

Summary of Consolidated Financial Results

for the Six Months Ended September 30, 2021

Raysum Co., Ltd.
November 19, 2021



November 2021

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Our Business

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My name is Komachi, and I am the President and Representative Director of Raysum.

I would like to thank you for attending our financial results briefing session today.

I will start with a review of Value Creation Services, our mainstay business, in the first half of the fiscal year. Then, I will explain the outlook for the full fiscal year based on the situation as it stands in the second half of the fiscal year.

We have renamed the Wealth Management Business to Value Creation Services from the current fiscal year. This is our mainstay business which provides our clients with real estate assets that are significant to the surrounding communities and towns through purchase of real estate with potential, change of its use, large-scale renovations, attraction of new tenants and such.

Revenue Trend in Value Creation Services

RAYSUM
2014-2021

Value Creation Services (Wealth Management)	FY ended Mar. 2018 Results	FY ended Mar. 2019 Results	FY ended Mar. 2020 Results	FY ended Mar. 2021 Results	FY ending Mar. 2022 Forecast	FY ending Sep 2021 Results
Net Sales (billion yen)	37.6	51.9	47.6	26.5	55.0	16.8
Operating Income (billion yen)	10.5	10.7	12.2	3.1	9.35	3.6
Total number of properties sold (properties)	14	25	25	21	25	12
Of which prices were:						
2 billion yen or higher	3	7	7	4	10	5
10 billion yen or higher	1	0	0	0	-	-

- ✓ 4 properties priced at 2 billion yen or higher were sold in the previous fiscal year
- ✓ In the fiscal year ending March 2022, 10 properties priced at 2 billion or higher are expected to be sold.
- ✓ Already sold 5 properties priced at 2 billion yen or higher by the end of the first half of the fiscal year

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In terms of the main business environment, we continue to feel that investment appetite is recovering among high-net-worth individuals and Japanese and overseas institutional investors.

At our financial results briefing session in May, “full-year target of 10 properties” to be sold at the sales price range of 2 billion yen or higher was presented as the basis of the current fiscal year’s full-year forecast for Value Creation Services.

During the first half of the current fiscal year, we have already sold 5 properties in this sales price range of 2 billion yen or higher. With the number of property sales totaling 12 properties in the first fiscal half and thus achieving almost half of the full-year forecast of 25 properties, Value Creation Services is performing steadily.



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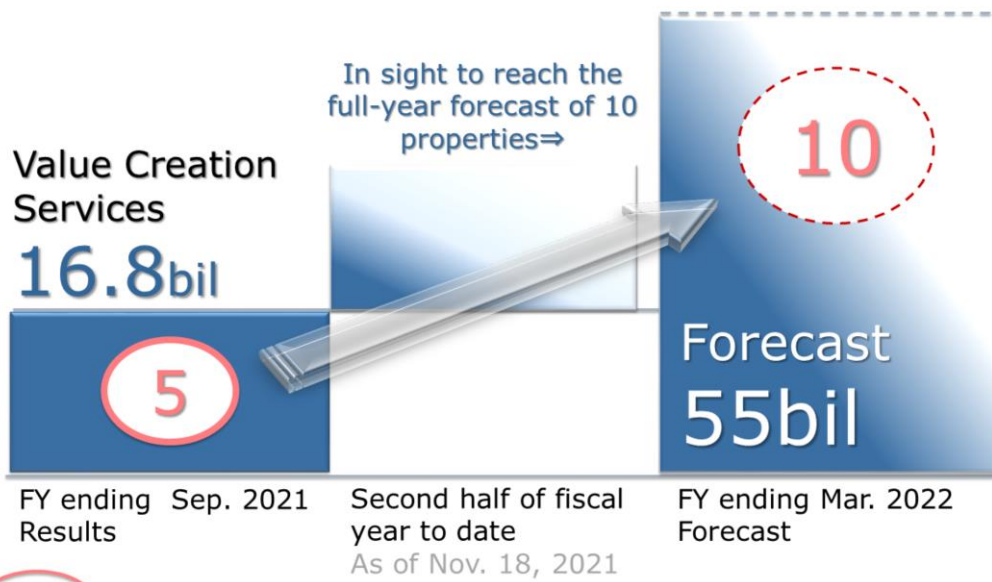
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Presented are the cases of properties in the sales price range of 2 billion yen or higher in the first half of the current fiscal year.

At the top left is a “medical mall covering an entire floor of approximately 400 tsubos on the third floor” of a large-scale redevelopment condominium directly connected to Kasuga Station, the third station from Otemachi on the Toei Mita Line.

At the top right is the case of a “luxury residential property at Shirokane Chojamaru” on a hill with JR Meguro Station as the nearest Raysum station, and on the bottom left is an “office building along Kyoto’s Sanjo-dori,” while on the bottom right is an “office building we newly constructed at Ikejiri-Ohashi” in Meguro, Tokyo.

Sales of properties in the sales price range of 2 billion yen or higher continue to be steadily underway



Number of properties in the sales price range of 2 billion yen or higher

In terms of the current state of sales in the approximately 1.5 months from the beginning of the second fiscal half up to now, sales of properties in the sales price range of 2 billion yen or higher continue to be steadily underway, including those already contracted/settled.

The full-year forecast set at the beginning of the fiscal year was a conservative one, but with factors such as the number of property sales in the sales price range of 2 billion yen or higher in sight to reach the level of 10 properties, confidence is growing that the full-year forecast will be achieved.

This is coupled with sourcing, too, with the purchase of properties also steadily underway, including those in the sales price range of 2 billion yen or higher. Going forward, from the end of the year to early next year, we will dedicate efforts to preparing products for the next fiscal year onwards to add momentum to the trajectory of revenues for the next fiscal year onwards.

1.5-YEAR-LONG COVID-19 PANDEMIC BRINGS ABOUT OUR ERA

INSTITUTIONAL INVESTORS' AND HIGH-NET-WORTH INDIVIDUALS' CHANGE

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We are convinced that the COVID-19 pandemic over the past 1.5 years has in turn sparked client interest in our initiatives.

Despite the business environment having been subject to various restrictions, we have pushed forward with value creation without restraining our activities.

This has resulted in the fact that our initiatives continuously improve asset value in ways such as continuously improving NOI gaining greater understanding among also Japanese and overseas institutional investors, in addition to the high-net-worth individuals with whom we have been deepening dialogue to date, and has led to results in the form of actual investment moves.



Allow me to introduce a case of a sale made to a leading overseas institutional investor as one example.

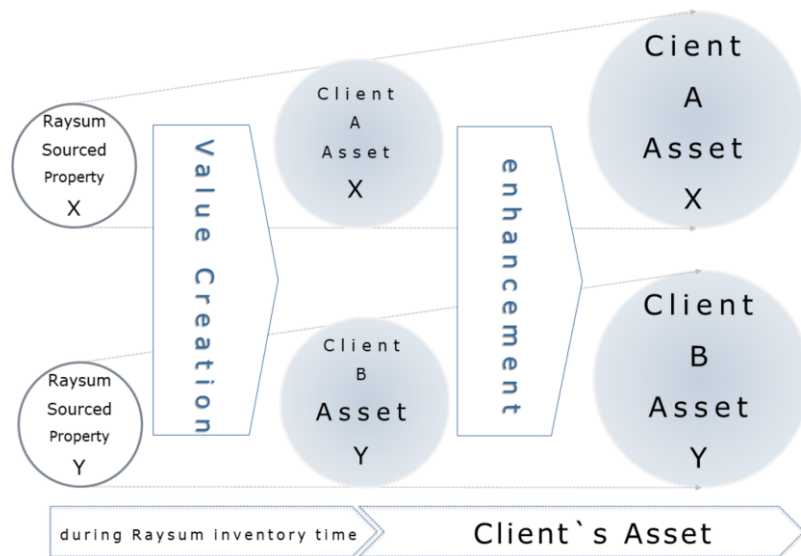
This is a project that was acquired in the first half of the current fiscal year by an institutional investor that is a professional in real estate investment. This client had been considering this project in the previous fiscal year, but decided to forgo acquisition due to it not meeting their investment criteria of “full occupancy.” Reconsideration entering the current fiscal year resulted in the decision to acquire despite it not being “full occupancy.”

Meguro Ward’s Ikejiri-Ohashi is one station from Shibuya Station and far from being a so-called office district. Drawing on the location of not being able to be forested with high-rise office buildings and the slope toward Komaba, we made the new construction an “open low-rise with three floors” that comes with “lush rooftop greenery” to enhance scarcity, and also composed of two buildings, one of which is now occupied by a tenant that highly values such features.

“Bringing out the inherent potential value of the subject site”:

Since our founding, this has been a continuous effort aimed at enhancing asset value over the medium to long term for high-net-worth individuals. While already highly rated by even Japan’s life insurance companies and major real estate companies well versed in real estate investment, this is a case that has made us strongly convinced that our strengths are highly rated by even leading institutional investors overseas that manage global funds—a result of continuing to operate with perseverance even during the current COVID-19 pandemic.

Existing one-on-one and case-by-case model



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Next, allow me to introduce the new strategic move we have also made to accelerate sales in Value Creation Services by expanding the horizons of transactions with the 'new rich' in their 20s or 30s, in addition to the 'old rich' client base to date, with the recovery in investment appetite among high-net-worth individuals.

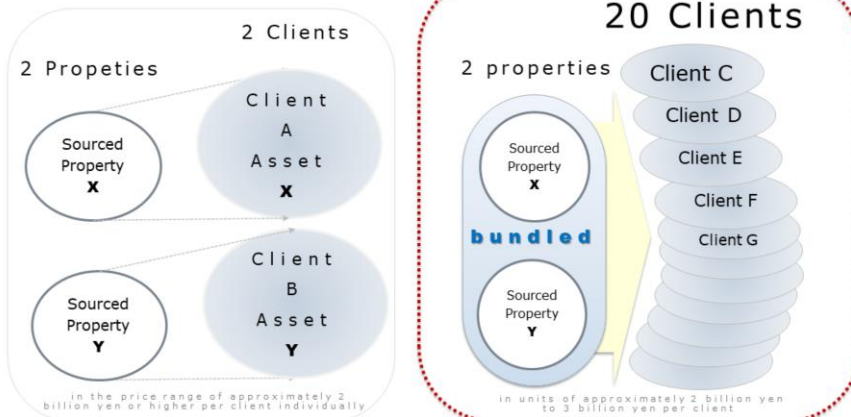
Our existing business model for high-net-worth individuals has been a case-by-case and one-on-one style in that, according to individual client objectives, sourced properties (during Raysum inventory time) are individually transformed into products through value creation and provided as real estate management assets, and then even post-sale (during the client holding period), enhancement of real estate asset value is pursued in consultation with clients. In recent years, sales price range, too, has grown to be large in scale—in the range of 2 billion yen or higher—and that in itself has been serving as a driver of our business growth. On the other hand, the larger asset size of individual clients has undeniably led to more time being required than before for such matters as coordinating with clients' tax and legal counsel and financial institutions of account in the course of forming a scheme according to individual client circumstances and leading up to the purchase.

For that reason, speeding up the development of human resources capable of handling individual cases and further shortening each product's inventory time were major issues in recent years in terms of business management, but we have recently come up with product development that would serve as one solution for such.

a case-by-case and one-on-one style



New Business Model



Priced based on the expected exit sales price in advance and we take care of asset value enhancement measures altogether

November 2021

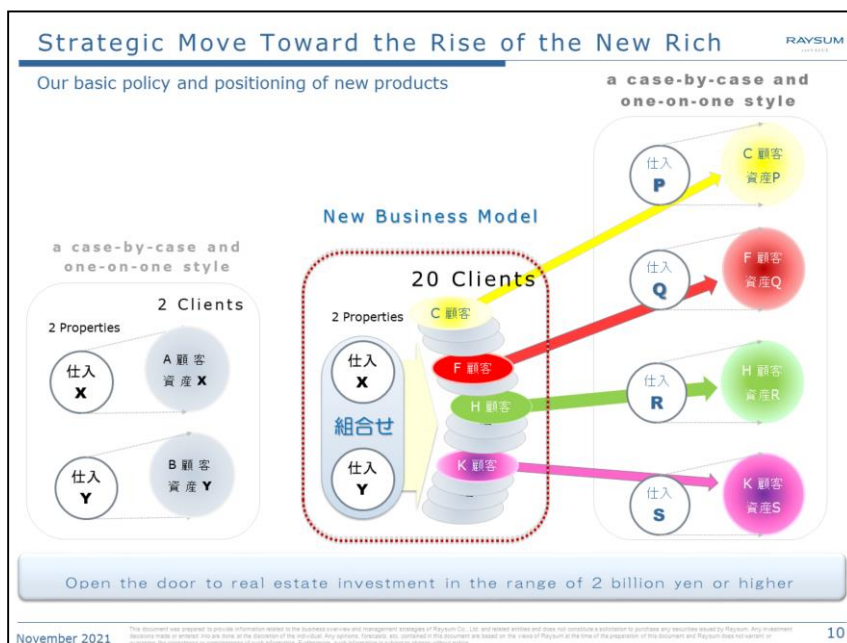
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This chart presents the existing case-by-case style on the left, along with the product development added this time to the right.

In the existing business model, we provide properties in the price range of approximately 2 billion yen or higher per client individually. In the new business model, several properties in the sales price range of 2 billion yen or higher (X and Y in the chart) are bundled to form a real estate asset for 20 or so clients to invest in at the same time in units of approximately 2 billion yen to 3 billion yen per client. This product is at the stage of being provided to these 20 or so clients, and ultra-long-term loans are already arranged. Therefore, it is a real estate product that provides a leverage effect without requiring clients to take out loans themselves.

In the case of the real estate properties to date, various decisions are required for management matters such as building repairs and conclusion of lease agreements with tenants. In the case of the product this time, we have several properties in the sales price range of 2 billion yen or higher (note that the following is key) priced based on the expected exit sales price in advance and take care of all aspects of asset value enhancement from borrowing of funds to improving rent, changing use, converting rights and more, releasing clients from those burdens. Not only that, while being a financial instrument, this is one eligible for treatment comparable to ordinary real estate investment even in terms of taxation.



As a basic policy, our target clients are those considering properties in the sales price range of 2 billion yen or higher, as it has been to date. The product this time is positioned as a product that, while gaining understanding for real estate investment being marked by our efforts to enhance asset value, would serve as a 'gateway' to real estate investment in the range of 2 billion yen or higher in the future. In particular, this would also open the door to real estate investment in the range of 2 billion yen or higher for the 'new rich' in their 20s or 30s anticipated to become the upcoming active players in society, spurring expansion in transactions.

More than one year was spent developing this product, but with the provision of this product, the aspects that have been longstanding management issues for us are looking brighter. Considering that we have been realizing sales of products of several hundreds of millions of yen in an extremely short period of time, our strength from before, our overall inventory turnover ratio, too, will become stably higher with this product. In addition, being promoted on the basis that our corporate partners in the arrangement of this product will keep working on this product, project arrangement speed and opportunities are certain to increase.

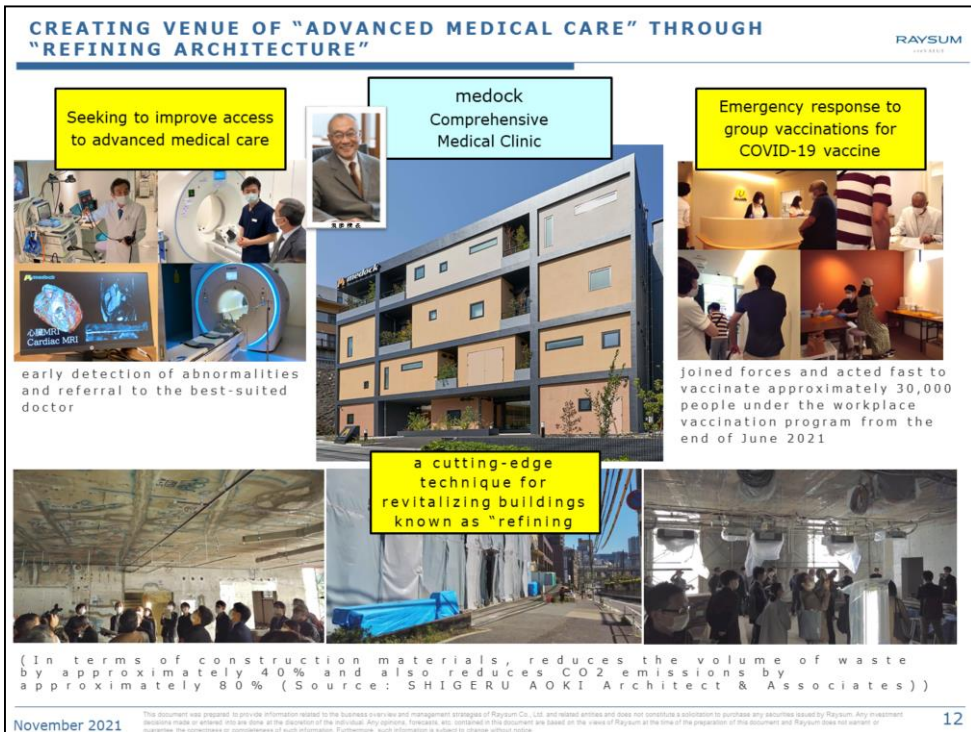
In other words, this would translate to a faster pace of human resources development, which has been our longstanding task. As a result, with also greater capacity to cater to more diversified client circumstances and objectives, we sense Value Creation Services itself entering a virtuous cycle of expansion accelerating.

On the other hand, in terms of our relationship with overseas clients, direct contact with foreign-government-affiliated institutional investors is increasing. Considering also that family money is common among institutional investors in Asia in particular, attracting foreign investors also leads to further broadening the fields in which we can demonstrate our ability to improve NOI that we have accumulated to date to overseas high-net-worth clients.

Topics

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As a topic of the first fiscal half, allow me to introduce “medock Comprehensive Medical Clinic” that opened this May in Meguro, Tokyo.

This is a comprehensive medical examination clinic that has invited Dr. Hisayoshi Suma, a leading cardiac surgeon, as the director and has state-of-the-art equipment and specialists working toward early detection of abnormalities and referral to the best-suited doctor.

With the timing of the opening being this May—right when acceleration of vaccinations was a pressing issue—requests for vaccinations were received from all quarters. In response, all doctors and all staff joined forces and acted fast to vaccinate approximately 30,000 people under the workplace vaccination program from the end of June 2021.

Many thanks and messages of support like, “I really appreciate being able to be vaccinated this quickly,” were received from those vaccinated and the executives of the companies. This served as an opportunity for all the staff, too, to gain a true sense of their own social significance soon after opening. And of course, the vaccinations led to opportunities to secure contracts for also the core business of company medical examinations with many of the companies that were vaccinated.

Note that this facility is a building constructed as a chapel 50 years ago that, while making the most of the basic frame, has been transformed into a clinic like one newly constructed. This was made possible with the support of SHIGERU AOKI Architect & Associates’ Shigeru Aoki, a leader in a construction method that is a cutting-edge technique for revitalizing buildings known as “refining.”

According to Mr. Aoki, the “refining” construction method is highly effective in reducing the volume of waste by approximately 40% and carbon dioxide emissions by approximately 80% compared with if a building were to be demolished and then newly constructed, and the carbon dioxide emissions associated with the “production” and “transport” of construction materials can be estimated to be virtually zero.



In the most recent five years
 (from the fiscal year ended March 31, 2017,
 to the fiscal year ended March 31, 2021)
 has reached 50 properties, of which the 44
 properties that are existing real estate and
 revitalized by us account for 88%, reaching
 almost 90%.

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Here, I would like to reflect upon the way our Value Creation Services works.

Presented at top left of this chart are our initiatives for “conversion” with the changing times.

In the Iidabashi neighborhood, we arranged a product that is a mix of an indoor nursery school and residences with the conversion of a large-scale urban office into an all-weather nursery school, realizing infrastructure for raising children with peace of mind and safety to provide social support to the urban society of working parents. Also, in Nishi-Azabu, a building that used to be a design office-cum-showroom was converted into a property that is a mix of luxury residences and a restaurant serving San Sebastian Basque cuisine that also functions as a wedding venue through renovation of a large scale of some several hundreds of millions of yen.

“Full renovation” at the top center of the chart are cases we engaged in investing in renovation of a scale of some several hundreds of millions of yen, but not to the extent of conversion. Firstly, at “Tokiwamatsu” on a hill in Shibuya Ward, the building that was being used as shared office space was transformed into a luxury residential property where vacancies rarely open through major renovation to make all units face the historical garden in front to function as borrowed scenery and also converting the space that used to be a bicycle parking lot at the frontal portion of the first floor of the building into a parking lot that would make access for large luxury cars easier, further drawing out the exceptional features of Kengo Kuma’s design. And at “Shirokane Chojamaru” in a luxury residential district near Meguro Station, we implemented large-scale renovation on the newly constructed condominium that used to have a total of 17 units with exclusive-use area of approximately 100 m2 on average to remove the partitioning walls between the units to make it a total of 7 units with exclusive-use area of approximately 300 m2 on average, leading to the birth of a luxury residential property boasting spacious exclusive-use area, which is scarce for central Tokyo.

Further right are two cases of the “refining” explained earlier. One is an aging dormitory building in Mitaka City, a popular residential district in the Tokyo suburbs, converted through the refining construction method into a condominium featuring the latest specifications. While the surrounding area is becoming low rises due to recent building height restrictions, this property made use of the existing structural frame, allowing it to be transformed into a residential property with excellent views on the upper floors without being bound by the new height restrictions. Also, we have newly obtained a certificate of inspection from an administrative authority to be treated pretty much as a new construction even in legal terms, making it a case with high liquidity, an advantage in obtaining financing upon real estate acquisition. The other one is the aging chapel building introduced earlier that was renovated through the refining construction method into a building occupied by medock, a comprehensive medical examination clinic that we operate.

At the bottom right of this chart are cases of having pursued revitalization of century-old historical structures in collaboration with various partners. The first of such is the case of a home-cum-workshop of artisans possessing traditional skills in making seals for the emperor spanning more than 120 years on historic land known as Kyoto Goshō Minami at the center of Kyoto that was converted into a lodging facility in the form of a Kyoto townhouse offering an experience as if one had slipped back in time to the ancient capital to live there. The earthen floor portion that used to be the workspace of the workshop was converted into an “open living space” with a ceiling height of 6 meters and floor heating, the space that used to be a storage room was converted into a “backyard” of approximately 50 m2 that draws inspiration from the Kyoto Basin at the hands of a young gardener of Kyoto, and where usually real estate companies would attempt to expand rental floor space, we incorporated value creation based on reverse thinking of instead reducing space to revive the “firebox” that was characteristic to traditional architecture of Kyoto in the past. The second case was the revitalization of 1928 Building slightly more than 90 years old on Sanjō-dori, a popular walk for shopping around in Kyoto City. On the first floor that was finely partitioned with walls making it difficult to secure tenants, the partitioning walls were removed as a set with conducting seismic strengthening, after which global creative director NIGO’s symbolic store was secured as a tenant, and now collaboration is also underway with the café Blue Bottle. We also mended in detail a hundred and several tens of places such as the exterior wall design of contemporary modern architecture of a century ago and the green iron window frames of good texture. This initiative served to contribute to the local community, too, in that there used to be a noise problem with the neighborhood from sound leaking to the outside from the theater on the third floor, but the problem was resolved after our renovation. Having undergone our seismic strengthening and renovation, we also had seismic diagnosis conducted by a third party, resulting in obtaining approval of conformity with standards from the City of Kyoto.

And the third case was revitalization of a 110-year-old building that was formerly occupied by a general trading company in Kobe City’s Motomachi, which used to be a bustling port as a trading port. Half of the approximately 30 units were vacant, but we made it full occupancy. We secured tenants with high affinity with the building texture, such as a furniture store providing repaired northern European antiques, an apparel store with a history of 100 years in U.S. Detroit’s factory workwear fashion and a salon-like men’s clothing store for custom-ordered suits, making the building flooding with energy and becoming the pride of the region again. We implemented waterproofing work with thermal barrier features on the rooftop for higher resistance to today’s climate changes, and we also switched lighting in the common areas and night illumination lighting to LED lighting.



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As a recent initiative, we are also taking on revitalization of communities by forming ties between Japan's regional lifestyle and culture and people. In Kichijoji in the Tokyo suburbs, we opened LIBERTÉ PÂTISSERIE BOULANGERIE as an initiative for development of stores closely engaged with the local residential district. We promoted cultural exchange by introducing to the local community the authentic bread culture by using butter with the AOP French government designation, the ingredients of which consider the environment right down to the grass, wheat from France and salt from Guérande salt marshes. At Etajima, an island of the Seto Inland Sea in Hiroshima Prefecture in west Japan, we started a hot spring facility in July 2021 for urban people to mentally recharge. We are also engaged in an initiative to introduce at the earlier-mentioned LIBERTÉ store handmade ice-cream made by making the most of the lemon, orange and other local citrus fruit produce from Etajima in collaboration with a local facility for disabled persons. Etajima is a small island with a population of approximately 30,000 people, but approximately 90% of the 50 staff of the lodging facility are employed locally and widely range in age from 18 to 78. Also, at WeBase, which opened in 2016 and has since aimed to be a secure, clean and reasonably priced lodging facility that introduces Japan's regional lifestyle and culture to the young from all over the world and functions as a base for interaction with the local community, employment not based on nationality or gender is being promoted, resulting in multinational female staff with a wealth of international experience playing active roles. Handmade masks are provided to the local community, and sign language, foreign language and dance lessons and such are held. Moreover, WeBase Kyoto has kept up a campaign to provide breakfast, bedding and such free of charge to children's food shelters in the city. WeBase Kamakura is offered for utilization as a site for training camps for athletes or as a base of operations for operating staff coming from around the world for windsurfing world championships, as well as a venue at which children of several local elementary schools and their parents can interact after soccer games, and provides opportunities for local junior and senior high school students to experience working as lodging facility staff and acting as local tour guides to visitors from overseas staying there.

In the manner described by the aforementioned representative examples, the number of properties worth 1 billion yen or higher that we have arranged in the most recent five years (from the fiscal year ended March 31, 2017, to the fiscal year ended March 31, 2021) has reached 50 properties, of which the 44 properties that are existing real estate and revitalized by us account for 88%, reaching almost 90%. Like the refining described earlier, our initiatives for architectural revitalization are business activities that ultimately substantially mitigate the environmental impact associated with the production and transport of new construction materials.

Questioning economic growth that is based on "scrap-and-build," we have been aiming to lead social change by creating a market for circulation of existing real estate since our establishment in 1992. We have been building up facts one after another that are making us growingly aware that we have come closer to the then ideals. Our very business can be said to be duly serving as a result also as initiatives for SDGs of today for that reason.

CLOSING

Work to bring out the inherent potential value of real estate.

Looking to the upcoming future society, making our business evolution happen all depends on the 'people'.

Real estate is social capital connected to the surrounding society, and the 'people' who are the ones acting with real estate being their stage are the central players.



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This year marks our 30th year since founding. We took this occasion to provide a summary of our founding principles and milestones of the 30 years through our New Year's and summer greeting cards and such. In the course of such, we have come to reaffirm as a founding principle that the essence of our business is "Work to bring out the inherent potential value of real estate."

And we declared in the closing of this 30th anniversary talk session our resolution that "Looking to the upcoming future society, making our business evolution happen all depends on the 'people'."

When talking about real estate, the tangible aspects in the form of land and buildings are what tend to be the focus inevitably in Japan, but the positioning for us all Raysum members is that "Real estate is social capital connected to the surrounding society, and the 'people' who are the ones acting with real estate being their stage are the central players."

We would appreciate you reading the booklet at hand when you have the time.

We look forward to your continued support.

Financial Highlight

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Segment P/L Performance Trends

(Unit: million yen)

		FY Ended Mar. 2020 Results	FY Ended Mar. 2021 Results	FY Ended Mar. 2022	
				Plan	Results(6 months)
Value Creation Services	Net Sales	47,621	26,520	55,000	16,752
	Operating Income	12,221	3,152	9,350	3,597
Value-Add Services	Net Sales	5,041	4,482	4,000	2,481
	Operating Income	1,250	1,032	540	628
Future Value Creation Services	Net Sales	2,275	1,215	3,000	703
	Operating Income	△ 645	△ 1,971	△ 1,290	△ 1,149
Total	Net Sales	54,938	32,219	62,000	19,937
	Operating Income	12,826	2,213	8,600	3,077
Adjustment of All Companies	Net Sales	—	—	—	—
	Operating Income	△ 583	△ 569	△ 600	△ 307

Quarterly Consolidated Statements of Income – Second Quarter of Consolidated Fiscal Year

(Millions of yen)

	Six months ended September 30, 2020	Six months ended September 30, 2021
Net sales	6,882	19,937
Cost of sales	5,376	14,641
Gross profit	1,505	5,295
Selling, general and administrative expenses	* 1,980	* 2,526
Operating profit (loss)	(474)	2,769
Non-operating income		
Interest income	14	20
Rental income from buildings	2	2
Benefits income	18	33
Foreign exchange gains	—	0
Other	5	8
Total non-operating income	41	65
Non-operating expenses		
Interest expenses	138	276
Commission for a financial loan	5	7
Foreign exchange losses	29	—
Other	7	8
Total non-operating expenses	180	292
Ordinary profit (loss)	(613)	2,542
Extraordinary income		
Gain on sale of businesses	2	—
Gain on liquidation of subsidiaries and associates	—	7
Gain on sale of investment securities	—	9
Total extraordinary income	2	16
Extraordinary losses		
Loss on liquidation of subsidiaries and associates	69	—
Loss on retirement of non-current assets	—	28
Loss on sale of non-current assets	—	38
Total extraordinary losses	69	66
Profit (loss) before income taxes	(680)	2,492
Income taxes - current	2	965
Income taxes - deferred	(387)	(73)
Total income taxes	(384)	892
Profit (loss)	(295)	1,599
Loss attributable to non-controlling interests	(0)	—
Profit (loss) attributable to owners of parent	(295)	1,599

Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2021	As of September 30, 2021
Assets		
Current assets		
Cash and deposits	19,922	18,309
Trade accounts receivable	318	267
Real estate for sale	40,862	45,294
Real estate for sale in process	27,292	24,679
Advance payments to suppliers	1,033	892
Income taxes receivable	395	34
Other	2,325	3,509
Allowance for doubtful accounts	(11)	(11)
Total current assets	92,140	92,975
Non-current assets		
Property, plant and equipment		
Buildings, net	2,527	3,932
Land	1,412	1,517
Construction in progress	1,181	563
Other, net	2,233	2,067
Total property, plant and equipment	7,355	8,080
Intangible assets		
Other	344	317
Total intangible assets	344	317
Investments and other assets		
Investment securities	2,166	1,759
Deferred tax assets	653	721
Investments in capital	145	346
Long-term loans receivable	1,374	1,632
Other	882	808
Allowance for doubtful accounts	(200)	(325)
Total investments and other assets	5,021	4,944
Total non-current assets	12,721	13,342
Total assets	104,861	106,318

(Millions of yen)

	As of March 31, 2021	As of September 30, 2021
Liabilities		
Current liabilities		
Current portion of long-term borrowings	1,493	1,657
Accounts payable – other	1,798	1,205
Income taxes payable	3,087	2,165
Advances received	570	488
Provision for bonuses	6	4
Provision for loss on liquidation of subsidiaries and associates	123	123
Other	1,917	890
Total current liabilities	8,997	6,534
Non-current liabilities		
Long-term borrowings	45,437	47,353
Deposits received from tenants	2,993	3,596
Other	571	508
Total non-current liabilities	49,001	51,458
Total liabilities	57,999	57,992
Net assets		
Shareholders' equity		
Share capital	100	100
Capital surplus	12,054	12,054
Retained earnings	47,507	48,960
Treasury shares	(12,853)	(12,853)
Total shareholders' equity	46,809	48,262
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(19)	(11)
Foreign currency translation adjustment	72	74
Total accumulated other comprehensive income	52	63
Total net assets	46,861	48,325
Total liabilities and net assets	104,861	106,318

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お問い合わせ先/Contact

株式会社レーサム 管理本部・広報室
Raysum Co., Ltd.
Administration Division • Public Relations Division

Tel: +81-(0)3-5157-8881
<http://www.raysum.co.jp>
<http://www.raysum.co.jp/en/>

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