Shinjuku-ku, Tokyo)	993	1.73
Mayumi Sawada	Shibuya-ku, Tokyo	900	1.56
Total	—	37,609	65.32

(Note)

Of the shares owned by the above trust banks, the numbers of shares pertaining to trust services are as follows.

Japan Trustee Services Bank, Ltd.	5,769,000 shares
The Master Trust Bank of Japan, Ltd.	2,642,000 shares
Trust & Custody Services Bank, Ltd.	1,417,000 shares

## (7) Information on voting rights

## 1) Issued shares

As of October 31, 2019

Classification	Number of shares (shares)	Number of voting rights	Description
Shares without voting rights	—	—	—
Shares with restricted voting rights (treasury shares, etc.)	—	—	—
Shares with restricted voting rights (others)	—	—	—
Shares with full voting rights (treasury shares, etc.)	Common stock: 10,943,400	—	—
Shares with full voting rights (others)	Common stock: 57,534,200	575,342	—
Shares less than one unit	Common stock: 45,336	—	—
Total number of issued shares	68,522,936	—	—
Total number of voting rights held by all shareholders	—	575,342	—

(Note) “Shares with full voting right (others)” and “Shares less than one unit” above include 1,800 shares and 40 shares, respectively, held under the name of Japan Securities Depository Center, Inc. (JASDEC). “Number of voting rights” above includes 18 voting rights from shares with full voting rights held under the name of this same institution.

2) Treasury shares

As of October 31, 2019

Shareholder	Shareholder address	Number of shares held under own name	Number of shares held under another name	Total number of shares held	Ownership percentage to the total number of issued shares (%)
H.I.S. Co., Ltd.	6-8-1 Nishishinjuku, Shinjuku-ku, Tokyo	10,943,400	—	10,943,400	15.97
Total	—	10,943,400	—	10,943,400	15.97

(Note) In addition to the above, the H.I.S. Employee Stock Ownership Association Dedicated Trust holds 188,600 shares of Company stock as trust assets under the trust-type employee stock ownership incentive plan (E-Ship®); these shares are recorded in the consolidated and non-consolidated financial statements as treasury shares.

(8) Details of stock ownership plan for officers and employees

With the aim of providing Company employees with an incentive for enhancing corporate value over the medium to long term, the Company has introduced a trust-type employee stock ownership incentive plan (E-Ship®), hereinafter referred to as the “Plan.”

1) Summary of the Plan

The Plan is an incentive plan for all employees joining the H.I.S. Employee Stock Ownership Association (hereinafter, the “Association”). Under the Plan, the Company establishes at a trust bank a dedicated trust for the H.I.S. Employee Stock Ownership Association (hereinafter, the “Trust”); over a period of five years after its establishment, the Trust acquires in advance the number of shares in Company stock that the Association is expected to acquire. Thereafter, the Trust sells the Company stock to the Association on an ongoing basis. If an amount equivalent to gains from the sale of stock remains in the Trust at the time it is terminated, such amount will be distributed to qualified beneficiaries as residual assets. Further, since the Company guarantees the bank loan obtained by the Trust to purchase Company stock, if the Trust accumulates losses from the sale of Company stock as a result of declining stock prices and an amount equivalent to such losses remains in the Trust as outstanding loans at the time the Trust is terminated, the Company will repay any remaining liabilities based on the terms of the loan guarantee agreement.

2) Total number of shares expected to be acquired by the Association  
500,700 shares

3) Scope of individuals entitled to beneficiary rights, etc. under the subject employee stock ownership plan  
Association members who satisfy the beneficiary eligibility requirements.

2. Information on Acquisition of Treasury Shares, etc.

[Class of shares] Acquisition of common stock under Article 155, Item 7 of the Companies Act

(1) Acquisition by resolution at General Meeting of Shareholders

There are no applicable matters to report.

(2) Acquisition by resolution of the Board of Directors

There are no applicable matters to report.

(3) Acquisition not based on resolutions at General Meeting of Shareholders or of the Board of Directors

Classification	Number of shares (shares)	Total amount (millions of yen)
Treasury shares acquired during the current fiscal year	90	0
Treasury shares acquired during the current period	—	—

(Note) Fractional shares less than one trading unit purchased between January 1, 2020 and the filing date of this Annual Securities Report are not included in the number of treasury shares acquired during the current period.

## (4) Status of the disposition and holding of acquired treasury shares

Classification	Fiscal year ended October 31, 2019		Current period	
	Number of shares (shares)	Total amount disposed (millions of yen)	Number of shares (shares)	Total amount disposed (millions of yen)
Acquired treasury shares for which subscribers were solicited	—	—	—	—
Acquired treasury shares that was disposed of	—	—	—	—
Acquired treasury shares transferred due to merger, share exchange, or demerger	—	—	—	—
Others (disposal of treasury shares as restricted stock remuneration)	6,032	15	—	—
Total number of treasury shares held	10,943,498	—	10,943,498	—

## (Notes)

- Fractional shares less than one trading unit purchased between January 1, 2020 and the filing date of the Annual Securities Report are not included in the number of treasury shares held.
- Company shares held by the H.I.S. Employee Stock Ownership Association Dedicated Trust in accordance with the introduction of a trust-type employee stock ownership incentive plan (E-Ship®) are not included in the number of treasury shares to be disposed of and the number of treasury shares held during the fiscal year under review and the current period.

## 3. Dividend Policy

The Group recognizes the return of profits to shareholders as one of its important management policies. While seeking to improve its corporate value, the Group intends to carry out stable and continuous distribution of profits in accordance with actual results, taking global conditions, travel industry trends, the strengthening of its corporate structure, and future business developments into consideration. The Group has an interim dividend system, but since the ratio of its sales and earnings tends to be comparatively larger in the second half of each fiscal year, it provides only a year-end dividend at present to ensure fair dividends with respect to financial performance.

Further, the Group strongly believes it is essential to establish a financial base that allows timely action and paves the way for the next phase of growth. It intends to accelerate its expansion and stabilize its management base by substantially increasing the amount of its internal reserves.

Based on the above dividend policy, the Company plans to pay a regular year-end dividend of 33 yen per share for the fiscal year ended October 31, 2019.

The Company prescribes in its Articles of Incorporation that “except as otherwise provided by laws and regulations, matters concerning surplus dividends listed under each item of Article 459, Paragraph 1 of the Companies Act, can be determined by a resolution of the Board of Directors.” However, this does not mean that the option of resolution at a General Meeting of Shareholders is eliminated.

Payment of dividends for the fiscal year ended October 31, 2019 is as follows.

Authorizing resolution	Total dividends (millions of yen)	Dividend per share (yen)
Resolution at the General Meeting of Shareholders on January 29, 2020	1,900	33.00

#### 4. Corporate Governance, etc.

##### (1) Overview of corporate governance

###### Basic policy on corporate governance

Fully embracing its founding intention, the H.I.S. Group corporate philosophy, and the H.I.S. corporate philosophy, the Company seeks to achieve sustainable growth and enhance its corporate value over the medium to long term by providing products and services that are useful to the society. To realize this objective, the Company intends to make fair, transparent, quick, and decisive decisions with a sound awareness of the positions of its shareholders, customers, employees, business partners and local communities; fulfill accountability; and become a company appreciated and trusted by society.

The Company understands corporate governance to be a “mechanism for fair, transparent, quick, and decisive decision-making in recognition of the position of the company’s shareholders, customers, employees, business partners and local communities” as defined in the Corporate Governance code formulated by the Tokyo Stock Exchange (hereinafter, “TSE CG code”).

The 78 principles of the TSE CG code are replete with major principles contributing to the realization of “proactive governance” as a best practice employing a principles-based approach. H.I.S. will work to fully understand the purpose and essence of each of these principles, and comply with them to the best of its ability, while taking into consideration the industry and scale of its businesses, the business environment and characteristics, and its own institutional design and conditions.

##### 1) Overview of corporate governance structure

The Company has adopted a corporate governance structure with an Audit & Supervisory Committee, and has set up an HR & Nomination Committee, a Remuneration Committee, an Investment Committee, and a Finance & Management Committee as advisory committees to its Board of Directors.

The Board of Directors comprises 11 directors, including two External Directors, and is chaired by Representative Director, Chairman and President Hideo Sawada. Other members include Tatsuya Nakamori (Director), Masayuki Oda (Director), Shigeru Nakatani (Director), Atsushi Yamanobe (Director), Mutsumi Gomi (Director), Motoshi Yada (Director), Hidetaka Sawada (Director), Tsunekazu Umeda (Director and Audit & Supervisory Committee Member [External Director]), Yasuo Katsura (Director and Audit & Supervisory Committee Member [External Director]), and Sonoko Sekita (Director and Audit & Supervisory Committee Member). The Board of Directors makes decisions regarding matters provided by laws and regulations, basic operating policies, and important matters related to management, and oversees the execution of duties by its Directors and Corporate Officers. As a rule, it meets once a month.

The HR & Nomination Committee comprises five members, including two External Directors, and is chaired by Representative Director, Chairman and President Hideo Sawada. Other members include Tatsuya Nakamori (Director), Masayuki Oda (Director), Tsunekazu Umeda (Director and Audit & Supervisory Committee Member [External Director]), and Yasuo Katsura (Director and Audit & Supervisory Committee Member [External Director]). The committee appoints and dismisses Directors and Corporate Officers, and meets whenever the need arises.

The Remuneration Committee comprises five directors, including one External Director, and is chaired by Representative Director, Chairman and President Hideo Sawada. Other members include Tatsuya Nakamori (Director), Masayuki Oda (Director), Shigeru Nakatani (Director), and Tsunekazu Umeda (Director and Audit & Supervisory Committee Member [External Director]). The committee makes decisions regarding individual remuneration for Directors, Corporate Officers, and Presidents of affiliated companies.

The Investment Committee comprises five directors, including one External Director, and is chaired by Representative Director, Chairman and President Hideo Sawada. Other members include Tatsuya Nakamori (Director), Masayuki Oda (Director), Shigeru Nakatani (Director), and Tsunekazu Umeda (Director and Audit & Supervisory Committee Member [External Director]). The committee assists the Board of Directors with decisions regarding investment projects.

The Finance & Management Committee comprises five directors, including one External Director, and is chaired by Representative Director, Chairman and President Hideo Sawada. Other members include Tatsuya Nakamori (Director), Masayuki Oda (Director), Shigeru Nakatani (Director), and Tsunekazu Umeda (Director and Audit & Supervisory Committee Member [External Director]). The committee assists the Board of Directors with decisions regarding procurement and management of material funds.

##### 2) Reason for adoption of corporate governance structure

In consideration of the scale and nature of the Company and H.I.S. Group’s businesses, the Company had in place a governance structure of a company with Corporate Auditors and Board of Corporate Auditors until the 35th consolidated fiscal year (ended October 31, 2015). The intent was to engage in fair, transparent, quick, and decisive decision-making regarding business management, and facilitate full accountability to the shareholders and other stakeholders.

The Corporate Auditors and Board of Corporate Auditors, in addition to conducting legality audits, conducted validity audits to the extent permitted by laws and regulations, and offered advice and recommendations at the Board of Directors meetings with respect to the execution of operational and professional duties by Directors. Factoring in such conditions, the Company reviewed the details pertaining to the Audit & Supervisory Committee structure created by the Law for Partial Amendment to the Companies Act (Act No. 90 of 2014, effective May 1, 2015), and determined that the latter structure was compatible with the actual circumstances of the Company and would help strengthen its corporate governance further, as the Company and Group pursued sustainable growth and enhancement of corporate value over the medium to long term.

Thus, the transition to a company with an Audit & Supervisory Committee was proposed at the 35th General Meeting of Shareholders held on January 27, 2016, and implemented by a resolution approved by the shareholders.

### 3) Other matters related to corporate governance

#### (I) Internal control system and status (including systems for ensuring appropriateness of business operations within the corporate group consisting of the Company and the Group subsidiaries)

As a company with an Audit & Supervisory Committee based on Article 399, Paragraph 13, Section 2 of the Companies Act, the Company determines, as basic policies and via resolution of the Board of Directors, those items required for the Audit & Supervisory Committee to execute its duties. It also determines those items necessary for systemic improvements that ensure appropriateness of business operations within the corporate group consisting of the Company and the Group subsidiaries. Such items include:

- a) System for ensuring that Directors and employees conduct their duties in compliance with laws, regulations, and the Company's Articles of Incorporation
- b) Rules and system for managing risk of loss to the Company and the Group (subsidiaries and associates)
- c) System for ensuring that duties of Directors are being conducted efficiently
- d) System for ensuring preservation and management of information in relation to Directors' execution of duties
- e) System for ensuring appropriateness of business operations within the corporate group consisting of the Company and the Group companies
- f) System for ensuring reliability of financial reporting
- g) Items required for the Audit & Supervisory Committee to execute its duties (system for ensuring that audits by the Audit & Supervisory Committee are conducted effectively, etc.)

In the fiscal year under review, the Company has maintained and operated its internal control system in line with the above basic policies; related efforts are as follows:

- i) A pocket-sized credo card (compliance card) listing and explaining the H.I.S. Group corporate philosophy, the H.I.S. corporate philosophy, H.I.S. policies, and the H.I.S. Corporate Behavior Charter is distributed to all Company and Group company officers and employees for use as a source of reference during their daily work. In addition, the Company has formulated an H.I.S. Group Fair Trade Declaration to observe fair and transparent transactions with its business partners, and works to ensure sound transactions across the entire Group.
- ii) The "Refresh Hotline," an internal report window operated by outside experts: details of employee consultations are delivered anonymously to the Company with accompanying expert opinions based on consultation details. Acting as an intermediary between employees and the Company, this service functions as the Company's self-correcting system in terms of corporate ethics and compliance violations.
- iii) The Board of Directors makes important business execution decisions via Board resolution and in accordance with laws and regulations, the Articles of Incorporation, and internal regulations, and receives reports on the business execution status of each Director and the performance of major group Companies.
- iv) Important information such as resolutions by the Board of Directors is being appropriately retained, recorded, and managed by those departments with authority and responsibility in accordance with laws, regulations, and timely disclosure rules of the financial instruments exchange. In the event information is determined to be useful for shareholders and investors in making appropriate investment decisions, the Company makes an effort to provide appropriate disclosure.
- v) Systematic auditing by the Audit & Supervisory Committee utilizing the internal control system is being conducted effectively, with the Internal Audit Office (Internal Audit Division) fulfilling its expected role.

The Company is also reviewing various procedures based on actual work conditions.

#### (II) Risk management system and status

Matters that may negatively impact business results, financial condition, stock price, and other aspects of the Company and Group businesses are described in the "2. Business and Other Risks" section in "II. Business Overview, Part I Information

on the Company.”

The full-time Executive Directors working at the Head Office use opportunities, such as internal business meetings held several times a week, to identify risks that may occur, and strive to improve risk management based on the internal control framework.

(III) Summary of agreement (limited liability agreement) between the Company and its Directors (excluding Executive Directors, etc.) or its accounting auditor, stipulated in Article 427, Paragraph 1 of the Companies Act.

The Company has set forth in its Articles of Incorporation a stipulation based on the provision of Article 427, Paragraph 1 of the Companies Act and accordingly has concluded with the three non-Executive Directors (who are Directors serving as Audit & Supervisory Committee Members) and with the accounting auditors such agreements to limit their liability for damages as prescribed in Article 423, Paragraph 1 of the Companies Act. This limitation of liability is applied only in cases where the Director serving as Audit & Supervisory Committee member or the accounting auditor causing the damage performed his/her duties in good faith and without gross negligence; the limit of liability in such a case is the “minimum liability limit” amount stipulated in Article 425, Paragraph 1 of the Companies Act.

Furthermore, limited liability agreements the Company concluded with Corporate Auditors (including former Corporate Auditors) during the phase when it was a company with Board of Corporate Auditors (namely, the period prior to the conclusion of the 35th General Meeting of Shareholders held on January 27, 2016 regarding the fiscal year ended October 31, 2015) as defined in the Articles of Incorporation effective at that time, remain in effect at the present time with the same stipulations as the current limited liability agreement.

IV) Number of Directors

As stipulated in the Company’s Articles of Incorporation, the number of Directors shall not exceed 16 people, of which no more than four shall be Directors serving as Audit & Supervisory Committee Members.

V) Requirements for a Resolution to Appoint Directors

As a company with an Audit & Supervisory Committee, Directors who serve as Audit & Supervisory Committee Members and other Directors are elected separately at the General Meeting of Shareholders. According to the Company’s Articles of Incorporation, for both categories “a resolution of election shall be attended by shareholders holding shares representing one-third or more of total number of voting rights of shareholders who may exercise voting rights, and shall be adopted by a majority of the voting rights,” and in addition, “election shall not depend on cumulative voting.”

VI) Year-end Dividend and Interim Dividend

a) Year-end dividend

To enable the Company to maintain flexible capital and dividend policies, the Company’s Articles of Incorporation prescribe that “matters specified in the items of Article 459, Paragraph 1 of the Companies Act, including those related to the payment of dividends, may be decided by the Board of Directors unless otherwise stipulated by laws and regulations.” However, this provision does not exclude resolutions at the General Meeting of Shareholders.

b) Interim dividend

Based on Article 454, Paragraph 5 of the Companies Act, the Articles of Incorporation stipulate that “through a resolution by the Board of Directors, shareholders listed on the final shareholders registry and registered pledgees as of April 30th each year are able to receive an interim dividend. The purpose of establishing this provision is to enable the return of profits to shareholders flexibly in accordance with profit levels.

VII) Acquisition of Treasury Shares

Based on Article 165, Paragraph 2 of the Companies Act, the Articles of Incorporation stipulate that “through a resolution by the Board of Directors, treasury shares can be acquired through a market transaction, etc.” The purpose of establishing this provision is to make it possible to flexibly carry out capital policies corresponding to changes in the business environment. The Board of Directors, in making a decision to acquire treasury shares, will comprehensively judge the status of business results including earnings trends, future performance forecasts, basic capital policies, etc., from the standpoint of continuous enhancement of corporate value and appropriate shareholder return.

VIII) Director and Accounting Auditors’ Partial Exemption from Liability for Damages

Regarding Directors (including those who were Directors) and accounting auditors’ (including those who were accounting auditors) liability for damages to the Company due to negligence, based on Article 426, Paragraph 1 of the Companies Act,

the Articles of Incorporation stipulate that “subject to the resolution of the Board of Directors, exemption from liability is possible to the limit the laws and regulations allow.” The purpose of this provision is to create an environment in which Directors and accounting auditors are able to make sufficient use of their capabilities and fulfill the role expected of them.

#### IX) Special Resolution at the General Meeting of Shareholders

In regard to the resolution requirement for special resolution at the General Meeting of Shareholders stipulated in Article 309, Paragraph 2 of the Companies Act, the Company stipulates in its Articles of Incorporation that “a special resolution of General Meeting of Shareholders shall be attended by shareholders holding shares representing one-third or more of the total number of voting rights of shareholders who may exercise voting rights, and shall be adopted by two-thirds or more of the voting rights.” The purpose of this provision is to relax the requirements for a quorum for special resolutions of General Meeting of Shareholders so that these meetings can be operated smoothly.

#### (2) Directors and other officers

##### 1) Status of Directors and other officers

Male: 10, Female: 1 (percentage of female directors 9.1%)

Title	Name	Date of birth	Career summary	Term of office	Share ownership (thousands)
Representative Director, Chairman and President, Chief Executive Officer, Group Chief Executive Officer (CEO)	Hideo Sawada	February 4, 1951	<p>Dec. 1980 Established Company and became Representative Director and President</p> <p>March 1999 Representative Director and President, Kyoritsu Shoken, Co., Ltd. (currently Sawada Holdings Co., Ltd.)</p> <p>March 2003 Director and Chairman, Agricultural Bank of Mongolia (currently Khan Bank) (current)</p> <p>Jun. 2004 Director and Chairman of the Company</p> <p>Dec. 2009 Representative Director and Chairman of the Company</p> <p>Mar. 2010 Representative Director and President of Huis Ten Bosch Co., Ltd.</p> <p>Sep. 2012 Chairman of Tokyo Symphony Orchestra (current)</p> <p>Nov. 2016 Representative Director, Chairman and President, Chief Executive Officer (CEO) of the Company</p> <p>Representative Director and Chairman of Sawada Holdings Co., Ltd. (current)</p> <p>Nov. 2017 Representative Director and Chairman of H.I.S. Hotel Holdings Co., Ltd.</p> <p>Jan. 2018 Representative Director, Chairman and President; Chief Executive Officer of the Company; Group Chief Executive Officer (CEO) (current)</p> <p>Jan. 2019 Representative Director and Chairman of H.I.S. Hotel Holdings Co., Ltd. (current)</p> <p>May 2019 Director and Chairman of Huis Ten Bosch Co., Ltd.</p>	(Note 3)	17,940
Director Senior Managing Executive Officer; President of H.I.S. Japan	Tatsuya Nakamori	August 4, 1967	<p>Nov. 1986 Joined the Company</p> <p>Jan. 2010 Director of the Company; In charge of West Japan Area Sales; General Manager of Kansai Area Sales Division</p> <p>Feb. 2014 Director of the Company; In charge of West Japan Area Sales</p> <p>Mar. 2014 Managing Director of the Company; In charge of Airline-related Purchasing/Arrangement, and Online Travel Business</p> <p>Apr. 2014 Managing Director of the Company; In charge of Airline-related Purchasing/Arrangement, and Online Travel Business; General Manager of HQ Procurement Division</p> <p>Nov. 2016 Managing Director of the Company; President of H.I.S. Japan</p> <p>Jan. 2018 Director and Senior Managing Executive Officer of the Company; President of H.I.S. Japan (current)</p>	(Note 3)	12



Title	Name	Date of birth		Career summary	Term of office	Share ownership (thousands)
Director, Managing Executive Officer; In charge of Corporate Planning Division, Global Business Strategy Division, Affiliate Management Division, HQ HR Division, CS & ES, General Affairs, and CSR	Masayuki Oda	January 1, 1966	Jun. 1996 Mar. 2014 Jan. 2016 Nov. 2016 Jan. 2018 Feb. 2018 Nov. 2018 May 2019	Joined the Company Corporate Officer of the Company; General Manager of Kansai Area Sales Division Director of the Company; In charge of Kansai, Chugoku, Shikoku, Kyushu Area Sales; In charge of Global Product Marketing; General Manager of Kansai Area Sales Division Director of the Company; Vice President of H.I.S. Japan Director and Managing Executive Officer of the Company; Vice President of H.I.S. Japan & General Manager of Domestic Travel Division Director of the Company; Managing Executive Officer; In charge of Corporate Planning Division, Global Business Strategy Division, Global System Development Division; General Manager of Affiliate Management Division Director of the Company; Managing Executive Officer; In charge of Corporate Planning Division, Global Business Strategy Division; General Manager of Affiliate Management Division Director of the Company; Managing Executive Officer; In charge of Corporate Planning Division, Global Business Strategy Division, Affiliate Management Division, HQ HR Division, CS & ES, General Affairs, and CSR (current)	(Note 3)	2
Director Senior Executive Officer; In charge of Finance & Accounting (Consolidated), Legal & Internal Control, Compliance; Head of Financing Judgement Department; Chief Financial Officer (CFO)	Shigeru Nakatani	October 19, 1948	Jul. 2010 Jan. 2012 Nov. 2016 Nov. 2017 Jan. 2018 Jan. 2019 Nov. 2019	Joined the Company Director of the Company; In charge of Accounting & Finance; General Manager of HQ Accounting Division Director of the Company; In charge of Finance & Accounting (Consolidated), Legal & Internal Control, Compliance; General Manager of HQ Accounting Division & Head of Financing Judgement Department; Chief Financial Officer (CFO) Director of the Company; In charge of Finance & Accounting (Consolidated), Legal & Internal Control, Compliance; Head of Financing Judgement Department; Chief Financial Officer (CFO) Director of the Company; Senior Executive Officer; In charge of Finance & Accounting (Consolidated), Legal & Internal Control, Compliance; Head of Financing Judgement Department; Chief Financial Officer (CFO) Director of the Company; In charge of Finance & Accounting (Consolidated), Legal & Internal Control, Compliance; Head of Financing Judgement Department (current) Director of the Company; Senior Executive Officer; In charge of Finance & Accounting (Consolidated), Legal & Internal Control, Compliance; Head of Financing Judgement Department; Chief Financial Officer (CFO) (current)	(Note 3)	8
Director Senior Executive Officer; Vice President & General Manager of Corporate Sales Division, H.I.S. Japan	Atsushi Yamanobe	March 18, 1970	Apr. 1993 Mar. 2014 Jan. 2016 Nov. 2016 Jan. 2018 Mar. 2018 Nov. 2019	Joined the Company Corporate Officer of the Company; Manager of Kanto Sales Division; Manager of Kanto Web Business Division; Manager of Kanto Corporate Sales and Group Travel Division Director of the Company; In charge of East Japan Area Sales; General Manager of Kanto Area - Overseas Travel Division Director of the Company; Vice President of H.I.S. Japan Director and Senior Executive Officer of the Company; Vice President and General Manager of Kansai Area Sales Division, H.I.S. Japan Director of the Company; Senior Executive Officer; Vice President & General Manager of Corporate Travel Sales Division, H.I.S. Japan Director of the Company; Senior Executive Officer; Vice President & General Manager of Corporate Sales Division, H.I.S. Japan (current)	(Note 3)	2

Title	Name	Date of birth	Career summary	Term of office	Share ownership (thousands)
Director Senior Executive Officer; Corporate Information Officer (CIO); In charge of Southeast Asia General Sales Division	Mutsumi Gomi	June 6, 1968	<p>Apr. 1992 Joined the Company</p> <p>May. 2010 Manager of East Japan FIT Department</p> <p>Sep. 2012 Seconded to PT. HARUM INDAH SARI TOURS &amp; TRAVEL, President and Director; Head of Jakarta Central Branch</p> <p>Jan. 2016 Corporate officer of the Company; Seconded to PT. HARUM INDAH SARI TOURS &amp; TRAVEL, President and Director; Head of the Jakarta Central Branch</p> <p>Nov. 2017 Corporate Officer of the Company; Seconded to PT. HARUM INDAH SARI TOURS &amp; TRAVEL, President and Director; General Manager of Southeast Asia Central Sales Division &amp; Head of Jakarta Central Branch</p> <p>Jan. 2018 Director and Senior Executive Officer of the Company; General Manager of Southeast Asia Central Sales Division &amp; Head of Jakarta Central Branch</p> <p>Nov. 2018 Director of the Company; Senior Executive Officer; In Charge of Southeast and South Asia; Corporate Information Officer (CIO)</p> <p>Jan. 2020 Director of the Company; Senior Executive Officer; In charge of Southeast Asia General Sales Division (current)</p>	(Note 3)	3
Director	Motoshi Yada	July 25, 1961	<p>Apr. 1984 Joined Japan Ground Self-Defense Force</p> <p>Aug. 1993 Joined the Company</p> <p>May 1998 Assistant Manager of Kanto Sales Division</p> <p>May 2000 Head of Company's President's Office</p> <p>Sep. 2001 Manager of HQ HR Division</p> <p>Nov. 2004 Manager of Kansai Sales Division</p> <p>Oct. 2005 Advisor to KYUSHU INDUSTRIAL TRANSPORTATION CO., LTD. (currently KYUSHU INDUSTRIAL TRANSPORTATION HOLDINGS CO., LTD.)</p> <p>Nov. 2005 Representative Director and President of KYUSHU INDUSTRIAL TRANSPORTATION CO., LTD. (current)</p> <p>Jan. 2020 Director of the Company (current)</p>	(Note 3)	-
Director (Note 2)	Hidetaka Sawada	November 2, 1981	<p>Apr. 2005 Joined Nikko Cordial Securities Inc. (currently SMBC Nikko Securities Inc.)</p> <p>Jun. 2006 Director of Sawada Holdings Co., Ltd.</p> <p>Sep. 2006 Director of H.S. Securities Co., Ltd.</p> <p>Feb. 2012 Representative Director and President of Best1.com Co. Ltd. (current)</p> <p>Jul. 2016 Representative Director and President of Fivestar Cruise Co., Ltd. (current)</p> <p>Jan. 2019 Representative Director of Ebisu Ryokan K.K. (current)</p> <p>Jan. 2020 Director of the Company (current)</p>	(Note 3)	654

Title	Name	Date of birth	Career summary	Term of office	Share ownership (thousands)
Director, Audit & Supervisory Committee Member (Note 1)	Tsunekazu Umeda	August 22, 1945	<p>Mar. 1974 Registered as a certified public accountant</p> <p>Sep. 1987 Partner, Arthur Andersen LLP and Eiwa Audit Corporation (currently KPMG AZSA LLC)</p> <p>Apr. 1995 Director, Umeda Certified Public Accountant Office (current)</p> <p>Jun. 1995 Director and Executive Vice President, Nippon Kaiheiki Kogyo (currently NKK Switches Co., Ltd.)</p> <p>Jan. 1999 External Corporate Auditor of the Company</p> <p>Jun. 2000 External Corporate Auditor, HABA Laboratories, Inc.</p> <p>Jun. 2000 External Corporate Auditor, TOMY Company (currently Takara Tomy Co., Ltd.) (current)</p> <p>Jun. 2007 External Corporate Auditor, Sawada Holdings Co., Ltd. (current)</p> <p>Mar. 2010 External Corporate Auditor, Huis Ten Bosch Co., Ltd.</p> <p>Jun. 2010 External Director, Suzuden Corporation</p> <p>Jun. 2015 Director serving as Audit &amp; Supervisory Committee Member (external director), HABA Laboratories, Inc. (current)</p> <p>Dec. 2015 Corporate Auditor, Huis Ten Bosch Co., Ltd. (current)</p> <p>Jan. 2016 Director serving as Audit &amp; Supervisory Committee Member of the Company (current)</p> <p>Jun. 2019 External Director, ESTELLE HOLDINGS CO., LTD. (current)</p>	(Note 4)	21
Director, Audit & Supervisory Committee Member (Note 1)	Yasuo Katsura	September 19, 1947	<p>Apr. 1970 Joined Matsushita Electric Industrial Co., Ltd. (currently Panasonic Corporation)</p> <p>Jun. 2001 Director and President, Matsushita Communication Industrial Co., Ltd. (currently Panasonic Mobile Communications Co., Ltd.)</p> <p>Jun. 2003 Officer, Matsushita Electric Industrial Co., Ltd. (currently Panasonic Corporation)</p> <p>Jun. 2004 Managing Officer, Matsushita Electric Industrial Co., Ltd.; Tokyo Branch Manager</p> <p>Jun. 2007 Managing Director, Matsushita Electric Industrial Co., Ltd.</p> <p>Apr. 2009 Representative Director, Senior Managing Director, Tokyo Representative, General Manager of Public Relations Headquarters, Matsushita Electric Industrial Co., Ltd.</p> <p>Apr. 2010 Representative Director, Executive Vice President, Matsushita Electric Industrial Co., Ltd.</p> <p>Jun. 2013 Advisor, Matsushita Electric Industrial Co., Ltd.</p> <p>Mar. 2015 External Director, Cyberlinks Co., Ltd. (current)</p> <p>Jan. 2019 Director, Audit &amp; Supervisory Committee Member of the Company (current)</p>	(Note 4)	—
Director, Audit & Supervisory Committee Member	Sonoko Sekita	July 23, 1965	<p>Feb. 1988 Joined the Company</p> <p>May 2000 Assistant Manager, Accounting Department, Kanto Area Sales Division</p> <p>Apr. 2008 Accounting Group Leader, Head Office Accounting Division</p> <p>Dec. 2012 Seconded to H.I.S. MANAGEMENT SERVICES SDN.BHD. as Director and Manager of Accounting</p> <p>Jan. 2015 Full-time Corporate Auditor of the Company</p> <p>Jan. 2016 Director serving as Audit &amp; Supervisory Committee Member of the Company (current)</p>	(Note 4)	25
Total					18,669

(Notes)

1. Directors serving as Audit & Supervisory Committee Members Tsunekazu Umeda and Yasuo Katsura are External Directors.
2. Relative within the second degree of kinship of Representative Director, Chairman and President Hideo Sawada.
3. Term of office extends until the conclusion of the General Meeting of Shareholders for the last business year within one year from the conclusion of the General Meeting of Shareholders held on January 29, 2020.
4. Term of office extends until the conclusion of the General Meeting of Shareholders for the last business year within two years from the conclusion of the General Meeting of Shareholders held on January 29, 2020.
5. The Company has instituted a corporate officer system with the aim of enhancing the business execution structure.

Names and positions of Corporate Officers (excluding Corporate Officers who concurrently serve as Director) are as follows.

Position		Name
Corporate Officer	General Manager of Global Information System Development Division	Kiyoshi Takano
Corporate Officer	General Manager of Corporate Planning Division & Head of PR/IR Office	Ken Fukushima
Corporate Officer	Representative Director and President of H.I.S. Hotel Holdings Co., Ltd.	Yuji Iwama
Corporate Officer	General Manager of the North, Central, and South American Central Sales Division	Hideo Hatano
Corporate Officer	General Manager of HQ HR Division & ES Management Division	Kozo Arita
Corporate Officer	General Manager of Accounting & Finance Division	Yuka Kataoka
Corporate Officer	Representative Director and President of H.I.S. SUPER POWER Co., Ltd.	Shohei Akao
Corporate Officer	General Manager of H.I.S Group Europe Headquarters	Konosuke Oda
Corporate Officer	General Manager of Southeast Asia Regional Sales Division & General Director of H.I.S. Song Han Viet Nam Tourist Co., Ltd	Shintaro Sudo
Corporate Officer	General Manager of Overseas Travel Sales Division & Online Travel Sales Division	Kenji Iida
Corporate Officer	President of H.I.S. BRASIL TURISMO LTDA	Katsumi Hine
Corporate Officer	Director of GROUP MIKI HOLDINGS LIMITED	Osamu Hanazaki
Corporate Officer	General Manager of Affiliate Management Division & Head of Corporate Planning Office	Katsu Segawa
Corporate Officer	General Manager of Domestic Travel Business Division	Tomohisa Kumamoto
Corporate Officer	General Manager of Information System & Software Development Division	Naoyuki Kado

2) Basic thinking on the number and appointment status of External Directors; standards and policies regarding independence of External Directors

a) Basic thinking on the number and appointment status of External Directors

At present, the Company has two External Directors, both of whom have been appointed as Audit & Supervisory Committee Members (Director serving as Audit & Supervisory Committee Member). In addition, provided there is a qualified candidate, the Company will consider the appointment of an External Director not serving as an Audit & Supervisory Committee Member.

External Director and Audit & Supervisory Committee Member Tsunekazu Umeda, formerly a partner at Arthur Andersen and Company, representative partner of Eiwa Audit Corporation (currently KPMG AZSA LLC), and founder of the Umeda Certified Public Accountant Office, possesses a wealth of experience and knowledge as a certified public accountant regarding finance and accounting. In addition to being involved in corporate management, Mr. Umeda has experience with the Company as an external corporate auditor under the Board of Corporate Auditors structure, and continues to supervise the Company's management based on his accumulated experiences, knowledge and insight from an independent and objective perspective, fulfilling his duties as a member of the Audit & Supervisory Committee.

Director and Audit & Supervisory Committee Member Yasuo Katsura, formerly representative director and vice president of Matsushita Electric Industrial Co., Ltd. (currently Panasonic Corporation) began serving as an External Director on January 25, 2019. Possessing a wealth of management experience and knowledge with outstanding insight into corporate ethics and corporate governance, Mr. Katsura was appointed Director and Audit & Supervisory Committee Member as he is expected to provide advice and recommendations regarding the Company's management based on his accumulated experiences, knowledge, and insight from an independent and objective perspective.

The Company's current External Directors both satisfy the independence requirement stipulated by the Tokyo Stock Exchange (TSE) provision on independent directors. With the consent of the principals, the Company designated them as independent directors and submitted an Independent Director Notification to the TSE.

b) Details on standards and policies regarding independence of External Directors

Based on the requirements for external directors stipulated in the Companies Act and independence standards stipulated by the Tokyo Stock Exchange, the Company applies the following conditions (the amendment or elimination of which is based on a resolution of the Board of Directors) to determine whether the relevant External Directors is independent. At present, the Company has two External Directors, both of whom satisfy these conditions:

- i) Principal is not at present, nor has never in the past been an executive director, executive officer, corporate officer, or employee (hereinafter, "Business Executor") of the Company, its subsidiaries or associates
- ii) Principal is not a major shareholder (a shareholder listed among the top ten shareholders on the latest shareholder registry or a shareholder with a ratio of 10% or more of the total voting rights), nor does not currently belong to an organization that is a major shareholder
- iii) Principal is not a Business Executor of a company, of which the Group is a major shareholder (a shareholder listed among the top ten shareholders on the latest shareholder registry or a shareholder with a ratio of 10% or more of the total voting rights)
- iv) Principal is not a person belonging to a business partner engaged in transactions with the Group (totaling 2% of consolidated net sales of either party per year) in the three most recent fiscal years
- v) Principal is not a Business Executor of a financial institution that is a major lender to the Group (lender of an amount equivalent to 2% or more of the Company's consolidated total assets)
- vi) Principal is not a Business Executor of the Group's leading brokerage firm
- vii) Principal is not a consultant, accounting expert, or legal expert who has obtained cash or other asset gains of 10 million yen or more on average in a single fiscal year other than officer remuneration from the Company, nor an accounting auditor or contracted adviser of the Company (if a corporation, association or group, the person belonging to said organization) in the last three fiscal years
- viii) Principal is not a person currently belonging to a non-profit organization that has received from the Company a contribution amounting to 2% or more of its total income or ordinary profit in the last three fiscal years
- ix) If the Principal has a history of belonging to an organization or business partner indicated in (ii) to (viii) above, he/she must be retired from said organization or business partner for three or more years
- x) Principal is not a spouse or a relative within the second degree of kinship of (ii) to (ix) above
- xi) In addition to the above, those with special circumstances preventing them from fulfilling their duties as external directors with independence, including possible conflicts of interest with the Company, etc.

### 3) Status of cooperation between External Directors and Internal Audit Division

The Company's two External Directors are both Directors serving as Audit & Supervisory Committee Members. As members of the Board of Directors, they supervise the execution of duties by Directors. As members of the Audit & Supervisory Committee, they exchange opinions and communicate with Directors, the Internal Audit Division, and the Internal Control Division in accordance with audit policies, standards, and plans defined by the Committee itself. Further, in addition to gathering information, they maintain mutual cooperation with the accounting auditor and engage in systematic auditing utilizing the internal control system.

### 4) Personal, capital, and trade relationships or other interests between External Directors and the Company

#### a) Relationship of interest between Tsunekazu Umeda and the Company

There are no personal, capital, or trade relationship between Tsunekazu Umeda and the Company.

The status of Company shareholdings by Tsunekazu Umeda is listed under "1) Status of Directors and other officers."

#### b) Relationship of interest between Yasuo Katsura and the Company

There are no personal, capital, or trade relationship, or other interests between Yasuo Katsura and the Company.

The status of Company shareholdings by Yasuo Katsura is listed under "1) Status of Directors and other officers."

## (3) Status of audits

### 1) Audit & Supervisory Committee

The Company's Audit & Supervisory Committee consists of three Directors (Directors serving as Audit & Supervisory Committee Members), including two External Directors. In addition to one full-time Audit & Supervisory Committee Member, the Audit & Supervisory Committee appoints one additional Member for a total of two as Appointed Committee Members under Article 399, Paragraph 3, Section 1 of the Companies Act.

The Audit & Supervisory Committee Office, which assists the Committee in executing its duties, is established within the Audit & Supervisory Committee organization. Employees dedicated to assisting the professional duties of the Audit & Supervisory Committee are selected and are placed in the Audit & Supervisory Committee Office based on consent of the Audit & Supervisory Committee Members. In addition, employees from the Internal Audit Department, Accounting Division, and/or Legal Division assist the Audit & Supervisory Committee in executing its duties as necessary. The Audit & Supervisory Committee maintains the exclusive authority to direct, command, and supervise the business duties of employees placed in the Audit & Supervisory Committee Office, and the Committee's opinions and intentions are respected and significantly reflected in personnel-related matters such as evaluation and transfer of such employees.

Audit by the Audit & Supervisory Committee is fundamentally an organizational audit utilizing the internal control system. The Committee follows the audit policies, standards, and plans, which it defines on its own; communicates with the Directors, the Internal Audit Division, and the Internal Control Division through exchanging opinions; collects information; and also maintains mutual cooperation with the accounting auditor; with the intent to conduct Audit & Supervisory Committee audits effectively.

Of the Directors serving as Audit & Supervisory Committee Members, External Director Tsunekazu Umeda is a certified public accountant possessing a wealth of experience and knowledge with regard to finance and accounting. Also, External Director Yasuo Katsura's wealth of management experience and knowledge includes those in the areas of accounting and finance. Sonoko Sekita possesses a significant amount of knowledge with regard to accounting and finance through her business experience and numerous achievements over many years in the accounting department of the Company and of its business administration company abroad.

### 2) Internal audit

#### (I) Internal audit organization, personnel, and procedures

Internal auditing of Company divisions and Group company operations (including internal control auditing) is conducted regularly based on internal auditing rules, internal auditing conduct standards, and annual auditing plans by the Audit Department (nine members) under direct supervision of the Representative Director, Chairman and President.

The Audit Department provides recommendations regarding auditing results and improvements, reporting to the Representative Director, Chairman and President, relevant Directors, responsible personnel in corresponding departments and divisions, and the Audit & Supervisory Committee. Under close cooperation with the Audit & Supervisory Committee (and occasionally by receiving instructions), the Audit Department plays a significant role in the Audit & Supervisory Committee's systematic auditing efforts utilizing the internal control system.

(II) Mutual cooperation among internal audit, audit by Audit & Supervisory Committee, and accounting audit, and their relationship to Internal Control Division

As the audit by Audit & Supervisory Committee is basically systematic auditing utilizing the internal control system, please refer to the above “1) Audit & Supervisory Committee ” and “(I) Internal audit organization, personnel, and procedures” sections in regard to mutual cooperation among internal audit, audit by Audit & Supervisory Committee, and accounting audit, and their relationship to Internal Control Division. As the Company’s two External Directors are Audit & Supervisory Committee Members, please also refer to the “3) Status of cooperation between External Directors and Internal Audit Division” section under “(2) Directors and other officers.”

3) Accounting audit

(I) Name of accounting auditor

Deloitte Touche Tohmatsu LLC

(II) Certified public accountants who conducted the accounting audit

Designated Limited Liability Partners and Engagement Partners: Koichi Kuse, Toshihiro Kuchiki

(III) Accounting audit assistant composition:

7 certified public accountants, 9 assistant certified public accountants, etc., and 17 others.

(IV) Accounting auditor selection policy and underlying reasons

The Company has appointed Deloitte Touche Tohmatsu LLC as its accounting auditor because it believes the company possesses the competence, expertise, organizational framework, job credentials, and historical track record as an accounting auditor to perform effective audits, and because there are no issues in terms of independence with the company.

(V) Evaluation of accounting auditor by Audit & Supervisory Committee

The Audit & Supervisory Committee conducts annual evaluations of the accounting auditor using the following procedure.

- a. Collect information about audit practices of the accounting auditor in the applicable fiscal year through interviews with related internal divisions.
- b. Review details and status of three-way audit meetings by the Audit & Supervisory Committee, Internal Audit Division, and accounting auditor.
- c. Review details and status of opinion exchanges and other talks between the Audit & Supervisory Committee and the accounting auditor on a quarterly basis and if otherwise deemed necessary.

In addition to flexibly determining the suitability of accounting audits from the aforementioned elements, the Company evaluates the overall appropriateness of accounting audits at the end of the fiscal year by comparing the contents of quarterly audit reports provided by the accounting auditor and statutory reporting matters against a check sheet drafted in accordance with laws and regulations.

4) Audit fees

The Company has applied the transitional measures pursuant to the provisions in items (i) through (iii) of the Important Notes attached to Form No. 2 (56) d (f) from the revised “Cabinet Office Ordinance on Disclosure of Corporate Affairs” that reflects the “Cabinet Office Ordinance Partially Amending the Cabinet Office Ordinance on Disclosure of Corporate Affairs” (Cabinet Office Ordinance No. 3, January 31, 2019).

(I) Details of fees paid to Certified Public Accountants

Category	Year ended October 31, 2018		Year ended October 31, 2019	
	Fees for audit certification (millions of yen)	Fees for non-audit services (millions of yen)	Fees for audit certification (millions of yen)	Fees for non-audit services (millions of yen)
Filing Company	102	4	115	3
Consolidated subsidiaries	56	2	82	7
Total	159	6	198	10

(II) Details of other significant fees

(Consolidated fiscal year ended October 31, 2018)

There are no applicable matters to report.

(Consolidated fiscal year ended October 31, 2019)

There are no applicable matters to report.

(III) Details of non-audit services rendered to the Company

(Consolidated fiscal year ended October 31, 2018)

Non-audit services for which the Company pays compensation to certified public accountants, etc., include the drafting of comfort letters.

(Consolidated fiscal year ended October 31, 2019)

Non-audit services for which the Company pays compensation to certified public accountants, etc., include advisory services related to the new accounting standard for revenue recognition.

(IV) Policy on determination of audit fees

Remuneration for certified public accountants, etc., is appropriately determined by the Company based on the consent of the Audit & Supervisory Committee, and taking into consideration the details of the audit work and the number of days required.

(V) Reason the Audit & Supervisory Board agreed to the audit fees of the accounting auditor

The Audit & Supervisory Board agreed to the audit fees for the consolidated fiscal year ended October 31, 2019 after verifying the appropriateness of the details of the audit plan (schedule, risk approach, etc.) and the compensation level based on the track record of the accounting auditor in the previous fiscal year, and with reference to the composition of the deployed accountants, research materials published by the Institute of Certified Public Accountants, and case studies involving other companies.

(4) Executive remuneration, etc.

1) The amounts of remuneration for officers and the policy and method of determining such amounts

Remuneration amounts paid by the Company to its officers are set within the overall limit of remuneration approved by the General Meeting of Shareholders. The amounts allocated to Directors (excluding Audit & Supervisory Committee Members) are determined by the Board of Directors based on recommendations from the Remuneration Committee, and the amounts allocated to Directors who concurrently serve as Audit & Supervisory Committee Members are determined through deliberation with the Audit & Supervisory Committee Members.

The policy for determining remuneration amounts establishes provisions related to the remuneration structure, remuneration determination criteria, and standard remuneration amounts in accordance with the internal remuneration regulations established through deliberation by the Board of Directors and Audit & Supervisory Committee Members.

The Company's remuneration structure for Directors (excluding Audit & Supervisory Committee Members) includes four components: a) basic monthly remuneration, b) performance-linked remuneration (linked to ordinary profit), c) stock option, and d) restricted stock compensation.

a. Basic monthly remuneration

The Company determines amounts commensurate with Directors' roles and positions, and pays these as basic monthly remuneration.

b. Performance-linked remuneration (linked to ordinary profit)

To calculate performance-linked remuneration, the Company uses the average of the three highest ordinary profit amounts recorded in the last 10 consolidated fiscal years as a reference value. As a rule, the Company pays an amount equivalent to 7% of the amount obtained by subtracting this reference value from the ordinary profit amount for the current fiscal year. However, based on earning performance trends, the Company may adjust the abovementioned 7% by 1–2 points.

The consolidated ordinary profit—the evaluation metric—for the consolidated fiscal year ended October 31, 2019 fell 13% against a target of 8% growth.

c. Stock option

The Company has established a stock option program as a form of remuneration that aims to enhance corporate value over the medium to long term. The total amount is kept within the annual amount (within 1 million yen) approved by the General Meeting of Shareholders.

d. Restricted stock compensation

The Company allots restricted stock to Directors (excluding Directors who are Audit & Supervisory Committee members,



non-Executive Directors, non-Permanent Directors, and External Directors), and accordingly aims to motivate Directors to work toward continuous improvement of corporate value, and further align their interests with those of its shareholders. (The total amount is kept within the annual amount [within 1 million yen] approved by the General Meeting of Shareholders.)

To ensure objectiveness and transparency of the decision-making process, the remuneration structure and levels for Directors and corporate officers are determined by a resolution of the Board of Directors following a review by the Remuneration Committee.

2) Executive remuneration, etc.

(I) Total amounts of remuneration paid by officer category, amounts by type of remuneration, and numbers of eligible officers

Officer Category	Total amounts of remuneration (millions of yen)	Total amounts by type of remuneration (millions of yen)				Number of eligible officers
		Fixed remuneration (Total monthly compensation)	Performance-linked remuneration (Bonus)	Stock Option	Restricted stock Compensation	
Director (excluding Audit & Supervisory Committee Members) (excluding External Directors)	320	178	111	5	24	7
Director (Audit & Supervisory Committee Member) (excluding External Directors)	12	10	1	—	—	1
External Director (Audit & Supervisory Committee Member)	19	18	1	—	—	3

(Notes)

1. The maximum amount of basic remuneration paid to Directors (excluding Audit & Supervisory Committee Members) was set at 500 million yen per year (includes executive bonuses, but excludes payments related to employee status) by a resolution approved at the 35th General Meeting of Shareholders held on January 27, 2016. In addition, a separate resolution to grant Directors (excluding Audit & Supervisory Committee Members) share acquisition rights amounting up to 100 million yen per year as stock options was approved in the 36th General Meeting of Shareholders held on January 26, 2017. At the General Meeting of Shareholders held on January 25, 2018, a resolution was approved to cap monetary claims payable corresponding to restricted stock compensation for Directors (excluding Audit & Supervisory Committee Members) at 100 million yen per year.
2. The maximum amount of basic remuneration paid to Directors (Audit & Supervisory Committee Members) was set at 50 million yen per year (includes executive bonuses) by a resolution approved at the 35th General Meeting of Shareholders held on January 27, 2016.
3. The above remuneration amounts and number of officers includes those Directors who retired at the conclusion of the General Meeting of Shareholders held on January 25, 2019.

(II) Breakdown of total amount of consolidated remuneration by officer

Name	Officer category	Company	Total amounts by category of consolidated remuneration (millions of yen)				Total amount of consolidated remuneration (millions of yen)
			Fixed remuneration (Total monthly compensation)	Performance-linked remuneration (Bonus)	Stock Option	Restricted stock Compensation	
Hideo Sawada	Director	Filing Company	37	31	1	7	126
	Director	Huis Ten Bosch Co., Ltd.	49	—	—	—	

(Note) Only individuals with total consolidated remuneration of 100 million yen or more are stated above.

(5) Information on shareholdings

(I) Criteria for shareholding classification and rationale

The Company classifies its shareholdings into shares held solely for pure investment and shares held for purposes other than pure investment. The former are held mainly for the purpose of generating profit through fluctuations in the share price or through dividends, while the latter are positioned as strategic holdings.

(II) Of investment securities held for purposes other than pure investment, number of stock names and total value recorded in the balance sheet

There are no applicable matters to report.

(II) Of investment securities held for purposes other than pure investment, stock name, number of shares, amount recorded in the balance sheet, and purpose of holding

There are no applicable matters to report.

(IV) Total amounts of stocks held solely for pure investment carried on the balance sheets for the fiscal years ended October 31, 2018 and October 31, 2019, and total amounts of dividends received associated with such stocks, and gains and losses on sale and valuation of such stocks for the fiscal year under review

	Year ended October 31, 2019		Year ended October 31, 2018	
	Number of stocks names	Total amount on balance sheet (millions of yen)	Number of stocks names	Total amount on balance sheet (millions of yen)
Unlisted stocks	11	1,666	10	1,735
Stocks other than the above	3	1,058	3	1,808

	Year ended October 31, 2019 (millions of yen)		
	Total dividends income	Total realized gains (losses) on sales	Total valuation gains (losses)
Unlisted stocks	—	—	(Note)
Stocks other than above	75	3,067	522

(Note) “Total valuation gains (losses)” are not stated because unlisted stocks have no market price and it is deemed extremely difficult to grasp their fair market value.

## **V. Financial Information**

### **1. Basis of presentation for consolidated and non-consolidated financial statements**

(1) The Company's consolidated financial statements are prepared in conformity with the "Regulations Concerning Terminology, Forms, and Preparation Methods of Consolidated Financial Statements" (Ministry of Finance Regulation No.28, 1976).

(2) The non-consolidated financial statements are prepared in conformity with the "Regulations Concerning Terminology, Forms, and Preparation Methods of Financial Statements (Ministry of Finance Regulation No.59, 1963) (hereinafter, "Regulations on Financial Statements.")

As a company designated for the submission of financial statements prepared in accordance with special provision, the Company prepares its financial statements pursuant to Article 127 of the Regulations on Financial Statements.

### **2. Independent auditing of financial statements**

Pursuant to the provisions of Article 193-2, Paragraph 1, of the Financial Instruments and Exchange Law, the Company arranged for the auditing firm Deloitte Touche Tohmatsu LLC to conduct independent audits of the consolidated and non-consolidated financial accounts of the Company for the fiscal year under review (November 1, 2018 to October 31, 2019).

### **3. Particular efforts to secure the appropriateness of the consolidated financial statements and other financial reports**

The Company makes special efforts to ensure the appropriateness of the consolidated financial statements. Specifically, in order to accurately ascertain the content of the latest accounting standards and prepare appropriate consolidated financial statements, etc., it maintains membership in the Financial Accounting Standards Foundation and participates in educational opportunities provided by said Foundation, accounting firms, and other institutions, and subscribes to accounting journals. The Company also reviews its internal regulations and manuals as appropriate.

1. Consolidated Financial Statements, etc.  
(1) Consolidated Financial Statements  
1) Consolidated Balance Sheets

(millions of yen)

	Year ended October 31, 2018 (As of October 31, 2018)	Year ended October 31, 2019 (As of October 31, 2019)
<b>Assets</b>		
Current assets		
Cash and deposits	*1 213,960	*1 219,175
Notes and accounts receivable - trade	44,376	45,653
Operating accounts receivable	5,048	4,287
Securities	89	—
Travel advance payments	34,347	52,102
Prepaid expenses	2,423	2,888
Short-term loans receivable	1,391	*6 1,389
Short-term loans receivable from subsidiaries and associates	196	307
Accounts receivable - other	5,604	16,936
Other	12,942	6,305
Allowance for doubtful accounts	(451)	(766)
Total current assets	319,929	348,280
Non-current assets		
Property, plant and equipment		
Buildings	32,888	67,834
Accumulated depreciation	(13,224)	(14,440)
Buildings, net	*1, *5 19,663	*1, *5 53,394
Tools, furniture and fixtures	17,066	18,775
Accumulated depreciation	(10,902)	(11,207)
Tools, furniture and fixtures, net	*5 6,163	*5 7,567
Land	*1, *3 32,685	*1, *3 47,654
Leased assets	5,196	5,487
Accumulated depreciation	(2,171)	(2,157)
Leased assets, net	3,025	3,330
Construction in progress	*1 48,455	27,874
Other	15,848	17,713
Accumulated depreciation	(9,739)	(10,435)
Other, net	*1, *5 6,108	*1, *5 7,277
Total property, plant and equipment	116,102	147,098
Intangible assets		
Goodwill	7,232	7,305
Other	12,964	19,271
Total intangible assets	20,196	26,576
Investments and other assets		
Investment securities	15,895	16,270
Shares of subsidiaries and associates	2,434	3,241
Investments in capital of subsidiaries and associates	179	50
Long-term loans receivable	*6 4,479	*6 3,313
Long-term loans receivable from subsidiaries and associates	1,218	1,071
Retirement benefit asset	551	529
Deferred tax assets	7,061	8,134
Guarantee deposits	9,125	11,862
Other	19,050	11,189
Allowance for doubtful accounts	(190)	(388)
Total investments and other assets	59,807	55,275
Total non-current assets	196,105	228,951
Deferred assets	432	168
Total assets	516,468	577,399

(millions of yen)

	Year ended October 31, 2018 (As of October 31, 2018)	Year ended October 31, 2019 (As of October 31, 2019)
<b>Liabilities</b>		
Current liabilities		
Operating accounts payable	36,933	38,082
Short-term loans payable	*1, *4 17,992	*1, *4 6,903
Current portion of bonds	10,000	—
Current portion of convertible bond-type bonds with share acquisition rights	20,033	—
Current portion of long-term loans payable	*1 11,008	*1 37,548
Accounts payable - other	3,704	22,319
Accrued expenses	3,643	4,517
Income taxes payable	3,752	3,904
Accrued consumption taxes	1,019	1,057
Travel advance received	68,344	92,760
Lease obligations	935	793
Provision for bonuses	4,915	5,510
Provision for bonuses for directors (and other officers)	177	224
Provision for loss on liquidation of subsidiaries and associates	2,163	—
Other	29,310	17,950
Total current liabilities	213,932	231,572
Non-current liabilities		
Bonds payable	30,000	30,000
Convertible bond-type bonds with share acquisition rights	25,108	25,090
Long-term loans payable	*1 113,309	*1 146,403
Deferred tax liabilities	*3 5,556	*3 4,789
Retirement benefit liability	7,036	7,715
Provision for retirement benefits for directors (and other officers)	343	371
Lease obligations	2,406	2,767
Other	3,133	4,779
Total non-current liabilities	186,894	221,918
Total liabilities	400,826	453,490
Net assets		
Shareholders' equity		
Capital stock	11,000	11,000
Capital surplus	3,451	3,392
Retained earnings	102,083	112,409
Treasury shares	(28,611)	(28,309)
Total shareholders' equity	87,923	98,493
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	283	1,019
Deferred gains or losses on hedges	166	75
Foreign currency translation adjustment	(97)	(2,626)
Remeasurements of defined benefit plans	(49)	(187)
Total accumulated other comprehensive income	304	(1,719)
Share acquisition rights	431	—
Non-controlling interests	26,982	27,135
Total net assets	115,641	123,909
Total liabilities and net assets	516,468	577,399

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

(millions of yen)

	Year ended October 31, 2018 (November 1, 2017 to October 31, 2018)	Year ended October 31, 2019 (November 1, 2018 to October 31, 2019)
Net sales	728,554	808,510
Cost of sales	595,185	664,375
Gross profit	133,368	144,134
Selling, general and administrative expenses	*1, *2 115,285	*1 126,594
Operating profit	18,083	17,540
Non-operating income		
Interest income	1,638	1,599
Share of profit of entities accounted for using equity method	10	—
Subsidy income	368	397
Other	1,774	1,530
Total non-operating income	3,791	3,527
Non-operating expenses		
Interest expenses	595	788
Foreign exchange losses	564	977
Share of loss of entities accounted for using equity method	—	44
Other	1,214	2,169
Total non-operating expenses	2,375	3,978
Ordinary profit	19,499	17,089
Extraordinary income		
Gain on sales of non-current assets	*4 4,230	—
Gain on sales of investment securities	—	*3 3,627
Gain on revision of retirement benefit plan	282	—
Gain on reversal of share acquisition rights	—	513
Foreign currency translation adjustment account reversal gain	595	—
Total extraordinary income	5,107	4,140
Extraordinary losses		
Loss on valuation of investment securities	330	—
Provision for loss on liquidation of subsidiaries and associates	*5 2,163	—
Loss on disposal of affiliate receivables	*5 1,359	—
Impairment loss	—	877
Total extraordinary losses	3,853	877
Profit before income taxes	20,753	20,352
Income taxes - current	7,104	7,012
Income taxes - deferred	(77)	(535)
Total income taxes	7,027	6,477
Profit	13,726	13,875
Profit attributable to non-controlling interests	2,659	1,625
Profit attributable to owners of parent	11,067	12,249

Consolidated Statements of Comprehensive Income

(millions of yen)

	Year ended October 31, 2018 (November 1, 2017 to October 31, 2018)	Year ended October 31, 2019 (November 1, 2018 to October 31, 2019)
Profit	13,726	13,875
Other comprehensive income		
Valuation difference on available-for-sale securities	0	735
Deferred gains or losses on hedges	(98)	(93)
Foreign currency translation adjustment	(1,856)	(2,923)
Remeasurements of defined benefit plans, net of tax	(163)	(120)
Share of other comprehensive income of entities accounted for using equity method	(1)	(41)
Total other comprehensive income	* (2,119)	* (2,442)
Comprehensive income	11,606	11,432
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	9,035	10,226
Comprehensive income attributable to non-controlling interests	2,571	1,206

### 3) Consolidated Statement of Changes in Equity

Consolidated fiscal year ended October 31, 2018 (November 1, 2017 to October 31, 2018)

(millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	11,000	3,581	92,731	(23,875)	83,437
Cumulative effects of changes in accounting policies					—
Restated balance	11,000	3,581	92,731	(23,875)	83,437
Changes of items during period					
Dividends of surplus			(1,707)		(1,707)
Profit attributable to owners of parent			11,067		11,067
Purchase of treasury shares				(5,000)	(5,000)
Disposal of treasury shares		9		264	273
Change of scope of consolidation			(7)		(7)
Capital increase of consolidated subsidiaries					—
Change in ownership interest of parent due to transactions under common control					—
Change in ownership interest of parent due to transactions with non-controlling interests		(139)			(139)
Net changes of items other than shareholders' equity					—
Total changes of items during period	—	(130)	9,352	(4,736)	4,485
Balance at end of current period	11,000	3,451	102,083	(28,611)	87,923

	Accumulated other comprehensive income					Share acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	283	265	1,716	70	2,336	252	25,221	111,247
Cumulative effects of changes in accounting policies					—			—
Restated balance	283	265	1,716	70	2,336	252	25,221	111,247
Changes of items during period								
Dividends of surplus					—			(1,707)
Profit attributable to owners of parent					—			11,067
Purchase of treasury shares					—			(5,000)
Disposal of treasury shares					—			273
Change of scope of consolidation					—			(7)
Capital increase of consolidated subsidiaries					—			—
Change in ownership interest of parent due to transactions under common control					—			—
Change in ownership interest of parent due to transactions with non-controlling interests					—			(139)
Net changes of items other than shareholders' equity	0	(98)	(1,813)	(120)	(2,031)	178	1,761	(91)
Total changes of items during period	0	(98)	(1,813)	(120)	(2,031)	178	1,761	4,394
Balance at end of current period	283	166	(97)	(49)	304	431	26,982	115,641



Consolidated fiscal year ended October 31, 2019 (November 1, 2018 to October 31, 2019)

(millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	11,000	3,451	102,083	(28,611)	87,923
Cumulative effects of changes in accounting policies			(161)		(161)
Restated balance	11,000	3,451	101,922	(28,611)	87,762
Changes of items during period					
Dividends of surplus			(1,669)		(1,669)
Profit attributable to owners of parent			12,249		12,249
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares		9		302	312
Change of scope of consolidation			(92)		(92)
Capital increase of consolidated subsidiaries		8			8
Change in ownership interest of parent due to transactions under common control		201			201
Change in ownership interest of parent due to transactions with non-controlling interests		(278)			(278)
Net changes of items other than shareholders' equity					—
Total changes of items during period	—	(59)	10,487	302	10,731
Balance at end of current period	11,000	3,392	112,409	(28,309)	98,493

	Accumulated other comprehensive income					Share acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	283	166	(97)	(49)	304	431	26,982	115,641
Cumulative effects of changes in accounting policies					—		(68)	(229)
Restated balance	283	166	(97)	(49)	304	431	26,914	115,412
Changes of items during period								
Dividends of surplus					—			(1,669)
Profit attributable to owners of parent					—			12,249
Purchase of treasury shares					—			(0)
Disposal of treasury shares					—			312
Change of scope of consolidation					—			(92)
Capital increase of consolidated subsidiaries					—			8
Change in ownership interest of parent due to transactions under common control					—			201
Change in ownership interest of parent due to transactions with non-controlling interests					—			(278)
Net changes of items other than shareholders' equity	736	(91)	(2,529)	(138)	(2,023)	(431)	221	(2,233)
Total changes of items during period	736	(91)	(2,529)	(138)	(2,023)	(431)	221	8,497
Balance at end of current period	1,019	75	(2,626)	(187)	(1,719)	—	27,135	123,909

## 4) Consolidated Statements of Cash Flows

(millions of yen)

	Year ended October 31, 2018 (November 1, 2017 to October 31, 2018)	Year ended October 31, 2019 (November 1, 2018 to October 31, 2019)
<b>Cash flows from operating activities</b>		
Profit before income taxes	20,753	20,352
Depreciation	8,369	8,850
Impairment loss	—	877
Amortization of goodwill	837	953
Increase (decrease) in provision for bonuses	843	618
Increase (decrease) in provision for bonuses for directors (and other officers)	15	48
Increase (decrease) in retirement benefit liability	48	518
Increase (decrease) in provision for retirement benefits for directors (and other officers)	(527)	29
Increase (decrease) in provision for loss on liquidation of subsidiaries and associates	2,163	—
Interest and dividend income	(1,789)	(1,864)
Share of loss (profit) of entities accounted for using equity method	(10)	44
Foreign exchange losses (gains)	252	1,063
Interest expenses	595	788
Loss (gain) on sales of investment securities	—	(3,627)
Loss (gain) on valuation of investment securities	330	—
Loss (gain) on sales of property, plant and equipment	(4,230)	—
Gain on reversal of share acquisition rights	—	(513)
Gain on revision of retirement benefit plan	(282)	—
Reversal of foreign currency translation adjustment	(595)	—
Loss on disposal of affiliate receivables	1,359	—
Other loss (gain)	435	1,799
Decrease (increase) in notes and accounts receivable - trade	(7,684)	(409)
Decrease (increase) in travel advance payments	(7,320)	(1,572)
Decrease (increase) in other assets	(7,652)	4,949
Increase (decrease) in notes and accounts payable - trade	12,665	14
Increase (decrease) in accrued consumption taxes	429	201
Increase (decrease) in accrued expenses	(6,511)	237
Increase (decrease) in travel advances received	9,676	5,438
Increase (decrease) in other liabilities	5,073	6,222
Subtotal	27,247	45,022
Interest and dividend income received	1,712	1,735
Interest expenses paid	(553)	(748)
Income taxes (paid) refund	(8,009)	(6,665)
Net cash provided by (used in) operating activities	20,397	39,344

(millions of yen)

	Year ended October 31, 2018 (November 1, 2017 to October 31, 2018)	Year ended October 31, 2019 (November 1, 2018 to October 31, 2019)
<b>Cash flows from investing activities</b>		
Payments into time deposits	(40,280)	(33,381)
Proceeds from withdrawal of time deposits	40,791	29,452
Proceeds from redemption of securities	—	300
Purchase of property, plant and equipment and intangible assets	(45,440)	(75,885)
Proceeds from sales of property, plant and equipment and intangible assets	9,709	289
Purchase of investment securities	(6,973)	(6,987)
Proceeds from sales of investment securities	1,751	10,411
Purchase of shares of subsidiaries and associates	(385)	(1,419)
Purchase of shares of subsidiaries resulting in changes in the scope of consolidation	*2 (3,420)	*2 (6,373)
Proceeds from purchase of shares of subsidiaries resulting in changes in the scope of consolidation	*2 10	—
Payments for sales of shares in subsidiaries resulting in change of scope of consolidation	*3 (73)	—
Payments of loans receivable	(6,975)	(305)
Collection of loans receivable	6,948	1,218
Payments for guarantee deposits	(1,973)	(3,628)
Proceeds from collection of guarantee deposits	657	866
Revenue from redevelopment project	5,766	27,658
Other, net	(4,954)	5,668
Net cash provided by (used in) investing activities	(44,841)	(52,116)
<b>Cash flows from financing activities</b>		
Increase in short-term loans payable	33,970	146,941
Decrease in short-term loans payable	(23,464)	(157,921)
Proceeds from long-term loans payable	25,049	71,450
Repayments of long-term loans payable	(4,181)	(11,815)
Proceeds from issuance of bonds with share acquisition rights	25,100	—
Purchase of treasury shares	(5,001)	—
Cash dividends paid	(1,707)	(1,669)
Dividends paid to non-controlling interests	(473)	(467)
Proceeds from share issuance to non-controlling shareholders	14	1,017
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(1,699)
Redemption of bonds	—	(10,000)
Redemption of convertible bonds	—	(20,000)
Other, net	(1,002)	(472)
Net cash provided by (used in) financing activities	48,304	15,362
Effect of exchange rate change on cash and cash equivalents	(947)	(2,104)
Net increase (decrease) in cash and cash equivalents	22,913	486
Cash and cash equivalents at beginning of period	168,659	191,440
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	(132)	614
Cash and cash equivalents at end of period	*1 191,440	*1 192,541

## Notes to Consolidated Financial Statements

### [Going concern assumptions]

There are no applicable matters to report.

### [Significant matters that serve as the basis for preparation of the consolidated financial statements]

#### 1. Scope of consolidation

##### (1) Consolidated subsidiaries

The consolidated financial statements include the accounts of 148 subsidiaries of the Company. The names of the principal subsidiaries are listed in the “3. Description of Business” section of “I. Overview of the Company, Part I Information on the Company.”

From the consolidated fiscal year ended October 31, 2019, H.I.S. – RED LABEL VACATIONS INC. and seven other companies were added to the scope of consolidation through share acquisitions.

HIS DORAK TURIZM OTEL YATIRIMLARI VE DIS TICARET ANONIM SIRKETI and seven other companies were added to the scope of consolidation as newly established companies.

H.I.S. TRAVEL EGYPT and six other companies were added to the scope of consolidation owing to their increased significance.

Consolidated subsidiaries MK SUPPORT SERVICE (SPAIN) S.A.U. and one other company were removed from the scope of consolidation as a result of the completion of liquidation proceedings.

##### (2) Non-consolidated subsidiaries

The Company has 38 non-consolidated subsidiaries. The principle non-consolidated subsidiary is listed below.

- H.I.S Travel Limited

##### (3) Reason for exclusion of non-consolidated subsidiaries from consolidation

The size of each non-consolidated subsidiary is small, and their total assets, net sales, profit/loss (amount corresponding to equity interest) and retained earnings (amount corresponding to equity interest), etc., do not have a material effect on the consolidated financial statements.

#### 2. Application of equity method

##### (1) Non-consolidated subsidiaries and associates accounted for by the equity method

The company applies the equity method to six associates. The names of the principle equity-method associates are listed in the “3. Description of Business” section under “I. Overview of the Company, Part I Information on the Company.”

In the consolidated fiscal year ended October 31, 2019, the Company included four new companies in the scope of equity-method applicable companies following related share acquisitions. In addition, it removed one company from the scope of equity-method applicable companies following a sale of shares.

##### (2) Non-consolidated subsidiaries and associates not accounted for by the equity method

The profit/loss (amount corresponding to equity interest) and retained earnings (amount corresponding to equity interest), etc., of the 38 non-consolidated subsidiaries and the 19 associates not accounted for by the equity method are of such a level that removing them from the consolidated financial statements has only a negligible effect. Since they are not significant as a whole, they are excluded from the scope of equity-method applicable companies. The principle subsidiary in this category is listed below.

[Subsidiaries]

- H.I.S Travel Limited

#### 3. Fiscal years, etc. of consolidated subsidiaries

The Watermark Hotel Japan Co., Ltd., an overseas and domestic consolidated subsidiary, has a fiscal year ending on July 31. Domestic consolidated subsidiaries HTB CRUISE Co., Ltd. and SYS Inc. have fiscal years ending on August 31.

The following consolidated subsidiaries have fiscal years ending on September 30: (1) Overseas: Green World Hotels Co., Ltd.; Green World Hotel Zhonghua; HIS DORAK TURIZM OTEL YATIRIMLARI VE DIS TICARET ANONIM SIRKETI; (2) Domestic: Orion Tour Co., Ltd.; Travel Marche Co., Ltd.; O.T.B. Co., Ltd.; Japan Holiday Travel CO., LTD; INTERPARK TOUR JAPAN Co., Ltd.; Activity Japan Co., Ltd., H.I.S. OKINAWA Co., Ltd.; Huis Ten Bosch Co., Ltd.; HTB Tourism Co., Ltd.; LAGUNA TEN BOSCH CO., LTD.; H.I.S. Hotel Holdings Co., Ltd.; The Watermark Hotel Nagasaki Co., Ltd.; Aquaignis Taki Hotel Asset Co.,Ltd.; KYUSHU INDUSTRIAL TRANSPORTATION HOLDINGS CO., LTD.; Kyushu Sanko Bus Co., Ltd.; Kyushu Sanko Tourism Co., Ltd.; Kyushu Sanko Landmark Co., Ltd.; Kumamoto Ferry Co., Ltd.; Sanko Bus Co., Ltd.; Kyushu Sanko Seibi Co. Ltd.; Kumamoto Sakuramachi Development Co., Ltd.; Kyushu Sanko Retail Co. Ltd.; KASSE JAPAN Co., Ltd.; Kyushu BM Service Co., Ltd.; Kyushu Sanko Planning Co., Ltd.; Higo Liquor Co., Ltd.; Hanamarudo Co., Ltd., Kyushu Sanko Card Co., Ltd., H.I.S. Energy Holdings Co., Ltd., HTB ENERGY CO., LTD., H.I.S. SUPER POWER Co., Ltd., H.I.S. SUPER POWER LLC, H.S. Insurance Co., Ltd., Huis Ten Bosch Technical Center Co., Ltd., Nishinohon Engineering Co., Ltd., H.I.S. Impact Finance Co., Ltd.

In preparing its consolidated financial statements, the Company uses the year-end financial statements of these companies.

However, adjustments are made for any significant transactions taking place between the respective fiscal year-ends of the consolidated subsidiaries and the consolidated closing date.

#### 4. Accounting policies

##### (1) Valuation standard and method for significant assets

###### 1) Securities

Bonds held to maturity

Stated at amortized cost.

Available-for-sale securities

Securities with a determinable fair market value

Stated at fair market value based on the market price, etc., on the fiscal closing date (with any unrealized gains or losses reported directly as a component of net assets and the cost of securities sold calculated by the moving average method).

Securities without a determinable fair market value

Generally stated at cost, with cost being determined by the moving average method.

###### 2) Derivatives

Stated at fair market value.

##### (2) Depreciation method for significant assets

###### 1) Property, plant and equipment (excluding lease assets)

The Company and its domestic consolidated subsidiaries mainly apply the straight-line method for buildings (excluding facilities attached to buildings) and structures and facilities attached to buildings acquired on or after April 1, 2016. For other property, plant and equipment, the declining balance method is applied. Overseas consolidated subsidiaries mainly apply the straight-line method.

The ranges of useful life for property, plant and equipment are mainly as shown below.

Buildings	2–65 years
-----------	------------

Tools, furniture and fixtures	2–20 years
-------------------------------	------------

###### 2) Intangible assets (excluding lease assets)

The straight-line method is applied.

In addition, software used in-house is depreciated over its useful life (five years) based on the straight-line method.

###### 3) Lease assets

Lease assets are depreciated using the straight-line method with estimated useful lives equal to lease terms, and zero residual value.

##### (3) Accounting standards for significant provisions

###### 1) Allowance for doubtful accounts

To prepare for losses from uncollectible receivables, estimates of irrecoverable amounts are recorded based on historical loan-loss ratios for general receivables, and on consideration of feasibly recoverable amounts in individual cases of suspected bad debt or other specific receivables.

###### 2) Provision for bonuses

To provide for bonus payments to employees, a provision for bonuses is recorded based on estimated future payments.

###### 3) Provision for bonuses for directors (and other officers)

To provide for bonus payments to Directors (and other officers), a provision for bonuses is recorded based on estimated future payments.

###### 4) Provision for retirement benefits for directors (and other officers)

To prepare for retirement benefit payments to Directors (and other officers), a provision for retirement benefits for Directors (and other officers) is recorded in the amount based on the retirement benefit obligation at each fiscal year-end in accordance with the Internal Rules on Retirement Benefits for Directors (and Other Officers).

###### 5) Provision for loss on liquidation of subsidiaries and associates

To prepare for losses from the liquidation of subsidiaries and associates, a provision is recorded based on estimated future losses.

##### (4) Accounting treatment method for retirement benefits

###### 1) Method for period attribution of retirement benefit estimates

In calculating the projected benefit obligation, the benefit formula standard is used as the basis for attributing projected retirement benefits to the period up to the year under review.

###### 2) Treatment method for actuarial gains (losses), expenses related to prior service costs, and transition obligations

Actuarial gains (losses) are mainly amortized collectively in the consolidated year following the year in which they were accrued.

Prior service is amortized on a straight-line basis over a specified number of years within the average remaining service period of employees when the liability is incurred.

Transition obligations are amortized on a straight-line basis over a specified number of years.

- (5) Standard for translation of significant foreign-currency-denominated assets or liabilities into Japanese yen  
Monetary claims and liabilities denominated in foreign currency are translated into yen at the spot exchange rate prevailing on the fiscal closing date, and the difference arising from such translation is recorded as profits or losses. The assets and liabilities of overseas subsidiaries are translated into yen at the spot exchange rates prevailing on the fiscal closing date, and their revenues and expenses are translated into yen at the average exchange rate during the fiscal year, with the differences arising from such translation included in the foreign currency translation adjustment account and non-controlling interests under consolidated net assets.
- (6) Accounting method for significant hedging transactions
- 1) Hedging methods  
The Company in principle accounts for hedging transactions on a deferred basis. It applies the designated hedge accounting treatment (*furiate shori*) to forward exchange contracts and other items that qualify for designated hedge accounting, and the exceptional accounting treatment (*tokurei shori*) to interest rate swaps and other items that qualify for exceptional accounting.
  - 2) Hedging instruments and hedged items
    - a. Hedging instruments: Forward exchange contracts, currency options  
Hedged items: Foreign currency-denominated accounts receivables, foreign currency-denominated operating accounts payable
    - b. Hedging instruments: Interest rate swaps  
Hedged items: Loans
  - 3) Hedging policy  
The Company hedges against foreign exchange fluctuation risk and interest rate fluctuation risk in accordance with the Company's internal Financial Risk Management Regulations
  - 4) Evaluation of hedge effectiveness  
The effectiveness of hedging is assessed by comparing the cumulative total of the market fluctuations or the cash flow fluctuations for the hedged items with that of the market fluctuations or the cash flow fluctuations for the hedging instrument every six months, and analyzing the fluctuation amount, etc., for the two.  
However, the effectiveness of hedging is not evaluated for interest rate swaps subject to exceptional accounting treatment.
- (7) Scope of cash and cash equivalents in consolidated statement of cash flows  
Cash and cash equivalents consist of cash in hand, deposits drawable at any time, and any short-term investments that are readily convertible, are only exposed to negligible risk of change in value, and are redeemable in three months or less from each acquisition date.
- (8) Other significant matters that serve as the basis for preparation of the consolidated financial statements
- 1) Goodwill amortization and amortization periods  
Goodwill is amortized using the straight-line method over a reasonable number of years, not exceeding 20 years.
  - 2) Accounting for consumption taxes  
All accounting transactions are booked exclusive of consumption taxes or local consumption taxes.

[Changes in accounting policies]

Application of IFRS 9 “Financial Instruments” and IFRS 15 “Revenue from Contracts with Customers”

The H.I.S. Group has applied IFRS 9 “Financial Instruments” and IFRS 15 “Revenue from Contracts with Customers” for its subsidiaries adopting IFRS. In applying these accounting standards, the Group has observed the transitional treatment for each standard, and adjusted its retained earnings and non-controlling interests at the start of the fiscal year to reflect the cumulative effect.

The impact of the application of the aforementioned accounting standards on the consolidated financial statements is negligible.

[Accounting standards not yet applied]

Company and consolidated subsidiaries

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

(1) Overview

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) in the U.S. jointly developed comprehensive accounting standards for revenue recognition, and in May 2014 published “Revenue from Contracts with Customers” (IFRS 15 at IASB, Topic 606 at FASB). Given that IFRS 15 will be applied to fiscal years beginning on or after January 1, 2018 and Topic 606 will be applied to fiscal years beginning after December 15, 2017, the Accounting Standards Board of Japan (ASBJ) has developed comprehensive accounting standards for revenue recognition and published them along with the Implementation Guidance.

The basic policy of the ASBJ in developing accounting standards for revenue recognition is thought to be setting accounting standards, with the incorporation of the basic principles of IFRS 15 as a starting point, from a standpoint of comparability between financial statements, which is one of the benefits of ensuring consistency with IFRS 15, and to add alternative accounting treatments without losing comparability if there is an item that should be taken into account in practices, etc. that have been conducted in Japan.

(2) Scheduled date of application

Scheduled to be applied from the start of the fiscal year ending October 31, 2022.

(3) Effect of application of the aforementioned accounting standards

The Company is currently evaluating the effect of applying the “Accounting Standard for Revenue Recognition”, etc. on its consolidated financial statements.

Overseas consolidated subsidiaries

• Leases (IFRS 16)

(1) Overview

Under IFRS 16 “Leases,” lessees are in principle required to recognize assets and liabilities for all leases.

(2) Scheduled date of application

The company plans to apply IFRS 16 “Leases” from the start of the fiscal year ending October 31, 2020.

(3) Impact of application of the accounting standard, etc.

The impact on the consolidated financial statements is negligible.

[Changes in presentation]

Application of Partial Amendments to Accounting Standard for Tax Effect Accounting, etc.

The Company has adopted the Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28, February 16, 2018) from the start of the consolidated fiscal year ended October 31, 2019. Accordingly, deferred tax assets are classified under investments and other assets, and deferred tax liabilities under non-current liabilities.

As a result, on the consolidated balance sheet for the fiscal year ended October 31, 2018, 3,187 million yen in “deferred tax assets” under “current assets” has been included in the 7,061 million yen for “deferred tax assets” under “investments and other assets,” and 4 million yen in “deferred tax liabilities” in “other” under “current liabilities” has been included in the 5,556 million yen for “deferred tax liabilities” under “non-current liabilities.”

In addition, the details stated in Note 8 (Excluding total of valuation allowance) and Note 9 provided in Items 3 to 5 of the “Partial Amendments to Accounting Standard for Tax Effect Accounting” have been added to the notes regarding Tax Effect Accounting. However, in accordance with the transitional treatment provided in Item 7 of the “Partial Amendments to Accounting Standard for Tax Effect Accounting,” related matters pertaining to the previous consolidated fiscal year have not been stated.

[Additional information]

Transactions that grant Company shares to employees, etc., via a trust

With the aim of offering its employees an incentive to enhance corporate value over the medium to long term, the Company engages in transactions that grant Company shares to an Employee Stock Ownership Association via a trust.

(1) Overview of transactions

The Company has established the H.I.S. Employee Stock Ownership Association Dedicated Trust (the “Trust”) for the benefit of the participating employee members of the H.I.S. Employee Stock Ownership Association (the “Association”).

The Trust will acquire Company shares to the amount that is expected to be acquired by the Association over five years, and sell these to the Association. If the share price increases, accumulating gains in the Trust as of its termination, such funds will be distributed to those employees who qualify as beneficiaries. Conversely, if a decline in the share price gives rise to outstanding trust asset obligations resulting from losses on the sale of shares, the Company will repay the amount to the bank in a lump sum based on the guarantee provision in the loan agreement, so there is no additional burden on employees.

(2) Company shares held in the Trust

Company shares held in the Trust are recorded at their trust book value (but excluding ancillary expenses) in “treasury shares” under “net assets.” The total amount of such shares was 282,000 at the end of the consolidated fiscal year ended October 31, 2018, and 188,000 at the end of the consolidated fiscal year ended October 31, 2019 and their book value was 867 million yen and 580 million yen, respectively.

(3) Book value of loans payable recorded based on application of aggregate amount method

828 million yen at the end of the consolidated fiscal year ended October 31, 2018, and 521 million yen at the end of the consolidated fiscal year ended October 31, 2019.



[Consolidated balance sheet]

\*1. Pledged assets

Assets pledged as collateral are shown below.

	(millions of yen)	
	Year ended October 31, 2018 (As of October 31, 2018)	Year ended October 31, 2019 (As of October 31, 2019)
Buildings	462	22,570
Land	19,077	20,675
Construction in progress	1,956	—
Property, plant and equipment (Other)	1	0

Secured liabilities are shown below.

	(millions of yen)	
	Year ended October 31, 2018 (As of October 31, 2018)	Year ended October 31, 2019 (As of October 31, 2019)
Short-term loans payable	1,050	2,800
Current portion of long-term loans payable	609	7,209
Long-term loans payable	6,000	25,391

The Company pledged cash and cash deposits of 538 million yen as collateral for bank guarantees in the consolidated fiscal year ended October 31, 2018. In the consolidated fiscal year ended October 31, 2019, it pledged cash and cash deposits of 1,571 million yen as collateral for bank guarantees.

2. Liability guarantees

(1) The Company guarantees liabilities against bank guarantees for the following company up to the amount shown below.

	Year ended October 31, 2018 (As of October 31, 2018)	Year ended October 31, 2019 (As of October 31, 2019)
ASIA ATLANTIC AIRLINES CO., LTD.	270,000 US dollar (30 million yen)	-----

(2) The Company provides payment guarantees for business transactions for the following company.

	Year ended October 31, 2018 (As of October 31, 2018)	Year ended October 31, 2019 (As of October 31, 2019)
ASIA ATLANTIC AIRLINES CO., LTD.	7 million US dollar (792 million yen)	-----

\*3. In accordance with the Act on Revaluation of Land, the Company revalued land owned for business use on March 31, 2000, and included the corresponding amounts in the items shown below.

	(millions of yen)	
	Year ended October 31, 2018 (As of October 31, 2018)	Year ended October 31, 2019 (As of October 31, 2019)
Land	13,532	4,600
Deferred tax liabilities	4,837	1,707

\*4. Overdraft agreements

Consolidated subsidiaries KYUSHU INDUSTRIAL TRANSPORTATION HOLDINGS CO., LTD., Kyushu Sanko Landmark Co., Ltd., Kumamoto Sakuramachi Development Co., Ltd., Japan Holiday Travel CO., LTD, SYS Inc., H.I.S. - MERIT TRAVEL INC., Miki Travel Agency E.U.R.L., and H.I.S. – RED LABEL VACATIONS INC. have concluded overdraft agreements with 17 banks to ensure efficient procurement of working capital. Unexecuted borrowings based on such agreements at the end of the years ended October 31, 2018 and October 31, 2019 are shown below.

	(millions of yen)	
	Year ended October 31, 2018 (As of October 31, 2018)	Year ended October 31, 2019 (As of October 31, 2019)
Maximum overdraft limit	28,433	28,490
Outstanding borrowings	16,256	5,000
Difference	12,177	23,490

\*5. Reduction entries

The reduction entry amounts deducted from the acquisition cost of property, plant and equipment due to the acceptance of national subsidies, etc., and their corresponding breakdown are shown below.

	(millions of yen)	
	Year ended October 31, 2018 (As of October 31, 2018)	Year ended October 31, 2019 (As of October 31, 2019)
Buildings	15	28
Tools, furniture and fixtures	17	18
Other property, plant and equipment	405	405
Total	437	452

\*6. Other

Consolidated fiscal year ended October 31, 2018 (as of October 31, 2018)

Of the 4,479 million yen in long-term loans receivable, 4,460 million yen (40 million US dollar) is owed by the Mongolia-based bank Khan Bank LLC. The bank is a consolidated subsidiary of Sawada Holdings Co., Ltd. (Representative Director and Chairman Hideo Sawada).

Consolidated fiscal year ended October 31, 2019 (As of October 31, 2019)

In addition to 1,088 million yen (10 million US dollar) of the 1,389 million yen in short-term loans receivable, 3,258 million yen (30 million US dollar) of the 3,313 million yen in long-term loans receivable is owed by the Mongolia-based bank Khan Bank LLC. The bank is a consolidated subsidiary of Sawada Holdings Co., Ltd. (Representative Director and Chairman Hideo Sawada).

[Consolidated Statement of Income]

\*1. Selling, general and administrative expenses

The major cost items and amounts included under selling, general and administrative expenses are shown below.

(millions of yen)

	Year ended October 31, 2018 (November 1, 2017 to October 31, 2018)	Year ended October 31, 2019 (November 1, 2018 to October 31, 2019)
Salaries and allowances	42,714	45,742
Bonuses	3,083	3,656
Provision for bonuses	4,271	4,888
Bonuses for directors (and other officers)	18	32
Provision for bonuses for directors (and other officers)	181	231
Retirement benefit expenses	633	981
Provision for retirement benefits for directors (and other officers)	68	45
Legal welfare expenses	6,800	7,273
Advertising expenses	11,847	12,904
Rent expenses	8,208	9,341
Depreciation and amortization	6,971	7,447
Provision of allowance for doubtful accounts	271	230
R&D expenses	176	—

\*2. Total R&D expenses included under selling, general and administrative expenses are shown below.

(millions of yen)

	Year ended October 31, 2018 (November 1, 2017 to October 31, 2018)	Year ended October 31, 2019 (November 1, 2018 to October 31, 2019)
	176	—

\*3 Gain on sales of investment securities

The gain on the sales of investment securities recorded in the consolidated fiscal year October 31, 2019 mainly reflects the sales of shares in UNIZO Holdings Company.

\*4. Gain on sales of non-current assets

The gain on sales of non-current assets recorded in the consolidated fiscal year ended October 31, 2018 reflected the sales of the Watermark Hotel Sapporo property (land and buildings) and Watermark Hotel Australia property (land and buildings).

\*5. Provision for loss on liquidation of subsidiaries and associates, loss on disposal of affiliate receivables

The provision for loss on liquidation of subsidiaries and associates and the loss on disposal of affiliate receivables recorded in the consolidated fiscal year ended October 31, 2018 reflected claims against ASIA ATLANTIC AIRLINES CO., LTD.

[Consolidated Statement of Comprehensive Income]

\* Reclassification adjustments and tax effects relating to other comprehensive income

(millions of yen)

	Year ended October 31, 2018 (November 1, 2017 to October 31, 2018)	Year ended October 31, 2019 (November 1, 2018 to October 31, 2019)
Valuation difference on available-for-sale securities:		
Amount arising during the year	23	1,084
Reclassification adjustments	(33)	(52)
Before tax effect adjustment	(9)	1,031
Tax effect amount	10	(295)
Valuation difference on available-for-sale securities	0	735
Deferred gains or losses on hedges:		
Amount arising during the year	(146)	(130)
Reclassification adjustments	—	—
Before tax effect adjustment	(146)	(130)
Tax effect amount	48	37
Deferred gains or losses on hedges	(98)	(93)
Foreign currency translation adjustment:		
Amount arising during the year	(1,199)	(2,923)
Reclassification adjustments	(657)	—
Before tax effect adjustment	(1,856)	(2,923)
Tax effect amount	—	—
Foreign currency translation adjustment	(1,856)	(2,923)
Remeasurements of defined benefit plans:		
Amount arising during the year	(41)	(316)
Reclassification adjustments	(210)	112
Before tax effect adjustment	(251)	(203)
Tax effect amount	88	83
Remeasurements of defined benefit plans	(163)	(120)
Share of other comprehensive income of entities accounted for using equity method:		
Amount arising during the fiscal year	(1)	(41)
Reclassification adjustments	—	—
Share of other comprehensive income of entities accounted for by the equity method	(1)	(41)
Total other comprehensive income	(2,119)	(2,442)

[Consolidated statement of changes in equity]

Consolidated fiscal year ended October 31, 2018 (November 1, 2017 to October 31, 2018)

1. Types and number of issued shares and treasury shares

	Number of shares as of November 1, 2017	Increase during the year	Decrease during the year	Number of shares as of October 31, 2018
Issued shares				
Common stock	68,522,936	—	—	68,522,936
Total	68,522,936	—	—	68,522,936
Treasury shares				
Common stock (Note)	10,019,506	1,298,971	86,937	11,231,540
Total	10,019,506	1,298,971	86,937	11,231,540

(Notes)

- The number of treasury shares (common stock) includes the Company shares held by the H.I.S. Employee Stock Ownership Association Dedicated Trust. (282,100 as of October 31, 2018)
- The increase of 1,298,971 treasury shares (common stock) reflects an increase of 1,298,800 shares from the acquisition of treasury shares by a resolution of the Board of Directors, and an increase of 171 shares attributable to purchases of shares less than one unit.
- The decrease of 86,937 treasury shares (common stock) reflects a decline of 5,937 shares from the disposal of treasury shares as restricted stock compensation, and a decline of 81,000 shares from the sale of shares from the H.I.S. Employee Stock Ownership Association Dedicated Trust to the H.I.S. Employee Stock Ownership Association.

2. Share acquisition rights and treasury share acquisition rights

Classification	Breakdown of share acquisition rights	Type of shares subject to share acquisition rights	Number of shares subject to share acquisition rights				Balance as of October 31, 2018 (millions of yen)
			As of November 1, 2017	Increase during the year	Decrease during the year	As of October 31, 2018	
Filing Company (Parent company)	Share acquisition rights as stock options	—	—	—	—	—	431
Total		—	—	—	—	—	431

3. Dividends

(1) Dividends paid

Resolution	Type of shares	Total amount of dividends (millions of yen)	Dividend per share (yen)	Record date	Effective Date
General Meeting of Shareholders held on January 25, 2018	Common stock	1,707	29.00	October 31, 2017	January 26, 2018

(Note) The total amount of dividends approved by a resolution at the General Meeting of Shareholders held on January 25, 2018 includes 10 million yen in dividends for Company shares held by the H.I.S. Employee Stock Ownership Association Dedicated Trust.

(2) Dividends whose record date falls in the consolidated fiscal year ended October 31, 2018 and whose effective date falls in the next consolidated fiscal year

Resolution	Type of shares	Total amount of dividends (millions of yen)	Appropriated from	Dividend per share (yen)	Record date	Effective Date
General Meeting of Shareholders held on January 25, 2019	Common stock	1,669	Retained earnings	29.00	October 31, 2018	January 28, 2019

(Note) The total amount of dividends approved by a resolution at the General Meeting of Shareholders held on January 25, 2019 includes 8 million yen in dividends for Company shares held by the H.I.S. Employee Stock Ownership Association Dedicated Trust.

Consolidated fiscal year ended October 31, 2019 (November 1, 2018 to October 31, 2019)

1. Types and number of issued shares and treasury shares

	Number of shares as of November 1, 2018	Increase during the year	Decrease during the year	Number of shares as of October 31, 2019
Issued shares				
Common stock	68,522,936	—	—	68,522,936
Total	68,522,936	—	—	68,522,936
Treasury shares				
Common stock (Note)	11,231,540	90	99,532	11,132,098
Total	11,231,540	90	99,532	11,132,098

(Notes)

1. The number of treasury shares (common stock) includes the Company shares held by the H.I.S. Employee Stock Ownership Association Dedicated Trust. (188,600 shares as of October 31, 2019).
2. The increase of 90 treasury shares (common stock) reflects an increase attributable to the purchase of shares less than one unit.
3. The decrease of 99,532 treasury shares (common stock) reflects a decline of 6,032 shares from the disposal of treasury shares as restricted stock compensation, and a decline of 93,500 shares from the sale of shares from the H.I.S. Employee Stock Ownership Association Dedicated Trust to the H.I.S. Employee Stock Ownership Association.

2. Dividends

(1) Dividends paid

Resolution	Type of shares	Total amount of dividends (millions of yen)	Dividend per share (yen)	Record date	Effective Date
General Meeting of Shareholders held on January 25, 2019	Common stock	1,669	29.00	October 31, 2018	January 28, 2019

(Note) The total amount of dividends approved by a resolution at the General Meeting of Shareholders held on January 25, 2019 includes 8 million yen in dividends for Company shares held by the H.I.S. Employee Stock Ownership Association Dedicated Trust.

(2) Dividends whose record date falls in the consolidated fiscal year ended October 31, 2019 and whose effective date falls in the next consolidated fiscal year

Resolution	Type of shares	Total amount of dividends (millions of yen)	Appropriated from	Dividend per share (yen)	Record date	Effective Date
General Meeting of Shareholders held on January 29, 2020	Common stock	1,900	Retained earnings	33.00	October 31, 2019	January 30, 2020

(Note) The total amount of dividends approved by a resolution at the General Meeting of Shareholders held on January 29, 2020 includes 6 million yen in dividends for Company shares held by the H.I.S. Employee Stock Ownership Association Dedicated Trust.

[Consolidated Statement of Cash Flows]

\* 1. Reconciliation of year-end balance of cash and cash equivalents and items in the Consolidated Balance Sheet

(millions of yen)

	Year ended October 31, 2018 (November 1, 2017 to October 31, 2018)	Year ended October 31, 2019 (November 1, 2018 to October 31, 2019)
Cash and deposits account	213,960	219,175
Marketable securities account	89	—
Time deposits with maturities of more than three months	(22,520)	(26,633)
Marketable securities whose maturity date falls within one year	(89)	—
Cash and cash equivalents	191,440	192,541

\* 2. Major breakdown of assets and liabilities of newly consolidated subsidiaries resulting from acquisition of shares

Consolidated fiscal year ended October 31, 2018 (November 1, 2017 to October 31, 2018)

A breakdown of assets and liabilities at the start of consolidation of JONVIEW CANADA INC., a new subsidiary resulting from the acquisition of shares, along with details regarding the share acquisition price and related expenditure (net) are presented below.

	(millions of yen)
Current assets	2,488
Non-current assets	2,891
Goodwill	1,342
Current liabilities	(1,602)
Non-current liabilities	(649)
Foreign currency translation adjustment	(99)
Share acquisition price	4,370
Cash and cash equivalents	(1,353)
Net expenditure on share acquisition	3,017

The amounts reflect significant revisions to the initial allocation of acquisition costs following the finalization of the provisional accounting treatment for business combinations.

The value of assets and liabilities for other companies that were newly consolidated as result of acquisition of shares is not significant, and has therefore been omitted.

Consolidated fiscal year ended October 31, 2019 (November 1, 2018 to October 31, 2019)

A breakdown of assets and liabilities at the start of consolidation of RED LABEL VACATIONS INC. and six other new subsidiaries resulting from the acquisition of shares, along with details regarding the share acquisition price and related expenditure (net) are presented below.

	(millions of yen)
Current assets	27,748
Non-current assets	10,019
Goodwill	1,401
Current liabilities	(26,992)
Non-current liabilities	(318)
Foreign currency translation adjustment	(24)
Share acquisition price	11,833
Cash and cash equivalents	(5,460)
Net expenditure on share acquisition	6,373

\* 3. Major breakdown of assets and liabilities of companies that ceased to be consolidated subsidiaries due to a share sale  
 Consolidated fiscal year ended October 31, 2018 (November 1, 2017 to October 31, 2018)  
 Amounts for assets and liabilities for companies removed from the scope of consolidation due to the sale of shares in the consolidated fiscal year ended October 31, 2018 are not significant, and have therefore been omitted.

Consolidated fiscal year ended October 31, 2019 (November 1, 2018 to October 31, 2019)  
 There are no applicable matters to report.

[Lease transactions]

1. Finance leases

[Lessee]

Finance leases not involving transfer of ownership

1) Lease asset details

(a) Property, plant and equipment

Primarily equipment (machinery and devices) supplied for business purposes

(b) Intangible assets

Software

2) Depreciation method for lease assets

As stated in the “(2) Depreciation method for significant assets” section in “4. Accounting policies” under “Significant matters that serve as the basis for preparation of the consolidated financial statements.”

2. Operating leases

[Lessee]

Future lease payables related to non-cancelable operating leases

(millions of yen)

	Year ended October 31, 2018 (As of October 31, 2018)	Year ended October 31, 2019 (As of October 31, 2019)
Due within one year	2,288	2,237
Due after one year	16,197	14,878
Total	18,485	17,116

[Lessor]

Future lease receivables related to non-cancelable operating leases

(millions of yen)

	Year ended October 31, 2018 (As of October 31, 2018)	Year ended October 31, 2019 (As of October 31, 2019)
Due within one year	128	307
Due after one year	1,040	1,299
Total	1,169	1,607



[Financial instruments]

1. Conditions of financial instruments

(1) Policy for handling financial instruments

The H.I.S. Group primarily uses short-term deposits for fund management. In addition, it uses loans from financial institutions, corporate bonds, and convertible bond-type bonds with share acquisition rights to procure funds. The Group's financial derivatives transactions include forward exchange contract transactions, etc. to mitigate the risks discussed below, crude oil price commodity swap transactions, and interest rate swap transactions to avoid fluctuation risk for interest rates on loans payable. There are no transactions entered into for speculative purposes.

(2) Type and risk of financial instruments

Notes and accounts receivable (trade receivables) and other receivables are exposed to credit risk from customers.

Marketable and investment securities mainly consist of available-for-sale securities (bonds and stocks), which are exposed to the risk of market price fluctuations and credit risk from issuers.

Guarantee deposits are mainly held in connection with lease agreements for stores, and are exposed to credit risk from depositaries.

Operating accounts payable (trade payables), other accounts payable, and income taxes payable and accrued consumption taxes are in principle paid within three months.

Loans payable, corporate bonds, convertible bond-type bonds with share acquisition rights, and lease obligations related to finance leases are mainly used to procure funding for working capital or capital expenditures. Loans payable with variable interest rates are exposed to risk from fluctuation in interest rates. In addition, long-term loans payable includes loans from financial institutions held in a trust account in connection with the adoption of a Trust-type Employee Shareholding Incentive Plan (E-Ship®).

Monetary assets and liabilities denominated in foreign currencies are exposed to the risk of foreign exchange fluctuations, but such risk is in principle hedged using forward exchange contracts.

Derivative transactions include forward exchange contracts, etc., aimed at mitigating the risk of foreign exchange fluctuations, crude oil price commodity swap transactions aimed at controlling the risk of fuel price fluctuations, and transactions to avoid the risk of fluctuations in interest rates paid on loans.

For details on hedging instruments, hedged items, hedging policy, and the method for evaluating hedging effectiveness concerning hedge accounting, please refer to the aforementioned "(6) Accounting method for significant hedging transactions" section in "4. Accounting policies" under "Significant matters that serve as the basis for preparation of the consolidated financial statements."

(3) Risk management for financial instruments

1) Management of credit risk (risk that customers or counterparties may default)

In accordance with credit management policies, the Company periodically examines new customers and reviews credit limits, and aims to mitigate risk by conducting management of settlement dates and balances for various customers. A similar management is conducted by consolidated subsidiaries, and a management structure that requires transactions and events of certain degree of significance to be reported to, or approved by, the Company is adopted. Credit risk for derivatives transactions is recognized as largely immaterial because these transactions are conducted only with financial institutions that have a high credit rating.

2) Management of market risk (risk of fluctuations in foreign exchange, interest rate, and fuel price)

For monetary claims and liabilities denominated in foreign currencies, the H.I.S. Group in principle uses forward exchange contracts to hedge against foreign exchange risk for major currencies.

For marketable and investment securities, the Group determines their fair market value and the financial position of the issuers on a quarterly basis. It also reviews its holdings on a continuing basis, taking into account the market conditions and the relationship with customers and business partners.

The basic policy regarding derivatives transactions that take the form of forward exchange contract transactions, etc., is that such transactions must be approved by the Board of Directors, and the execution and management of such transactions are handled by the Accounting Department of H.I.S. headquarters. The transaction balance and gains and losses must be periodically reported to the Board of Directors.

Derivatives transactions that take the form of crude oil price commodity swap transactions must be executed in accordance with internal regulations that describe transaction authority and other details.

3) Liquidity risk associated with capital procurement (risk of inability to make payments on due date)

The H.I.S. Group manages liquidity risk by preparing and updating a cash management plan as deemed appropriate and maintaining liquidity on hand in accordance with income and expenditure.

(4) Supplementary explanation of matters relating to fair value of financial instruments, etc.

Fair values of financial instruments include values based on market prices, and values obtained by a reasonable estimate when financial instruments do not have market prices. The fair value calculation reflects variable factors, and is therefore subject to change depending on different assumptions used. In addition, the derivatives contract amounts in the “Derivative transactions” section are not necessarily indicative of the actual market risk associated with derivative transactions.

2. Fair value of financial instruments, etc.

The amounts recorded on the balance sheet, fair values, and the differences between them are shown below. Items for which it is extremely difficult to determine market values are not included. (Refer to (Note: 2))

Consolidated fiscal year ended October 31, 2018 (As of October 31, 2018)

	Amount recorded on consolidated balance sheet (millions of yen)	Fair value (millions of yen)	Difference (millions of yen)
(1) Cash and deposits	213,960	213,960	—
(2) Notes and accounts receivable - trade (*1)	44,024	44,024	—
(3) Operating accounts receivable	5,048	5,048	—
(4) Marketable and investment securities	11,999	11,999	(0)
Securities held to maturity	10	9	(0)
Available-for-sale securities	11,989	11,989	—
(5) Short-term loans receivable	1,391	1,391	—
(6) Short-term loans receivable from subsidiaries and associates	196	196	—
(7) Account receivable - other (*2)	3,420	3,420	—
(8) Long-term loans receivable	4,479	4,549	70
(9) Long-term loans receivable from subsidiaries and associate	1,218	1,218	—
(10) Guarantee deposits	6,879	6,888	8
Total assets	292,618	292,697	78
(1) Operating accounts payable	36,933	36,933	—
(2) Short-term loans payable	17,992	17,992	—
(3) Accounts payable - other	3,704	3,704	—
(4) Income taxes payable	3,752	3,752	—
(5) Accrued consumption tax	1,019	1,019	—
(6) Corporate bonds (including within one year)	40,000	40,227	227
(7) Convertible bond-type bonds with share acquisition rights (including within one year)	45,141	45,022	(119)
(8) Long-term loans payable (including within one year)	124,317	124,037	(280)
(9) Lease obligations (including within one year)	3,342	3,189	(152)
Total liabilities	276,203	275,879	(324)
Derivatives transactions (*3)	235	235	—

(\*1) Allowances for doubtful accounts are excluded from “notes and accounts receivable - trade.”

(\*2) Allowances for doubtful accounts and the provision for loss on liquidation of subsidiaries and associates are excluded from “Accounts receivable - other.”

(\*3) Assets and liabilities accrued from derivative transactions are presented on a net basis, and net liabilities are shown in parentheses.

Consolidated fiscal year ended October 31, 2019 (As of October 31, 2019)

	Amount recorded on balance sheet (millions of yen)	Fair value (millions of yen)	Difference (millions of yen)
(1) Cash and deposits	219,175	219,175	—
(2) Notes and accounts receivable - trade (*1)	45,019	45,019	—
(3) Operating accounts receivable	4,287	4,287	—
(4) Marketable and investment securities	11,225	11,225	—
Available-for-sale securities	11,225	11,225	—
(5) Short-term loans receivable (*2)	1,384	1,384	—
(6) Short-term loans receivable from subsidiaries and associates (*2)	267	267	—
(7) Account receivable - other (*3)	16,917	16,917	—
(8) Long-term loans receivable (*4)	3,268	3,265	(2)
(9) Long-term loans receivable from subsidiaries and associate (*4)	903	903	—
(10) Guarantee deposits	6,980	6,997	16
<b>Total assets</b>	<b>309,428</b>	<b>309,443</b>	<b>14</b>
(1) Operating accounts payable	38,082	38,082	—
(2) Short-term loans payable	6,903	6,903	—
(3) Accounts payable - other	22,319	22,319	—
(4) Income taxes payable	3,904	3,904	—
(5) Accrued consumption tax	1,057	1,057	—
(6) Corporate bonds	30,000	30,401	401
(7) Convertible bond-type bonds with share acquisition rights	25,090	25,257	166
(8) Long-term loans payable (including within one year)	183,951	185,382	1,430
(9) Lease obligations (including within one year)	3,561	3,388	(172)
<b>Total liabilities</b>	<b>314,870</b>	<b>316,697</b>	<b>1,826</b>
Derivatives transactions (*5)	60	60	—

(\*1) Allowances for doubtful accounts are excluded from “notes and accounts receivable - trade.”

(\*2) Allowances for doubtful accounts are excluded from “short-term loans receivable” and “short-term loans receivable from subsidiaries and associates.”

(\*3) Allowances for doubtful accounts are excluded from “accounts receivable - other.”

(\*4) Allowances for doubtful accounts are excluded from “long-term loans receivable” and “long-term loans receivable from subsidiaries and associates.”

(\*5) Assets and liabilities accrued from derivative transactions are presented on a net basis, and net liabilities are shown in parentheses.

(Note) 1. Calculation of fair value of financial instruments; securities and derivative transactions

Assets

(1) Cash and deposits, (2) Notes and accounts receivable - trade, (3) Operating accounts receivable, (5) Short-term loans receivable, (6) Short-term loans receivable from subsidiaries and associates, and (7) Accounts receivable - other

As these items are settled in a short period of time, their fair value is roughly equal to their book value and therefore determined based on the relevant book value.

(4) Marketable and investment securities

The calculation of the fair value of stocks is based on prices at the stock exchange. The calculation of the market value of bonds is based on the prices at the securities exchange or the prices presented by the counterparty financial

institution. For information on securities based on purpose of holdings, please see the “Marketable securities” section.

(8) Long-term loans receivable, and (9) Long-term loans receivable from subsidiaries and associates

The fair value of these items is the present value calculated by discounting future cash flows at an interest rate equal to an appropriate index such as the yield of government bonds plus the credit spread.

(10) Guarantee deposits

The fair value of guarantee deposits is the present value discounted by the risk-free rate.

#### Liabilities

(1) Operating accounts payable, (2) Short-term loans payable, (3) Accounts payable - other, (4) Income taxes payable, and (5) Accrued consumption tax

As these items are settled in a short period of time, their fair value is roughly equal to their book value and therefore determined based on the relevant book value.

(6) Corporate bonds (including within one year), (7) Convertible bond-type bonds with share acquisition rights (including within one year), (8) Long-term loans payable (including within one year), and (9) Lease obligations (including within one year)

The fair value of these items is their present value calculated by discounting total amounts of principle and interests at an assumed rate used for similar new issuances, new borrowings, or lease transactions.

Because loans from financial institutions held in the trust account associated with the adoption of a Trust-type Employee Shareholding Incentive Plan (E-Ship<sup>®</sup>) are short-term and reflect market interest rates, their fair value is roughly equal to their book value and therefore determined based on the relevant book value.

#### Derivatives transactions

For information on derivatives transactions, please see the “Derivatives transactions” section.

(Note) 2. Financial instruments for which fair value is extremely difficult to determine

(millions of yen)

Classification	Year ended October 31, 2018 (As of October 31, 2018)	Year ended October 31, 2019 (As of October 31, 2019)
Marketable and investment securities		
Unlisted stocks, etc. (*1)	3,985	5,045
Shares of subsidiaries and associates		
Unlisted stocks, etc. (*2)	2,434	3,241
Investments in capital of subsidiaries and associates (*3)	179	50
Guarantee deposits (*4)	2,246	4,882

(\*1) The “Unlisted stocks, etc.” under “Marketable and investment securities” have no market prices and it is deemed extremely difficult to determine their fair value. Accordingly, they are not included in “(4) Marketable and investment securities.”

(\*2) “Shares of subsidiaries and associates” are unlisted stocks, etc., without market prices and it is deemed extremely difficult to determine their fair value. Accordingly, they are not included in the previous table.

(\*3) Investments in capital of subsidiaries and associates have no market prices and it is deemed extremely difficult to determine their fair value. Accordingly, they are not included in the previous table.

(\*4) Guarantee deposits, for which redemption schedules cannot be reasonably assessed and are deemed extremely difficult to determine fair value, are not included in “(10) Guarantee deposits.”

(Note) 3. Redemption schedule for monetary claims and securities with maturity after the consolidated closing date

Consolidated fiscal year ended October 31, 2018 (As of October 31, 2018)

	1 year or less (millions of yen)	1-5 years (millions of yen)	5-10 years (millions of yen)	Over 10 years (millions of yen)
Cash and deposits	213,960	—	—	—
Notes and accounts receivable - trade	44,376	—	—	—
Operating accounts receivable	5,048	—	—	—
Marketable and investment securities				
Bonds held to maturity				
(1) Corporate bonds	—	—	10	—
Available-for-sale securities with maturities				
(1) Government and municipal bonds, etc.	12	—	—	—
(2) Corporate bonds	50	—	—	—
(3) Other	20	—	—	—
Short-term loans receivable	1,391	—	—	—
Short-term loans receivable from subsidiaries and associates	196	—	—	—
Accounts receivable - other	5,604	—	—	—
Long-term loans receivable	—	4,479	—	—
Long-term loans receivable from subsidiaries and associates	—	1,214	3	—

Repayment dates for guarantee deposits are deemed extremely difficult to accurately determine. Accordingly, scheduled redemption amounts are not presented.

Consolidated fiscal year ended October 31, 2019 (As of October 31, 2019)

	1 year or less (millions of yen)	1-5 years (millions of yen)	5-10 years (millions of yen)	Over 10 years (millions of yen)
Cash and deposits	219,175	—	—	—
Notes and accounts receivable - trade	45,653	—	—	—
Operating accounts receivable	4,287	—	—	—
Marketable and investment securities				
Bonds held to maturity				
(1) Corporate bonds	—	10	10	—
Available-for-sale securities with maturities				
(1) Government and municipal bonds, etc.	—	—	—	—
(2) Corporate bonds	—	520	—	—
(3) Other	—	—	—	—
Short-term loans receivable	1,389	—	—	—
Short-term loans receivable from subsidiaries and associates	307	—	—	—
Accounts receivable - other	16,936	—	—	—
Long-term loans receivable	—	3,292	21	—
Long-term loans receivable from subsidiaries and associates	—	1,049	21	—

Repayment dates for guarantee deposits are deemed extremely difficult to accurately determine. Accordingly, scheduled redemption amounts are not presented.

(Note) 4. Repayment schedule for corporate bonds, long-term loans, and lease obligations after the consolidated closing date  
Consolidated fiscal year ended October 31, 2018 (As of October 31, 2018)

	1 year or less (millions of yen)	1-2 years (millions of yen)	2-3 years (millions of yen)	3-4 years (millions of yen)	4-5 years (millions of yen)	Over 5 years (millions of yen)
Short-term loans payable	17,992	—	—	—	—	—
Corporate bonds (including within one year)	10,000	—	10,000	—	—	20,000
Convertible bond-type bonds with share acquisition rights (including within one year)	20,000	—	—	—	—	25,000
Long-term loans payable (including within one year) (*)	11,008	36,709	994	3,130	30,122	42,354
Lease obligations (including within one year)	935	642	561	431	475	294
Total	59,936	37,352	11,556	3,561	30,597	87,648

(\*) Long-term loans payable associated with the Trust-type Employee Shareholding Incentive Plan (E-Ship<sup>®</sup>) total 828 million yen. Since there are no conditions for installment payment amounts, the amount is listed assuming a bulk payment of the year-end loan balance on the designated final payment date

Consolidated fiscal year ended October 31, 2019 (As of October 31, 2019)

	1 year or less (millions of yen)	1-2 years (millions of yen)	2-3 years (millions of yen)	3-4 years (millions of yen)	4-5 years (millions of yen)	Over 5 years (millions of yen)
Short-term loans payable	6,903	—	—	—	—	—
Corporate bonds	—	10,000	—	—	15,000	5,000
Convertible bond-type bonds with share acquisition rights	—	—	—	—	—	25,000
Long-term loans payable (including within one year) (*)	37,548	2,025	4,469	31,461	27,475	80,973
Lease obligations (including within one year)	793	743	660	613	461	289
Total	45,245	12,769	5,129	32,074	42,936	111,262

(\*) Long-term loans payable associated with the Trust-type Employee Shareholding Incentive Plan (E-Ship<sup>®</sup>) total 521 million yen. Since there are no conditions for installment payment amounts, the amount is listed assuming a bulk payment of the year-end loan balance on the designated final payment date

[Marketable securities]

1. Bonds held to maturity

Consolidated fiscal year ended October 31, 2018 (As of October 31, 2018)

	Type	Amount recorded on balance sheet (millions of yen)	Market value (millions of yen)	Difference (millions of yen)
Market value above balance sheet amount	(1) Bonds	—	—	—
	(2) Other	—	—	—
	Subtotal	—	—	—
Market value below balance sheet amount	(1) Bonds	10	9	(0)
	(2) Other	—	—	—
	Subtotal	10	9	(0)
Total		10	9	(0)

Consolidated fiscal year ended October 31, 2019 (As of October 31, 2019)

There are no applicable matters to report.

Corporate bonds (20 million yen recorded on the consolidated balance sheet) are not listed as they have no market prices and their fair values are deemed extremely difficult to determine.

## 2. Available-for-sale securities

Consolidated fiscal year ended October 31, 2018 (As of October 31, 2018)

	Type	Amount recorded on balance sheet (millions of yen)	Acquisition cost (millions of yen)	Difference (millions of yen)
Balance sheet amount above acquisition price	(1) Stocks	207	99	107
	(2) Bonds	13	12	0
	(3) Other	6,959	6,493	465
	Subtotal	7,180	6,606	574
Balance sheet amount below acquisition price	(1) Stocks	1,495	1,499	(4)
	(2) Bonds	—	—	—
	(3) Other	3,313	3,386	(72)
	Subtotal	4,809	4,886	(77)
Total		11,989	11,492	497

(Note) Unlisted stocks (3,985 million yen recorded on the balance sheet) have no market prices and are deemed extremely difficult to determine their fair values. Accordingly, they are not included in “Available-for-sale securities” in the previous table.

Consolidated fiscal year ended October 31, 2019 (As of October 31, 2019)

	Type	Amount recorded on balance sheet (millions of yen)	Acquisition cost (millions of yen)	Difference (millions of yen)
Balance sheet amount above acquisition price	(1) Stocks	952	429	522
	(2) Bonds	—	—	—
	(3) Other	10,268	9,403	864
	Subtotal	11,220	9,833	1,387
Balance sheet amount below acquisition price	(1) Stocks	—	—	—
	(2) Bonds	—	—	—
	(3) Other	4	4	(0)
	Subtotal	4	4	(0)
Total		11,225	9,837	1,387

(Note) Unlisted stocks (5,025 million yen recorded on the consolidated balance sheet) have no market prices and are deemed extremely difficult to determine their fair values. Accordingly, they are not included in “Available-for-sale securities” in the previous table.

## 3. Available-for-sale securities sold during each fiscal year

Consolidated fiscal year ended October 31, 2018 (As of October 31, 2018)

Type	Proceeds from sales (millions of yen)	Gains on sales (millions of yen)	Losses on sales (millions of yen)
(1) Other	1,751	38	—
Total	1,751	38	—

Consolidated fiscal year ended October 31, 2019 (As of October 31, 2019)

Type	Proceeds from sales (millions of yen)	Gains on sales (millions of yen)	Losses on sales (millions of yen)
(1) Stocks	6,882	3,582	—
(2) Other	3,528	44	0
Total	10,411	3,627	0

4. Securities for which an impairment loss was recognized

In the consolidated fiscal year ended October 31, 2018, an impairment loss of 330 million yen was recognized for marketable securities.

In the consolidated fiscal year ended October 31, 2019, an impairment loss of 308 million yen was recognized for marketable securities.

Impairment losses are recorded when the market value of the marketable securities drops below 50% of the acquisition cost, except in cases where the market value is expected to recover.

[Derivatives transactions]

1. Derivatives transactions for which hedge accounting is not applied

(1) Currency-related transactions

Consolidated fiscal year ended October 31, 2018 (As of October 31, 2018)

Classification	Transaction type	Contract amount, etc. (millions of yen)	Contract amount, etc. / over one year (millions of yen)	Fair value (millions of yen)	Unrealized gain (loss) (millions of yen)
Off-market transactions	Forward exchange contracts				
	Bought				
	USD	107	10	5	5
	SGD	27	—	0	0
	AUD	155	92	(1)	(1)
	CAD	10	—	0	0
	NZD	27	—	(1)	(1)
	Total	327	102	2	2

(Note) Calculation method of fair value

Fair value is calculated based on the price provided by counterparty financial institutions, etc.

Consolidated fiscal year ended October 31, 2019 (As of October 31, 2019)

Classification	Transaction type	Contract amount, etc. (millions of yen)	Contract amount, etc. / over one year (millions of yen)	Fair value (millions of yen)	Unrealized gain (loss) (millions of yen)
Off-market transactions	Forward exchange contracts				
	Sold				
	USD	432	—	(2)	(2)
	EUR	833	—	(16)	(16)
	NOK	267	—	6	6
	Bought				
	USD	33	23	0	0
	SGD	34	34	0	0
	AUD	110	46	(3)	(3)
	Currency options				
Sold					
USD	1,904	—	(8)	(8)	
Bought					
USD	1,904	—	5	5	
	Total	5,521	104	(18)	(18)

(Note) Calculation method of fair value

Fair value is calculated based on the price provided by counterparty financial institutions, etc.



## (2) Commodity-related transactions

Consolidated fiscal year ended October 31, 2018 (As of October 31, 2018)

Classification	Transaction type	Contract amount, etc. (millions of yen)	Contract amount, etc. / over one year (millions of yen)	Fair value (millions of yen)	Unrealized gain (loss) (millions of yen)
Off-market transactions	Crude oil price commodity swaps	259	86	4	4
Total		259	86	4	4

(Note) Calculation method of fair value

Fair value is calculated based on the price provided by counterparty banks with which the Company has concluded commodity swap transaction contracts.

Consolidated fiscal year ended October 31, 2019 (As of October 31, 2019)

Classification	Transaction type	Contract amount, etc. (millions of yen)	Contract amount, etc. / over one year (millions of yen)	Fair value (millions of yen)	Unrealized gain (loss) (millions of yen)
Off-market transactions	Crude oil price commodity swaps	100	—	(22)	(22)
Total		100	—	(22)	(22)

(Note) Calculation method of fair value

Fair value is calculated based on the price provided by counterparty banks with which the Company has concluded commodity swap transaction contracts.

2. Derivative transactions for which hedge accounting is applied

Currency-related transaction

Consolidated fiscal year ended October 31, 2018 (As of October 31, 2018)

Hedge accounting method	Transaction type	Major hedged items	Year ended October 31, 2018 (As of October 31, 2018)		
			Contract amount, etc. (millions of yen)	Contract amount, etc. / over one year (millions of yen)	Fair value (millions of yen)
Principle method	Forward exchange contracts				
	Sold				
	JPY	Accounts receivable - trade	215	—	5
	USD		11	—	(0)
	Bought				
	JPY		84	—	(0)
	USD		9,713	—	208
	EUR		1,565	—	(4)
	GBP	Operating accounts payable	5	—	(0)
	SGD		17	—	0
	CAD		12	—	0
	THB		12	—	0
	NZD		11	—	0
	Currency options				
Sold					
USD	Accounts receivable - trade	1,093	—	(2)	
EUR		256	—	(4)	
Bought					
USD	Operating accounts payable	1,093	—	23	
EUR		256	—	2	
Designated hedge accounting ( <i>furiate shori</i> ) for forward exchange contracts, etc.	Forward exchange contracts				
	Sold				
	USD	Accounts receivable-trade	11	—	
	Bought				
	JPY		51	—	
	USD		2,313	—	
	EUR		647	—	
	GBP		0	—	
	SGD	Operating accounts payable	27	—	
	AUD		37	—	
	THB		1	—	
	CNY		0	—	
	CHF		1	—	
	IDR		0	—	
Currency options					
Sold					
USD	Accounts receivable - trade	1,093	—		
EUR		64	—		
Bought					
USD	Operating accounts payable	1,093	—		
EUR		64	—		
Total			19,755	—	228

(Notes)

1. Calculation method of fair value

Fair value is calculated based on the price, etc., provided by counterparty financial institutions, etc.

2. Those items subject to designated hedge accounting (*furiate shori*) for forward exchange contracts are treated together with hedged “Accounts receivable – trade” and “Operating accounts payable.” Accordingly, their fair values are included in the fair values of the related “Accounts receivable – trade” and “Operating accounts payable.”

Consolidated fiscal year ended October 31, 2019 (As of October 31, 2019)

Hedge accounting method	Transaction type	Major hedged items	Year ended October 31, 2019 (As of October 31, 2019)		
			Contract amount, etc. (millions of yen)	Contract amount, etc. / over one year (millions of yen)	Fair value (millions of yen)
Principle method	Forward exchange contracts				
	Sold				
	JPY	Accounts receivable - trade	390	—	(2)
	Bought				
	JPY	Operating accounts payable	59	—	(0)
	USD		6,469	—	87
	EUR		1,030	—	15
	GBP		13	—	0
	SGD		35	—	0
	AUD		91	—	0
	THB		66	—	0
	Currency options				
	Sold				
	USD	Accounts receivable - trade	1,882	—	(14)
Bought					
USD	Operating accounts payable	1,882	—	14	
Designated hedge accounting ( <i>furiate shori</i> ) for forward exchange contracts, etc.	Forward exchange contracts				
	Sold				
	JPY	Accounts receivable-trade	220	—	Note 2
	Bought				
	JPY	Operating accounts payable	35	—	
	USD		3,432	—	
	EUR		745	—	
	GBP		1	—	
	SGD		12	—	
	AUD		20	—	
	THB		501	—	
	CNY		0	—	
	CHF		1	—	
NZD	25		—		
Total			16,918	—	

(Notes)

1. Calculation method of fair value

Fair value is calculated based on the price, etc., provided by counterparty financial institutions, etc.

2. Those items subject to designated hedge accounting (*furiate shori*) for forward exchange contracts are treated together with hedged “Accounts receivable – trade” and “Operating accounts payable.” Accordingly, their fair values are included in the fair values of the related “Accounts receivable – trade” and “Operating accounts payable.”

[Provision for employee retirement benefits]

1. Outline of adopted employee retirement benefit plans

The Company and some of its consolidated subsidiaries have adopted funded and unfunded defined benefit and defined contribution plans to cover retirement benefits for its employees.

Defined benefit corporate pension plans provide lump-sum retirement benefits or pension benefits based on salary and years of service.

Retirement lump-sum plans provide lump-sum retirement benefits based on salary and years of service.

The retirement lump-sum plans adopted by some consolidated subsidiaries calculate liabilities and expenses for retirement benefits using the simplified method.

2. Defined benefit plan

(1) Reconciliation of balance of retirement benefit obligation at beginning and end of the year (millions of yen)

	Year ended October 31, 2018 (November 1, 2017 to October 31, 2018)	Year ended October 31, 2019 (November 1, 2018 to October 31, 2019)
Retirement benefit obligation at beginning of year	9,673	9,276
Service cost	981	1,029
Interest cost	36	31
Actuarial differences	59	228
Retirement benefits paid	(598)	(559)
Increase from new consolidation	9	—
Decline accompanying the transfer to defined contribution pension plans	(905)	(15)
Foreign currency translation gains	19	10
Projected benefit obligation at end of year	9,276	10,001

Note: Certain consolidated subsidiaries use the simplified method to calculate projected benefit obligation.

(2) Reconciliation of balance of pension assets at beginning and end of the year (millions of yen)

	Year ended October 31, 2018 (November 1, 2017 to October 31, 2018)	Year ended October 31, 2019 (November 1, 2018 to October 31, 2019)
Pension assets at beginning of year	2,707	2,790
Expected return on plan assets	36	47
Actuarial differences	17	(88)
Amount of employer contribution	124	163
Retirement benefits paid	(95)	(98)
Pension assets at end of year	2,790	2,815

(3) Reconciliation of balance of retirement benefit obligation and pension assets at end of fiscal year and retirement benefit liability and asset recorded on the consolidated balance sheet (millions of yen)

	Year ended October 31, 2018 (As of October 31, 2018)	Year ended October 31, 2019 (As of October 31, 2019)
Retirement benefit obligation for funded plans	2,591	2,677
Pension assets	(2,790)	(2,815)
	(199)	(138)
Retirement benefit obligation for unfunded plans	6,684	7,324
Net liability and asset recorded on consolidated balance sheet	6,485	7,186
Retirement benefit liability	7,036	7,715
Retirement benefit asset	(551)	(529)
Net liability and asset recorded on consolidated balance sheet	6,485	7,186

## (4) Retirement benefit expenses and breakdown

	(millions of yen)	
	Year ended October 31, 2018 (November 1, 2017 to October 31, 2018)	Year ended October 31, 2019 (November 1, 2018 to October 31, 2019)
Service cost	981	1,029
Interest cost	36	31
Expected return on plan assets	(36)	(47)
Amortization of actuarial differences	(197)	112
Retirement benefit expenses related to defined-benefit plan	784	1,126

(Notes) The retirement benefit expenses incurred by consolidated subsidiaries that adopt a simplified method of calculation are included under service cost.

In addition to the above, in the consolidated fiscal year ended October 31, 2018, the Company booked 282 million yen in extraordinary income in conjunction with a partial transfer from defined benefit to defined contribution plans.

## (5) Adjustments related to retirement benefits

A breakdown of items (prior to tax effect deduction) recorded as adjustments related to retirement benefits is shown below.

	(millions of yen)	
	Year ended October 31, 2018 (November 1, 2017 to October 31, 2018)	Year ended October 31, 2019 (November 1, 2018 to October 31, 2019)
Actuarial differences	251	203
Total	251	203

## (6) Cumulative adjustments related to retirement benefits

A breakdown of items (prior to tax effect deduction) recorded as cumulative adjustments related to retirement benefits is shown below.

	(millions of yen)	
	Year ended October 31, 2018 (As of October 31, 2018)	Year ended October 31, 2019 (As of October 31, 2019)
Unrecognized actuarial differences	56	260
Total	56	260

## (7) Items related to pension assets

## 1) Breakdown of principal pension assets

The main categories by percentage of total pension assets are shown below.

	Year ended October 31, 2018 (As of October 31, 2018)	Year ended October 31, 2019 (As of October 31, 2019)
Bonds	16%	18%
Stocks	25%	22%
Regular accounts	58%	59%
Other	1%	1%
Total	100%	100%

## 2) Method for setting long-term expected rate of return

The current and projected allocation of pension assets and the current and future long-term rates of return for the diverse assets that comprise the pool of pension assets are considered when determining the long-term expected rate of return on pension assets.

## (8) Basis for calculating actuarial differences

Basis for calculating principal actuarial differences

	Year ended October 31, 2018 (As of October 31, 2018)	Year ended October 31, 2019 (As of October 31, 2019)
Discount rate	0.3%–0.6%	(0.1)%–0.4%
Long-term expected rate of return on plan assets	2.0%	2.0%

## 3. Defined contribution plan

The defined contribution of the Company and its consolidated subsidiaries was 189 million yen for the consolidated fiscal year ended October 31, 2018 and 158 million yen for the consolidated fiscal year ended October 31, 2019.

[Stock options]

1. Amount recorded as profit owing to the non-exercise of rights resulting in forfeiture

(millions of yen)

	Year ended October 31, 2018 (November 1, 2017 to October 31, 2018)	Year ended October 31, 2019 (November 1, 2018 to October 31, 2019)
Gain on reversal of share acquisition rights	—	513

Note: The exercise period for the share acquisition rights attached to the first and second stock options ended on July 31, 2019.

2. Stock option expenses and items

(millions of yen)

	Year ended October 31, 2018 (November 1, 2017 to October 31, 2018)	Year ended October 31, 2019 (November 1, 2018 to October 31, 2019)
Selling, general and administrative expenses	178	82

3. Stock options description, scale, and changes

(1) Description of stock options

	First Series of Stock Options	Second Series of Stock Options
Category and number of grantees	Company employees: 1,322 Subsidiary employees: 261	Directors (excluding Directors serving as Audit & Supervisory Committee Members, non-Executive Directors, non-Permanent Directors, and External Directors): 10 Directors of subsidiaries: 34
Number of stock options by stock type (Note)	Common stock: 793,700	Common stock: 117,000
Grant date	May 23, 2016	February 28, 2017
Conditions for vesting	Note	Note
Requisite service period	Not specified	Same as left
Exercisable period	May 1, 2019 – July 31, 2019	Same as left

(Note) The exercise period for the first and second series of share acquisition rights ended on July 31, 2019.

(2) Stock options scale and related changes

Changes in the scale of stock options that existed in the year ended October 31, 2019 are shown below. The number of stock options is converted to the number of shares.

1) Number of stock options

	First Series of Stock Options	Second Series of Stock Options
Non-vested (shares):		
As of October 31, 2018	793,700	117,000
Granted	—	—
Forfeited	793,700	117,000
Vested	—	—
Unvested	—	—

2) Price information

	First Series of Stock Options	Second Series of Stock Options
Exercise price (yen)	2,817	2,978
Average share price at time of exercise (yen)	—	—
Fair value per share at grant date (yen)	619	581

4. Method for estimating the number of stock options vested

Only the actual number of forfeited stock options is reflected because it is difficult to rationally estimate the actual number of stock options that will be forfeited in the future.



[Tax effect accounting]

1. The principal components of deferred tax assets and deferred tax liabilities are shown below.

	Year ended October 31, 2018 (As of October 31, 2018)	Year ended October 31, 2019 (As of October 31, 2019)
		(millions of yen)
[Deferred tax assets]		
Tax loss carryforwards (Note)	960	2,333
Retirement benefit liability	1,557	1,741
Provision for retirement benefits for directors (and other officers)	67	183
Depreciation	2,991	2,445
Non-deductible asset retirement obligation expenses	126	139
Long-term accounts payable - other	107	98
Loss on valuation of land	1,028	—
Excess allowance for doubtful accounts	1,480	1,918
Provision for bonuses	1,136	1,347
Accrued enterprise tax	107	190
Travel advances received	250	233
Unsettled gift certificates	401	326
Unpaid social insurance premiums	134	159
Valuation difference on available-for-sale securities	—	105
Provision for loss on liquidation of subsidiaries and associates	662	—
Other	1,000	1,213
Deferred tax assets subtotal	12,011	12,437
Valuation allowance pertaining to tax loss carryforwards (Note)	—	(673)
Valuation allowance pertaining to total future deductible temporary differences	—	(3,629)
Valuation allowance subtotal	(4,949)	(4,302)
Deferred tax assets total	7,061	8,134
[Deferred tax liabilities]		
Valuation difference on available-for-sale securities	(93)	—
Deferred gains or losses on hedges	(68)	(31)
Other	161	31
Deferred tax liabilities total	—	—
Deferred tax assets, net	7,061	8,134
[Deferred tax liabilities]		
Revaluation reserve for land	4,837	1,707
Other	743	3,229
Deferred tax liabilities total	5,581	4,937
[Deferred tax assets]		
Tax loss carryforwards (Note)	(108)	(204)
Retirement benefit liability	(361)	(288)
Provision for retirement benefits for directors (and other officers)	(17)	(9)
Other	2	(84)
Deferred tax assets subtotal	(485)	(586)
Valuation allowance pertaining to tax loss carryforwards	—	204
Valuation allowance pertaining to total future deductible temporary differences	—	234
Valuation allowance subtotal	460	438
Deferred tax assets total	(25)	(147)
Deferred tax liabilities, net	5,556	4,789

Note: Tax loss carryforwards and related deferred tax assets by carryforward period

Consolidated fiscal year ended October 31, 2019 (as of October 31, 2019)

	1 year or less (millions of yen)	1-2 years (millions of yen)	2-3 years (millions of yen)	3-4 years (millions of yen)	4-5 years (millions of yen)	Over 5 years (millions of yen)	Total (millions of yen)
Tax loss carryforwards (Note 1)	—	—	—	—	23	2,513	2,538
Valuation allowance	—	—	—	—	(23)	(853)	(878)
Deferred tax assets	—	—	—	—	—	1,659	(Note 2) 1,659

(Notes)

1. Tax loss carryforward figures are the amounts multiplied by the effective statutory tax rate.

2. For the tax loss carryforward of 2,538 million yen (amount multiplied by effective statutory tax rate), deferred tax assets of 1,659 million yen were recorded. No valuation allowance was recognized for the portion of this tax loss carryforward determined to be recoverable on the basis of projected future taxable income.

2. Major components of significant differences arising between the effective statutory tax rate and effective income tax rate after application of tax-effect accounting

	Year ended October 31, 2018 (As of October 31, 2018)	Year ended October 31, 2019 (As of October 31, 2019)
Effective statutory tax rate	30.86%	For the consolidated fiscal year ended October 31, 2019, notes have been omitted as the difference between the effective statutory tax rate and effective income tax rate after adoption of tax-effect accounting was less than 5% of statutory tax rate.
[Adjustments]		
Inhabitant tax on per capita basis	0.95	
Amortization of goodwill	1.25	
Non-deductible permanent differences such as entertainment expenses	1.03	
Tax rate differences with overseas consolidated subsidiaries	(1.38)	
Increase in valuation allowance	0.81	
Other	0.34	
Actual effective tax rate after application of tax effect accounting	33.86	

[Business combinations]

Significant revisions to the initial allocation of acquisition costs in figures used for comparison

In the previous fiscal year, the Company used a provisional accounting treatment for its business combination with JONVIEW CANADA INC. on November 30, 2017. In the fiscal year ended October 31, 2019, the provisional accounting treatment was finalized, and the Company reflected a revision to the initial allocation of acquisition costs on the consolidated financial statements of the previous fiscal year, resulting in a change in the goodwill amount from 3,088 million yen to 1,342 million yen. In addition, intangible assets and deferred tax liabilities as of October 31, 2018 increased by 2,168 million yen and 594 million yen, respectively.

The impact of these changes on the consolidated statement of income of the previous fiscal year is negligible.

Business combination through acquisition

1. Overview of business combination

(1) Name of acquired company and description of business

Name of acquired company: RED LABEL VACATIONS INC., etc.

Description of business: Travel business

(2) Main reason for business combination

The purpose of the business combination is to further strengthen travel operations and explore business expansion in North America.

(3) Date of business combination

March 1, 2019

(4) Legal form of business combination

Acquisition of shares through cash payment

(5) Name of the company after the business combination

No change.

(6) Percentage of voting rights acquired

100.0%

(7) Grounds for determining acquiring company

The Company acquired shares in compensation for cash.

2. Period for which acquired company's business results are included in the consolidated financial statements

From March 1, 2019 to July 31, 2019

3. Breakdown of acquisition cost for the acquired company and each type of payment

<u>Acquisition price (cash)</u>	<u>11,833 million yen</u>
Acquisition cost	11,833 million yen

4. Main details and amount of acquisition-related expenses

Advisory expenses, etc. 125 million yen

5. Amount of goodwill that arose, reasons for incidence, and amortization method and period

(1) Amount of goodwill that arose

1,401 million yen

(2) Reasons for incidence

The goodwill mainly reflects excess earnings power expected going forward.

(3) Amortization method and period

Amortized using the straight-line method over a period of 13 years.

6. Amount of assets received and liabilities undertaken on the date of the business combination, and their breakdown

	(millions of yen)
Current assets	27,748
Non-current assets	<u>10,019</u>
Total assets	<u>37,767</u>
Current liabilities	26,992
Non-current liabilities	<u>318</u>
Total liabilities	<u>27,311</u>

7. Estimated amount and calculation method for hypothetical impact on consolidated statements of income for the fiscal year under review assuming business combination was completed on the first day of the fiscal year under review

This information has been omitted owing to difficulties in calculating the estimated amount of such impact for the consolidated fiscal year ended October 31, 2019.

[Asset retirement obligations]

The overall value of asset retirement obligations is not significant, and is therefore omitted.

[Rental and other properties]

The Company and some of its consolidated subsidiaries own rental office buildings and rental commercial facilities in Kumamoto Prefecture and other regions, from which they generate rental income. In the previous fiscal year, revenue from rental properties amounted to 1,399 million yen (rental income was recorded under net sales on the consolidated income statement, and primary rental expenses under selling, general and administrative expenses). In the fiscal year ended October 31, 2019, revenue from rental properties totaled 1,334 million yen (rental income was recorded under net sales on the consolidated income statement, and primary rental expenses under selling, general and administrative expenses). The amounts recorded on the consolidated balance sheet, increase/decrease during the year, and fair value of the rental properties are as follows.

(millions of yen)

	Year ended October 31, 2018 (November 1, 2017 to October 31, 2018)	Year ended October 31, 2019 (November 1, 2018 to October 31, 2019)
Amount on consolidated balance sheet		
Balance at the beginning of the year	7,539	14,394
Increase/decrease during the year	6,855	36,164
Balance at the end of the year	14,394	50,559
Fair value at the end of the year	13,928	52,909

(Notes)

1. The amount on the consolidated balance sheet is calculated by deducting the accumulated depreciation from the acquisition cost.
2. Fair value at the end of the year is calculated by the Company based on real estate appraisal standards (including those adjusted using relevant indexes, etc.).
3. The increases from the previous fiscal year are attributable to the opening of the large-scale commercial facility SAKURA MACHI Kumamoto on September 14, 2019 by the Kyushu Sanko Group.

[Segment information, etc.]

#### Segment information

##### 1. Outline of reportable segments

H.I.S. Group's reportable segments are constituent units of the Group for which separate financial information is available and which are evaluated regularly by the chief decision-making authority to determine the allocation of management resources and assess performance. The Group is composed of five businesses, namely the Travel Business, the Huis Ten Bosch Group, the Hotel Business, the Kyushu Sanko Group, and the Energy Business, and is engaged in business activities by developing comprehensive domestic and overseas strategies. Accordingly, the Group designates the Travel Business, the Huis Ten Bosch Group, the Hotel Business, the Kyushu Sanko Group, and the Energy Business as its reportable segments.

The Group aims to expand the Energy Business through such initiatives as the construction of a biomass power plant in Kakuda City, Miyagi Prefecture, and it has accordingly established the Energy Business as a new reportable segment from the consolidated fiscal year ended October 31, 2019. In conjunction with the change, it moved HTB ENERGY CO., LTD. from the Huis Ten Bosch Group to the Energy Business, and H.I.S Energy Holdings Co. Ltd. and H.I.S. SUPER POWER Co., Ltd. from Other businesses to the Energy Business.

In the consolidated fiscal year ended October 31, 2019, the Group acquired the shares of Huis Ten Bosch Technical Center Co., Ltd. and concurrently moved the company and its subsidiary Nishinohon Engineering Co., Ltd. from the Huis Ten Bosch Group to Other businesses. Segment information for the year ended October 31, 2018 has been prepared and is presented based on the reportable segment classification after the changes.

The Travel Business engages in the arrangement, planning, and sales of overseas and domestic travel products, and peripheral operations. The Huis Ten Bosch Group owns and manages theme parks in Sasebo City, Nagasaki Prefecture and Gamagori City, Aichi Prefecture. The Hotel Business engages in hotel operations in Japan, Taiwan, the U.S., and Indonesia, as well as in ancillary businesses. The Kyushu Sanko Group, whose holding company is KYUSHU INDUSTRIAL TRANSPORTATION HOLDINGS CO., LTD., is a segment of the H.I.S. Group that engages in vehicle transportation, real estate rental, and other operations. The Energy Business engages in electricity retail and the development of new electric power including and renewable energy, and operates ancillary businesses.

##### 2. Calculation methods for net sales, profit (loss), assets, liabilities, and other items for each reportable segment

The accounting methods used for reportable segments are roughly the same as those discussed under "Significant matters that serve as the basis for preparation of the consolidated financial statements."

Segment profit figures are the same as operating profit figures.

Intersegment internal profits and transfers are based on market prices.

3. Information about net sales, profit (loss), assets, liabilities, and other items for each reportable segment  
Consolidated fiscal year ended October 31, 2018 (November 1, 2017 to October 31, 2018)

(millions of yen)

	Reportable segments						Other *1	Total	Adjustments *2	Amount on consolidated financial statements *3
	Travel Business	Huis Ten Bosch Group	Hotel Business	Kyushu Sanko Group	Energy Business	Reportable segment total				
Net sales										
Sales to external customers	649,650	28,952	11,153	21,626	11,899	723,282	5,271	728,554	—	728,554
Inter-segment sales/transfers	1,653	1,727	886	15	90	4,372	624	4,997	(4,997)	—
Total	651,303	30,680	12,039	21,641	11,989	727,655	5,896	733,551	(4,997)	728,554
Segment profit (loss)	12,205	7,315	808	398	(428)	20,299	21	20,320	(2,237)	18,083
Segment assets	253,871	49,310	40,345	65,762	9,911	419,199	18,798	437,998	78,469	516,468
Others										
Depreciation	3,317	2,058	1,227	959	22	7,585	172	7,757	395	8,152
Amortization of goodwill	424	—	81	38	45	589	248	837	—	837
Investment in entities accounted for using equity method	224	—	—	—	—	224	—	224	—	224
Increase in Property, plant and equipment and intangible assets	2,595	5,102	10,748	16,700	44	35,193	11,397	46,591	543	47,134

(Notes)

1. “Other” refers to business segments such as the non-life insurance business and real estate business, etc., not included in the reportable segments.
2. The information for reportable segments above reflects significant revisions to the initial allocation of acquisition costs following the finalization of the provisional accounting treatment for business combinations.
3. The details of “Adjustments” are as follows:
  - (1) Adjustment on segment profit (loss) amounting to -2,237 million yen reflects corporate-wide expenses not allocated to each reportable segment, and refers to expenses at the parent company’s headquarter administration division, which are not attributable to reportable segments.
  - (2) Adjustment on segment assets amounting to 78,469 million yen includes -1,534 million yen in elimination of intersegment transactions, and corporate-wide assets of 80,004 million yen not allocated to each reportable segment. Corporate-wide assets refer to surplus fund management (cash and deposits, and securities) at the parent company, and assets of the administration division.
  - (3) Adjustment on depreciation amounting to 395 million yen is corporate-wide expenses not allocated to each reportable segment, and refers to depreciation at the parent company’s headquarter administration division, which is not attributable to the reportable segments.
  - (4) Adjustment on increase in property, plant and equipment and intangible assets amounting to 543 million yen is capital investment at the parent company, which is not attributable to the reportable segments.
4. Segment profit (loss) is adjusted with the operating profit in the consolidated financial statements.
5. EBITDA for each reportable segment is presented below.

(millions of yen)

	Travel Business	Huis Ten Bosch Group	Hotel Business	Kyushu Sanko Group	Energy Business	Other	Total
Segment profit (loss)	12,205	7,315	808	398	(428)	21	20,320
Depreciation and goodwill amortization	3,741	2,058	1,309	997	67	420	8,595
EBITDA (Note)	15,946	9,373	2,117	1,395	(360)	441	28,916

(Note) EBITDA reflects segment profit (or loss) plus depreciation and goodwill amortization.

Consolidated fiscal year ended October 31, 2019 (November 1, 2018 to October 31, 2019)

(millions of yen)

	Reportable segments						Other *1	Total	Adjustments *2	Amount on consolidated financial statements *3
	Travel Business	Huis Ten Bosch Group	Hotel Business	Kyushu Sanko Group	Energy Business	Reportable segment total				
Net sales										
Sales to external customers	720,465	26,372	11,757	22,208	20,345	801,149	7,360	808,510	—	808,510
Inter-segment sales/transfers	1,998	1,713	918	22	116	4,770	1,015	5,785	(5,785)	—
Total	722,464	28,086	12,676	22,230	20,461	805,919	8,376	814,295	(5,785)	808,510
Segment profit (loss)	13,754	5,075	(217)	158	974	19,746	589	20,335	(2,795)	17,540
Segment assets	263,084	52,522	64,777	84,397	14,113	478,895	23,174	502,070	75,329	577,399
Others										
Depreciation	3,646	2,099	1,197	1,045	30	8,020	238	8,258	511	8,770
Amortization of goodwill	579	—	78	—	45	703	249	953	—	953
Investment in entities accounted for using equity method	240	—	—	—	—	240	601	842	—	842
Increase in Property, plant and equipment and intangible assets	3,756	2,780	26,921	48,608	1,619	83,686	2,132	85,819	6,861	92,680

(Notes)

1. “Other” refers to business segments such as the non-life insurance business and real estate business, etc., not included in the reportable segments.
2. The details of “Adjustments” are as follows:
  - (1) Adjustment on segment profit (loss) amounting to -2,795 million yen reflects corporate-wide expenses not allocated to each reportable segment, and refers to expenses at the parent company’s headquarter administration division, which are not attributable to reportable segments.
  - (2) Adjustment on segment assets amounting to 75,329 million yen includes -1,561 million yen in elimination of intersegment transactions, and corporate-wide assets of 76,890 million yen not allocated to each reportable segment. Corporate-wide assets refer to surplus fund management (cash and deposits, and securities) at the parent company, and assets of the administration division.
  - (3) Adjustment on depreciation amounting to 511 million yen is corporate-wide expenses not allocated to each reportable segment, and refers to depreciation at the parent company’s headquarter administration division, which is not attributable to the reportable segments.
  - (4) Adjustment on increase in property, plant and equipment and intangible assets amounting to 6,861 million yen is capital investment at the parent company, which is not attributable to the reportable segments.
3. Segment profit (loss) is adjusted with the operating profit in the consolidated financial statements.
4. EBITDA for each reportable segment is presented below.

(millions of yen)

	Travel Business	Huis Ten Bosch Group	Hotel Business	Kyushu Sanko Group	Energy Business	Other	Total
Segment profit (loss)	13,754	5,075	(217)	158	974	589	20,335
Depreciation and goodwill amortization	4,226	2,099	1,276	1,045	76	488	9,212
EBITDA (Note)	17,980	7,175	1,059	1,203	1,050	1,077	29,547

(Note) EBITDA reflects segment profit (or loss) plus depreciation and goodwill amortization.

Related information

Consolidated fiscal year ended October 31, 2018 (November 1, 2017 to October 31, 2018)

1. Information by product and service

This information has been omitted because similar information is included under the “Segment information, etc.” section.

2. Information by region

(1) Net sales (millions of yen)

Japan	U.S.	Asia	Oceania	Europe, Middle East, Africa	Total
605,052	52,138	51,139	4,229	15,994	728,554

(2) Property, plant and equipment (millions of yen)

Japan	U.S.	Asia	Oceania	Europe, Middle East, Africa	Total
102,817	6,061	6,343	578	302	116,102

3. Information by major customer

This information has been omitted as there were no sales from a single external customer accounting for 10% or more of net sales on the consolidated income statement.

Consolidated fiscal year ended October 31, 2019 (November 1, 2018 to October 31, 2019)

1. Information by product and service

This information has been omitted because similar information is included under the “Segment information, etc.” section.

2. Information by region

(1) Net sales (millions of yen)

Japan	U.S.	Asia	Oceania	Europe, Middle East, Africa	Total
637,195	104,379	47,418	2,084	17,432	808,510

(2) Property, plant and equipment (millions of yen)

Japan	U.S.	Asia	Oceania	Europe, Middle East, Africa	Total
132,730	7,165	5,618	13	1,571	147,098

3. Information by major customer

This information has been omitted as there were no sales from a single external customer accounting for 10% or more of net sales on the consolidated income statement.

Information regarding impairment loss on fixed assets by reportable segment

Consolidated fiscal year ended October 31, 2018 (November 1, 2017 to October 31, 2018)

Information on impairment loss has been omitted as their value was not significant.

Consolidated fiscal year ended October 31, 2019 (November 1, 2018 to October 31, 2019)

(millions of yen)

	Reportable segments						Other	Unallocated amounts and elimination	Total
	Travel Business	Huis Ten Bosch Group	Hotel Business	Kyushu Sanko Group	Energy Business	Reportable segment total			
Impairment loss	377	—	—	173	—	551	325	—	877

(Note) “Other” indicate figures for the non-life insurance and real estate businesses, etc.



Information regarding amortization of goodwill and unamortized balance by reportable segment  
 Consolidated fiscal year ended October 31, 2018 (November 1, 2017 to October 31, 2018)

(millions of yen)

	Reportable segments						Other (Note)	Unallocated amounts and elimination	Total
	Travel Business	Huis Ten Bosch Group	Hotel Business	Kyushu Sanko Group	Energy Business	Reportable segment total			
Amortization for the year ended October 31, 2018	424	—	81	38	45	589	248	—	837
Unamortized balance for the year ended October 31, 2018	4,130	—	1,389	—	496	6,017	1,214	—	7,232

(Notes)

1. “Other” indicates figures for the non-life insurance and real estate businesses, etc.
2. The information for reportable segments above reflects significant revisions to the initial allocation of acquisition costs following the finalization of the provisional accounting treatment for business combinations.

Consolidated fiscal year ended October 31, 2019 (November 1, 2018 to October 31, 2019)

(millions of yen)

	Reportable segments						Other (Note)	Unallocated amounts and elimination	Total
	Travel Business	Huis Ten Bosch Group	Hotel Business	Kyushu Sanko Group	Energy Business	Reportable segment total			
Amortization for the year ended October 31, 2019	579	—	78	—	45	703	249	—	953
Unamortized balance for the year ended October 31, 2019	4,998	—	1,215	—	451	6,666	639	—	7,305

(Note) “Other” indicates figures for the non-life insurance and real estate businesses, etc.

Information regarding gains on negative goodwill by reportable segment

Consolidated fiscal year ended October 31, 2018 (November 1, 2017 to October 31, 2018)

There are no applicable matters to report.

Consolidated fiscal year ended October 31, 2019 (November 1, 2018 to October 31, 2019)

There are no applicable matters to report.

Related parties

1. Transactions with related parties

(1) Transactions between the Company and related parties

(a) Non-consolidated subsidiaries of the Company

Consolidated fiscal year ended October 31, 2018 (November 1, 2017 to October 31, 2018)

Category	Company name	Location	Paid-in capital or investment (millions of yen)	Business description	Share of voting rights held (%)	Relationship with related parties	Nature of transactions	Transaction value (millions of yen)	Item	Balance at yearend (millions of yen)
Associate	ASIA ATLANTIC AIRLINES CO., LTD.	Bangkok, Thailand	672	Transportation business	Direct 1.0 Indirect 27.9	Purchasing of travel products, etc.	Debt waiver	2,088	—	—

(Notes) Conditions of transaction and policy for determining such conditions

The debt waiver was approved by a resolution of the Board of Directors.

The Company recorded a 2,163 million yen allowance for loss on liquidation of subsidiaries and associates, and booked a provision of allowance for loss on liquidation of subsidiaries and associates in the fiscal year ended October 31, 2018.

Consolidated fiscal year ended October 31, 2019 (November 1, 2018 to October 31, 2019)

There are no applicable matters to report.

(b) Directors and major shareholders of the Company, etc. (only in the case of individuals)

Consolidated fiscal year ended October 31, 2018 (November 1, 2017 to October 31, 2018)

Category	Name	Location	Paid-in capital or investment (millions of yen)	Business description	Share of voting rights held (%)	Relationship with related parties	Nature of transactions	Transaction value (millions of yen)	Item	Balance at yearend (millions of yen)
Director	Hideo Sawada	—	—	Representative director of the Company	(Held) Direct 33.2	—	Sale of investment stake	11	—	—

(Notes) Conditions of transaction and policy for determining such conditions

The selling price of the investment stake was determined through mutual consultation.

Consolidated fiscal year ended October 31, 2019 (November 1, 2018 to October 31, 2019)

There are no applicable matters to report.

## (2) Transactions between consolidated subsidiaries of the Company and related parties

Directors (and other officers) and major shareholders of the Company, etc. (only in the case of individuals)

Consolidated fiscal year ended October 31, 2018 (November 1, 2017 to October 31, 2018)

Category	Company name	Location	Paid-in capital or investment (millions of yen)	Business description	Share of voting rights held (%)	Relationship with related parties	Nature of transactions	Transaction value (millions of yen)	Item	Balance at yearend (millions of yen)
Director	Hideo Sawada	—	—	Representative director of the Company	(Held) Direct 33.2	—	Loan of funds	1,054	Short-term loans receivable	1,054
							Receipt of interest	0	Current assets (other)	0
							Sale of non-current assets	46	—	—
Entities in which Directors (and other officers) of the Company or their relatives hold a majority of voting rights. (including subsidiaries of such entities)	Hide Inter Ltd.	Shibuya-ku, Tokyo	5	Real estate rental management	—	—	Acquisition of shares	13	—	—
Entities in which Directors (and other officers) of the Company or their relatives hold a majority of voting rights. (including subsidiaries of such entities)	Best1.com Co. Ltd.	Shinjuku-ku, Tokyo	281	Travel business	—	Sales of cruise travel and other products	Sales of cruise travel and other products	94	Notes and accounts receivable - trade	66

## (Notes)

## 1. Conditions of transactions and policy for determining such conditions

(1) The loan rate was determined through individual negotiations while taking into consideration market rates.

(2) The selling price for the current assets was determined using the same conditions as for general transactions, based on a contract concluded following mutual consultation.

(3) The share acquisition price was determined based on the share value calculated by a third-party appraiser.

(4) The sales of cruise travel and other products are governed by the same conditions as sales for unrelated parties.

2. The Company's representative director Hideo Sawada and his near relative own 100.0% of the voting rights of Hide Inter Ltd.

3. The Company's representative director Hideo Sawada and his near relative own 58.2% of the voting rights of Best1.com Co. Ltd.

## Consolidated fiscal year ended October 31, 2019 (November 1, 2018 to October 31, 2019)

Category	Name	Location	Paid-in capital or investment (millions of yen)	Business description	Share of voting rights held (%)	Relationship with related parties	Nature of transactions	Transaction value (millions of yen)	Item	Balance at yearend (millions of yen)
Director	Hideo Sawada	—	—	Representative director of the Company	(Held) Direct 31.2	—	Collection of funds	1,054	—	—
							Receipt of interest	0		
							Transfer and collection of receivables	4,246		
Entities in which Directors (and other officers) of the Company or their relatives hold a majority of voting rights. (including subsidiaries of such entities)	Kyoritsu Building Co., Ltd.	Shibuya-ku, Tokyo	10	Real estate rental management	—	Real estate leasing	Payment of rent	15	Prepaid expenses	0
Entities in which Directors (and other officers) of the Company or their relatives hold a majority of voting rights. (including subsidiaries of such entities)	Best1.com Co. Ltd.	Shinjuku-ku, Tokyo	291	Travel business	—	Sales of cruise travel and other products	Sales of cruise travel and other products	64	Notes and accounts receivable - trade	4

## (Notes)

## 1. Conditions of transactions and policy for determining such conditions

- (1) The loan rate was determined through individual negotiations while taking into consideration market rates.
  - (2) Mr. Sawada pledged his own shares when the receivables were transferred to him in January 2019, and the pledge was cancelled when the receivables were recovered from Mr. Sawada in March 2019.
  - (3) Rent payments are governed by the same conditions as sales for unrelated parties.
  - (4) The sales of cruise travel and other products are governed by the same conditions as sales for unrelated parties.
2. The Company's representative director Hideo Sawada and his near relative own 100.0% of the voting rights of Kyoritsu Building, Co., Ltd.
  3. The Company's representative director Hideo Sawada and his near relative own 56.1% of the voting rights of Best1.com Co. Ltd.

## 2. Notes concerning the parent company and significant associates

## (1) Information regarding the parent company

There are no applicable matters to report.

## (2) Summary of financial information for significant associates

There are no applicable matters to report.

[Per share information]

	Year ended October 31, 2018 (November 1, 2017 to October 31, 2018)	Year ended October 31, 2019 (November 1, 2018 to October 31, 2019)
Net assets per share	1,539.98 yen	1,686.22 yen
Earnings per share	192.96 yen	213.63 yen
Diluted earnings per share	166.87 yen	197.66 yen

(Notes)

- The Company has adopted a Trust-type Employee Shareholding Incentive Plan (E-Ship<sup>®</sup>), and the Company shares held in the H.I.S. Employee Stock Ownership Association Dedicated Trust are recorded under “Treasury shares” in the consolidated financial statements. Accordingly, the “number of common stock of treasury shares at fiscal yearend” applied in the calculation of net asset per share includes such shares held in the H.I.S. Employee Stock Ownership Association Dedicated Trust (282,000 shares in the consolidated fiscal year ended October 31, 2018; 188,000 shares in the consolidated fiscal year ended October 31, 2019).
- The basis of calculation for earnings per share and diluted earnings per share is shown below.

	Year ended October 31, 2018 (November 1, 2017 to October 31, 2018)	Year ended October 31, 2019 (November 1, 2018 to October 31, 2019)
Earnings per share		
Profit attributable to owners of the parent (millions of yen)	11,067	12,249
Amount not attributable to common shareholders (millions of yen)	—	—
Profit attributable to owners of the parent with respect to common stock (millions of yen)	11,067	12,249
Average number of shares during the fiscal year (thousand shares)	57,352	57,341
Diluted earnings per share		
Adjustment on profit attributable to owners of the parent (millions of yen)	(39)	(35)
[of which, interest income after tax adjustments (millions of yen)]	[(39)]	[(35)]
Increase in common stock (thousand shares)	8,733	4,452
[of which, convertible bonds (thousand shares)]	[8,733]	[4,452]

(Notes)

- Earnings per share and diluted earnings per share are calculated based on the “Average number of shares during the fiscal year,” whereby Company shares held by the H.I.S. Employee Stock Ownership Association Dedicated Trust are included in “Treasury shares.” (321,000 shares in the consolidated fiscal year ended October 31, 2018; 236,000 shares in the consolidated fiscal year ended October 31, 2019).
- Earnings per share and diluted earnings per share in the consolidated fiscal year ended October 31, 2018 are calculated using amounts that reflect significant revisions to the initial allocation of acquisition costs following the finalization of the provisional accounting treatment for business combinations.

[Significant subsequent events]

Granting of stock options (share acquisition rights)

On January 29, 2020, the Board of Directors resolved to allot share acquisition rights as stock options to the Directors and employees of the Company and its subsidiaries in an effort to motivate them to enhance corporate value.

1. Total number of share acquisition rights  
9,494 rights
2. Persons to be allotted the share acquisition rights, their number, and number of share acquisition rights to be allotted

Company Directors:	5 persons	330 rights
Company employees:	1,693 persons	7,999 rights
Subsidiary Directors:	44 persons	600 rights
Subsidiary employees:	215 persons	565 rights
3. Type and number of shares subject to share acquisition rights  
949,400 common shares of the Company
4. Payment in exchange for share acquisition rights  
The amount to be paid in exchange for each share acquisition right shall be the amount obtained by multiplying the fair value of the stock option per share, calculated using the Black-Scholes model based on various terms and conditions, by the number of granted shares. The payment shall be offset on the allotment date against monetary remuneration payable by the Company to the allottees.
5. Payment upon exercising the share acquisition rights  
The amount of assets to be contributed upon the exercise of the share acquisition rights shall be the amount calculated by multiplying the amount paid per share that is issuable upon the exercise of the share acquisition rights (“Exercise Price”) by the number of shares granted.  
The Exercise Price shall be the closing price of the common shares of the Company in regular trading on the Tokyo Stock Exchange (“Closing Price”) on the day the share acquisition rights are allotted (“Allotment Date”). However, if there is no Closing Price on the day in question, the most recent Closing Price shall be used.
6. Total share issue price for stocks issued upon exercise of share acquisition rights  
3,329,545,800 yen  
The amount above represents an estimate calculated based on the Closing Price of the common shares of the Company on the Tokyo Stock Exchange as of January 20, 2020.
7. When new shares are issued upon exercise of share acquisition rights, amount of issue price that is included in capital stock
  - (1) The issue price per share when shares are issued upon exercise of share acquisition rights, is calculated by adding the issue price of the share acquisition rights to the amount of assets contributed upon the exercise of the share acquisition rights, and dividing the total by the number of granted shares.
  - (2) The increase in capital stock due to the issuance of shares upon exercise of share acquisition rights shall equal one half of the maximum amount by which capital stock can be increased as calculated in accordance with Article 17 paragraph 1 of the Ordinance on Company Accounting; any fraction less than one yen arising therefrom shall be rounded up to the nearest one yen. The amount not recorded as capital stock shall be recorded as capital reserves.
8. Share acquisition rights allotment date  
March 23, 2020
9. Share acquisition rights exercise period  
April 1, 2023 to March 31, 2024

5) Consolidated Supplementary Financial Schedule

Schedule of corporate bonds

Company	Issue	Issue date	Balance at start of year (millions of yen)	Balance at end of year (millions of yen)	Interest rate (%)	Collateral	Maturity date
H.I.S. Co., Ltd.	Euro-yen denominated convertible bond-type bonds with share acquisition rights due 2019 (Note 2)	August 15, 2014	20,033 (20,033)	— (—)	—	None	August 30, 2019
H.I.S. Co., Ltd.	Euro-yen denominated convertible bond-type bonds with share acquisition rights due 2024 (Note 2)	November 16, 2017	25,108	25,090	—	None	November 15, 2024
H.I.S. Co., Ltd.	First series unsecured bonds	October 23, 2014	10,000 (10,000)	— (—)	0.363	None	October 23, 2019
H.I.S. Co., Ltd.	Second series unsecured bonds	October 23, 2014	10,000	10,000	0.645	None	October 22, 2021
H.I.S. Co., Ltd.	Third series unsecured bonds	February 20, 2017	15,000	15,000	0.440	None	February 20, 2024
H.I.S. Co., Ltd.	Fourth series unsecured bonds	February 20, 2017	5,000	5,000	0.580	None	February 19, 2027
Total	—	—	85,141 (30,033)	55,090	—	—	—

(Notes)

- Amounts in parentheses in the “Balance at start of year” and “Balance at end of year” columns reflect the current portion of the bonds.
- An overview of bonds with share acquisition rights are shown below.

Shares to be issued	Common stock	Common stock
Issue price of share acquisition rights (yen)	No charge	No charge
Issue price of new shares (yen)	4,656.2	5,614.5
Total issue amount (millions of yen)	20,000	25,000
Total issue amount for shares issued upon the exercise of share acquisition rights (millions of yen)	—	—
Percentage of share acquisition rights granted	100%	100%
Share acquisition rights exercise period	From August 29, 2014 to August 16, 2019	From November 30, 2017 to November 1, 2024

When receiving a request from a person who intends to exercise the share acquisition rights above, in place of a payment owed to such person at maturity of bonds attached to the share acquisition rights, it will be deemed that such person has paid in full the amount payable upon exercise of the rights. When share acquisition rights are exercised, it shall be deemed that such a request has been received.

- Redemption amounts within five years of the consolidated closing date are shown below.

1 year or less (millions of yen)	1–2 years (millions of yen)	2–3 years (millions of yen)	3–4 years (millions of yen)	4–5 years (millions of yen)
—	10,000	—	—	15,000

Schedule of loans payable, etc.

Classification	Balance at start of year (millions of yen)	Balance at end of year (millions of yen)	Average interest rate (%)	Repayment term
Short-term loans payable	17,992	6,903	0.84	—
Current portion of long-term loans payable	11,008	37,548	0.19	—
Current portion of lease obligations	935	793	—	—
Long-term loans payable (excluding current portion)	113,309	146,403	0.41	2020 – 2041
Lease obligations (excluding current portion)	2,406	2,767	—	2020 – 2029
Other interest-bearing debt	—	—	—	—
Total	145,652	194,416	—	—

(Notes)

1. The average interest rate represents the weighted-average rate applicable to the balance at the end of the year. Furthermore, 521 million yen in long-term loans payable is attributable to the Trust-type Employee Shareholding Incentive Plan (E-Ship®). As interest on loans is not recorded as interest expenses, it is not included in the average interest rate.
2. The average interest rate for lease obligations is not shown, as lease obligations recorded on the consolidated balance sheet are amounts prior to the deduction of the interest expense equivalent, which is included in total leasing fees.
3. Repayment amounts within five years of the consolidated closing date for long-term loans payable and lease obligations (excluding current portions) are shown below.

	1–2 years (millions of yen)	2–3 years (millions of yen)	3–4 years (millions of yen)	4–5 years (millions of yen)
Long-term loans payable*	2,025	4,469	31,461	27,475
Lease obligations	743	660	613	461

\* 521 million yen in long-term loans payable is attributable to the Trust-type Employee Shareholding Incentive Plan (E-Ship®). As there are no fixed installment payment amounts for designated dates, the year-end loan balance is presented assuming that the amount is being repaid in lump sum on the final repayment date.

Schedule of asset retirement obligations

The asset retirement obligation amount at the start and end of the consolidated fiscal year ended October 31, 2019 are below 1% of the total liabilities and net assets at the start and end of the fiscal year, and the information is therefore omitted in accordance with the provisions in Article 92, Paragraph 2 of the Consolidated Financial Statement Regulations.

(2) Others

Quarterly information for the consolidated fiscal year ended October 31, 2019

[Cumulative period]	First quarter	Second quarter	Third quarter	Full year
Net sales (millions of yen)	187,276	377,839	573,717	808,510
Profit before income taxes (millions of yen)	5,199	9,387	12,324	20,352
Profit attributable to owners of parent (millions of yen)	2,356	4,964	6,478	12,249
Earnings per share (yen)	41.12	86.61	113.01	213.63

[Quarterly period]	First quarter	Second quarter	Third quarter	Fourth quarter
Earnings per share (yen)	41.12	45.49	26.41	100.28

(Note) Profit attributable to owners of the parent (cumulative), and earnings per share (cumulative) are calculated based on the “Average number of common stock during the year,” whereby Company shares held by the H.I.S. Employee Stock Ownership Association Dedicated Trust are included in “Treasury shares.”



2. Non-consolidated Financial Statements, etc.

(1) Non-consolidated Financial Statements

1) Non-consolidated Balance Sheet

(millions of yen)

	Year ended October 31, 2018 (As of October 31, 2018)	Year ended October 31, 2019 (As of October 31, 2019)
<b>Assets</b>		
Current assets		
Cash and deposits	137,177	100,423
Accounts receivable - trade	21,817	19,591
Operating accounts receivable	4,416	3,648
Securities	50	—
Travel advance payments	28,698	28,957
Prepaid expenses	1,037	953
Accrued income	98	177
Short-term loans receivable	0	*2 1,093
Short-term loans receivable from subsidiaries and associates	23,329	400
Accounts receivable - other	4,728	2,851
Other	4,315	2,412
Allowance for doubtful accounts	(145)	(7)
<b>Total current assets</b>	<b>225,525</b>	<b>160,500</b>
Non-current assets		
Property, plant and equipment		
Buildings	4,694	4,980
Vehicles	46	23
Tools, furniture and fixtures	485	436
Land	6,345	7,923
Construction in progress	583	6,903
Other	25	349
<b>Total property, plant and equipment</b>	<b>12,179</b>	<b>20,617</b>
Intangible assets		
Trademark right	18	21
Telephone subscription right	82	82
Software	2,504	2,147
Other	114	123
<b>Total intangible assets</b>	<b>2,720</b>	<b>2,374</b>
Investments and other assets		
Investment securities	12,155	11,706
Shares of subsidiaries and associates	49,574	66,333
Investments in capital of subsidiaries and associates	638	1,342
Long-term loans receivable	*2 1,132	45
Long-term loans receivable from subsidiaries and associates	8,926	61,214
Long-term prepaid expenses	50	89
Deferred tax assets	3,712	3,441
Guarantee deposits	4,952	7,008
Claims provable in bankruptcy, claims provable in rehabilitation and other	179	1,778
Other	2,014	2,018
Allowance for doubtful accounts	(1,791)	(3,347)
<b>Total investments and other assets</b>	<b>81,545</b>	<b>151,632</b>
<b>Total non-current assets</b>	<b>96,445</b>	<b>174,624</b>
Deferred assets		
Bond issuance cost	135	97
<b>Total deferred assets</b>	<b>135</b>	<b>97</b>
<b>Total assets</b>	<b>322,107</b>	<b>335,222</b>

(millions of yen)

	Year ended October 31, 2018 (As of October 31, 2018)	Year ended October 31, 2019 (As of October 31, 2019)
<b>Liabilities</b>		
Current liabilities		
Operating accounts payable	19,415	18,557
Current portion of bonds	10,000	—
Current portion of convertible bond-type bonds with share acquisition rights	20,033	—
Current portion of long-term loans payable	10,000	30,000
Accounts payable - other	1,693	2,014
Accrued expenses	1,834	1,691
Income taxes payable	578	1,422
Travel advance received	60,128	64,309
Insurance deposits	470	578
Gift certificates	4,840	5,881
Provision for bonuses	2,874	3,168
Provision for bonuses for directors (and other officers)	100	128
Provision for loss on liquidation of subsidiaries and associates	2,163	—
Other	2,857	2,663
<b>Total current liabilities</b>	<b>136,991</b>	<b>130,415</b>
Non-current liabilities		
Bonds payable	30,000	30,000
Convertible bond-type bonds with share acquisition rights	25,108	25,090
Long-term loans payable	106,128	120,021
Provision for retirement benefits	3,265	3,528
Long-term guarantee deposited	204	251
Other	1,309	1,173
<b>Total non-current liabilities</b>	<b>166,016</b>	<b>180,065</b>
<b>Total liabilities</b>	<b>303,007</b>	<b>310,480</b>
<b>Net assets</b>		
Shareholders' equity		
Capital stock	11,000	11,000
Capital surplus		
Legal capital surplus	3,661	3,661
Other capital surplus	13	22
<b>Total capital surpluses</b>	<b>3,674</b>	<b>3,683</b>
Retained earnings		
Legal retained earnings	246	246
Other retained earnings		
General reserve	27,565	27,565
Retained earnings brought forward	4,466	9,645
<b>Total retained earnings</b>	<b>32,278</b>	<b>37,457</b>
Treasury shares	(28,611)	(28,309)
<b>Total shareholders' equity</b>	<b>18,340</b>	<b>23,831</b>
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	173	837
Deferred gains or losses on hedges	154	72
<b>Total valuation and translation adjustments</b>	<b>328</b>	<b>910</b>
Share acquisition rights	431	—
<b>Total net assets</b>	<b>19,099</b>	<b>24,741</b>
<b>Total liabilities and net assets</b>	<b>322,107</b>	<b>335,222</b>

## 2) Non-consolidated Statement of Income

(millions of yen)

	Year ended October 31, 2018 (November 1, 2017 to October 31, 2018)	Year ended October 31, 2019 (November 1, 2018 to October 31, 2019)
Net sales		
Overseas travel sales	398,127	415,782
Domestic travel sales	56,093	57,815
Other	5,406	5,847
Total net sales	*2 459,627	*2 479,445
Cost of sales		
Cost of overseas travel sales	353,170	366,234
Cost of domestic travel sales	49,548	51,523
Other	312	379
Total cost of sales	*2 403,030	*2 418,137
Gross profit	56,596	61,308
Selling, general and administrative expenses	*1 52,499	*1 56,402
Operating profit	4,096	4,905
Non-operating income		
Interest income	603	573
Dividend income	3,029	2,526
Other	213	164
Total non-operating income	*2 3,846	*2 3,265
Non-operating expenses		
Interest expenses	638	701
Foreign exchange losses	603	337
Other	144	579
Total non-operating expenses	*2 1,386	*2 1,618
Ordinary profit	6,557	6,551
Extraordinary income		
Gain on sales of investment securities	—	3,067
Gain on revision of retirement benefit plan	282	—
Gain on reversal of share acquisition rights	—	513
Capital reduction reimbursement gains	479	—
Total extraordinary income	761	3,580
Extraordinary losses		
Loss on valuation of investment securities	330	—
Loss on valuation of shares of subsidiaries and associates	239	143
Provision of allowance for doubtful accounts	145	1,314
Provision for loss on liquidation of subsidiaries and associates	2,163	—
Loss on disposal of affiliate receivables	2,088	—
Total extraordinary losses	4,966	1,458
Profit before income taxes	2,351	8,674
Income taxes - current	1,080	1,812
Income taxes - deferred	(766)	13
Total income taxes	313	1,825
Profit	2,038	6,848

3) Non-consolidated Statement of Changes in Equity

Year ended October 31, 2018 (November 1, 2017 to October 31, 2018)

(millions of yen)

	Shareholders' equity							
	Capital stock	Capital surplus			Legal retained earnings	Retained earnings		Total retained earnings
		Legal capital surplus	Other capital surplus	Total capital surpluses		General reserve	Retained earnings brought forward	
Balance at beginning of current period	11,000	3,661	4	3,665	246	27,565	4,228	32,039
Changes of items during period								
Dividends of surplus				—			(1,707)	(1,707)
Profit				—			2,038	2,038
Decrease by corporate division - split-off type				—			(91)	(91)
Purchase of treasury shares				—				—
Disposal of treasury shares			9	9				—
Net changes of items other than shareholders' equity				—				—
Total changes of items during period	—	—	9	9	—	—	238	238
Balance at end of current period	11,000	3,661	13	3,674	246	27,565	4,466	32,278

	Shareholders' equity		Valuation and translation adjustments			Share acquisition rights	Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance at beginning of current period	(23,875)	22,828	257	254	512	252	23,593
Changes of items during period							
Dividends of surplus		(1,707)			—		(1,707)
Profit		2,038			—		2,038
Decrease by corporate division - split-off type		(91)			—		(91)
Purchase of treasury shares	(5,000)	(5,000)			—		(5,000)
Disposal of treasury shares	264	273			—		273
Net changes of items other than shareholders' equity		—	(83)	(100)	(184)	178	(5)
Total changes of items during period	(4,736)	(4,488)	(83)	(100)	(184)	178	(4,493)
Balance at end of current period	(28,611)	18,340	173	154	328	431	19,099

Year ended October 31, 2019 (November 1, 2018 to October 31, 2019)

(millions of yen)

	Shareholders' equity							
	Capital stock	Capital surplus			Legal retained earnings	Retained earnings		Total retained earnings
		Legal capital surplus	Other capital surplus	Total capital surpluses		General reserve	Retained earnings brought forward	
Balance at beginning of current period	11,000	3,661	13	3,674	246	27,565	4,466	32,278
Changes of items during period								
Dividends of surplus				—			(1,669)	(1,669)
Profit				—			6,848	6,848
Decrease by corporate division - split-off type				—				—
Purchase of treasury shares				—				—
Disposal of treasury shares			9	9				—
Net changes of items other than shareholders' equity				—				—
Total changes of items during period	—	—	9	9	—	—	5,178	5,178
Balance at end of current period	11,000	3,661	22	3,683	246	27,565	9,645	37,457

	Shareholders' equity		Valuation and translation adjustments			Share acquisition rights	Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance at beginning of current period	(28,611)	18,340	173	154	328	431	19,099
Changes of items during period							
Dividends of surplus		(1,669)			—		(1,669)
Profit		6,848			—		6,848
Decrease by corporate division - split-off type		—			—		—
Purchase of treasury shares	(0)	(0)			—		(0)
Disposal of treasury shares	302	312			—		312
Net changes of items other than shareholders' equity		—	664	(81)	582	(431)	150
Total changes of items during period	302	5,491	664	(81)	582	(431)	5,642
Balance at end of current period	(28,309)	23,831	837	72	910	—	24,741

## Notes to Non-consolidated Financial Statements

### [Going concern assumptions]

There are no applicable matters to report.

### [Significant accounting policies]

#### 1. Valuation standard and method for securities

##### (1) Shares in subsidiaries and associates and investments in capital of subsidiaries and associates

Stated at cost using the moving average method

##### (2) Available-for-sale securities

###### 1) Securities with a determinable fair market value

Stated at fair market value based on the market price, etc., on the fiscal closing date (with any unrealized gains or losses reported directly as a component of net assets and the cost of securities sold calculated by the moving average method).

###### 2) Securities without a determinable fair market value

Stated at cost using the moving average method

#### 2. Valuation standard and method for derivatives

Stated at fair market value.

#### 3. Depreciation method for non-current assets

##### (1) Property, plant and equipment (excluding lease assets)

The straight-line method is applied for buildings (excluding facilities attached to buildings) and facilities attached to buildings acquired on or after April 1, 2016, and the declining balance method for other property, plant and equipment.

In addition, the ranges of useful life for property, plant and equipment are mainly as shown below.

Buildings	3–49 years
-----------	------------

Tools, furniture and fixtures	3–20 years
-------------------------------	------------

##### (2) Intangible assets (excluding lease assets)

The straight-line method is applied.

In addition, software used in-house is depreciated over its useful life (five years) based on the straight-line method.

##### (3) Lease assets

Lease assets are depreciated using the straight-line method with estimated useful lives equal to lease terms, and zero residual value.

##### (4) Long-term prepaid expenses

The straight-line method is applied.

#### 4. Accounting method for deferred assets

##### Bond issuance costs

Bond issuance costs are amortized in equal amounts over the period through redemption.

#### 5. Standard for translation of foreign-currency-denominated claims or liabilities into Japanese yen

Claims and liabilities denominated in foreign currency are translated into yen at the spot exchange rate prevailing on the fiscal closing date, and the difference arising from such translation is recorded as profits or losses.

#### 6. Accounting standards for provisions

##### (1) Allowance for doubtful accounts

To prepare for losses from uncollectible receivables, estimates of irrecoverable amounts are recorded based on historical loan-loss ratios for general receivables, and on consideration of feasibly recoverable amounts in individual cases of suspected bad debt or other specific receivables.

##### (2) Provision for bonuses

To provide for bonus payments to employees, a provision for bonuses is recorded based on estimated future payments.

##### (3) Provision for bonuses for directors (and other officers)

To provide for bonus payments to Directors, a provision for bonuses is recorded based on estimated future payments.

##### (4) Provision for retirement benefits

To prepare for retirement benefit payments to employees, a provision for retirement benefits is recorded in the amount based on the retirement benefit obligation at each fiscal year-end.

Actuarial gains or losses are treated as a lump-sum expense in the fiscal year following the year in which they arise.

##### (5) Provision for loss on liquidation of subsidiaries and associates

To prepare for losses from the liquidation of subsidiaries and associates, a provision is recorded based on estimated future losses.

#### 7. Accounting standard for recognition of revenues and expenses

Net sales and travel-related sales costs are recorded on the departure date.

## 8. Hedging methods

### (1) Hedging methods

The Company in principle accounts for hedging transactions on a deferred basis. It applies the designated hedge accounting treatment (*furiate shori*) to forward exchange contracts and other items that qualify for designated hedge accounting, and the exceptional accounting treatment (*tokurei shori*) to interest rate swaps and other items that qualify for exceptional accounting.

### (2) Hedging instruments and hedged items

- a. Hedging instruments: Forward exchange contracts, currency options  
Hedged items: Foreign currency-denominated operating accounts payable
- b. Hedging instruments: Interest rate swaps  
Hedged items: Loans payable

### (3) Hedging policy

The Company hedges against foreign exchange fluctuation risk in accordance with its internal Financial Risk Management Regulations.

### (4) Evaluation of hedge effectiveness

The effectiveness of hedging is assessed by comparing the cumulative total of the market fluctuations or the cash flow fluctuations for the hedged items with that of the market fluctuations or the cash flow fluctuations for the hedging instrument every six months, and analyzing the fluctuation amount, etc., for the two. However, the effectiveness of hedging is not evaluated for interest rate swaps subject to exceptional accounting treatment.

## 9. Other significant matters for the preparation of non-consolidated financial statements

### (1) Accounting method for retirement benefits

Unrecognized actuarial differences, unrecognized prior service cost, and unsettled differences arising from transitional obligations related to retirement benefits are accounted for using a different method than in the consolidated financial statements.

### (2) Accounting for consumption taxes

All accounting transactions are booked exclusive of consumption taxes or local consumption taxes.

[Changes in presentation]

[Balance sheet]

“Construction in progress,” which was included in “Other” under “Property, plant and equipment” in the consolidated fiscal year ended October 31, 2018, is now reported as an independent item due to its increased monetary significance. The amount booked for construction in progress in the consolidated fiscal year ended October 31, 2018 was 583 million yen.

[Application of Partial Amendments to Accounting Standard for Tax Effect Accounting]

The Company has applied the Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28, February 16, 2018) from the consolidated fiscal year ended October 31, 2019. Accordingly, deferred tax assets have been classified under investments and other assets, and deferred tax liabilities under non-current liabilities.

[Additional information]

[Transactions that grant Company shares to employees, etc., via a trust]

Notes related to transactions that grant Company shares to an Employee Stock Ownership Association via a trust are omitted as they are identical to those in the “Additional information” section of “Notes to Consolidated Financial Statements.”

[Non-consolidated balance sheet]

1. Contingent liabilities

(1) The Company guarantees bank loans, etc., for the following companies up to the amounts shown below.

Year ended October 31, 2018 (As of October 31, 2018)		Year ended October 31, 2019 (As of October 31, 2019)	
ASIA ATLANTIC AIRLINES CO., LTD.	270,000 USD (30 million yen)	SYS Inc.	900 million yen
SYS Inc.	900 million yen	Green World Hotels Co., Ltd.	390 million TWD (1,396 million yen)
Green World Hotels Co., Ltd.	430 million TWD (1,596 million yen)	H.I.S. Hotel Holdings Co., Ltd.	235 million yen
H.I.S. Hotel Holdings Co., Ltd.	235 million yen		

(2) The Company guarantees business transaction payments for the following companies up to the amounts shown below.

Year ended October 31, 2018 (As of October 31, 2018)		Year ended October 31, 2019 (As of October 31, 2019)	
• Guarantee with specified amount		• Guarantee with specified amount	
QUALITA Co., Ltd.	35 million yen	QUALITA Co., Ltd.	35 million yen
Japan Holiday Travel CO., LTD	40 million yen	Japan Holiday Travel CO., LTD	40 million yen
HIS ULUSLARARASI TURIZM SEYAHAT ACENTASI LIMITED SIRKETI	2 million USD (226 million yen)	HIS ULUSLARARASI TURIZM SEYAHAT ACENTASI LIMITED SIRKETI	2 million USD (217 million yen)
ASIA ATLANTIC AIRLINES CO., LTD.	7 million USD (792 million yen)	H.I.S. OKINAWA Co., Ltd.	22 million yen
H.I.S. OKINAWA Co., Ltd.	22 million yen		
• Guarantee without specified amount		• Guarantee without specified amount	
QUALITA Co., Ltd.	Payment guarantee for notes and accounts payable - trade	QUALITA Co., Ltd.	Payment guarantee for notes and accounts payable - trade
LY-HIS Co. Ltd.	Payment guarantee for notes and accounts payable - trade	LY-HIS Co. Ltd.	Payment guarantee for notes and accounts payable - trade
Japan Holiday Travel CO., LTD	Payment guarantee for notes and accounts payable - trade	H.I.S. OKINAWA Co., Ltd.	Payment guarantee for notes and accounts payable - trade
H.I.S. OKINAWA Co., Ltd.	Payment guarantee for notes and accounts payable - trade	H.I.S. OKINAWA Co., Ltd.	Payment guarantee for office rent, etc.
H.I.S. OKINAWA Co., Ltd.	Payment guarantee for office rent, etc.	H.I.S. Hotel Holdings Co., Ltd.	Payment guarantee for business-use leasehold interest
H.I.S. Hotel Holdings Co., Ltd.	Payment guarantee for business-use leasehold interest	HTB ENERGY CO., LTD.	Payment guarantee for office rent, etc.

\*2. Other

Year ended October 31, 2018 (As of October 31, 2018)

1,132 million (10 million US dollar) yen of the 1,132 million yen in long-term loans receivable is owed by Mongolia-based Khan Bank LLC. The bank is a consolidated subsidiary of Sawada Holdings Co., Ltd. (Representative Director and Chairman Hideo Sawada).



Year ended October 31, 2019 (As of October 31, 2019)

1,088 million (10 million US dollar) yen of the 1,093 million yen in short-term loans receivable is owed by Mongolia-based Khan Bank LLC. The bank is a consolidated subsidiary of Sawada Holdings Co., Ltd. (Representative Director and Chairman Hideo Sawada).

[Non-consolidated statements of income]

\*1. Selling, general and administrative expenses comprised 87.8% selling expenses and 12.1% general and administrative expenses in the year ended October 31, 2018, and 86.0% and 13.9%, respectively, in the year ended October 31, 2019. The major cost items and amounts are shown below.

	(millions of yen)	
	Year ended October 31, 2018 (November 1, 2017 to October 31, 2018)	Year ended October 31, 2019 (November 1, 2018 to October 31, 2019)
Advertising expenses	6,286	6,735
Salaries and bonuses	22,299	24,013
Provision for bonuses	2,647	3,009
Provision for bonuses for directors (and other officers)	100	128
Retirement benefit expenses	433	534
Provision for retirement benefits for directors (and other officers)	6	—
Provision of allowance for doubtful accounts	5	0
Depreciation and amortization	2,001	1,941

\*2. Amount of transactions with associates

	(millions of yen)	
	Year ended October 31, 2018 (November 1, 2017 to October 31, 2018)	Year ended October 31, 2019 (November 1, 2018 to October 31, 2019)
Amount of operating transactions		
Net sales	16,335	16,878
Purchase of goods	103,712	103,342
Transaction amount for non-operating transactions		
Non-operating income	3,049	2,608
Non-operating expenses	102	—

[Marketable securities]

Year ended October 31, 2018 (As of October 31, 2018)

Shares of subsidiaries and associates (amount recorded on balance sheet: shares of subsidiaries 49,444 million yen, shares of associates 130 million yen) have no market prices and are deemed extremely difficult to determine their fair value. Accordingly, they are not presented here.

Year ended October 31, 2019 (As of October 31, 2019)

Shares of subsidiaries and associates (amount recorded on balance sheet: shares of subsidiaries 66,203 million yen, shares of associates 130 million yen) have no market prices and are deemed extremely difficult to determine their fair value. Accordingly, they are not presented here.

[Tax effect accounting]

1. The principal components of deferred tax assets and deferred tax liabilities are shown below.

	(millions of yen)	
	Year ended October 31, 2018 (As of October 31, 2018)	Year ended October 31, 2019 (As of October 31, 2019)
[Deferred tax assets]		
Provision for retirement benefits	999	1,080
Provision for bonuses	910	1,009
Provision for loss on liquidation of subsidiaries and associates	662	—
Excess allowance for doubtful accounts	592	1,027
Travel advances received	250	224
Unpaid social insurance premiums	124	138
Non-deductible asset retirement obligation expenses	123	136
Long-term accounts payable - other	107	102
Other	670	838
Deferred tax assets subtotal	4,442	4,558
Valuation allowance	(636)	(714)
Deferred tax assets total	3,805	3,843
[Deferred tax liabilities]		
Valuation difference on available-for-sale securities	(93)	(369)
Other	—	(31)
Deferred tax liabilities total	(93)	(401)
Deferred tax assets, net	3,712	3,441

2. Major components of significant differences arising between the effective statutory tax rate and effective income tax rate after application of tax-effect accounting

	Year ended October 31, 2018 (As of October 31, 2018)	Year ended October 31, 2019 (As of October 31, 2019)
Effective statutory tax rate	30.86%	30.62%
[Adjustments]		
Non-deductible permanent differences such as entertainment expenses	15.18	1.00
Non-taxable permanent differences such as dividends income	(37.66)	(8.39)
Difference with year-earlier tax return	(0.73)	(1.00)
Inhabitant tax on per capita basis	7.04	1.80
Increase in valuation allowance	2.57	0.90
Tax credits	(2.62)	(3.00)
Other	(1.30)	(0.88)
Actual effective tax rate after application of tax effect accounting	13.34	21.05

[Business combinations]

These notes have been omitted as they are identical to those in the “Business combinations” section in the notes on consolidated financial statements.

[Significant subsequent events]

[Absorption-type demerger agreement accompanying transition to holding company structure]

At its Board of Directors meeting held on December 12, 2019, the Company resolved to split off its Travel Business and related operations (“the Business”) through an absorption-type demerger (“the Absorption-Type Demerger”) tentatively effective from August 1, 2020, with the Business to be succeeded by wholly owned subsidiary New H.I.S. Co., Ltd. (established on November 1, 2019; name scheduled to be changed to H.I.S. Co., Ltd. from August 1, 2020; “the Succeeding Company”) and on the same day entered into an absorption-type demerger agreement with the Succeeding Company.

A proposal concerning the Absorption-Type Demerger was approved at the General Meeting of Shareholders held on January 29, 2020. Following the Absorption-Type Demerger, the Company will change its name to H.I.S. HOLDINGS Co., Ltd. on August 1, 2020, and plans to change its business purpose to match its operations subsequent to the transition to the holding company structure.

1. Purpose of transition to holding company structure

The business environment currently surrounding the H.I.S. Group will likely undergo a medium- to long-term contraction in demand driven by a decline in Japan’s population and other factors, witness the creation of new global businesses that transcend industry boundaries, and face intensifying competition. At the same time, accelerating technological development in areas such as IoT and AI is driving dramatic change. In this environment, the Group will continue to provide services that delight its customers under its corporate philosophy “In accordance with the laws of the universe, we contribute to the creative development of humanity and world peace.” It will focus on the Travel Business but not limit itself to travel-related businesses in order to increase corporate value as expected by its stakeholders.

Against this backdrop, the Group believes a transition to a holding company structure is the optimal path forward and plans the following initiatives to drive further growth and build a more robust earnings structure.

(1) Strengthen group management strategy and functions

The holding company will focus on managing the group as a whole, prepare a group-wide management strategy to fuel expansion in existing and new businesses, and aim to maximize corporate value for the entire group by optimally allocating and effectively utilizing management resources.

(2) Speed up decision-making by clarifying authority and responsibility

By separating the organization responsible for group management and the organization tasked with business promotion, the aim is to clarify the authority and responsibility of both, thus supporting rapid decision-making and strengthening competitiveness.

(3) Maximize Group synergies

Led by the holding company, the Group will aim to maximize synergies among its companies by laterally and efficiently utilizing the management resources of the entire Group.

2. Method of Absorption-Type Demerger

The Company will conduct an absorption-type demerger under which it will become the demerged company (“the Demerged Company”) and New H.I.S. Co., Ltd., a wholly-owned subsidiary of the Company established as the demerger preparatory company, the Succeeding Company.

### 3. Overview of parties to the Absorption-Type Demerger

	Demerged Company	Succeeding Company
Trade name	H.I.S. Co., Ltd. (Scheduled to be renamed H.I.S. HOLDINGS Co., Ltd. on August 1, 2020)	New H.I.S. Co., Ltd. (Scheduled to be renamed H.I.S. Co., Ltd. on August 1, 2020)
Businesses	Travel Business, etc.	Travel Business, etc. (The company is not expected to engage in operations prior to the Absorption-Type Demerger)
Established	December 12, 1980	November 1, 2019
Location	Shinjuku-ku, Tokyo	Shinjuku-ku, Tokyo
Representative	Representative Director, Chairman, President and CEO Hideo Sawada	Representative Director Hideo Sawada
Capital (million yen)	11,000	100
Outstanding shares issued	68,522,936 shares	2,000 shares
Fiscal year end	October 31	October 31
Major shareholder and shareholding ratio (%)	Hideo Sawada 31.2%	Company 100%

### 4. Date of Absorption-Type Demerger (effective date)

August 1, 2020

### 5. Overview of accounting treatment to be applied

The Company plans to treat the Absorption-Type Demerger as a transaction under common control in accordance with the Accounting Standards for Business Combinations (ASBJ Statement No. 21 issued on January 16, 2019), the Accounting Standard for Business Divestitures (ASBJ Statement No. 7 issued on September 13, 2013), and the Guidance for Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10 issued on January 16, 2019). This is not expected to have any impact on earnings.

### 6. Overview of net sales for business to be split off on income statement in fiscal year ended October 31, 2019

Net sales      478,884 million yen

### [Granting of stock options (share acquisition rights)]

These notes have been omitted as they are identical to those in the “Significant subsequent events” section of “Notes on Consolidated Financial Statements.”

4) Supplementary Schedule  
Schedule for property, plant and equipment

(millions of yen)

Classification	Asset type	Balance at start of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	Depreciation during the fiscal year	Balance at end of the fiscal year	Accumulated depreciation
Property, plant and equipment	Buildings	4,694	881	26	569	4,980	2,147
	Vehicles	46	—	9	13	23	111
	Tools, furniture and fixtures	485	163	—	212	436	2,063
	Land	6,345	1,581	2	—	7,923	—
	Construction in progress	583	6,903	583	—	6,903	—
	Other	25	335	—	10	349	10
	Total	12,179	9,864	622	805	20,617	4,333
Intangible assets	Trademarks	18	6	—	4	21	—
	Telephone subscription rights	82	—	—	—	82	—
	Software	2,504	755	—	1,112	2,147	—
	Other	114	15	3	2	123	—
	Total	2,720	777	3	1,119	2,374	—

(Note) The 6,903 million yen increase in construction in progress in the fiscal year ended October 31, 2019 mainly reflects 6,843 million yen in deposits to purchase headquarter offices.

Schedule for provisions

(millions of yen)

Classification	Balance at start of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year (due to intended usage)	Decrease during the fiscal year (other)	Balance at end of the year
Allowance for doubtful accounts (Note)	1,936	3,355	13	1,922	3,355
Provision for bonuses	2,874	3,168	2,874	—	3,168
Provision for bonuses for directors (and other officers)	100	128	100	—	128
Provision for loss on liquidation of subsidiaries and associates	2,163	—	2,163	—	—

(Note) The 1,922 million yen decrease in allowance for doubtful accounts under “Decrease during the year (other)” is attributable to reversals.

(2) Major Assets and Liabilities

Notes are omitted as consolidated financial statements were prepared.

(3) Others

There are no applicable matters to report.

## VI. Stock-related Administration for the Company

Fiscal Year	From November 1 to October 31
General Meeting of Shareholders	January
Record date	October 31
Record date for dividend of surplus	April 30 October 31
Number of shares constituting one unit	100 shares
Purchase and sales of shares less than one unit	
Handling office	(Special account) Stock Transfer Agent Department, Sumitomo Mitsui Trust Bank, Limited 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo
Transfer agent	(Special account) Sumitomo Mitsui Trust Bank, Limited 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo
Forward office	—
Purchasing and selling fee	none
Method of public notice	Public notice of the Company is given by electronic means. However, in the event accidents or other unavoidable reasons prevent public notice by electronic means, the notice can be made by publication in The Nihon Keizai Shimbun issued in Tokyo. URL for public notice: <a href="https://www.his.co.jp">https://www.his.co.jp</a>
Special benefit for shareholders	Every year, at the end of April and October, the company issues shareholder benefits to all shareholders who own at least 100 shares and are recorded in the Shareholder Registry, based on the following criteria.  Shareholders owning 100 or more but fewer than 500 shares Two shareholder benefit coupons (corresponding to 2,000 yen)  Shareholders owning 500 or more but fewer than 1,000 shares Four shareholder benefit coupons (corresponding to 4,000 yen)  Shareholders owning 1,000 or more shares Six shareholder benefit coupons (corresponding to 6,000 yen)  Shareholders owning 100 or more shares One discounted admission ticket for Huis Ten Bosch and for Laguna Ten Bosch (500-yen discount per person; tickets can be used by up to five people).

## **VII. Reference Information on the Company**

### **1. Information on the Parent Company, etc. of the Company**

The Company has no parent company.

### **2. Other Reference Information**

The Company filed the following documents between the start of the fiscal year under review and the submittal of the Japanese version of this Securities Report.

(1) Annual Securities Report and documents attached thereto, and Confirmation Letter thereof

For the 38th fiscal year (from November 1, 2017 to October 31, 2018)

Submitted to Director, Kanto Local Finance Bureau on January 28, 2019

(2) Internal Control Report and documents attached thereto

Submitted to Director, Kanto Local Finance Bureau on January 28, 2019

(3) Quarterly Securities Report and Confirmation Letter thereof

For the first quarter of the 39th fiscal year (from November 1, 2018 to January 31, 2019)

Submitted to Director, Kanto Local Finance Bureau on March 5, 2019

For the second quarter of the 39th fiscal year (from February 1, 2019 to April 30, 2019)

Submitted to Director, Kanto Local Finance Bureau on June 11, 2019

For the third quarter of the 39th fiscal year (from May 1, 2019 to July 31, 2019)

Submitted to Director, Kanto Local Finance Bureau on September 13, 2019

(4) Extraordinary Report

Submitted to Director, Kanto Local Finance Bureau on February 28, 2019

According to the provision of Article 19, Paragraph 2, Item 3 (transfer of specified subsidiary) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc.

Submitted to Director, Kanto Local Finance Bureau on September 27, 2019

According to the provision of Article 19, Paragraph 2, Item 12 (booking of extraordinary loss) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc.

Submitted to Director, Kanto Local Finance Bureau on September 27, 2019

According to the provision of Article 19, Paragraph 2, Item 12 (booking of extraordinary income) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc.

Submitted to Director, Kanto Local Finance Bureau on December 12, 2019

According to the provision of Article 19, Paragraph 2, Item 7 (absorption-type demerger) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc.

(5) Securities Registration Statement and documents attached thereto

Submitted to Director, Kanto Local Finance Bureau on January 29, 2020

## **Part II Information on Guarantors, etc. for the Company**

Not applicable.

note: This document has been translated from the Japanese original for reference purposes only.

In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.