

RAKSUL INC. and Consolidated Subsidiaries
Consolidated Financial Statements
Consolidated Balance Sheet
As of July 31, 2022 (Unaudited)

ASSETS	Millions of Yen
CURRENT ASSETS:	
Cash and deposits	¥ 13,682
Trade notes and accounts receivable	4,903
Merchandises and finished goods	201
Materials and supplies	8
Prepaid expenses	583
Other current assets	281
Allowance for doubtful receivables	<u>(0)</u>
Total current assets	<u>19,660</u>
NON-CURRENT ASSETS:	
PROPERTY AND EQUIPMENT:	
Buildings and structures	212
Accumulated depreciation	<u>(97)</u>
Buildings and structures, net	115
Machinery, equipment and vehicles	775
Accumulated depreciation	<u>(534)</u>
Machinery, equipment and vehicles, net	241
Other	83
Accumulated depreciation	<u>(66)</u>
Other, net	<u>16</u>
Total property and equipment, net	<u>373</u>
INTANGIBLE ASSETS:	
Goodwill	4,708
Software	395
Software in progress	88
Other	<u>15</u>
Total intangible assets	<u>5,208</u>
INVESTMENTS AND OTHER ASSETS:	
Investment securities	633
Investments in unconsolidated subsidiaries and associates	1,436
Long-term prepaid expenses	202
Deferred tax assets	968
Other	<u>151</u>
Total investments and other assets	<u>3,391</u>
Total non-current assets	<u>8,973</u>
TOTAL ASSETS	<u><u>¥ 28,633</u></u>

(Continued)

RAKSUL INC. and Consolidated Subsidiaries
Consolidated Balance Sheet
As of July 31, 2022 (Unaudited)

	<u>Millions of Yen</u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Trade accounts payable	¥ 3,234
Other payables and accrued expenses	1,239
Short-term loans payable	800
Current portion of long-term loans payable	1,695
Income taxes payable	288
Consumption taxes payable	213
Contract liabilities	91
Accrued bonuses	135
Other current liabilities	<u>75</u>
Total current liabilities	<u>7,774</u>
LONG-TERM LIABILITIES:	
Convertible bonds	5,023
Long-term loans payable	6,417
Asset retirement obligations	<u>106</u>
Total long-term liabilities	<u>11,546</u>
Total liabilities	<u>19,320</u>
NET ASSETS:	
SHAREHOLDERS' EQUITY:	
Capital stock	2,694
Capital surplus	5,501
Retained earnings	165
Treasury stock	<u>(0)</u>
Total shareholders' equity	<u>8,360</u>
ACCUMULATED OTHER COMPREHENSIVE INCOME:	
Unrealized gain on available-for-sale securities	<u>22</u>
Total accumulated other comprehensive income	<u>22</u>
STOCK ACQUISITION RIGHTS	<u>930</u>
Total net assets	<u>9,312</u>
TOTAL LIABILITIES AND NET ASSETS	<u>¥ 28,633</u>
	(Concluded)

See notes to consolidated financial statements.

RAKSUL INC. and Consolidated Subsidiaries
Consolidated Statement of Income
For the Year Ended July 31, 2022 (Unaudited)

	Millions of Yen
NET SALES	¥ 33,980
COST OF SALES	<u>24,176</u>
Gross profit	9,803
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>9,340</u>
Operating income	<u>462</u>
NON-OPERATING INCOME:	
Interest income	10
Dividend income	1
Other	<u>16</u>
Total non-operating income	<u>28</u>
NON-OPERATING EXPENSES:	
Interest expenses	34
Loss on extinguishment of stock-based compensation	72
Share of losses of entities accounted for by the equity method	532
Other	<u>19</u>
Total non-operating expenses	<u>658</u>
ORDINARY LOSS	<u>(167)</u>
SPECIAL GAINS:	
Gain on a step acquisition	744
Gain on reversal of stock acquisition rights	<u>0</u>
Total special gains	<u>745</u>
SPECIAL LOSSES:	
Loss on disposal of non-current assets	2
Loss on write-down of investment securities	4
Loss on write-down of investments in subsidiaries	14
Loss on changes in ownership interest	18
Settlement payments	<u>39</u>
Total special losses	<u>80</u>
PROFIT BEFORE INCOME TAXES	<u>497</u>
INCOME TAXES:	
Current	293
Deferred	<u>(818)</u>
Total income taxes	<u>(524)</u>
NET PROFIT	1,021
NET PROFIT ATTRIBUTABLE TO NONCONTROLLING INTERESTS	<u>—</u>
NET PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT	<u>¥ 1,021</u>

See notes to consolidated financial statements.

RAKSUL INC. and Consolidated Subsidiaries
Consolidated Statement of Comprehensive Income
For the Year Ended July 31, 2022 (Unaudited)

	Millions of Yen
NET PROFIT	¥ 1,021
OTHER COMPREHENSIVE INCOME:	
Unrealized gain on available-for-sale securities	<u>18</u>
Total other comprehensive income	18
COMPREHENSIVE INCOME	<u><u>1,040</u></u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:	
Owners of the parent	1,040
Noncontrolling interests	—

See notes to consolidated financial statements.

RAKSUL INC. and Consolidated Subsidiaries
Consolidated Statement of Changes in Net Assets
For the Year Ended July 31, 2022 (Unaudited)

	Millions of Yen										
	Shareholders' Equity					Accumulated Other Comprehensive Income					
	Capital Stock	Capital Surplus	Retained Earnings (Accumulated Deficit)	Treasury Stock	Total Shareholders' Equity	Unrealized Gain on Available-for-Sale Securities	Total		Stock Acquisition Rights	Noncontrolling Interests	Total Net Assets
BALANCE at AUGUST 1, 2021	¥ 2,452	¥ 5,260	¥ (249)	¥ (0)	¥ 7,463	¥ 3	¥ 3	¥ 529	¥ —	¥ 7,996	
Issuance of new shares	241	241	—	—	482	—	—	—	—	482	
Net profit attributable to owners of the parent	—	—	1,021	—	1,021	—	—	—	—	1,021	
Changes in the scope of consolidation and applying the equity method	—	—	(607)	—	(607)	—	—	—	—	(607)	
Purchase of treasury stock	—	—	—	(0)	(0)	—	—	—	—	(0)	
Other change during the year, net	—	—	—	—	—	18	18	401	—	419	
BALANCE at JULY 31, 2022	<u>¥ 2,694</u>	<u>¥ 5,501</u>	<u>¥ 165</u>	<u>¥ (0)</u>	<u>¥ 8,360</u>	<u>¥ 22</u>	<u>¥ 22</u>	<u>¥ 930</u>	<u>¥ —</u>	<u>¥ 9,312</u>	

See notes to consolidated financial statements.

RAKSUL INC. and Consolidated Subsidiaries
Consolidated Statement of Cash Flows
For the Year Ended July 31, 2022 (Unaudited)

	Millions of Yen
OPERATING ACTIVITIES:	
Profit before income taxes	¥ 497
Depreciation and amortization	227
Amortization of goodwill	247
Stock compensation expenses	695
Loss on investments in investment partnerships	8
Loss on write-down of investment securities	4
Loss on changes in ownership interest	18
Loss on write-down of investments in subsidiaries	14
Interest and dividend income	(11)
Interest expenses	34
Gain on a step acquisition	(744)
Share of losses of entities accounted for by the equity method	532
Loss on disposal of non-current assets	2
Increase (decrease) in allowance for doubtful receivables	(4)
Increase (decrease) in accrued bonuses	123
Decrease (increase) in trade notes and accounts receivable	(1,294)
Decrease (increase) in inventories	(30)
Increase (decrease) in trade accounts payable	567
Increase (decrease) in other payables and accrued expenses	270
Increase (decrease) in consumption taxes payable	54
Other—net	(160)
Subtotal	1,053
Interest and dividends received	1
Interest paid	(33)
Income taxes paid	(184)
Income taxes refunded	0
Net cash provided by (used in) operating activities	837
INVESTING ACTIVITIES:	
Purchases of property and equipment	(3)
Purchases of intangible assets	(146)
Purchases of investment securities	(418)
Payments for investments in associates	(387)
Payments for additional acquisition of a subsidiary's shares resulting in a change in the scope of consolidation	(1,789)
Payments for short-term loans receivable	(68)
Proceeds from collection of short-term loans receivable	4
Net cash provided by (used in) investing activities	¥ (2,808)

(Continued)

RAKSUL INC. and Consolidated Subsidiaries
Consolidated Statement of Cash Flows
For the Year Ended July 31, 2022 (Unaudited)

	Millions of Yen
FINANCING ACTIVITIES:	
Proceeds from short-term loans payable	¥ 800
Repayments of short-term loans payable	(600)
Proceeds from long-term loans payable	3,600
Repayments of long-term loans payable	(1,684)
Proceeds from issuance of shares upon exercise of stock acquisition rights	91
Purchase of treasury stock	<u>(0)</u>
Net cash provided by (used in) financing activities	<u>2,206</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	235
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	<u>13,447</u>
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	<u>¥ 13,682</u>
	(Concluded)

See notes to consolidated financial statements.

RAKSUL INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

For the Year Ended July 31, 2022 (Unaudited)

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of RAKSUL INC. ("the Company") and its consolidated subsidiaries (collectively, the "Group") are prepared on the basis of accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards ("IFRS"), and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

Effective for the year ended July 31, 2022, the Company has disclosed its consolidated financial statements.

Amounts less than one million yen have been rounded down to the nearest million yen in the presentation of the accompanying consolidated financial statements. As a result, the totals in yen do not necessarily agree with the sum of the individual amounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Consolidation scope

(1) Outline of consolidated subsidiaries

(a) Number of consolidated subsidiaries: 2

(b) Name of major consolidated subsidiaries: NOVASELL INC. ("NOVASELL")
DANBALL ONE. Inc. ("DANBALL")

(2) Outline of non-consolidated subsidiaries

(a) Name of major unconsolidated subsidiaries: RAKSUL VIETNAM COMPANY LIMITED
RAKSUL INDIA PRIVATE LIMITED
and other two subsidiaries

(b) Reasons for not being consolidated

These subsidiaries are not included in the scope of consolidation because they are small-sized companies that do not have significant effect on the accompanying consolidated financial statements in terms of total assets, net sales, net profit (corresponding to the ownership interest), and retained earnings (corresponding to the ownership interest).

(c) Changes in consolidation scope

During the year ended July 31, 2022, the Company newly established NOVASELL and converted DANBALL ONE into a wholly owned subsidiary through additional acquisition of shares. As a result, these two subsidiaries have been consolidated since the year ended July 31, 2022.

2. The equity method

(1) Outline of unconsolidated subsidiaries and associates accounted for by the equity method

(a) Number of entities: 3

(b) Name of major associates: JOSYS INC. ("JOSYS")
Peraichi, Inc. ("Peraichi")
NETSQUARE CO., Ltd. ("NETSQUARE")

(c) Reasons for not being accounted for by the equity method

Unconsolidated subsidiaries that are not accounted for by the equity method are excluded from scope of applying the equity method because they do not have significant effect on the accompanying consolidated financial statements in terms of net profit (corresponding to the ownership interest), retained earnings (corresponding to the ownership interest) and other items individually or in aggregate.

(2) Changes in the scope of applying the equity method

During the year ended July 31, 2022, the Company's holding ratio of the voting rights in JOSYS, a former subsidiary of the Company, decreased to 35.6% (of which 27.1% is held by those who have close relationships). As a result, JOSYS has been accounted for by the equity method since the year ended July 31, 2022.

3. Closing date of consolidated subsidiaries and entities accounted for by the equity method

The closing date of all the consolidated subsidiaries is also July 31. The closing dates of entities accounted for by the equity method are different from that of the Company; however, the most recent quarterly financial statements of those entities are used instead.

4. Investment securities

Available-for-sale securities:

(a) Available-for-sale securities other than equity securities that do not have quoted market prices are stated at fair value as of the balance sheet date with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly as a separate component of net assets, and cost of securities sold is determined by the moving-average method.

(b) Equity securities that do not have quoted market prices are stated at cost determined by the moving-average method.

5. Inventories

Inventories are stated at the lower of cost or net realizable value, cost being determined by the gross average method.

6. Depreciation and amortization

(1) Property and equipment

Depreciation of property and equipment is calculated by the declining-balance method based on the estimated useful lives and the residual value, except for buildings acquired on or after April 1, 2016, which are depreciated by the straight-line method. The estimated useful lives of the assets are as follows:

Buildings and structures	6 to 18 years
Machinery, equipment and vehicles	10 years
Tools, furniture and fixtures	2 to 15 years

(2) Intangible assets

Intangible assets are amortized by the straight-line method. The estimated useful life of the assets is as follows:

Software for internal use	5 years
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7. Provisions and allowances

(1) Allowance for doubtful receivables

The allowance for doubtful receivables is provided for possible losses on customer defaults and is stated at the amount considered to be appropriate based on the Group's credit loss experience and an evaluation of potential losses for specific receivables outstanding.

(2) Accrued bonuses

Accrued bonuses represents the estimated amount of the bonus payments to employees which is attributable to the current fiscal year.

8. Revenue recognition

The Group's accounting policy for revenue recognition is summarized as follows:

(1) Raksul

The principal performance obligation of Raksul business is sales of printed materials and cardboard products to customers in Japan. The Group in principle recognizes revenue at the time of delivery because the performance obligation is satisfied when the control over goods is transferred to the customer. If the period between shipment and the point in time when the customer obtains control over goods is normal, the Group recognizes revenue at the time of shipment in accordance with the alternative treatment as stipulated in Section 98 of "Implementation Guidance on Accounting Standard for Revenue Recognition" issued by the Accounting Standards Board of Japan ("ASBJ"). Revenue is measured at an amount of the promised consideration after deducting discounts and rebates.

(2) Novasell

The principal performance obligation of Novasell business is provision of advertising agency services related to commercial films and production of commercial films. The Group in principle recognizes revenue from advertising agency services related to commercial films at the time of broadcasting because the performance obligation is satisfied when the control over services is transferred to the customer. Also, the Group in principle recognizes revenue from production of commercial films at the time of delivery because the performance obligation is satisfied when the control over goods is transferred to the customer. For transactions in which the Group acts as an agent, the Group recognizes revenue at the net amount of the promised consideration after offsetting payments to third parties. Revenue is measured at an amount of the promised consideration. Considerations do not include significant variable amounts.

(3) Hacobell

The principal performance obligation of Hacobell business is provision of vehicle allocation services. The Group in principle recognizes revenue at the time of completion of vehicle allocation services because the performance obligation is satisfied when the control over services is transferred to the customer. Revenue is measured at an amount of the promised consideration after deducting discounts and rebates. Considerations do not include significant variable amounts.

The considerations are received generally within a year from the satisfaction of the performance obligations and do not contain significant financing components.

9. Amortization of goodwill

Goodwill is amortized by using the straight-line method over ten years.

10. Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows consist of cash on hand, bank deposits that can be withdrawn on demand, and short-term investments with a maturity of three months or less when purchased that can easily be converted to cash and are subject to little risk of change in value.

3. SIGNIFICANT ACCOUNTING ESTIMATES

1. Measurement of goodwill

(1) Balance as of the current fiscal year-end

	<u>Millions of Yen</u>	
	<u>2022</u>	
Goodwill	¥	4,708

(2) Details of accounting estimates

(a) Measurement method

The cost of acquisition arising from business combinations is allocated to assets and liabilities. The excess of the cost of acquisition over the fair value of the net assets of an acquired subsidiary is recognized as goodwill.

The Company has confirmed that DANBALL has not recorded or is not expected to record consecutive losses from its operating activities. With respect to the business environment, the Company has determined that the substantial value of DANBALL shares, which reflects the excess earning power, has not significantly declined since the assumptions regarding sales and operating income in the business plan as of the end of the year were not materially different from those made at the time of the additional acquisition. Therefore, the Company determined that there is no indication that goodwill associated with DANBALL may be impaired.

(b) Significant assumptions

The future cash flows associated with goodwill are estimated based on the payback period of the investment according to the business plan. The significant assumptions regarding the estimate of such business plans are sales growth rate and gross profit margin. These assumptions are determined by considering the actual results in prior years and the market environment.

(c) Possible effect on the consolidated financial statements for the following fiscal year

Goodwill is amortized by using the straight-line method over its effective period and is tested for impairment based on the estimated future cash flows when there is an indication that it may be impaired. If the carrying amount exceeds the recoverable amount due to changes in business environment and other factors, impairment losses may be recorded.

2. Measurement of equity method goodwill

(1) Balance as of the current fiscal year-end

	<u>Millions of Yen</u>	
	<u>2022</u>	
Investment in an associate—Peraichi	¥	998
Equity method goodwill included in the investment above		987

(2) Details of accounting estimates

(a) Measurement method

The excess of the cost of acquisition of Peraichi over the Company's interest in fair value of the net assets as of the date of acquisition is recognized as equity method goodwill.

Peraichi has recorded consecutive losses from its operating activities, and accordingly, there is an indication that investments in Peraichi may be impaired. As a result of the test for impairment, the Group did not recognize any impairment loss because the total amount of undiscounted future cash flows exceeds the carrying amount.

(b) Significant assumptions

The future cash flows associated with equity method goodwill are estimated based on the payback period of the investment according to the business plan. The significant assumptions regarding the estimate of such business plans are sales growth rate and gross profit margin. These assumptions are determined by considering the actual results in prior years and the market environment.

(c) Possible effect on the consolidated financial statements for the following fiscal year

Equity method goodwill is amortized by using the straight-line method over its effective period and is tested for impairment based on the estimated future cash flows when there is an indication that it may be impaired. If the carrying amount exceeds the recoverable amount due to changes in business environment and other factors, impairment losses may be recorded.

3. Recoverability of deferred tax assets

(1) Balance as of the current fiscal year-end

	<u>Millions of Yen</u>	
	<u>2022</u>	
Deferred tax assets (before offsetting against deferred tax liabilities)	¥	997

(2) Details of accounting estimates

(a) Measurement method

The recoverability of deferred tax assets recognized for deductible temporary differences and tax loss carry forwards is determined based on the estimated taxable income according to the future profitability and tax planning.

(b) Significant assumptions

The estimated taxable income according to the future profitability is based on the future business plans. The significant assumptions used in formulating the business plans are sales growth rate and gross profit margin. These assumptions are determined considering the actual results in prior years and the market environment.

(c) Possible effect on the consolidated financial statements for the following fiscal year

These accounting estimates may be affected by changes in the future economic conditions that are uncertain. If the actual profit as well as the amount and timing of taxable income are different from the estimates, it may significantly affect the amount of deferred tax assets in the consolidated financial statements for the following fiscal year.

4. CHANGES IN ACCOUNTING POLICIES

1. Application of accounting standard for revenue recognition

Effective August 1, 2021, the Group applied "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29 issued on March 31, 2020, hereinafter the "New Revenue Recognition Standard"). In accordance with the New Revenue Recognition Standard, the Group recognizes revenue at the time when control over the promised goods or services is transferred to a customer at an amount expected to be received in exchange for the promised goods or services.

Under the New Revenue Recognition Standard, promotion expenses, which had been included in selling, general and administrative expenses in the prior years in Raksul and Hacobell segments, are currently offset against net sales. For transactions in which the Group acts as an agent in Novasell segment, the Group previously recognized revenue at the gross amount of the consideration received from the customer. Under the New Revenue Recognition Standard, the Group recognizes revenue at the net amount after offsetting the amount of payment to third parties.

This accounting change did not have any effect on operating income, ordinary income, profit before income

taxes, beginning balance of retained earnings, or earnings per share.

Effective August 1, 2021, advances received, which had been presented in the current liability section, are included in contract liabilities in accordance with the New Revenue Recognition Standard.

2. Application of accounting standard for fair value measurement and related standards

Effective August 1, 2021, the Group applied "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30 issued on July 4, 2019, hereinafter the "New Fair Value Measurement Standard"). In accordance with the provisional treatment stipulated in Paragraph 19 of the New Fair Value Measurement Standard and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10 issued on July 4, 2019), the Group will prospectively apply new accounting policies prescribed in the New Fair Value Measurement Standard. The application of the New Fair Value Measurement Standard did not have any impact on the consolidated financial statements.

5. NOTES TO CONSOLIDATED BALANCE SHEET

Receivables arising from contracts with customers as of July 31, 2022 are as follows:

	<u>Millions of Yen</u>	
	<u>2022</u>	
Trade notes receivable	¥	102
Trade accounts receivable		4,800

Balances related to unconsolidated subsidiaries and associates as of July 31, 2022 are as follows:

	<u>Millions of Yen</u>	
	<u>2022</u>	
Investment securities	¥	278
Investments in unconsolidated subsidiaries and associates		1,436

6. NOTES TO CONSOLIDATED STATEMENT OF INCOME

The major components of selling, general and administrative expenses are as follows:

	<u>Millions of Yen</u>	
	<u>2022</u>	
Salaries and wages	¥	1,727
Advertising		2,557
Accrual of bonuses		124
Provision of allowance for doubtful receivables		(4)

The details of loss on disposal of non-current assets for the year ended July 31, 2022 are as follows:

	<u>Millions of Yen</u>	
	<u>2022</u>	
Tools, furniture and fixtures	¥	1
Software		1
Total	¥	<u>2</u>

For the year ended July 31, 2022, the Group recorded settlement payments of ¥39 million as a special loss in relation to cancellation of sales agency contracts between the Company, Thanks Link Corporation, and Revamp Corporation, which was agreed on June 30, 2022. Upon the cancellation, the Company paid the

settlement payments of ¥39 million to Thanks Link Corporation.

7. NOTES TO CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

The components of other comprehensive income for the year ended July 31, 2022 were as follows:

	Millions of Yen
	2022
Unrealized gain on available-for-sale securities	
Gain arising during the year	¥ 28
Reclassification adjustments	—
Amount before income tax effect	28
Income tax effect	9
Total	18
Total other comprehensive income	¥ 18

8. NOTES TO CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

For the year ended July 31, 2022

1. Type and number of issued shares and treasury stock

	Shares			July 31, 2022
	August 1, 2021	Increase	Decrease	
Issued shares				
Common stock	28,729,220	350,880	—	29,080,100
Total	28,729,220	350,880	—	29,080,100
Treasury stock				
Common stock	12,180	16,605	—	28,785
Total	12,180	16,605	—	28,785

2. Stock acquisition rights as stock options of the Company

	Number of Shares to be Issued upon Exercise of Stock Options (shares)			Millions of Yen	
	August 1, 2021	Increase	Decrease	July 31, 2022	July 31, 2022
Stock Acquisition Rights Stock options of the Company	—	—	—	—	¥ 930
Total	—	—	—	—	¥ 930

3. Dividends

Not applicable.

9. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

A reconciliation between cash and cash equivalents in the consolidated statement of cash flows and cash and deposits disclosed in the consolidated balance sheet as of July 31, 2022 is as follows:

	<u>Millions of Yen</u> <u>2022</u>
Cash and deposits	¥ 13,682
Adjustments	<u>—</u>
Cash and cash equivalents	<u>¥ 13,682</u>

Payments for additional acquisition of a subsidiary's shares resulting in a change in the scope of consolidation represent payments for acquisition of DANBALL shares, of which components as of the date of acquisition were as follows:

	<u>Millions of Yen</u> <u>2022</u>
Current assets	¥ 1,463
Non-current assets	159
Goodwill	4,955
Current liabilities	(1,560)
Long-term liabilities	<u>(1,018)</u>
Acquisition cost	4,000
Acquisition cost before the additional acquisition	(1,251)
Gain on a step acquisition	(744)
Cash and cash equivalents acquired	<u>(214)</u>
Payments for additional acquisition of a subsidiary's shares resulting in a change in the scope of consolidation	<u>¥ 1,789</u>

10. LEASES

The minimum rental commitments under noncancelable operating leases as of July 31, 2022 were as follows:

	<u>Millions of Yen</u> <u>2022</u>
Due within a year	¥ 53
Due after a year	<u>2</u>
Total	<u>¥ 55</u>

11. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

1. Nature and status of financial instruments

(1) Policy for Financial Instruments

The Group raises funds in accordance with its internal capital investment plan. The Group's use of its surplus funds is limited to short-term deposits and other low-risk investments. The Group does not enter into any derivative contracts.

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

Trade notes receivable, electronically recorded monetary claims, and trade accounts receivable are

exposed to customer credit risks or counterparty credit risks.

Investment securities principally comprise investments in shares related to operating alliances with business partners and investments in an investment partnership, and are subject to market risks and issuers' credit risks.

Trade accounts payable and other payables are due within a year.

Loans payable are utilized for funding working capital and are exposed to liquidity risks. Certain loans payable have variable interest rates and are exposed to interest rate risk.

Receivables and payables that are denominated in foreign currencies are subject to foreign exchange risks.

(3) *Risk Management for Financial Instruments*

Credit risk management (default risk of counterparties)

As to trade receivables, in accordance with internal rules of accounting and credit control, the Corporate Administrative Division controls due dates and balances of individual customers and shares the information of their payment status with the sales divisions to identify and reduce the default risk of the counterparties at an early stage.

Market risk management (foreign exchange and interest rate risk)

The Group manages the risks associated with loans payable with variable interest rates by periodically monitoring the fluctuation in interest rates. As to foreign exchange risks related to receivables and payables that are denominated in foreign currencies, the Group periodically monitors the foreign exchange rates by currency.

Liquidity risk management (risk that the Group cannot meet its obligations to make payments on due dates)

In accordance with its internal profit plan, the Corporate Administrative Division prepares and updates its cash management plan in a timely manner. The Group also manages liquidity risks by maintaining a certain level of liquidity on hand.

(4) *Supplemental Information Regarding Fair Values of Financial Instruments*

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

2. Fair value of financial instruments

Carrying amounts, fair value, and unrealized gains and losses of financial instruments as of July 31, 2022 are summarized as follows. Fair value information of cash is omitted. In addition, fair value information of bank deposits, trade notes and accounts receivable, trade payables, other payables, accrued expenses are also omitted because they are settled in a short period of time and have fair values approximately equal to their carrying amounts.

	Millions of Yen		
	2022		
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Assets:			
Investment securities	¥ 303	¥ 303	¥ —
Total	¥ 303	¥ 303	¥ —
Liabilities:			
Short-term loans payable	¥ 800	¥ 800	¥ —
Long-term loans payable, including current portion	8,112	8,115	3
Convertible bonds	5,023	4,988	(34)
Total	¥ 13,935	¥ 13,904	¥ (30)

Notes: 1. Financial instruments which do not have quoted market prices are not included in "investment securities" in the table above. The carrying amounts of such financial instruments as of July 31, 2022 are as follows:

	Millions of Yen	
	2022	
Unlisted equity securities	¥	170
Investments in an investment partnership		160

2. A redemption schedule of receivables as of July 31, 2022 is as follows:

	Millions of Yen			
	2022			
	Due within 1 Year	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and deposits	¥ 13,682	¥ —	¥ —	¥ —
Trade notes and accounts receivable	4,903	—	—	—
Total	¥ 18,585	¥ —	¥ —	¥ —

3. A repayment schedule of short-term loans payable, long-term loans payable, and convertible bonds as of July 31, 2022 is as follows:

	Millions of Yen		
	2022		
	Due within 1 Year	Due after 1 Year through 2 Years	Due after 2 Years through 3 Years
Short-term loans payable	¥ 800	¥ —	¥ —
Long-term loans payable	1,695	1,690	1,446
Convertible bonds	—	—	5,000
Total	¥ 2,495	¥ 1,690	¥ 6,446

	Millions of Yen		
	2022		
	Due after 3 Years through 4 Years	Due after 4 Years through 5 Years	Due after 5 Years
Short-term loans payable	¥ —	¥ —	¥ —
Long-term loans payable	1,360	1,298	621
Convertible bonds	—	—	—
Total	¥ 1,360	¥ 1,298	¥ 621

3. Financial instruments categorized by fair value hierarchy

The fair value of financial instruments is categorized into the following three levels, depending on the observability and significance of the inputs used in making fair value measurements:

Level 1: Fair values measured by using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair values measured by using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.

Level 3: Fair values measured by using significant unobservable inputs for the assets or liabilities.

If multiple inputs are used that have a significant impact on the measurement of fair value, fair value is categorized at the lowest level in the fair value measurement among the levels to which each of these inputs belongs.

(1) The financial assets and liabilities measured at the fair values in the consolidated balance sheet

	Millions of Yen			
	2022			
	Level 1	Level 2	Level 3	Total
Investment securities	¥ 24	¥ —	¥ 278	¥ 303
Total	¥ 24	¥ —	¥ 278	¥ 303

(2) The financial assets and liabilities not measured at the fair values in the consolidated balance sheet

	Millions of Yen			
	2022			
	Level 1	Level 2	Level 3	Total
Short-term loans payable	¥ —	¥ 800	¥ —	¥ 800
Long-term loans payable	—	8,115	—	8,115
Convertible bonds	—	4,988	—	4,988
Total	¥ —	¥ 13,904	¥ —	¥ 13,904

The following is a description of valuation methodologies and inputs used for measurement of the fair value of assets and liabilities:

Investment securities

The fair values of listed equity securities are measured at the quoted market prices. Since listed equity securities are traded in active markets, the fair values of listed equity securities are categorized as Level 1. Equity securities which do not have quoted market prices are classified as Level 3 if significant unobservable inputs are used. Such equity securities include unlisted stock acquisition rights.

Short-term loans payable and long-term loans payable, including current portion

Fair values of short-term loans payable and long-term loans payable (including current portion) are measured by using the discounted present value method based on the total amount of the principal and interest and discount rates taking into account maturity and credit risk, and are classified as Level 2.

Convertible bonds

Fair values of convertible bonds are measured by using discounted present value techniques based on the total amount of the principal and interest and discount rates taking into account maturity and credit risk, and are classified as Level 2.

(3) Information about financial assets and liabilities measured at the Level 3 fair values in the consolidated balance sheet

(a) Qualitative information about significant unobservable inputs

As of July 31, 2022

	Valuation Techniques	Significant Unobservable Inputs	Range of Unobservable Inputs
Unlisted stock acquisition rights	Discounted present value method	Volatility	61.36%

(b) A reconciliation between the beginning balance and ending balance as well as gain or loss on measurement recognized in the fiscal year

	<u>Millions of Yen</u>	
	<u>2022</u>	
Beginning balance	¥	—
Gain or loss recognized in the fiscal year or other comprehensive income		—
Purchases, sales, redemption and other changes		<u>278</u>
Ending balance	¥	<u>278</u>

(c) Valuation process

Fair values of Level 3 financial instruments are measured by the Group's personnel in the responsible department in accordance with the accounting policies regarding fair value measurement and other internal guidelines. The Group verifies the result of fair value measurement as to reasonableness of valuation techniques and inputs used, as well as appropriateness of fair value level categorization. In measuring fair values, the Group opts an appropriate valuation model that reflect the nature, characteristics, and risks of the financial instruments.

(d) Sensitivity of the fair value measurement to changes in significant unobservable inputs

The significant unobservable input is volatility which has a positive correlation with the fair value of the financial instrument; a significant rise (decline) in volatility causes a significant increase (decrease) in the fair value.

12. INVESTMENT SECURITIES

1. Available-for-sale securities

As of July 31, 2022

(1) Investment securities whose carrying amounts exceed their acquisition costs:

Not applicable.

(2) Investment securities whose carrying amounts do not exceed their acquisition costs:

	Millions of Yen		
	2020		
	Carrying Amount	Acquisition Cost	Unrealized Gain (Loss)
Equity securities—Stocks	¥ 24	¥ 24	¥ (0)
Other securities	278	278	—
Total	¥ 303	¥ 303	¥ (0)

Investment securities that do not have quoted market prices are not included in the table above. The total carrying amount of such investment securities was ¥330 million which is included in "investment securities" in the consolidated balance sheet.

3. Write-down of investment securities

The Group recorded ¥19 million of loss on write-down of investment securities (¥14 million for investments in associates and ¥4 million for investment securities) for the year ended July 31, 2022.

For investment securities that do not have quoted market prices, if the substantial value of such investments significantly declines due to deterioration of financial condition of the issuer, the Group recognizes a loss on write-down on investment securities after considering future recoverability.

13. STOCK OPTIONS

1. Expenses related to stock options and gain on reversal of stock acquisition rights

Stock compensation expenses included in selling, general and administrative expenses for the year ended July 31, 2022 were ¥402 million. Gain on reversal of stock acquisition rights for the year ended July 31, 2022, was ¥0 million.

2. Details of stock options

(1) Stock options that existed in the year ended July 31, 2022 are as follows:

<u>Stock Options</u>	<u>Grantees</u>	<u>Number of Options Granted</u>	<u>Grant Date</u>	<u>Exercise Period</u>
Stock Option #4	1 director 18 employees	583,400 shares	November 21, 2014	From November 22, 2016 to November 21, 2024
Stock Option #4-2	3 employees	15,000 shares	January 13, 2015	From January 14, 2017 to January 13, 2025
Stock Option #6	1 outside director 8 employees	79,000 shares	May 25, 2015	From May 23, 2017 to May 22, 2025
Stock Option #7	1 director 3 outside auditors	480,000 shares	May 25, 2015	From May 26, 2015 to May 25, 2025
Stock Option #6-2	4 employees	56,000 shares	August 11, 2015	From August 12, 2017 to August 11, 2025
Stock Option #6-3	15 employees	212,000 shares	October 27, 2015	From October 14, 2017 to October 13, 2025
Stock Option #6-4	5 employees	11,000 shares	March 9, 2016	From March 9, 2018 to March 8, 2026
Stock Option #9	1 director 22 employees	273,000 shares	October 27, 2016	From October 28, 2018 to October 27, 2026
Stock Option #9-2	5 employees	76,000 shares	December 14, 2016	From December 15, 2018 to December 14, 2026
Stock Option #9-3	5 employees	13,000 shares	February 8, 2017	From February 9, 2019 to February 8, 2027
Stock Option #9-4	4 employees	7,000 shares	April 12, 2017	From April 13, 2019 to April 12, 2027
Stock Option #9-5	1 director	152,000 shares	May 17, 2017	From May 18, 2019 to May 17, 2027
Stock Option #10	5 employees	60,000 shares	June 30, 2017	From July 1, 2019 to June 30, 2027
Stock Option #11	3 directors 5 employees	96,000 shares	October 27, 2017	From October 28, 2019 to October 27, 2027
Stock Option #12	5 directors 6 employees	700,000 shares	July 3, 2020	From November 1, 2022 to July 2, 2027

Notes: 1. Number of options granted is presented after conversion to number of shares to be issued upon exercise.

2. Number of shares have been restated to reflect a 100-for-1 stock split that was effective February 1, 2018.

3. At the time of exercise, the holder of the stock options shall occupy the position of a director, employee or consultant of the Company or the Company's wholly-owned subsidiary.

4. Stock options of the Company do not have any service-period requirements for vesting.

(2) Stock option activity during the year ended July 31, 2022 is as follows:

	<u>Stock Option #4</u>	<u>Stock Option #4-2</u> (Number of Shares)	<u>Stock Option #6</u>
<u>Non-vested</u>			
August 1, 2021—Outstanding	—	—	—
Granted	—	—	—
Forfeited	—	—	—
Vested	—	—	—
July 31, 2022—Outstanding	—	—	—
<u>Vested</u>			
August 1, 2021—Outstanding	170,800	5,000	1,000
Vested	—	—	—
Exercised	43,300	5,000	1,000
Canceled	—	—	—
July 31, 2022—Outstanding	127,500	—	—
	<u>Stock Option #7</u>	<u>Stock Option #6-2</u> (Number of Shares)	<u>Stock Option #6-3</u>
<u>Non-vested</u>			
August 1, 2021—Outstanding	—	10,000	29,600
Granted	—	—	—
Forfeited	—	—	—
Vested	—	10,000	29,600
July 31, 2022—Outstanding	—	—	—
<u>Vested</u>			
August 1, 2021—Outstanding	183,000	—	34,000
Vested	—	10,000	29,600
Exercised	70,000	—	27,600
Canceled	—	—	—
July 31, 2022—Outstanding	113,000	10,000	36,000

	<u>Stock Option #6-4</u>	<u>Stock Option #9</u> (Number of Shares)	<u>Stock Option #9-2</u>
<u>Non-vested</u>			
August 1, 2021—Outstanding	400	50,400	5,400
Granted	—	—	—
Forfeited	200	800	—
Vested	200	49,600	5,400
July 31, 2022—Outstanding	—	—	—

<u>Vested</u>			
August 1, 2021—Outstanding	—	64,700	10,000
Vested	200	49,600	5,400
Exercised	200	58,000	10,400
Canceled	—	—	—
July 31, 2022—Outstanding	—	56,300	5,000

	<u>Stock Option #9-3</u>	<u>Stock Option #9-4</u> (Number of Shares)	<u>Stock Option #9-5</u>
<u>Non-vested</u>			
August 1, 2021—Outstanding	1,400	1,200	30,400
Granted	—	—	—
Forfeited	—	200	—
Vested	1,400	1,000	30,400
July 31, 2022—Outstanding	—	—	—

<u>Vested</u>			
August 1, 2021—Outstanding	1,800	3,500	83,300
Vested	1,400	1,000	30,400
Exercised	1,200	1,500	38,300
Canceled	—	—	—
July 31, 2022—Outstanding	2,000	3,000	75,400

	<u>Stock Option #10</u>	<u>Stock Option #11</u> (Number of Shares)	<u>Stock Option #12</u>
<u>Non-vested</u>			
August 1, 2021—Outstanding	11,000	16,800	700,000
Granted	—	—	—
Forfeited	—	2,700	6,500
Vested	11,000	14,100	—
July 31, 2022—Outstanding	—	—	693,500
<u>Vested</u>			
August 1, 2021—Outstanding	14,200	27,600	—
Vested	11,000	14,100	—
Exercised	18,000	16,700	—
Canceled	—	—	—
July 31, 2022—Outstanding	7,200	25,000	—

Notes: 1. Number of options granted is presented after conversion to number of shares to be issued upon exercise.

2. Number of shares have been restated to reflect a 100-for-1 stock split that was effective February 1, 2018.

(3) Price information is as follows:

	Yen		
	<u>Stock Option #4</u>	<u>Stock Option #4-2</u>	<u>Stock Option #6</u>
Exercise price	¥ 313	¥ 313	¥ 313
Average stock price at exercise	1,870	5,537	5,537
Fair value at grant date	—	—	—

	Yen		
	<u>Stock Option #7</u>	<u>Stock Option #6-2</u>	<u>Stock Option #6-3</u>
Exercise price	¥ 313	¥ 313	¥ 313
Average stock price at exercise	4,528	—	5,303
Fair value at grant date	—	—	—

	Yen		
	<u>Stock Option #6-4</u>	<u>Stock Option #9</u>	<u>Stock Option #9-2</u>
Exercise price	¥ 313	¥ 313	¥ 313
Average stock price at exercise	1,791	4,090	5,701
Fair value at grant date	—	—	—

	Yen		
	<u>Stock Option #9-3</u>	<u>Stock Option #9-4</u>	<u>Stock Option #9-5</u>
Exercise price	¥ 313	¥ 313	¥ 313
Average stock price at exercise	3,824	4,329	1,964
Fair value at grant date	—	—	—

	Yen		
	<u>Stock Option #10</u>	<u>Stock Option #11</u>	<u>Stock Option #12</u>
Exercise price	¥ 313	¥ 340	¥ 3,180
Average stock price at exercise	3,638	1,736	—
Fair value at grant date	—	—	1,488

3. Assumptions used to measure fair value of stock options

(1) Because the Company was an unlisted company at the grant date of the stock options #4 through #11, the stock options are measured based on their intrinsic values instead of their market values. The intrinsic value of each stock option is estimated based on the stock price determined under the discounted cash flow method less the amounts to be paid upon exercise of the stock option.

(2) The method and assumptions used to measure the fair value of stock option #12 are as follows:

	<u>Stock Option #12</u>
Volatility of stock price	69.23%
Estimated remaining period	4.668 years
Estimated dividend per share	¥0
Risk free interest rate	(0.094)%

The method used to estimate the fair value of the above stock options is Black-Scholes option pricing model. Volatility of stock price is based on the historical stock prices of the Company for the period from May 31, 2018 (the Company's listing date) to July 3, 2020. Because it is difficult to reasonably estimate the remaining period of stock options, the estimated remaining periods are determined based on the assumption that all the options are exercised by the median date of the exercise period. The estimated dividend is based on the historical dividend applicable to the year ended July 31, 2019. The risk-free interest rate is based on the yield of Japanese government bonds that corresponds to the remaining term of the respective option.

4. Estimation of the number of vested stock options

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

5. Total intrinsic value of stock options

The total intrinsic value of the stock options as of July 31, 2022 amounted to ¥170 million.

The total intrinsic value of the stock options exercised during the year ended July 31, 2022, as of the date of exercise, was ¥1,055 million.

14. TAX EFFECT ACCOUNTING

Significant components of deferred tax assets and liabilities as of July 31, 2022 are as follows:

	<u>Millions of Yen</u> <u>2022</u>
Deferred tax assets:	
Tax loss carryforwards	¥ 1,471
Stock compensation expenses	319
Investments in unconsolidated subsidiaries and associates	275
Other	<u>147</u>
Subtotal	2,214
Valuation allowance for tax loss carryforwards	(610)
Valuation allowance for total deductible temporary differences	<u>(605)</u>
Total valuation allowances	<u>(1,216)</u>
Deferred tax assets	<u>¥ 997</u>
Deferred tax liabilities:	
Unrealized gain on available-for-sale securities	¥ (9)
Other	<u>(19)</u>
Deferred tax liabilities	<u>¥ (29)</u>
Deferred tax assets (liabilities), net	<u>¥ 968</u>

Tax loss carryforwards as of July 31, 2022 expire as follows:

	<u>Millions of Yen</u> <u>2022</u>		
	<u>Tax Loss</u> <u>Carryforwards</u> <u>(Note 1)</u>	<u>Valuation</u> <u>Allowance</u>	<u>Deferred</u> <u>Tax Assets</u> <u>(Note 2)</u>
Due within 1 year	¥ —	¥ —	¥ —
Due after 1 year through 2 years	194	—	194
Due after 2 years through 3 years	431	—	431
Due after 3 years through 4 years	360	(208)	151
Due after 4 years through 5 years	—	—	—
Due after 5 years	<u>486</u>	<u>(402)</u>	<u>83</u>
Total	<u>¥ 1,471</u>	<u>¥ (610)</u>	<u>¥ 860</u>

Notes: 1. The amounts above are determined by multiplying the corresponding tax loss carryforwards by the effective statutory tax rate.

2. Deferred tax assets corresponding to a portion of tax loss carryforwards were recognized because future taxable income is expected.

The reconciliation between the effective statutory tax rate and the effective tax rate reflected in the accompanying consolidated statement of income for the year ended July 31, 2022 is as follows:

	<u>2022</u>
Effective statutory tax rate	30.6%
Per capita levy of inhabitant tax	1.4
Entertainment and other expenses not deductible for income tax purposes	0.8
Stock compensation expenses	5.0
Amortization of goodwill	15.3
Share of losses of entities accounted for by the equity method	32.8
Loss on changes in ownership interest	1.1
Gain on a step acquisition	(45.9)
Tax credits	(10.1)
Changes in valuation allowances	(136.0)
Other—net	<u>(0.6)</u>
Effective tax rate	<u>(105.6)%</u>

15. BUSINESS COMBINATIONS

Business combination by acquisition

1. Outline of the business combination

(1) Name of acquired company and its business outline

Name of acquired company: DANBALL ONE Inc.

Business outline: Operation and management of DANBALL ONE, an order-and-supply platform of cardboards and packaging materials

(2) Major reasons for the business combination

As a growth strategy of Raksul segment, the Company is promoting the expansion of the printing field into office and industrial materials. With the aim of creating synergies with the Group's services in the printing field, the Company made DANBALL an associate of the Company in December 2020. DANBALL ONE, as an e-commerce site specialized in cardboards and packaging materials, achieved the No. 1 share of domestic sales for four consecutive years. DANBALL has established a system that enables low-cost and small-lot offerings by utilizing the industry's largest network of cardboard manufacturers and packaging material suppliers.

In addition, the collaborative relationship between DANBALL and the Company generates synergies benefitting both parties, such as the utilization of the Company's sharing and marketing know-how and the expansion of customer bases of both parties. The Company agreed with DANBALL to convert it into a wholly owned subsidiary of the Company by acquiring additional shares because the Company determined that this business combination would contribute to maximizing the corporate value of the Company, in view of the expectation of further business expansion of DANBALL and the further growth of Raksul segment.

(3) Date of business combination

February 1, 2022

(4) Legal form of business combination

Acquisition of shares in consideration for cash

(5) Name of the company after the combination

No change

(6) Ratio of voting rights acquired

Before the business combination:	49.9%
Additionally acquired on the date of business combination:	50.1%
After the business combination:	100.0%

(7) Basis for determining the acquirer

It is based on the fact that the Company acquired shares of DANBALL in consideration of cash.

2. The period for which the operations of the acquired company are included in the consolidated financial statements

From February 1, 2022 to July 31, 2022

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

	<u>Millions of Yen</u>
Fair value of the interests of DANBALL held immediately before the date of business combination	¥ 1,996
Consideration for acquisition—Fair value as of the date of business combination: Cash	<u>2,004</u>
Acquisition cost	<u>¥ 4,000</u>

4. Major acquisition-related costs

Advisory fee and other fees: ¥8 million

5. Nature of and accounting policy applicable to contingent consideration stipulated in the agreement

(1) Nature of contingent consideration

The Company has entered into an agreement to pay a conditional consideration (an earnout consideration) of ¥500 million based on the degree of operating results.

(2) Accounting policy applicable to contingent consideration

If the acquisition cost increases, the Company will adjust the additional cost. Goodwill and amortization of goodwill will also be adjusted accordingly.

6. Difference of acquisition costs arising from a step acquisition

Gain on a step acquisition: ¥744 million

7. Amount of goodwill, basis of recognizing goodwill, and the method and period of amortization

(1) Amount of goodwill

¥4,955 million

(2) Basis of recognizing goodwill

Goodwill represents excess earning power expected from the future business development.

(3) Method and period of amortization

Goodwill is amortized on a straight-line basis over 10 years.

8. The assets acquired and the liabilities assumed at the date of business combination are as follows:

	Millions of Yen
Current assets	¥ 1,463
Non-current assets	<u>159</u>
Total assets	<u>¥ 1,623</u>
Current liabilities	¥ 1,560
Long-term liabilities	<u>1,018</u>
Total liabilities	<u>¥ 2,579</u>

9. Pro forma information about impact on the consolidated financial statements assuming that the business combination had been completed as of the beginning of the fiscal year

This information is not presented because the impact is not reasonably determinable.

Business succession through a company split

At the Board of Directors' meeting held on December 21, 2021, the Company resolved to transfer the rights and obligations of Novasell (advertising platform) business through an incorporation-type company split (the "Company Split") to a company to be newly established, namely, NOVASELL INC., effective February 1, 2022.

1. Purpose

The Company launched the Novasell (advertising platform) business in April 2020. Since then, the industry of programmatic TV commercial films has been steadily expanding and use of Novasell in the market has been accelerating. This Company Split was conducted in order to promote Novasell business under a business structure that enables more agile and flexible business strategy selection and decision-making.

2. Outline of the Company Split

(1) Date of the Company Split:
February 1, 2022

(2) Method of the Company Split:
A simplified incorporation-type company split in which the Company is a split company and NOVASELL is a newly established company

(3) Allotment of shares upon the Company Split:
NOVASELL, the newly established company, issues 1,000,000 shares of its common stock and all shares are allotted to the Company.

3. Outline of the business

(1) Outline of the business:

Novasell (advertising platform) business

(2) Operating results of the business (for the year ended July 31, 2021):

Sales amounting to ¥2,041million (after retrospectively applying the New Revenue Recognition Standard)

(3) Carrying amounts of assets and liabilities to be split:

Millions of Yen			
Assets		Liabilities	
Item	Carrying Amount	Item	Carrying Amount
Current assets	¥ 1,364	Current liabilities	¥ 727
Non-current assets	35	Long-term liabilities	—
Total	<u>¥ 1,400</u>	Total	<u>¥ 727</u>

4. Outline of the accounting treatment

The Company Split was accounted for as a transaction under common control in accordance with ASBJ Statement, "Accounting Standard for Business Combinations" and revised ASBJ Guidance, "Guidance on Accounting Standards for Business Combinations and Business Divestitures."

16. ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations on the consolidated balance sheet

(1) Nature of asset retirement obligations

Asset retirement obligations of the Group mainly represent the restoration obligation of office premises under the real estate rental agreements.

(2) Assumptions used in computation of asset retirement obligations

- (a) Estimated useful life: 13 years from acquisition
(b) Discount rate: 0.8%

(3) The changes in asset retirement obligations for the year ended July 31, 2022 are as follows:

	Millions of Yen
	2022
Balance at beginning of year	¥ 105
Adjustment due to passage of time	0
Balance at end of year	<u>¥ 106</u>

17. REVENUE RECOGNITION

1. Disaggregation of revenue from contracts with customers

Information about disaggregation of revenue from contracts with customers is presented in Note 18 "Segment information."

2. Basic information to understand revenue from contracts with customers

Basic information to understand revenue from contracts with customers is presented in "8. Revenue recognition" in Note 2 "Significant accounting policies."

3. Performance obligations, related cash flows, and amounts and timing of recognition of revenue from contracts with customers

(1) Contract assets and liabilities

Receivables and contract liabilities arising from contracts with customers as of July 31, 2022 are as follows. In the consolidated balance sheet, receivables arising from contracts with customers are included in trade notes and accounts receivable, whereas contract liabilities arising from contracts with customers are included in contract liabilities.

	<u>Millions of Yen</u>	
	<u>2022</u>	
Receivables arising from contracts with customers	¥	4,903
Contract liabilities arising from contracts with customers		91

(2) Transaction prices allocated to remaining performance obligations

The Group does not have any transaction that is individually significant with an expected contract period exceeding one year. Therefore, information about remaining performance obligations is omitted applying the practical expedient.

18. SEGMENT INFORMATION

1. Description of reportable segments

The reportable segments are components of the Group for which separate financial information is available, and whose operating results are reviewed periodically by the Board of Directors to determine the allocation of operating resources and evaluate their performance.

The Group has three reportable segments, namely, Raksul, Novasell, and Hacobell. RakSul provides a sharing platform service for printing and customer-acquisition support (advertising). Novasell provides a platform service for TV commercial advertising. Hacobell provides a sharing platform service for logistics.

Operating results of DANBALL, which became a consolidated subsidiary in the year ended July 31, 2022, are included in Raksul segment because of the similarities of the business activities.

2. Computation of net sales, profit or loss, assets and liabilities, and other items of reportable segments

The reportable segment information is prepared under the same accounting policies as discussed in Note 2. Segment profit is determined based on operating income. The Group does not allocate its assets to the reportable segments.

3. Net sales, profit or loss, assets and liabilities, and other items of reportable segments

For the year ended July 31, 2022

	Millions of Yen							
	Reportable segments				Other Business	Total	Reconciliation	Consolidated
	Raksul	Novasell	Hacobell	Total				
Sales								
Sales to external customers	¥ 27,325	¥ 2,824	¥ 3,478	¥ 33,628	¥ 351	¥ 33,980	¥ —	¥ 33,980
Intersegment sales and transfers	—	4	—	4	168	172	(172)	—
Total	¥ 27,325	¥ 2,828	¥ 3,478	¥ 33,633	¥ 520	¥ 34,153	¥ (172)	¥ 33,980
Segment profit (loss)	¥ 3,001	¥ (131)	¥ (181)	¥ 2,689	¥ 283	¥ 2,972	¥ (2,509)	¥ 462
Other items:								
Depreciation and amortization	¥ 168	¥ 7	¥ 24	¥ 200	¥ —	¥ 200	¥ 26	¥ 227
Capital expenditures	99	20	22	141	1	143	—	143

Notes: 1. "Other Business" represents business segments other than reportable segments, which includes the system-development support business.

2. Reconciliation of segment profit of ¥ (2,509) million includes intersegment elimination of ¥ (148) million and corporate expenses that are not allocable to the reportable segments of ¥ (2,360) million. Such corporate expenses are primarily comprised of general and administrative expenses.

3. Segment profit (loss) corresponds to operating income on the consolidated statement of income.

4. Changes in reportable segments

As discussed in Note 4, the Company adopted the New Revenue Recognition Standard. Since the accounting policy of revenue recognition has been changed, the computation method of profit or loss of each segment has also been changed accordingly. As a result, sales of Raksul segment, Novasell segment, and Hacobell segment decreased by ¥69 million, ¥4,648 million, and ¥1 million, respectively, as compared to the former computation method.

Related Information

For the year ended July 31, 2022

1. Information by product or service

Information by product or service is not presented because the same information is disclosed in the preceding tables.

2. Information by geographical area

(1) Sales

Information by geographical area is not presented because sales to customers in Japan exceeded 90% of net sales.

(2) Property and equipment

Information by geographical area is not presented because property and equipment located in Japan exceeded 90% of total property and equipment on the consolidated balance sheet.

3. Information on major customers

Information on major customers is not presented because there was no single customer accounting for 10% or more of net sales on the consolidated statement of income.

Information on impairment losses

For the year ended July 31, 2022

Not applicable.

Information on amortization and remaining balance of goodwill

As of and for the year ended July 31, 2022

	Millions of Yen					
	<u>Raksul</u>	<u>Novasell</u>	<u>Hacobell</u>	<u>Total</u>	<u>Other Business</u>	<u>Consolidated</u>
Amortization of goodwill	¥ 247	¥ —	¥ —	¥ 247	¥ —	¥ 247
Remaining balance	4,708	—	—	4,708	—	4,708

Information on gain on negative goodwill

For the year ended July 31, 2022

Not applicable.

19. RELATED PARTY TRANSACTIONS

Transactions of the Company with unconsolidated subsidiaries and associates

For the year ended July 31, 2022

The Company has transactions with JOSYS, an associate of the Company who engages in information processing and provision services. JOSYS is a company located in Shinagawa, Tokyo of which share capital is ¥127 million. The Company's ownership ratio of the voting rights in JOSYS as of July 31, 2022 was 35.6% (of which 27.1% is held by those who have close relationships). A director of the Company concurrently serves as a director of JOSYS. Transactions with JOSYS is summarized as follows:

Nature of Transaction	Account	Millions of Yen	
		Amount of Transaction	Balance as of July 31, 2022
Subscription of stock acquisition rights (Note)	Investment securities	¥ 278	¥ 278

Note: Subscription price of stock acquisition rights has been determined upon consultation between both parties based on the appraisal values computed by third party appraisers.

Transactions of the Company with individuals (directors and major shareholders)

For the year ended July 31, 2022

Transactions of the Company with individuals consist of the following transactions with the Company's directors:

Name and Position	Share Ownership Ratio (%)	Nature of Transaction	Millions of Yen	
			Amount of Transaction	Balance as of July 31, 2021
Yasukane Matsumoto, CEO and Representative Director	17.3	Exercise of stock options (Note 1)	¥ 11	¥ —
Yo Nagami, Director	1.0	Exercise of stock options (Note 1)	21	—
Masaki Tabe, Director	0.2	Exercise of stock options (Note 1)	11	—
Kozo Fukushima, Director	0.1	Contribution in kind of remuneration receivable (Note 2)	27	—
Yusuke Izumi, Director	0.1	Contribution in kind of remuneration receivable (Note 2)	17	—
Sota Mizushima, Director	0.1	Contribution in kind of remuneration receivable (Note 2)	27	—

Notes: 1. These items represent the exercise of the following stock options during the year ended July 31, 2022:

Stock Option	Date of the Resolution Made at the Extraordinary/General Shareholders Meeting	Date of the Resolution Made at the Board of Directors Meeting
#4	October 24, 2014	November 21, 2014
#7	May 22, 2015	May 12, 2015
#9	October 27, 2016	October 27, 2016
#9-2	October 27, 2016	October 27, 2016

"Amount of transaction" was determined by multiplying cash paid upon the exercise of the stock options by the number of shares granted through the exercise of stock options during the year ended July 31, 2022.

2. These items represent the contribution in kind of remuneration receivable from the Company which was paid by the director in the course of the restricted stock compensation program.

Information about parent company and other significant related parties

For the year ended July 31, 2022

The following condensed financial statements have been prepared by aggregating the financial statements of Peraichi and NETSQUARE, the significant related parties of the Company:

	<u>Millions of Yen</u>	
	<u>2022</u>	
Current assets	¥	1,531
Non-current assets		855
Current liabilities		1,321
Long-term liabilities		801
Net assets		264
Net sales		3,018
Profit (loss) before income taxes		(108)
Net loss		(132)

Notes: 1. Since the closing dates of the entities accounted for by the equity method are different from that of the Company, the most recent quarterly financial statements of those entities are used instead.

2. Since the deemed acquisition date of NETSQUARE is September 30, 2021, its operating results for the nine-month period ended July 31, 2022 have been aggregated.

20. PER SHARE INFORMATION

Per share information as of and for the year ended July 31, 2022 was as follows:

	<u>Yen</u>
	<u>2022</u>
Net assets per share	¥ 288.53
Basic earnings per share	35.39
Diluted earnings per share	32.94

Note: Basis for computing basic and diluted earnings per share is as follows:

	<u>2022</u>
Basic earnings per share	
Net profit (Millions of Yen)	¥ 1,021
Net profit not attributable to common shareholders (Millions of Yen)	—
Net profit attributable to owners of the parent (Millions of Yen)	1,021
Average number of shares of common stock outstanding during the year (shares)	28,876,950
Diluted earnings per share	
Adjustments to net profit attributable to owners of the parent (Millions of Yen)	¥ (6)
Increase in the number of shares of common stock (shares)	1,936,218
Outline of potentially dilutive shares that were not included in the computation of diluted earnings per share due to their anti-dilutive effect	N/A

21. SUBSEQUENT EVENT

Company split and transfer of shares of a significant subsidiary

At the Board of Directors' meeting held on June 10, 2022, the Company resolved to transfer its Hacobell (logistics platform) business through an incorporation-type company split (the "Company Split") to a company to be newly established, namely, HACOPELL INC. ("HACOPELL") and to transfer a part of the Company's holding shares of HACOPELL to Seino Holdings Co., Ltd. ("SEINO HD") (the "Share Transfer"). The Company completed the Company Split on August 1, 2022, and subsequently, the Share Transfer was completed on August 8, 2022.

(Company Split)

1. Purpose

The Company launched the Hacobell business in December 2015 and has operated a platform business that increases productivity of the entire logistics industry and optimizes supply and demand by providing a matching platform and vehicle allocation system.

SEINO HD, the partner of the joint venture, has set forth in its current medium-term management plan that it will evolve into a "value-creating comprehensive logistics trading company" that contributes to solving customers' issues. SEINO HD has been working to build an "Open Public Platform" by establishing a digital platform and collaborating with external resources, and to realize a smart supply chain that optimizes production, inventory, and delivery.

In recent years, while transportation and delivery needs have continued to increase, the challenges of the supply-demand gap, including the "2024 problem" in the logistics industry caused by the shortage of truck drivers due to the labor environment and low wages, have become increasingly critical. In this environment, the Company believes that bringing together the strengths of both companies to co-create new value will contribute to the realization of an efficient logistics network, as well as to the resolution of issues in the logistics industry as a whole.

By combining SEINO HD's brand, commercial logistics achievements, and customer base accumulated in the logistics industry, as well as the brand, technology, and operational capabilities that the Company has cultivated through Hacobell business, the Company aims to realize an "Open Public Platform" that transcends industry and corporate boundaries to achieve "Co-Creation and Coexistence."

2. Name of the company newly established through the Company Split

HACOPELL INC.

3. Nature and size of the business to be transferred through the Company Split

(a) Nature of business:

Hacobell (logistics platform) business

(b) Operating results of the business (for the year ended July 31, 2021):

Sales amounting to ¥2,936 million (after retrospectively applying the New Revenue Recognition Standard)

(c) Carrying amounts of assets and liabilities to be split (as of July 31, 2022):

Millions of Yen			
Assets		Liabilities	
Item	Carrying Amount	Item	Carrying Amount
Current assets	¥ 949	Current liabilities	¥ 709
Non-current assets	<u>89</u>	Non-current liabilities	<u>—</u>
Total	<u>¥ 1,038</u>	Total	<u>¥ 709</u>

4. Method of the Company Split

A simplified incorporation-type company split in which the Company is a split company and HACOPELL is a newly established company

5. Schedule of the Company Split

Effective date of the Company Split: August 1, 2022

(Transfer of shares of a significant subsidiary and third-party allotment)

1. Purpose

As stated in "1. Purpose" of Company Split above.

2. Name of the transferee

Seino Holdings Co., Ltd.

3. Date of transfer

August 8, 2022

4. Name and nature of business of the subsidiary

(a) Name:

HACOPELL INC.

(b) Nature of business:

Hacobell (logistics platform) business

5. Number of shares transferred, transfer price and ownership ratio after the transfer

Number of shares transferred:	28,714 shares
Transfer price:	¥1,004 million
Ownership ratio after the Company Split and the Share Transfer:	49.9%

6. Other significant items

At the Board of Directors' meeting held on June 10, 2022, in addition to the Company Split, the Company resolved to enter into an agreement with SEINO HD in which HACOBELL issues its shares to SEINO HD through a third-party allotment and becomes a joint venture. This agreement was subsequently concluded on August 8, 2022.

(a) Purpose of the agreement:

As stated in "1. Purpose" of Company Split above.

(b) Counterparty of the agreement:

Seino Holdings Co., Ltd.

(c) Date of agreement:

August 8, 2022

(d) Outline of the third-party allotment:

Number of shares issued:	42,858 shares
Total amount of issuance:	¥1,500 million
Payment date:	August 8, 2022

(e) Significant effects of the agreement on the Group's operating activities:

The Company expects that the third-party allotment under this agreement will contribute to improvement of profitability of the Group over mid- and long-term.

7. Expected impact on the consolidated operating results for the following year

A special gain of ¥1,588 million including gain on sales of investments in a subsidiary is expected to be recorded in the following year due to the series of the transactions above.

22. SUPPLEMENTAL SCHEDULES

Bonds

	Millions of Yen		Date of issuance	Due Date
	August 1, 2021	July 31, 2022		
Unsecured Zero-coupon Euro-Yen convertible bonds due 2024	¥ 5,033	¥ 5,023	November 29, 2019	November 29, 2024

Notes: 1. Details of the convertible bonds are as follows:

Shares to be issued upon conversion:	Common stock of the Company
Conversion price (yen):	¥4,074
Aggregated amount of conversion price:	¥5,000 million
Conversion ratio:	100%
Conversion period:	From December 13, 2019 to November 15, 2024

2. A redemption schedule of the convertible bonds for the following five years as of July 31, 2022 is as follows:

	Millions of Yen				
	Within one year	Due after 1 Year through 2 Years	Due after 2 Year through 3 Years	Due after 3 Year through 4 Years	Due after 4 Year through 5 Years
	¥ —	¥ —	¥ 5,000	¥ —	¥ —

Borrowings

	Millions of Yen		Weighted Average Interest Rate (%)	Due Date
	August 1, 2021	July 31, 2022		
Short-term loans payable	¥ —	¥ 800	0.5	2023
Current portion of long-term loans payable	1,287	1,695	0.7	—
Long-term loans payable, less current portion	3,712	6,417	0.7	From 2023 to 2030
Other interest-bearing liabilities	—	—	—	—
Total	¥ 5,000	¥ 8,912	—	—

Notes: 1. The weighted average interest rate represents the average interest rate on the balances outstanding as of July 31, 2022.

2. A repayment schedule of long-term loans payable, less current portion as of July 31, 2022 is as follows:

	Millions of Yen			
	2022			
	Due after 1 Year through 2 Years	Due after 2 Years through 3 Years	Due after 3 Years through 4 Years	Due after 4 Years through 5 Years
Long-term loans payable	¥ 1,690	¥ 1,446	¥ 1,360	¥ 1,298

Asset retirement obligations

Supplemental schedules of asset retirement obligations are not presented because applicable information is disclosed in Note 16 "Asset retirement obligations."

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