

**RAKSUL INC.**  
**Financial Statements**  
**Balance Sheet**  
**As of July 31, 2020 (Unaudited)**

ASSETS	Thousands of Yen	
	2020	2019
<b>CURRENT ASSETS:</b>		
Cash and deposits	¥15,451,377	¥ 5,904,840
Trade notes receivable	22,915	81,863
Electronically recorded monetary claims	12,452	1,753
Trade accounts receivable	2,157,262	1,826,588
Supplies	36,983	4,945
Prepaid expenses	188,673	92,458
Other current assets	154,246	69,505
Allowance for doubtful receivables	(637)	(114)
Total current assets	<u>18,023,273</u>	<u>7,981,842</u>
<b>NON-CURRENT ASSETS:</b>		
<b>PROPERTY AND EQUIPMENT:</b>		
Buildings	207,716	217,366
Accumulated depreciation	(62,411)	(45,031)
Buildings, net	<u>143,305</u>	<u>172,335</u>
Machinery and equipment	751,336	581,336
Accumulated depreciation	(372,851)	(221,217)
Machinery and equipment, net	<u>378,484</u>	<u>360,118</u>
Tools, furniture and fixtures	72,003	58,102
Accumulated depreciation	(41,802)	(30,032)
Tools, furniture and fixtures, net	<u>30,200</u>	<u>28,069</u>
Leased assets	—	170,000
Accumulated depreciation	—	(76,500)
Leased assets, net	<u>—</u>	<u>93,500</u>
Total property and equipment	<u>553,990</u>	<u>654,023</u>
<b>INTANGIBLE ASSETS:</b>		
Software	297,625	105,446
Software in progress	<u>47,659</u>	<u>67,425</u>
Total intangible assets	<u>345,285</u>	<u>172,872</u>
<b>INVESTMENTS AND OTHER ASSETS:</b>		
Investments in subsidiaries and associates	31,683	—
Investment securities	124,256	128,352
Long-term prepaid expenses	126,665	—
Lease and guarantee deposits	174,662	235,071
Deferred tax assets	—	74,144
Total investments and other assets	<u>457,267</u>	<u>437,568</u>
Total non-current assets	<u>1,356,543</u>	<u>1,264,463</u>
<b>TOTAL ASSETS</b>	<u>¥19,379,817</u>	<u>¥ 9,246,306</u>

(Continued)

**RAKSUL INC.**  
**Balance Sheet**  
**As of July 31, 2020 (Unaudited)**

LIABILITIES AND NET ASSETS	Thousands of Yen	
	2020	2019
<b>CURRENT LIABILITIES:</b>		
Trade accounts payable	¥ 1,654,786	¥ 1,458,493
Short-term loans payable	40,000	180,000
Current portion of long-term loans payable	—	91,430
Lease obligations	—	41,402
Other payables	500,595	332,068
Income taxes payable	30,902	49,974
Consumption taxes payable	63,715	53,557
Advances received	70,473	41,476
Other current liabilities	45,273	84,416
Total current liabilities	<u>2,405,745</u>	<u>2,332,818</u>
<b>LONG-TERM LIABILITIES:</b>		
Convertible bonds	5,043,333	—
Long-term loans payable	5,000,000	—
Asset retirement obligations	104,495	103,716
Deferred tax liabilities	24,714	—
Total long-term liabilities	<u>10,172,543</u>	<u>103,716</u>
Total liabilities	<u>12,578,288</u>	<u>2,436,535</u>
<b>NET ASSETS:</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Capital stock	2,152,347	1,958,453
Capital surplus—additional paid-in capital	4,959,686	4,765,791
Retained earnings (Accumulated deficit)	(409,078)	85,057
Treasury stock	(249)	(101)
Total shareholders' equity	<u>6,702,705</u>	<u>6,809,201</u>
<b>VALUATION AND TRANSLATION DIFFERENCES:</b>		
Unrealized loss on available-for-sale securities	(10,542)	(284)
Total valuation and translation differences	<u>(10,542)</u>	<u>(284)</u>
<b>STOCK ACQUISITION RIGHTS</b>	<u>109,364</u>	<u>854</u>
Total net assets	<u>6,801,528</u>	<u>6,809,770</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>¥19,379,817</u>	<u>¥ 9,246,306</u>

(Concluded)

See notes to financial statements.

**RAKSUL INC.**  
**Statement of Income**  
**For the Year Ended July 31, 2020 (Unaudited)**

	Thousands of Yen	
	<u>2020</u>	<u>2019</u>
NET SALES	¥21,494,598	¥ 17,168,658
COST OF SALES	<u>16,566,457</u>	<u>13,224,435</u>
Gross profit	4,928,140	3,944,222
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>5,172,422</u>	<u>3,800,366</u>
Operating income (loss)	<u>(244,281)</u>	<u>143,856</u>
NON-OPERATING INCOME:		
Interest income	6,886	73
Dividend income	780	780
Other	<u>5,835</u>	<u>2,647</u>
Total non-operating income	<u>13,502</u>	<u>3,500</u>
NON-OPERATING EXPENSES:		
Interest expenses	29,193	8,444
Bond issuance cost	59,414	—
Loss on investments in investment partnerships	3,451	1,824
Listing-related cost	9,111	4,000
Office relocation cost	21,527	—
Other	<u>14,951</u>	<u>2,844</u>
Total non-operating expenses	<u>137,649</u>	<u>17,113</u>
ORDINARY INCOME (LOSS)	<u>(368,429)</u>	<u>130,243</u>
SPECIAL GAIN:		
Gain on sales of non-current assets	<u>—</u>	<u>239</u>
Total special gain	<u>—</u>	<u>239</u>
SPECIAL LOSSES:		
Loss on disposal of non-current assets	20,292	7,131
Loss on write-down of investments in subsidiaries and associates	<u>—</u>	<u>45,712</u>
Total special losses	<u>20,292</u>	<u>52,843</u>
PROFIT (LOSS) BEFORE INCOME TAXES	<u>(388,722)</u>	<u>77,640</u>
INCOME TAXES:		
Current	6,383	29,423
Deferred	<u>99,029</u>	<u>(21,381)</u>
Total income taxes	<u>105,413</u>	<u>8,041</u>
NET PROFIT (LOSS)	<u>¥ (494,135)</u>	<u>¥ 69,598</u>
See notes to financial statements.		

**RAKSUL INC.**

**Statement of Changes in Net Assets**

**For the Year Ended July 31, 2020 (Unaudited)**

	Thousands of Yen							
	Shareholders' Equity					Valuation and Translation Differences Unrealized Gain (Loss) on Available-for-Sale Securities	Stock Acquisition Rights	Total Net Assets
	Capital Stock	Capital Surplus Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Treasury Stock	Total Shareholders' Equity			
BALANCE at AUGUST 1, 2018	¥ 1,926,045	¥ 4,733,383	¥ 15,459	¥ —	¥ 6,674,887	¥ —	¥ 910	¥ 6,675,797
Issuance of new shares	32,380	32,380	—	—	64,760	—	—	64,760
Net profit	—	—	69,598	—	69,598	—	—	69,598
Deficit disposition	—	—	—	(101)	(101)	—	—	(101)
Exercise of stock acquisition rights	28	28	—	—	56	—	(56)	—
Other change during the year, net	—	—	—	—	—	(284)	—	(284)
BALANCE at JULY 31, 2019	¥ 1,958,453	¥ 4,765,791	¥ 85,057	¥ (101)	¥ 6,809,201	¥ (284)	¥ 854	¥ 6,809,770
Issuance of new shares	193,894	193,894	—	—	387,789	—	—	387,789
Net loss	—	—	(494,135)	—	(494,135)	—	—	(494,135)
Purchase of treasury stock	—	—	—	(148)	(148)	—	—	(148)
Other change during the year, net	—	—	—	—	—	(10,257)	108,510	98,252
BALANCE at JULY 31, 2020	¥ 2,152,347	¥ 4,959,686	¥ (409,078)	¥ (249)	¥ 6,702,705	¥ (10,542)	¥ 109,364	¥ 6,801,528

See notes to financial statements.

**RAKSUL INC.****Statement of Cash Flows****For the Year Ended July 31, 2020 (Unaudited)**

	Thousands of Yen	
	<u>2020</u>	<u>2019</u>
OPERATING ACTIVITIES:		
Profit (loss) before income taxes	¥ (388,722)	¥ 77,640
Depreciation and amortization	170,989	130,860
Stock compensation expenses	84,493	—
Loss on write-down of investments in subsidiaries and associates	—	45,712
Loss (gain) on investments in investment partnerships	3,451	1,824
Increase (decrease) in allowance for doubtful receivables	523	100
Interest and dividend income	(7,666)	(853)
Interest expenses	29,193	8,444
Bond issuance cost	59,414	—
Loss (gain) on sales of non-current assets	—	(239)
Loss on disposal of non-current assets	20,292	7,131
Decrease (increase) in trade notes and accounts receivable	(282,423)	(770,485)
Increase (decrease) in trade accounts payable	196,293	551,489
Increase (decrease) in other payables	162,470	81,568
Other—net	<u>(113,067)</u>	<u>(87,381)</u>
Subtotal	(64,756)	45,811
Interest and dividends received	999	853
Interest paid	(27,221)	(7,540)
Income taxes paid	<u>(35,259)</u>	<u>(27,314)</u>
Net cash provided by (used in) operating activities	<u>(126,238)</u>	<u>11,810</u>
INVESTING ACTIVITIES:		
Purchases of property and equipment	(26,935)	(52,263)
Proceeds from sales of property and equipment	—	1,200
Purchases of intangible assets	(224,463)	(136,828)
Payments for lease and guarantee deposits	(2,599)	(57,747)
Proceeds from collection of lease and guarantee deposits	11,815	329
Purchases of investment securities	(9,784)	(40,289)
Payments for investments in subsidiaries	(31,683)	—
Proceeds from liquidation of a subsidiary	—	19,176
Payments for short-term loans receivable	(47,500)	—
Proceeds from collection of short-term loans receivable	<u>47,500</u>	<u>—</u>
Net cash provided by (used in) investing activities	¥ (283,651)	¥ (266,422)

(Continued)

**RAKSUL INC.**  
**Statement of Cash Flows**  
**For the Year Ended July 31, 2020 (Unaudited)**

	Thousands of Yen	
	<u>2020</u>	<u>2019</u>
FINANCING ACTIVITIES:		
Net decrease in short-term loans payable	¥ (140,000)	¥ (40,000)
Proceeds from long-term loans payable	5,000,000	—
Repayments of long-term loans payable	(91,430)	(194,868)
Proceeds from issuance of shares upon exercise of stock acquisition rights	112,718	64,760
Proceeds from issuance of stock acquisition rights	84,700	—
Purchase of treasury stock	(148)	(101)
Repayments of lease obligations	—	(36,556)
Proceeds from issuance of convertible bonds	<u>4,990,585</u>	<u>—</u>
Net cash provided by (used in) financing activities	<u>9,956,425</u>	<u>(206,765)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,546,536	(461,377)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	<u>5,904,840</u>	<u>6,366,217</u>
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	<u>¥15,451,377</u>	<u>¥ 5,904,840</u>
		(Concluded)

See notes to financial statements.

## **RAKSUL INC.**

### **Notes to Financial Statements**

#### **For the Year Ended July 31, 2020 (Unaudited)**

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#### **1. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS**

The accompanying financial statements of RAKSUL INC. ("the Company") 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 financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

Under Japanese GAAP, in principle, subsidiaries are required to be consolidated. However, any insignificant subsidiaries which are not material in terms of their effect on total assets, net sales, net profit, and retained earnings in both qualitative and quantitative respects on a consolidated basis may be excluded from the scope of consolidation. Because the Company did not have any significant subsidiaries as of July 31, 2020 and 2019, the Company does not prepare consolidated financial statements.

Amounts less than one thousand yen have been rounded down to the nearest thousand yen in the presentation of the accompanying 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. Investment securities**

(1) Investments in subsidiaries and associates

Investments in subsidiaries and associates are stated at cost determined by the moving-average method.

(2) Available-for-sale securities:

(a) Available-for-sale securities whose fair values are readily determinable are stated at fair value based on the quoted market price 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) Available-for-sale securities whose fair values are not readily determinable are stated at cost determined by the moving-average method.

##### **2. Inventories**

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

##### **3. Depreciation and amortization**

(1) Property and equipment (other than leased assets)

Depreciation of property and equipment is calculated by the declining-balance method based on the estimated useful lives and the residual value determined by the Company, 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	6 to 18 years
Tools, furniture and fixtures	2 to 15 years
Machinery and equipment	10 years

(2) Intangible assets (other than leased 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

(3) Leased assets

Leased assets under finance lease transactions that transfer ownership are depreciated or amortized under the same method that is applied to non-current assets owned by the Company.

#### 4. Provisions and allowances

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 Company's credit loss experience and an evaluation of potential losses for specific receivables outstanding.

#### 5. 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.

#### 6. Other significant items

(1) Bond issuance cost

Bond issuance cost is charged to income as incurred.

(2) Consumption taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

### 3. ACCOUNTING STANDARD ISSUED BUT NOT YET APPLIED

***"Accounting Standard for Revenue Recognition" (Statement No. 29, issued by the Accounting Standards Board of Japan ("ASBJ") on March 30, 2018) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, issued on March 30, 2018)***

(1) Outline of the standard

The International Accounting Standards Board (the "IASB") and the Financial Accounting Standards Board (the "FASB") jointly developed a comprehensive accounting standard for revenue recognition, and issued "Revenue from Contracts with Customers" (IFRS 15 by the IASB and Topic 606 by the FASB) in May 2014. Considering that the application of IFRS 15 is effective from fiscal years beginning on or after January 1, 2018 and the application of Topic 606 is effective from fiscal years beginning after December 15, 2017, a comprehensive accounting standard for revenue recognition was developed by the ASBJ and issued together with its implementation guidance.

The basic policy in developing the accounting standard for revenue recognition by the ASBJ was to incorporate the basic principles of IFRS 15 as a starting point, from the viewpoint of comparability between financial statements, one of the benefits of consistency with IFRS 15. In addition, alternative accounting treatments are provided for common business practices in Japan to the extent that they do not impair comparability.

(2) Scheduled date of application

The Company expects to apply the accounting standard and implementation guidance from the beginning of the fiscal year ending July 31, 2022.



(3) Impact of the application of the accounting standard and implementation guidance

The Company is currently evaluating the effect of the application of this accounting standard and implementation guidance on the Company's financial statements.

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

(1) Outline of the standard

With regard to fair value measurement, the IASB and FASB have issued IFRS 13 "Fair Value Measurement" and Topic 820 "Fair Value Measurement," respectively, which are almost identical. Given the situation, the ASBJ developed and issued "Accounting Standard for Fair Value Measurement" and other standards together with their implementation guidance to ensure the consistency with other accounting standards as to accounting treatments and disclosure requirements about fair value measurement of financial instruments and other assets.

The basic policy in developing the accounting standards for fair value measurement by the ASBJ was to incorporate the principles of IFRS 13 to ensure the comparability between financial statements. In addition, alternative accounting treatments are provided for common business practices in Japan to the extent that they do not impair comparability.

(2) Scheduled date of application

The Company expects to apply the accounting standards and implementation guidance from the beginning of the fiscal year ending July 31, 2022.

(3) Impact of the application of the accounting standard and implementation guidance

The Company is currently evaluating the effect of the application of these accounting standards and implementation guidance on the Company's financial statements.

***"Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, issued on March 31, 2020)***

(1) Outline of the standard

Paragraph 125 of International Accounting Standard ("IAS") 1, "Presentation of Financial Statements" (issued by the IASB in 2003) requires an entity to disclose sources of estimation uncertainty. Since this information is considered to be helpful for the financial statement users, the ASBJ was requested to study whether the same disclosure requirement should be developed in Japan. As a result, the ASBJ developed and issued "Accounting Standard for Disclosure of Accounting Estimates."

The basic policy in developing the accounting standard for disclosure of accounting estimates by the ASBJ was to establish a principle-oriented standard, instead of expanding applicable disclosure requirements. Under the new accounting standard, an entity makes judgments on what information is to be disclosed on an individual basis considering the purpose of the disclosures. The ASBJ developed the new accounting standard by referring to IAS 1-125.

(2) Scheduled date of application

The Company expects to apply the accounting standards and implementation guidance from the end of the fiscal year ending July 31, 2022.

**"Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections" (ASBJ Statement No. 24, issued on March 31, 2020)**

(1) Outline of the standard

The ASBJ developed and issued "Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections" to provide the outline of adopted accounting policies and procedures if provisions of the related accounting standards are not clarified.

(2) Scheduled date of application

The Company expects to apply the accounting standards and implementation guidance from the end of the fiscal year ending July 31, 2022.

**4. ADDITIONAL INFORMATION ON EFFECT OF THE NOVEL CORONAVIRUS PANDEMIC**

The novel coronavirus (COVID-19) pandemic has significantly affected economic and business activities and the outlook of the economy in Japan is expected to remain uncertain. As to the impact on the Company's operating results, the Company has assumed that the temporary decline in demand may continue through to December 2020 and will start to recover thereafter. Recoverability of deferred tax assets and impairment of property and equipment have been tested based on such assumptions. Since the aforementioned future outlook is uncertain because it is unpredictable how long the COVID-19 pandemic will take time to subside, if there are any changes in the assumptions, it may affect the Company's financial position and operating results in the following years.

**5. NOTES TO STATEMENT OF INCOME**

The details of cost of sales for the years ended July 31, 2020 and 2019 are as follows:

	2020		2019	
	Thousands of Yen	Composition Ratio (%)	Thousands of Yen	Composition Ratio (%)
PURCHASES	¥14,198,628	85.7	¥ 11,444,283	86.5
LABOR COSTS	211,911	1.3	194,207	1.5
UTILITIES AND OTHER COSTS (Note)	<u>2,155,918</u>	13.0	<u>1,585,945</u>	12.0
COST OF SALES	<u>¥16,566,457</u>	100.0	<u>¥ 13,224,435</u>	100.0

Cost is determined by the specific cost method based on the actual costs incurred.

Note: The major components of utilities and other costs are as follows:

	Thousands of Yen	
	2020	2019
Freight	¥ 1,995,898	¥ 1,436,626
Outsourcing	50,249	49,136
Depreciation and amortization	75,619	75,186

Of selling, general and administrative expenses for the years ended July 31, 2020 and 2019, 39% and 41%, respectively, were attributable to selling expenses; the remaining 61% and 59%, respectively, were attributable to general and administrative expenses. The major components of selling, general and administrative expenses are as follows:

	Thousands of Yen	
	2020	2019
Salaries and wages	¥ 1,590,841	¥ 1,106,412
Advertising	1,572,467	1,190,408
Provision of allowance for doubtful receivables	655	131
Depreciation and amortization	94,591	54,900

The details of gain on sales of non-current assets for the years ended July 31, 2020 and 2019 are as follows:

	Thousands of Yen	
	2020	2019
Machinery and equipment	¥ —	¥ 239

The details of loss on disposal of non-current assets for the years ended July 31, 2020 and 2019 are as follows:

	Thousands of Yen	
	2020	2019
Buildings	¥ 19,385	¥ 4,566
Software	—	2,565
Tools, furniture and fixtures	906	—
Total	¥ 20,292	¥ 7,131

## 6. NOTES TO STATEMENT OF CHANGES IN NET ASSETS

*For the year ended July 31, 2020*

### 1. Type and number of issued shares and treasury stock

	Shares			July 31, 2020
	August 1, 2019	Increase	Decrease	
Issued shares				
Common stock (Note 1)	27,805,200	464,890	—	28,270,090
Total	27,805,200	464,890	—	28,270,090
Treasury stock				
Common stock (Note 2)	32	1,139	—	1,171
Total	32	1,139	—	1,171

Notes: 1. The increase of 464,890 shares represents the issuance of new shares due to exercise of stock acquisition rights and issuance of restricted shares in the course of the Company's restricted stock compensation program.

2. The increase of 1,139 shares of treasury stock represents the purchases of less than one trading unit and forfeitures of restricted stock in the course of the Company's restricted stock compensation program.

## 2. Stock acquisition rights as stock options of the Company

	Number of Shares to be Issued upon Exercise of Stock Options (shares)			Thousands of Yen
	August 1, 2019	Increase	Decrease	July 31, 2020
Stock Acquisition Rights Stock options of the Company	—	—	—	¥ 109,364
Total	—	—	—	¥ 109,364

## 3. Dividends

Not applicable.

*For the year ended July 31, 2019*

## 1. Type and number of issued shares and treasury stock

	Shares			
	August 1, 2018	Increase	Decrease	July 31, 2019
Issued shares				
Common stock (Note 1)	27,548,600	256,600	—	27,805,200
Total	27,548,600	256,600	—	27,805,200
Treasury stock				
Common stock (Note 2)	—	32	—	32
Total	—	32	—	32

Notes: 1. The increase of 256,600 shares represents the issuance of new shares due to exercise of stock acquisition rights.

2. The increase of 32 shares of treasury stock represents the purchases of less than one trading unit.

## 2. Stock acquisition rights as stock options of the Company

	Number of Shares to be Issued upon Exercise of Stock Options (shares)			Thousands of Yen
	August 1, 2018	Increase	Decrease	July 31, 2019
Stock Acquisition Rights Stock options of the Company	—	—	—	¥ 854
Total	—	—	—	¥ 854

## 3. Dividends

Not applicable.

## 7. NOTES TO STATEMENT OF CASH FLOWS

A reconciliation between cash and cash equivalents in the statement of cash flows and cash and deposits disclosed in the balance sheet is as follows:

	Thousands of Yen	
	2020	2019
Cash and deposits	¥ 15,451,377	¥ 5,904,840
Adjustments	—	—
Cash and cash equivalents	<u>¥ 15,451,377</u>	<u>¥ 5,904,840</u>

## 8. LEASES

The Company leases certain printing equipment (machinery and equipment) under finance lease transactions that transfer ownership to the lessee. Depreciation of leased assets is discussed in Note 2-3 "Depreciation and amortization."

## 9. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

### 1. Nature and status of financial instruments

#### (1) *Policy for Financial Instruments*

The Company raises funds in accordance with its internal capital investment plan. The Company's use of its surplus funds is limited to short-term deposits and other low-risk investments. The Company 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.

Lease and guarantee deposits are mainly related to the lease agreement involving the headquarter office and exposed to the counterparty's credit risk. In order to control this risk, the Company evaluates the counterparty's credit status upon entering into the agreement.

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 of the Company 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 Company 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 Company periodically monitors the foreign exchange rates by currency.

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

In accordance with its internal profit plan, the Corporate Administrative Division of the Company prepares and updates its cash management plan in a timely manner. The Company 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

Financial instruments whose fair values are readily determinable as of July 31, 2020 and 2019 are as follows:

	Thousands of Yen		
	2020		
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
<b>Assets:</b>			
(1) Cash and deposits	¥15,451,377	¥15,451,377	¥ —
(2) Trade notes receivable	22,915	22,915	—
(3) Electronically recorded monetary claims	12,452	12,452	—
(4) Trade accounts receivable	2,157,262	2,157,262	—
(5) Lease and guarantee deposits	174,662	174,574	(88)
(6) Investment securities	16,000	16,000	—
<b>Total</b>	<b>¥17,834,669</b>	<b>¥17,834,581</b>	<b>¥ (88)</b>
<b>Liabilities:</b>			
(1) Trade accounts payable	¥ 1,654,786	¥ 1,654,786	¥ —
(2) Other payables	500,595	500,595	—
(3) Short-term loans payable	40,000	40,000	—
(4) Long-term loans payable	5,000,000	5,003,392	3,392
(5) Convertible bonds	5,043,333	4,987,458	(55,875)
<b>Total</b>	<b>¥12,238,715</b>	<b>¥12,186,232</b>	<b>¥(52,483)</b>
	Thousands of Yen		
	2019		
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
<b>Assets:</b>			
(1) Cash and deposits	¥ 5,904,840	¥ 5,904,840	¥ —
(2) Trade notes receivable	81,863	81,863	—
(3) Electronically recorded monetary claims	1,753	1,753	—
(4) Trade accounts receivable	1,826,588	1,826,588	—
(5) Lease and guarantee deposits	235,071	235,476	404
(6) Investment securities	25,040	25,040	—
<b>Total</b>	<b>¥ 8,075,158</b>	<b>¥ 8,075,563</b>	<b>¥ 404</b>
<b>Liabilities:</b>			
(1) Trade accounts payable	¥ 1,458,493	¥ 1,458,493	¥ —
(2) Other payables	332,068	332,068	—
(3) Short-term loans payable	180,000	180,000	—
(4) Current portion of long-term loans payable	91,430	91,330	(99)
(5) Lease obligations, including current portion	41,402	41,409	7
<b>Total</b>	<b>¥ 2,103,394</b>	<b>¥ 2,103,301</b>	<b>¥ (92)</b>

Notes: *Assets:*

(1) Cash and deposits, (2) trade notes receivable, (3) electronically recorded monetary claims, and (4) trade accounts receivable—As these items are settled in a short period of time and have fair values approximately equal to their carrying amounts, they are stated at their carrying amounts.

(5) Lease and guarantee deposits—Fair values of lease and guarantee deposits are measured at the present value of future cash flows discounted by an appropriate index such as the yield of Japanese government bonds with corresponding maturities grouped based on specific time periods.

(6) Investment securities—Fair values of investment securities are stated at the quoted market price.

*Liabilities:*

(1) Trade accounts payable, (2) other payables, and (3) short-term loans payable—As these items are settled in a short period of time and have fair values approximately equal to their carrying amounts, they are stated at their carrying amounts.

(4) Long-term loans payable—Fair values of long-term loans payable are stated at present value of the total amount of principal and interest discounted by an assumed rate that would be applicable to loan agreements that are newly entered into under the same conditions.

(5) Convertible bonds—Fair values of convertible bonds are stated at present value of the total amount of principal and interest discounted by an assumed rate that would be applicable to convertible bonds that are newly issued under the same conditions.

Financial instruments which do not have quoted market prices and whose fair values are not readily determinable are not included in the table above. The carrying amounts of such financial instruments as of July 31, 2020 and 2019 are as follows:

	Thousands of Yen	
	2020	2019
Investments in subsidiaries and associates	¥ 31,683	¥ —
Unlisted equity securities	75,304	65,520
Investments in an investment partnership	32,951	37,792

### 3. Redemption schedule of receivables

A redemption schedule of receivables as of July 31, 2020 and 2019 is as follows:

	Thousands of Yen			
	2020			
	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	¥ 15,451,377	¥ —	¥ —	¥ —
Trade notes receivable	22,915	—	—	—
Electronically recorded monetary claims	12,452	—	—	—
Trade accounts receivable	2,157,262	—	—	—
Lease and guarantee deposits	41,170	17,328	—	116,163
Total	¥ 17,685,117	¥ 17,328	¥ —	¥ 116,163



	Thousands of Yen			
	2019			
	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	¥ 5,904,840	¥ —	¥ —	¥ —
Trade notes receivable	81,863	—	—	—
Electronically recorded monetary claims	1,753	—	—	—
Trade accounts receivable	1,826,588	—	—	—
Lease and guarantee deposits	61,251	—	57,624	116,284
<b>Total</b>	<b>¥ 7,876,569</b>	<b>¥ —</b>	<b>¥ 57,624</b>	<b>¥ 116,284</b>

#### 4. Repayment schedule of long-term loans payable, lease obligations, and convertible bonds

A repayment schedule of long-term loans payable, lease obligations, and convertible bonds as of July 31, 2020 and 2019 is as follows:

	Thousands of Yen		
	2020		
	Due within 1 Year	Due after 1 Year through 2 Years	Due after 2 Year through 3 Years
Long-term loans payable	¥ —	¥ 1,287,220	¥ 1,582,664
Convertible bonds	—	—	—
<b>Total</b>	<b>¥ —</b>	<b>¥ 1,287,220</b>	<b>¥ 1,582,664</b>

	Thousands of Yen		
	2020		
	Due after 3 Year through 4 Years	Due after 4 Year through 5 Years	Due after 5 Years
Long-term loans payable	¥ 1,582,664	¥ 494,452	¥ 88,000
Convertible bonds	—	5,000,000	—
<b>Total</b>	<b>¥ 1,582,664</b>	<b>¥ 5,459,452</b>	<b>¥ 88,000</b>

	Thousands of Yen		
	2019		
	Due within 1 Year	Due after 1 Year through 2 Years	Due after 2 Years
Current portion of long-term loans payable	¥ 91,430	¥ —	¥ —
Lease obligations	41,402	—	—
<b>Total</b>	<b>¥ 132,832</b>	<b>¥ —</b>	<b>¥ —</b>

## 10. INVESTMENT SECURITIES

### 1. Investments in subsidiaries and associates

As of July 31, 2020

Because investments in subsidiaries and associates of the Company (¥31,683 thousand) did not have a quoted market price and their fair values were not readily determinable, information regarding fair values is not presented.

As of July 31, 2019

Not applicable.

### 2. Available-for-sale securities

As of July 31, 2020

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

Not applicable.

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

	Thousands of Yen		
	2020		
	Carrying Amount	Acquisition Cost	Unrealized Gain (Loss)
Equity securities—Stocks	¥ 16,000	¥ 24,480	¥ (8,480)
Debt securities			
Government and local bonds	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
Other securities	—	—	—
Total	<u>¥ 16,000</u>	<u>¥ 24,480</u>	<u>¥ (8,480)</u>

Because unlisted equity securities and investments in an investment partnership of the Company (¥108,256 thousand) did not have quoted market prices and their fair values were not readily determinable, information regarding fair values is not presented.

As of July 31, 2019

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

	Thousands of Yen		
	2019		
	Carrying Amount	Acquisition Cost	Unrealized Gain (Loss)
Equity securities—Stocks	¥ 25,040	¥ 24,480	¥ 560
Debt securities			
Government and local bonds	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
Other securities	—	—	—
Total	<u>¥ 25,040</u>	<u>¥ 24,480</u>	<u>¥ 560</u>

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

Not applicable.

Because unlisted equity securities and investments in an investment partnership of the Company (¥103,312 thousand) did not have quoted market prices and their fair values were not readily determinable, information regarding fair values is not presented.

### **3. Write-down of investment securities**

The Company recorded ¥45,712 thousand of loss on write-down of investments in subsidiaries and associates for the year ended July 31, 2019. No such loss was recorded for the year ended July 31, 2020.

For investment securities whose fair values are not readily determinable, if the substantial value of such investments significantly declines, the Company recognizes a loss on write-down on investment securities after considering future recoverability.

## 11. STOCK OPTIONS

### 1. Expenses related to stock options

Stock compensation expenses included in selling, general and administrative expenses for the year ended July 31, 2020, were ¥23,922 thousand. No compensation expenses were recorded for the year ended July 31, 2019.

### 2. Details of stock options

(1) Stock options that existed during the year ended July 31, 2020 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 #3	6 employees	127,800 shares	May 20, 2013	From May 21, 2015 to May 20, 2023
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

<u>Stock Options</u>	<u>Grantees</u>	<u>Number of Options Granted</u>	<u>Grant Date</u>	<u>Exercise Period</u>
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, 2020 is as follows:

	<u>Stock Option #3</u>	<u>Stock Option #4</u> (Number of Shares)	<u>Stock Option #4-2</u>
<u>Non-vested</u>			
August 1, 2019—Outstanding	40,000	238,300	5,000
Granted	—	—	—
Forfeited	—	1,000	—
Vested	40,000	237,300	5,000
July 31, 2020—Outstanding	—	—	—
<u>Vested</u>			
August 1, 2019—Outstanding	—	144,800	2,500
Vested	40,000	237,300	5,000
Exercised	40,000	83,200	2,500
Canceled	—	—	—
July 31, 2020—Outstanding	—	298,900	5,000
	<u>Stock Option #6</u>	<u>Stock Option #7</u> (Number of Shares)	<u>Stock Option #6-2</u>
<u>Non-vested</u>			
August 1, 2019—Outstanding	28,500	—	30,000
Granted	—	—	—
Forfeited	—	—	—
Vested	28,500	—	10,000
July 31, 2020—Outstanding	—	—	20,000
<u>Vested</u>			
August 1, 2019—Outstanding	24,700	305,000	10,000
Vested	28,500	—	10,000
Exercised	52,200	40,000	10,000
Canceled	—	—	—
July 31, 2020—Outstanding	1,000	265,000	10,000

	<u>Stock Option #6-3</u>	<u>Stock Option #6-4</u> (Number of Shares)	<u>Stock Option #9</u>
<u>Non-vested</u>			
August 1, 2019—Outstanding	88,800	3,600	151,800
Granted	—	—	—
Forfeited	—	2,400	600
Vested	29,600	400	50,400
July 31, 2020—Outstanding	59,200	800	100,800

<u>Vested</u>			
August 1, 2019—Outstanding	34,000	400	89,200
Vested	29,600	400	50,400
Exercised	26,600	600	88,000
Canceled	—	—	—
July 31, 2020—Outstanding	37,000	200	51,600

	<u>Stock Option #9-2</u>	<u>Stock Option #9-3</u> (Number of Shares)	<u>Stock Option #9-4</u>
<u>Non-vested</u>			
August 1, 2019—Outstanding	19,800	7,200	3,600
Granted	—	—	—
Forfeited	3,600	—	—
Vested	5,400	2,400	1,200
July 31, 2020—Outstanding	10,800	4,800	2,400

<u>Vested</u>			
August 1, 2019—Outstanding	—	400	2,000
Vested	5,400	2,400	1,200
Exercised	400	1,600	200
Canceled	—	—	—
July 31, 2020—Outstanding	5,000	1,200	3,000

	<u>Stock Option #9-5</u>	<u>Stock Option #10</u> (Number of Shares)	<u>Stock Option #11</u>
<u>Non-vested</u>			
August 1, 2019—Outstanding	91,200	33,000	57,600
Granted	—	—	—
Forfeited	—	—	7,200
Vested	30,400	11,000	16,800
July 31, 2020—Outstanding	60,800	22,000	33,600

<u>Vested</u>			
August 1, 2019—Outstanding	60,800	22,000	38,400
Vested	30,400	11,000	16,800
Exercised	—	20,000	23,000
Canceled	—	—	4,800
July 31, 2020—Outstanding	91,200	13,000	27,400

	<u>Stock Option #12</u> (Number of Shares)
<u>Non-vested</u>	
August 1, 2019—Outstanding	—
Granted	700,000
Forfeited	—
Vested	—
July 31, 2020—Outstanding	700,000

<u>Vested</u>	
August 1, 2019—Outstanding	—
Vested	—
Exercised	—
Canceled	—
July 31, 2020—Outstanding	—

- 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		
	Stock Option #3	Stock Option #4	Stock Option #4-2
Exercise price	¥ 77	¥ 77	¥ 313
Average stock price at exercise	2,607	3,596	2,630
Fair value at grant date	—	—	—

  

	Yen		
	Stock Option #6	Stock Option #7	Stock Option #6-2
Exercise price	¥ 313	¥ 313	¥ 313
Average stock price at exercise	2,863	3,350	3,665
Fair value at grant date	—	—	—

  

	Yen		
	Stock Option #6-3	Stock Option #6-4	Stock Option #9
Exercise price	¥ 313	¥ 313	¥ 313
Average stock price at exercise	3,509	2,607	3,319
Fair value at grant date	—	—	—

  

	Yen		
	Stock Option #9-2	Stock Option #9-3	Stock Option #9-4
Exercise price	¥ 313	¥ 313	¥ 313
Average stock price at exercise	2,607	3,350	2,607
Fair value at grant date	—	—	—

  

	Yen		
	Stock Option #9-5	Stock Option #10	Stock Option #11
Exercise price	¥ 313	¥ 313	¥ 340
Average stock price at exercise	—	2,990	3,050
Fair value at grant date	—	—	—

  

	Yen	
	Stock Option #12	
Exercise price	—	¥ 3,180
Average stock price at exercise	—	—
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 #3 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, which was granted during the year ended July 31, 2020 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, 2020 amounted to ¥2,724,724 thousand.

The total intrinsic value of the stock options exercised during the year ended July 31, 2020, as of the date of exercise, was ¥1,141,238 thousand.

## 12. TAX EFFECT ACCOUNTING

Significant components of deferred tax assets and liabilities as of July 31, 2020 and 2019 are as follows:

	Thousands of Yen	
	2020	2019
Deferred tax assets:		
Bad debt losses	¥ 81	¥ 81
Accrued bonuses	11,654	14,516
Stock compensation expenses	16,229	—
Liabilities not yet determined to be deductible	2,700	435
Lump-sum depreciation	2,322	2,094
Loss on write-down of investment securities	3,061	3,062
Loss on write-down of investments in a subsidiary	—	33,217
Asset retirement obligations	35,334	31,763
Enterprise tax payable	8,023	12,584
Tax loss carryforwards	1,546,183	1,417,846
Other	2,471	5,273
Subtotal	1,628,063	1,520,873
Valuation allowance for tax loss carryforwards (Note)	(1,546,183)	(1,379,255)
Valuation allowance for total deductible temporary differences (Note)	(81,880)	(40,172)
Total valuation allowances	(1,628,063)	(1,419,428)
Deferred tax assets	¥ —	¥ 101,445
Deferred tax liabilities:		
Unrealized gain on available-for-sale securities	¥ —	¥ (171)
Asset retirement costs	(24,714)	(27,129)
Deferred tax liabilities	¥ (24,714)	¥ (27,301)
Deferred tax assets (liabilities), net	¥ (24,714)	¥ 74,144

Tax loss carryforwards as of July 31, 2020 expire as follows:

	Thousands of Yen		
	2020		
	Tax Loss Carryforwards (Note)	Valuation Allowance	Deferred Tax Assets
Due within 1 year	¥ —	¥ —	¥ —
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	—	—	—
	<u>1,546,183</u>	<u>(1,546,183)</u>	<u>—</u>
Total	<u>¥ 1,546,183</u>	<u>¥ (1,546,183)</u>	<u>¥ —</u>

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

Tax loss carryforwards as of July 31, 2019 expire as follows:

	Thousands of Yen		
	2019		
	Tax Loss Carryforwards (Note 1)	Valuation Allowance	Deferred Tax Assets (Note 2)
Due within 1 year	¥ 38,590	¥ —	¥ 38,590
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	—	—	—
	<u>1,379,255</u>	<u>(1,379,255)</u>	<u>—</u>
Total	<u>¥ 1,417,846</u>	<u>¥ (1,379,255)</u>	<u>¥ 38,590</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 statement of income for the year ended July 31, 2019 is as follows:

	<u>2019</u>
Effective statutory tax rate	30.6 %
Entertainment and other expenses not deductible for income tax purposes	7.0
Per capita levy of inhabitant tax	6.5
Dividend and other income not taxable for income tax purposes	(0.2)
Change in valuation allowance	(34.0)
Other—net	<u>0.5</u>
Effective tax rate	<u>10.4 %</u>

The reconciliation for the year ended July 31, 2020 is not presented because the Company recorded a loss before income taxes.

### 13. ASSET RETIREMENT OBLIGATIONS

#### Asset retirement obligations on the balance sheet

##### (1) Nature of asset retirement obligations

Asset retirement obligations of the Company mainly represent the restoration obligation of the headquarter office under the real estate rental agreement.

##### (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 years ended July 31, 2020 and 2019 are as follows:

	Thousands of Yen	
	<u>2020</u>	<u>2019</u>
Balance at beginning of year	¥ 103,716	¥ 102,943
Adjustment due to passage of time	<u>778</u>	<u>773</u>
Balance at end of year	<u>¥ 104,495</u>	<u>¥ 103,716</u>

## 14. SEGMENT INFORMATION

### 1. Description of reportable segments

The reportable segments are components of the Company 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 Company 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.

### 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 Company does not allocate its assets to the reportable segments.

### 3. Change in reportable segments

Effective the year ended July 31, 2020, the Company reorganized its reportable segments in order to clarify the profitability of each segment and investment decision making. The Company's printing business and logistics business were renamed Raksul and Hacobell, respectively, the names of their service brands. The advertising service business, which was previously included in the printing business as a part of the customer-acquisition support, has been reclassified as a reportable segment, namely, Novasell. This change was made to appropriately express the Novasell's position as the Company's new business following Raksul and Hacobell, and to understand net sales and profit of each segment more rationally.

As a result, the Company's two reportable segments, namely, printing business and logistics business, were reorganized to three reportable segments, namely, Raksul, Novasell, and Hacobell. Segment information for the year ended July 31, 2019 has been restated to reflect this change.

The following table illustrates the changes in reportable segments:

Before the change	After the change
"Raksul" Printing business segment Printing EC Customer-acquisition support TV commercials-related advertising	"Raksul" Raksul segment Printing EC Customer-acquisition support
"Novasell"	"Novasell" Novasell segment TV commercials-related advertising
"Hacobell" Logistics business segment	"Hacobell" Hacobell segment Logistics business

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

*For the year ended July 31, 2020*

	Reportable segments				Other Business (Note 1)	Total	Reconciliation (Notes 2 and 4)	Amount on the Financial Statements (Note 3)
	Raksul	Novasell	Hacobell	Total				
Sales to external customers	¥ 16,330,308	¥ 2,853,831	¥ 2,186,047	¥ 21,370,187	¥ 124,411	¥ 21,494,598	¥ —	¥ 21,494,598
Intersegment sales and transfers	—	—	—	—	—	—	—	—
<b>Total</b>	<b>¥ 16,330,308</b>	<b>¥ 2,853,831</b>	<b>¥ 2,186,047</b>	<b>¥ 21,370,187</b>	<b>¥ 124,411</b>	<b>¥ 21,494,598</b>	<b>¥ —</b>	<b>¥ 21,494,598</b>
Segment profit (loss)	¥ 1,340,790	¥ 4,986	¥ (370,333)	¥ 975,443	¥ 44,586	¥ 1,020,030	¥ (1,264,312)	¥ (244,281)
Other items:								
Depreciation and amortization	¥ 113,986	¥ 2,025	¥ 15,777	¥ 131,789	¥ —	¥ 131,789	¥ 39,200	¥ 170,989
Capital expenditures	163,801	16,618	46,424	226,844	—	226,844	28,239	255,083

*For the year ended July 31, 2019*

	Reportable segments				Other Business (Note 1)	Total	Reconciliation (Notes 2 and 4)	Amount on the Financial Statements (Note 3)
	Raksul	Novasell	Hacobell	Total				
Sales to external customers	¥ 14,462,876	¥ 1,067,396	¥ 1,542,471	¥ 17,072,744	¥ 95,914	¥ 17,168,658	¥ —	¥ 17,168,658
Intersegment sales and transfers	—	—	152	152	—	152	(152)	—
<b>Total</b>	<b>¥ 14,462,876</b>	<b>¥ 1,067,396</b>	<b>¥ 1,542,624</b>	<b>¥ 17,072,897</b>	<b>¥ 95,914</b>	<b>¥ 17,168,811</b>	<b>¥ (152)</b>	<b>¥ 17,168,658</b>
Segment profit (loss)	¥ 1,313,191	¥ 74,399	¥ (161,433)	¥ 1,226,158	¥ 27,434	¥ 1,253,592	¥ (1,109,736)	¥ 143,856
Other items:								
Depreciation and amortization	¥ 95,693	¥ 610	¥ 3,934	¥ 100,238	¥ —	¥ 100,238	¥ 30,621	¥ 130,860
Capital expenditures	55,156	3,665	44,904	103,727	—	103,727	26,442	130,169

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

2. Reconciliation of segment profit (¥ (1,264,312) thousand and ¥ (1,109,736) thousand in 2020 and 2019, respectively) includes corporate expenses that are primarily comprised of general and administrative expenses that are not allocable to the reportable segments.

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

4. Reconciliation of other items is related to corporate assets that are not allocable to the reportable segments.

## ***Related Information***

*For the years ended July 31, 2020 and 2019*

### **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 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 statement of income.

## ***Information on impairment losses***

*For the years ended July 31, 2020 and 2019*

Not applicable.

## ***Information on amortization and remaining balance of goodwill***

*As of and for the years ended July 31, 2020 and 2019*

Not applicable.

## ***Information on gain on negative goodwill***

*For the years ended July 31, 2020 and 2019*

Not applicable.



## 15. RELATED PARTY TRANSACTIONS

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

*For the year ended July 31, 2020*

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	Thousands of Yen	
			Amount of Transaction	Balance as of July 31, 2020
Yasukane Matsumoto, CEO and Representative Director	17.4	Grant of stock options (Balance recorded as stock acquisition rights) (Note 1)	¥ 55,055	¥ 55,055
		Contribution in kind of remuneration receivable (Note 4)	16,155	—
Yo Nagami, Director	0.5	Exercise of stock options (Note 3)	24,507	—
		Contribution in kind of remuneration receivable (Note 4)	16,155	—
Masaki Tabe, Director	0.1	Exercise of stock options (Note 3)	23,975	—
		Contribution in kind of remuneration receivable (Note 4)	14,360	—
		Loans of money (Note 2)	26,000	—
		Collection of loans (Note 2)	26,000	—
		Interest received (Note 2)	63	—
Kozo Fukushima, Director	0.2	Grant of stock options (Balance recorded as stock acquisition rights) (Note 1)	12,100	12,100
		Exercise of stock options (Note 3)	16,092	—
		Contribution in kind of remuneration receivable (Note 4)	14,360	—
		Loans of money (Note 2)	15,000	—
		Collection of loans (Note 2)	15,000	—
		Interest received (Note 2)	36	—
Yusuke Izumi, Director	0.0	Exercise of stock options (Note 3)	12,770	—
		Contribution in kind of remuneration receivable (Note 4)	10,770	—

- Notes:
1. This item represents the grant of stock option #12 during the year ended July 31, 2020, following the resolutions made at the Board of Directors meeting held on June 18, 2020, involving considerations from the grantee. "Amount of transactions" was determined by multiplying cash to be paid upon the exercise of the stock options by the number of shares granted.
  2. The interest rates for loans of money are determined in a rational manner by considering market rates.
  3. This item represents the exercise of the following stock options during the year ended July 31, 2020:

<u>Stock Option</u>	<u>Date of the Resolution Made at the Extraordinary General Shareholders Meeting</u>	<u>Date of the Resolution Made at the Board of Directors Meeting</u>
#4	October 24, 2014	November 21, 2014
#7	May 22, 2015	May 12, 2015
#6-2	May 22, 2015	August 11, 2015
#6-3	May 22, 2015	October 13, 2015
#9	October 27, 2016	October 27, 2016
#10	June 30, 2017	June 15, 2017
#11	October 27, 2017	October 27, 2017

"Amount of transactions" 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, 2020.

4. This item represents 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.

For the year ended July 31, 2019

Transactions of the Company with individuals (directors and major shareholders) involved the exercise of stock options by a director only. Details are as follows:

<u>Name</u>	<u>Position</u>	<u>Share Ownership Ratio (%)</u>	<u>Amount of Transaction Thousands of Yen</u>
(Director of the Company) Yo Nagami	Director	0.4 (Direct)	¥ 11,894

- Notes:
1. The above table shows the exercise of stock option #4 during the year ended July 31, 2019. Stock option #4 was granted following the resolutions made at the ordinary general shareholders meeting held on October 24, 2014 and at the Board of Directors meeting held on November 21, 2014, involving considerations from the grantee.
  2. "Amount of transactions" 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, 2019.

There was no remaining balance outstanding as of July 31, 2019.

## 16. PER SHARE INFORMATION

Per share information as of and for the years ended July 31, 2020 and 2019 was as follows:

	Yen	
	<u>2020</u>	<u>2019</u>
Net assets per share	¥ 236.73	¥ 244.88
Basic earnings (loss) per share	(17.64)	2.51
Diluted earnings per share	—	2.38

Notes: 1. Although the Company has shares with a potentially dilutive effect, the diluted earnings per share for the year ended July 31, 2020 is not presented because the Company recorded net loss for the year.

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

	<u>2020</u>	<u>2019</u>
Basic earnings per share		
Net profit (loss) (thousands of yen)	¥ (494,135)	¥ 69,598
Net profit not attributable to common shareholders (thousands of yen)	—	—
Net profit attributable to common shareholders (thousands of yen)	(494,135)	69,598
Average number of shares of common stock outstanding during the year (shares)	28,014,294	27,678,086
Diluted earnings per share		
Adjustments to net profit attributable to common shareholders (thousands of yen)	¥ —	¥ —
Increase in the number of shares of common stock (shares)	—	1,519,828
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	N/A

## 17. SUBSEQUENT EVENT

### *Share acquisition of Peraichi Inc., a new associate*

At the Board of Directors' meeting held on September 10, 2020, the Company decided to enter into an investment agreement to acquire shares of Peraichi Inc. ("Peraichi"). The outline is as follows:

#### 1. Purpose

The Company anticipates that the synergies between Peraichi and the Company's Raksul services, which will be generated through enhancing sales promotion activities such as customer-acquisition support with effective utilization of websites, will contribute to the improvement of the corporate value of the Company.

#### 2. Name and business of acquired company

Name: Peraichi Inc.  
Business: Operation of Peraichi, website building SaaS

#### 3. Acquisition cost and ownership ratio after the acquisition

Acquisition cost: Not disclosed due to the duty of confidentiality  
Ownership ratio after the acquisition: 49%

#### 4. Method of financing the funds for acquisition

The Company's own fund

#### 5. Scheduled date of acquisition

October 2020

18. SUPPLEMENTAL SCHEDULES

*Non-current assets*

	Thousands of Yen						
	August 1, 2019	Increase	Decrease	July 31, 2020	Accumulated Depreciation/ Amortization	Depreciation/ Amortization for the Year	July 31, 2020, Net of Depreciation/ Amortization
Property and equipment							
Buildings	¥ 217,366	¥ 12,159	¥ 21,809	¥ 207,716	¥ 62,411	¥ 19,803	¥ 145,305
Machinery and equipment	581,336	170,000	—	751,336	372,851	75,133	378,484
Tools, furniture and fixtures	58,102	18,164	4,263	72,003	41,802	15,126	30,200
Leased assets	170,000	—	170,000	—	—	—	—
Total	¥ 1,026,805	¥ 200,323	¥ 196,072	¥ 1,031,056	¥ 477,065	¥ 110,063	¥ 553,990
Intangible assets							
Software	¥ 167,400	¥ 244,526	¥ 14,219	¥ 397,706	¥ 100,081	¥ 52,346	¥ 297,625
Software in progress	67,425	218,258	238,024	47,659	—	—	47,659
Total	¥ 234,825	¥ 462,784	¥ 252,243	¥ 445,366	¥ 100,081	¥ 52,346	¥ 345,285
Long-term prepaid expenses	¥ —	¥ 289,542	¥ 162,877	¥ 126,665	¥ —	¥ —	¥ 126,665

Notes: 1. Major components of increase in the table above are as follows:

		Thousands of Yen
Buildings:	Interior construction of the new office in Kyoto	¥ 10,759
Machinery and equipment:	Modification of the period of lease contracts and purchase of printing equipment	170,000
Tools, furniture and fixtures:	Purchase of computers corresponding to increase in the number of employees	9,485
Software	Software development for expansion of service in each segment	244,526

2. Major component of decrease in the table above is as follows:

Buildings:	Disposition of building improvements in relation to the closing of the office in Gotanda	¥ 21,809
Leased assets	Modification of the period of lease contracts and purchase of printing equipment	170,000
Software in progress	Transfers to software due to completion of development	238,024

## Bonds

	Thousands of Yen		Date of issuance	Due Date
	August 1, 2019	July 31, 2020		
Unsecured Zero coupon Euro-Yen convertible bonds due 2024	¥ —	¥ 5,043,333	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:	¥4,074
Aggregated amount of conversion price:	¥5,000,000 thousand
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, 2020 is as follows:

Thousands 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
¥ —	¥ —	¥ —	¥ —	¥ 5,000,000

## Borrowings

	Thousands of Yen		Weighted Average Interest Rate (%)	Due Date
	August 1, 2019	July 31, 2020		
Short-term loans payable	¥ 180,000	¥ 40,000	0.5	—
Current portion of long-term loans payable	91,430	—	—	—
Current portion of lease obligations	41,402	—	—	—
Long-term loans payable, less current portion	—	5,000,000	0.8	From 2021 to 2026
Long-term lease obligations, less current portion	—	—	—	—
Other interest-bearing liabilities	—	—	—	—
<b>Total</b>	<b>¥ 312,832</b>	<b>¥ 5,040,000</b>	—	—

Notes: 1. The weighted average interest rate represents the average interest rate on the balances outstanding as of July 31, 2020.

2. Average interest rates for lease obligations are not presented because lease obligations on the balance sheet are presented at an amount before deducting the assumed interest included in the total lease payment.

3. A repayment schedule of long-term loans payable, less current portion as of July 31, 2020 is as follows:

	Thousands of Yen			
	2020			
	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	¥ 1,287,220	¥ 1,582,664	¥ 1,582,664	¥ 459,452

**Provisions**

	Thousands of Yen				
	August 1, 2019	Increase	Decrease (Used)	Decrease (Other)	July 31, 2020
Allowance for doubtful receivables	¥ 114	¥ 637	¥ —	¥ 114	¥ 637

Note: Decrease (other) in the above table represents the year-end reversal determined based on the Company's ratio of historical credit loss experience attributable to general receivables.

**Asset retirement obligations**

Supplemental schedules of asset retirement obligations are not presented because applicable information is disclosed in Note 13 "Asset retirement obligations."

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