

RAKSUL INC. and Consolidated Subsidiaries
Consolidated Financial Statements
Consolidated Balance Sheet
As of July 31, 2023 (Unaudited)

ASSETS	Millions of Yen	
	2023	2022
CURRENT ASSETS:		
Cash and deposits	¥ 14,644	¥ 13,682
Trade notes and accounts receivable	4,718	4,903
Merchandises and finished goods	282	201
Materials and supplies	13	8
Prepaid expenses	549	583
Other current assets	380	281
Allowance for doubtful receivables	(0)	(0)
Total current assets	20,589	19,660
NON-CURRENT ASSETS:		
PROPERTY AND EQUIPMENT:		
Buildings and structures	223	212
Accumulated depreciation	(113)	(97)
Buildings and structures, net	110	115
Machinery, equipment and vehicles	754	775
Accumulated depreciation	(599)	(534)
Machinery, equipment and vehicles, net	155	241
Other	95	83
Accumulated depreciation	(66)	(66)
Other, net	29	16
Total property and equipment, net	294	373
INTANGIBLE ASSETS:		
Goodwill	4,212	4,708
Software	320	395
Software in progress	83	88
Other	8	15
Total intangible assets	4,625	5,208
INVESTMENTS AND OTHER ASSETS:		
Investment securities	5,025	633
Investments in unconsolidated subsidiaries and associates	1,452	1,436
Long-term prepaid expenses	56	202
Deferred tax assets	194	968
Other	427	151
Total investments and other assets	7,156	3,391
Total non-current assets	12,076	8,973
TOTAL ASSETS	¥ 32,665	¥ 28,633

(Continued)

RAKSUL INC. and Consolidated Subsidiaries**Consolidated Balance Sheet****As of July 31, 2023 (Unaudited)**

LIABILITIES AND NET ASSETS	Millions of Yen	
	<u>2023</u>	<u>2022</u>
CURRENT LIABILITIES:		
Trade accounts payable	¥ 3,299	¥ 3,234
Other payables and accrued expenses	1,035	1,239
Short-term loans payable	800	800
Current portion of long-term loans payable	1,647	1,695
Income taxes payable	754	288
Consumption taxes payable	294	213
Contract liabilities	160	91
Accrued bonuses	200	135
Other current liabilities	<u>100</u>	<u>75</u>
Total current liabilities	<u>8,292</u>	<u>7,774</u>
LONG-TERM LIABILITIES:		
Convertible bonds	5,013	5,023
Long-term loans payable	4,451	6,417
Asset retirement obligations	105	106
Deferred tax liabilities	<u>892</u>	<u>—</u>
Total long-term liabilities	<u>10,463</u>	<u>11,546</u>
Total liabilities	<u>18,756</u>	<u>19,320</u>
NET ASSETS:		
SHAREHOLDERS' EQUITY:		
Capital stock	2,742	2,694
Capital surplus	5,549	5,501
Retained earnings	1,540	165
Treasury stock	<u>(300)</u>	<u>(0)</u>
Total shareholders' equity	<u>9,531</u>	<u>8,360</u>
ACCUMULATED OTHER COMPREHENSIVE INCOME:		
Unrealized gain on available-for-sale securities	<u>3,036</u>	<u>22</u>
Total accumulated other comprehensive income	<u>3,036</u>	<u>22</u>
STOCK ACQUISITION RIGHTS	<u>1,341</u>	<u>930</u>
Total net assets	<u>13,909</u>	<u>9,312</u>
TOTAL LIABILITIES AND NET ASSETS	<u>¥ 32,665</u>	<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, 2023 (Unaudited)

	Millions of Yen	
	<u>2023</u>	<u>2022</u>
NET SALES	¥ 41,018	¥ 33,980
COST OF SALES	<u>28,722</u>	<u>24,176</u>
Gross profit	12,295	9,803
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>10,529</u>	<u>9,340</u>
Operating income	<u>1,765</u>	<u>462</u>
NON-OPERATING INCOME:		
Interest income	10	10
Dividend income	1	1
Foreign exchange gain	6	3
Cashback income	8	6
Other	<u>10</u>	<u>6</u>
Total non-operating income	<u>38</u>	<u>28</u>
NON-OPERATING EXPENSES:		
Interest expenses	54	34
Loss on extinguishment of stock-based compensation	41	72
Share of losses of entities accounted for by the equity method	513	532
Other	<u>24</u>	<u>19</u>
Total non-operating expenses	<u>634</u>	<u>658</u>
ORDINARY INCOME (LOSS)	<u>1,168</u>	<u>(167)</u>
SPECIAL GAINS:		
Gain on sale of investments in a subsidiary	1,588	—
Gain on change in ownership interest	103	—
Gain on a step acquisition	—	744
Gain on reversal of stock acquisition rights	1	0
Other	<u>7</u>	<u>—</u>
Total special gains	<u>1,701</u>	<u>745</u>
SPECIAL LOSSES:		
Loss on disposal of non-current assets	11	2
Loss on write-down of investment securities	205	4
Loss on write-down of investments in subsidiaries	—	14
Loss on sale of investments in associates	147	—
Loss on changes in ownership interest	—	18
Settlement payments	—	39
Other	<u>3</u>	<u>—</u>
Total special losses	<u>367</u>	<u>80</u>
PROFIT BEFORE INCOME TAXES	<u>¥ 2,502</u>	<u>¥ 497</u>

(Continued)

RAKSUL INC. and Consolidated Subsidiaries
Consolidated Statement of Income
For the Year Ended July 31, 2023 (Unaudited)

	Millions of Yen	
	<u>2023</u>	<u>2022</u>
PROFIT BEFORE INCOME TAXES	¥ <u>2,502</u>	¥ <u>497</u>
INCOME TAXES:		
Current	836	293
Deferred	<u>336</u>	<u>(818)</u>
Total income taxes	<u>1,173</u>	<u>(524)</u>
NET PROFIT	1,329	1,021
NET PROFIT ATTRIBUTABLE TO NONCONTROLLING INTERESTS	<u>—</u>	<u>—</u>
NET PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT	<u>¥ 1,329</u>	<u>¥ 1,021</u>

(Concluded)

See notes to consolidated financial statements.

RAKSUL INC. and Consolidated Subsidiaries
Consolidated Statement of Comprehensive Income
For the Year Ended July 31, 2023 (Unaudited)

	Millions of Yen	
	<u>2023</u>	<u>2022</u>
NET PROFIT	¥ 1,329	¥ 1,021
OTHER COMPREHENSIVE INCOME:		
Unrealized gain on available-for-sale securities	<u>3,014</u>	<u>18</u>
Total other comprehensive income	3,014	18
COMPREHENSIVE INCOME	<u>¥ 4,343</u>	<u>¥ 1,040</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Owners of the parent	4,343	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, 2023 (Unaudited)

	Millions of Yen										
	Shareholders' Equity					Accumulated Other Comprehensive Income		Stock Acquisition Rights	Noncontrolling Interests	Total Net Assets	
	Capital Stock	Capital Surplus	Retained Earnings (Accumulated Deficit)	Treasury Stock	Total Shareholders' Equity	Unrealized Gain on Available-for-Sale Securities	Total				
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	¥ 2,694	¥ 5,501	¥ 165	¥ (0)	¥ 8,360	¥ 22	¥ 22	¥ 930	¥ —	¥ 9,312	
Issuance of new shares	48	48	—	—	96	—	—	—	—	96	
Net profit attributable to owners of the parent	—	—	1,329	—	1,329	—	—	—	—	1,329	
Changes in the scope of consolidation and applying the equity method	—	—	45	—	45	—	—	—	—	45	
Purchase of treasury stock	—	—	—	(299)	(299)	—	—	—	—	(299)	
Other change during the year, net	—	—	—	—	—	3,014	3,014	411	—	3,425	
BALANCE at JULY 31, 2023	¥ 2,742	¥ 5,549	¥ 1,540	¥ (300)	¥ 9,531	¥ 3,036	¥ 3,036	¥ 1,341	¥ —	¥ 13,909	

See notes to consolidated financial statements.

RAKSUL INC. and Consolidated Subsidiaries
Consolidated Statement of Cash Flows
For the Year Ended July 31, 2023 (Unaudited)

	Millions of Yen	
	<u>2023</u>	<u>2022</u>
OPERATING ACTIVITIES:		
Profit before income taxes	¥ 2,502	¥ 497
Depreciation and amortization	231	227
Amortization of goodwill	495	247
Stock compensation expenses	652	695
Loss on write-down of investment securities	205	4
Loss (gain) on changes in ownership interest	(103)	18
Loss on write-down of investments in subsidiaries	—	14
Gain on sale of investments in a subsidiary	(1,588)	—
Loss on sale of investments in an associate	147	—
Gain on a step acquisition	—	(744)
Share of losses of entities accounted for by the equity method	513	532
Loss on disposal of non-current assets	11	2
Interest and dividend income	(12)	(11)
Interest expenses	54	34
Increase (decrease) in allowance for doubtful receivables	—	(4)
Increase (decrease) in accrued bonuses	64	123
Decrease (increase) in trade notes and accounts receivable	(418)	(1,294)
Decrease (increase) in inventories	(85)	(30)
Increase (decrease) in trade accounts payable	442	567
Increase (decrease) in other payables and accrued expenses	84	270
Increase (decrease) in consumption taxes payable	83	54
Other—net	73	(152)
Subtotal	3,354	1,053
Interest and dividends received	2	1
Interest paid	(55)	(33)
Income taxes paid	(399)	(184)
Net cash provided by (used in) operating activities	¥ 2,902	¥ 837

(Continued)

RAKSUL INC. and Consolidated Subsidiaries
Consolidated Statement of Cash Flows
For the Year Ended July 31, 2023 (Unaudited)

	Millions of Yen	
	<u>2023</u>	<u>2022</u>
INVESTING ACTIVITIES:		
Purchases of property and equipment	¥ (8)	¥ (3)
Purchases of intangible assets	(144)	(146)
Purchases of investment securities	(155)	(418)
Payments for investments in associates	—	(387)
Proceeds from sales of investments in associates	274	—
Payments for additional acquisition of a subsidiary's shares resulting in a change in the scope of consolidation	—	(1,789)
Proceeds from sale of investments in a subsidiary resulting in a change in the scope of consolidation	685	—
Payments for lease and guarantee deposits	(275)	—
Payments for short-term loans receivable	(156)	(68)
Proceeds from collection of short-term loans receivable	<u>76</u>	<u>4</u>
Net cash provided by (used in) investing activities	<u>297</u>	<u>(2,808)</u>
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	(2,013)	(1,684)
Proceeds from issuance of stock acquisition rights	30	—
Proceeds from issuance of shares upon exercise of stock acquisition rights	44	91
Purchase of treasury stock	<u>(299)</u>	<u>(0)</u>
Net cash provided by (used in) financing activities	<u>(2,238)</u>	<u>2,206</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	962	235
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	<u>13,682</u>	<u>13,447</u>
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	<u>¥ 14,644</u>	<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, 2023 (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.

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 two other 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

None

2. The equity method

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

(a) Number of entities: 2

(b) Name of major associates: HACOPELL INC. ("HACOPELL")
Peraichi, Inc. ("Peraichi")

(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

(a) During the year ended July 31, 2023, the Company established HACOBELL through an incorporation-type company split. Subsequently, the holding ratio of the voting rights in HACOBELL decreased to 49.9% due to transfer of shares and issuance of new shares through a third-party allotment. As a result, HACOBELL has been accounted for by the equity method.

(b) During the year ended July 31, 2023, the Company's holding ratio of the voting rights in JOSYS INC. ("JOSYS") decreased to 5.9% (of which 4.5% is held by those who have close relationships) due to issuance of new shares through a third-party allotment. As a result, JOSYS was excluded from the scope of applying the equity method.

(c) During the year ended July 31, 2023, the Company sold its holding shares of NET SQUARE Co., Ltd. ("NET SQUARE") resulting in termination of the capital relationship. As a result, NET SQUARE was excluded from the scope of applying the equity method.

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 first-in, first-out 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

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

(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.

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

	Millions of Yen	
	2023	2022
Goodwill—DANBALL	¥ 4,212	¥ 4,708

(2) Details of accounting estimates

(a) Measurement method

Goodwill, which represents the anticipated excess earning power in the future business activities, is recognized as an asset at the amount of the excess of the cost of acquisition over the fair value of the difference between the acquired company's identifiable assets and its liabilities as of the date of business combination.

Goodwill is amortized over its effective period. If there is any indication that goodwill may be impaired, the Group assesses whether an impairment loss should be recognized based on the expected undiscounted future cash flows.

DANBALL recorded profit from its operating activities for the year ended July 31, 2023 and is expected to continue to be profitable in the future periods because no significant changes in its business environment and other factors are expected. Therefore, the Company has determined that the excess earning power anticipated at the time of acquisition is not impaired and that there is no indication of impairment regarding goodwill associated with DANBALL.

(b) Significant assumptions

Goodwill is based on the estimated future cash flows for 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.

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

Since the significant assumptions involve uncertainties in making the estimates, impairment losses may be recorded when the carrying amount exceeds the recoverable amount due to changes in business environment and other factors.

2. Measurement of equity method goodwill

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

	Millions of Yen	
	2023	2022
Investment in an associate—Peraichi	¥ 741	¥ 998
Equity method goodwill included in the investment above	691	987

(2) Details of accounting estimates

(a) Measurement method

Equity method goodwill, which represents the anticipated excess earning power in the future business activities, is stated at the amount of 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.

Equity method goodwill is amortized over its effective period. If there is any indication that equity method goodwill may be impaired, the Group assesses whether an impairment loss should be recognized based on

the expected undiscounted future cash flows.

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

Equity method goodwill is based on the estimated future cash flows for 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.

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

Since the significant assumptions involve uncertainties in making the estimates, impairment losses may be recorded when the carrying amount exceeds the recoverable amount due to changes in business environment and other factors.

3. Recoverability of deferred tax assets

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

	Millions of Yen	
	2023	2022
Deferred tax assets (before offsetting against deferred tax liabilities)	¥ 659	¥ 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.

(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. ACCOUNTING STANDARD ISSUED BUT NOT YET EFFECTIVE

Accounting Standards for Current Income Taxes and Others

- Accounting Standard for Current Income Taxes (ASBJ Statements No. 27, issued on October 28, 2022)
- Accounting Standard for Presentation of Comprehensive Income (ASBJ Statements No. 25, issued on October 28, 2022)
- Implementation Guidance on Accounting Standard for Tax Effect Accounting (ASBJ Guidance No. 28, issued on October 28, 2022)

(1) Outline

The standards and guidance were revised to include the following:

- Classification of income tax expenses (taxation on other comprehensive income)
- Tax effect on sales of subsidiary (or associate) shares to which the group taxation regime is applied

(2) Scheduled date of application

August 1, 2024

(3) Effect of application

The Company is in the process of measuring the effects of application.

5. CHANGES IN ACCOUNTING POLICIES

Application of Implementation Guidance on Accounting Standard for Fair Value Measurement

Effective from August 1, 2022, the Company adopted Accounting Standards Board of Japan Guidance No. 31, "Implementation Guidance on Accounting Standard for Fair Value Measurement" (issued on June 17, 2021, the "Guidance"). In accordance with the transitional treatment provided in Section 27-2 of the Guidance, the Company will prospectively apply the new accounting policies as stipulated by the Guidance. The application of the Guidance did not have any impact on the Company's financial statements.

6. NOTES TO CONSOLIDATED BALANCE SHEET

(1) Receivables arising from contracts with customers as of July 31, 2023 and 2022 are as follows:

	Millions of Yen			
	2023		2022	
Trade notes receivable	¥	20	¥	34
Electronically recorded monetary claims		59		67
Trade accounts receivable		4,638		4,800

(2) Balances related to unconsolidated subsidiaries and associates as of July 31, 2023 and 2022 are as follows:

	Millions of Yen			
	2023		2022	
Investment securities	¥	—	¥	278
Investments in unconsolidated subsidiaries and associates		1,452		1,436

(3) The Company jointly guarantees JOSYS's obligations associated with the rental agreement of a building (rent per month: ¥3 million, and number of months of unpaid rent under the contract: 24 months).

7. NOTES TO CONSOLIDATED STATEMENT OF INCOME

- (1) The major components of selling, general and administrative expenses for the years ended July 31, 2023 and 2022 are as follows:

	Millions of Yen	
	2023	2022
Salaries and wages	¥ 1,758	¥ 1,727
Advertising	3,120	2,557
Accrual of bonuses	50	124
Provision of allowance for doubtful receivables	—	(4)

- (2) The details of loss on disposal of non-current assets for the years ended July 31, 2023 and 2022 are as follows:

	Millions of Yen	
	2023	2022
Buildings and structures	¥ 0	¥ —
Machinery, equipment and vehicles	9	—
Tools, furniture and fixtures	0	1
Software	—	1
Total	¥ 11	¥ 2

- (3) Gain on sale of investments in a subsidiary represents the total of the gain on sale of HACOPELL common shares to a third party and the gain on change in ownership interest arising from the issuance of new shares through a third-party allotment conducted by HACOPELL.
- (4) Loss on sale of investments in associates is attributable to the sale of NET SQUARE common shares.
- (5) 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.

8. NOTES TO CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended July 31, 2023 and 2022 were as follows:

	Millions of Yen	
	2023	2022
Unrealized gain on available-for-sale securities		
Gain arising during the year	¥ 4,344	¥ 28
Reclassification adjustments	—	—
Amount before income tax effect	4,344	28
Income tax effect	1,330	9
Total	¥ 3,014	18
Total other comprehensive income	¥ 3,014	18

9. NOTES TO CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

For the year ended July 31, 2023

1. Type and number of issued shares and treasury stock

	Shares			Ending Balance
	Beginning Balance	Increase	Decrease	
Issued shares				
Common stock (Note 1)	29,080,100	29,395,992	—	58,476,092
Total	<u>29,080,100</u>	<u>29,395,992</u>	<u>—</u>	<u>58,476,092</u>
Treasury stock				
Common stock (Note 2)	28,785	235,527	—	264,312
Total	<u>28,785</u>	<u>235,527</u>	<u>—</u>	<u>264,312</u>

- Notes: 1. Increase of issued shares of common stock consists of 29,080,100 shares of a two-for-one stock split, 286,562 shares of exercise of stock acquisition rights, and 29,330 shares of issuance of new shares as restricted stock compensation.
2. Increase of treasury stock consists of 28,785 shares of a two-for-one stock split, 188,200 shares of purchase of treasury stock in accordance with the resolution made at the Board of Directors' meeting, 18,512 shares of acquisition of shares without consideration associated with restricted stock compensation, and 30 shares of purchase of shares less than one trading unit.
3. The number of increased shares in 1 and 2 above is presented assuming that the two-for-one stock split had become effective on August 1, 2022, the beginning of the fiscal year.

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	
	Beginning Balance	Increase	Decrease	Ending Balance	Ending Balance
Stock Acquisition Rights— Stock options					
The Company	—	—	—	—	¥ 1,339
Consolidated subsidiary	—	—	—	—	1
Total	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>¥ 1,341</u>

3. Dividends

Not applicable.

For the year ended July 31, 2022

1. Type and number of issued shares and treasury stock

	Shares			Ending Balance
	Beginning Balance	Increase	Decrease	
Issued shares				
Common stock (Note 1)	28,729,220	350,880	—	29,080,100
Total	28,729,220	350,880	—	29,080,100
Treasury stock				
Common stock (Note 2)	12,180	16,605	—	28,785
Total	12,180	16,605	—	28,785

- Notes: 1. Increase of issued shares of common stock consists of 291,200 shares of exercise of stock acquisition rights and 59,680 shares of issuance of new shares as restricted stock compensation.
2. Increase of treasury stock consists of 16,493 shares of acquisition of shares without consideration associated with restricted stock compensation and 112 shares of purchase of shares 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)			Ending Balance	Millions of Yen
	Beginning Balance	Increase	Decrease		Ending Balance
Stock Acquisition Rights Stock options of the Company	—	—	—	—	¥ 930
Total	—	—	—	—	¥ 930

3. Dividends

Not applicable.

10. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

- (1) 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, 2023 and 2022 is as follows:

	Millions of Yen	
	2023	2022
Cash and deposits	¥ 14,644	¥ 13,682
Adjustments	—	—
Cash and cash equivalents	<u>¥ 14,644</u>	<u>¥ 13,682</u>

- (2) Payments for additional acquisition of a subsidiary's shares resulting in a change in the scope of consolidation for the year ended July 31, 2022 represent payments for acquisition of DANBALL shares, of which components as of the date of acquisition were as follows:

	Millions of Yen
	2022
Current assets	¥ 1,463
Non-current assets	159
Goodwill	4,955
Current liabilities	(1,560)
Long-term liabilities	(1,018)
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>

- (3) Proceeds from sale of investments in a subsidiary resulting in a change in the scope of consolidation for the year ended July 31, 2023 represent proceeds from sale of shares of HACOBELL that ceased to be a consolidated subsidiary, of which components as of the time of sale were as follows:

	Millions of Yen
	2023
Current assets	¥ 949
Non-current assets	89
Current liabilities	(709)
Long-term liabilities	—
Noncontrolling interests	(234)
Gain on sale of investments in a subsidiary	910
Sales price	1,004
Cash and cash equivalents held by HACOBELL	<u>(319)</u>
Proceeds from sale of investments in a subsidiary resulting in a change in the scope of consolidation	<u>¥ 685</u>

11. LEASES

The minimum rental commitments under noncancelable operating leases as of July 31, 2023 and 2022 were as follows:

	Millions of Yen	
	2023	2022
Due within a year	¥ 170	¥ 53
Due after a year	171	2
Total	¥ 341	¥ 55

12. 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 and bonds are utilized for funding working capital and are exposed to liquidity risks. The redemption date is up to eight years after the balance sheet date. 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, 2023 and 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 is 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		
	2023		
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Assets:			
Investment securities	¥ 4,648	¥ 4,648	¥ —
Total	<u>¥ 4,648</u>	<u>¥ 4,648</u>	<u>¥ —</u>
Liabilities:			
Short-term loans payable	¥ 800	¥ 800	¥ —
Long-term loans payable, including current portion	6,099	6,090	(8)
Convertible bonds	<u>5,013</u>	<u>4,993</u>	<u>(20)</u>
Total	<u>¥ 11,912</u>	<u>¥ 11,883</u>	<u>¥ (28)</u>
	Millions of Yen		
	2022		
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Assets:			
Investment securities	¥ 303	¥ 303	¥ —
Total	<u>¥ 303</u>	<u>¥ 303</u>	<u>¥ —</u>
Liabilities:			
Short-term loans payable	¥ 800	¥ 800	¥ —
Long-term loans payable, including current portion	8,112	8,115	3
Convertible bonds	<u>5,023</u>	<u>4,988</u>	<u>(34)</u>
Total	<u>¥ 13,935</u>	<u>¥ 13,904</u>	<u>¥ (30)</u>

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, 2023 and 2022 are as follows:

	Millions of Yen	
	2023	2022
Unlisted equity securities	¥ 65	¥ 170
Investments in an investment partnership	311	160

2. A redemption schedule of receivables as of July 31, 2023 and 2022 is as follows:

	Millions of Yen			
	2023			
	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	¥ 14,644	¥ —	¥ —	¥ —
Trade notes and accounts receivable	4,718	—	—	—
Total	¥ 19,363	¥ —	¥ —	¥ —

	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, 2023 and 2022 is as follows:

	Millions of Yen		
	2023		
	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	1,647	1,393	1,307
Convertible bonds	—	5,000	—
Total	¥ 2,447	¥ 6,393	¥ 1,307

Millions of Yen			
2023			
	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	1,299	214	237
Convertible bonds	—	—	—
Total	¥ 1,299	¥ 214	¥ 237

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				
2023				
	Level 1	Level 2	Level 3	Total
Investment securities	¥ 32	¥ —	¥ 4,616	¥ 4,648
Total	<u>¥ 32</u>	<u>¥ —</u>	<u>¥ 4,616</u>	<u>¥ 4,648</u>
Millions of Yen				
2022				
	Level 1	Level 2	Level 3	Total
Investment securities	¥ 24	¥ —	¥ 278	¥ 303
Total	<u>¥ 24</u>	<u>¥ —</u>	<u>¥ 278</u>	<u>¥ 303</u>

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

Millions of Yen				
2023				
	Level 1	Level 2	Level 3	Total
Short-term loans payable	¥ —	¥ 800	¥ —	¥ 800
Long-term loans payable	—	6,090	—	6,090
Convertible bonds	—	4,993	—	4,993
Total	<u>¥ —</u>	<u>¥ 11,883</u>	<u>¥ —</u>	<u>¥ 11,883</u>
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	<u>¥ —</u>	<u>¥ 13,904</u>	<u>¥ —</u>	<u>¥ 13,904</u>

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.

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

(a) Quantitative information about significant unobservable inputs

As of July 31, 2023

	Valuation Techniques	Significant Unobservable Inputs	Range of Unobservable Inputs
Unlisted stock acquisition rights	Discounted present value method	Volatility	59.33%

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

	Millions of Yen	
	2023	2022
Beginning balance	¥ 278	¥ —
Gain or loss recognized in the fiscal year or other comprehensive income	3,009	—
Deferred tax liabilities	1,328	—
Purchases, sales, redemption and other changes	—	—
Ending balance	<u>¥ 4,616</u>	<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.

13. INVESTMENT SECURITIES

1. Available-for-sale securities

As of July 31, 2023

	Millions of Yen		
	Carrying Amount	Acquisition Cost	Unrealized Gain (Loss)
Investment securities whose carrying amounts exceed their acquisition costs:			
Equity securities—Stocks	¥ 32	¥ 24	¥ 7
Other securities	4,616	278	4,338
Subtotal	4,648	303	4,345
Investment securities whose carrying amounts do not exceed their acquisition costs:			
Equity securities—Stocks	—	—	—
Other securities	—	—	—
Subtotal	—	—	—
Total	¥ 4,648	¥ 303	¥ 4,345

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 ¥376 million which is included in "investment securities" in the consolidated balance sheet.

As of July 31, 2022

	Millions of Yen		
	2022		
	Carrying Amount	Acquisition Cost	Unrealized Gain (Loss)
Investment securities whose carrying amounts exceed their acquisition costs:			
Equity securities—Stocks	¥ —	¥ —	¥ —
Other securities	—	—	—
Subtotal	—	—	—
Investment securities whose carrying amounts do not exceed their acquisition costs:			
Equity securities—Stocks	24	24	(0)
Other securities	278	278	—
Subtotal	303	303	(0)
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.

2. Write-down of investment securities

The Group recorded loss on write-down of investment securities of ¥205 million (¥205 million for investment securities) and ¥19 million (¥14 million for investments in associates and ¥4 million for investment securities) for the year ended July 31, 2023 and 2022, respectively.

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.

14. 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 and gain on reversal of stock acquisition rights for the years ended July 31, 2023 and 2022, were as follows:

	Millions of Yen	
	2023	2022
Stock compensation expenses included in selling, general and administrative expenses	¥ 390	¥ 402
Gain on reversal of stock acquisition rights	1	0

2. Details of stock options

(The Company)

(1) Stock options that existed in the year ended July 31, 2023, after reflecting the stock split that became effective to date, 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	1,166,800 shares	November 21, 2014	From November 22, 2016 to November 21, 2024
Stock Option #7	1 director 3 outside auditors	960,000 shares	May 25, 2015	From May 26, 2015 to May 25, 2025
Stock Option #6-2	4 employees	112,000 shares	August 11, 2015	From August 12, 2017 to August 11, 2025
Stock Option #6-3	15 employees	424,000 shares	October 27, 2015	From October 14, 2017 to October 13, 2025
Stock Option #9	1 director 22 employees	546,000 shares	October 27, 2016	From October 28, 2018 to October 27, 2026
Stock Option #9-2	5 employees	152,000 shares	December 14, 2016	From December 15, 2018 to December 14, 2026
Stock Option #9-3	5 employees	26,000 shares	February 8, 2017	From February 9, 2019 to February 8, 2027
Stock Option #9-4	4 employees	14,000 shares	April 12, 2017	From April 13, 2019 to April 12, 2027
Stock Option #9-5	1 director	304,000 shares	May 17, 2017	From May 18, 2019 to May 17, 2027
Stock Option #10	5 employees	120,000 shares	June 30, 2017	From July 1, 2019 to June 30, 2027
Stock Option #11	3 directors 5 employees	192,000 shares	October 27, 2017	From October 28, 2019 to October 27, 2027
Stock Option #12	5 directors 6 employees	1,400,000 shares	July 3, 2020	From November 1, 2022 to July 2, 2027
Stock Option #13	116 employees	84,370 shares	December 6, 2022	From December 6, 2022 to December 5, 2027
Stock Option #14	2 directors 26 employees	385,000 shares	December 6, 2022	From November 1, 2023 to December 5, 2027
Stock Option #15	Trust of which beneficiary is Kotaeru Trust	335,000 shares	December 6, 2022	From November 1, 2023 to December 5, 2027
Stock Option #16	108 employees	60,490 shares	May 30, 2023	From May 30, 2023 to May 29, 2028

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 became effective on February 1, 2018 and a two-for-one stock split that became effective on February 1, 2023.

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 in the table above do not have any service-period requirements for vesting.

(2) Stock option activity during the year ended July 31, 2023 is as follows:

	<u>Stock Option #4</u>	<u>Stock Option #7</u> (Number of Shares)	<u>Stock Option #6-2</u>
<u>Non-vested</u>			
August 1, 2022—Outstanding	—	—	—
Granted	—	—	—
Forfeited	—	—	—
Vested	—	—	—
July 31, 2023—Outstanding	—	—	—
<u>Vested</u>			
August 1, 2022—Outstanding	255,000	226,000	20,000
Vested	—	—	—
Exercised	76,600	—	20,000
Canceled	—	—	—
July 31, 2023—Outstanding	178,400	226,000	—
	<u>Stock Option #6-3</u>	<u>Stock Option #9</u> (Number of Shares)	<u>Stock Option #9-2</u>
<u>Non-vested</u>			
August 1, 2022—Outstanding	—	—	—
Granted	—	—	—
Forfeited	—	—	—
Vested	—	—	—
July 31, 2023—Outstanding	—	—	—
<u>Vested</u>			
August 1, 2022—Outstanding	72,000	112,600	10,000
Vested	—	—	—
Exercised	40,000	22,800	10,000
Canceled	—	—	—
July 31, 2023—Outstanding	32,000	89,800	—

	<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, 2022—Outstanding	—	—	—
Granted	—	—	—
Forfeited	—	—	—
Vested	—	—	—
July 31, 2023—Outstanding	—	—	—

Vested

August 1, 2022—Outstanding	4,000	6,000	150,800
Vested	—	—	—
Exercised	3,600	—	76,400
Canceled	—	—	—
July 31, 2023—Outstanding	400	6,000	74,400

	<u>Stock Option #10</u>	<u>Stock Option #11</u> (Number of Shares)	<u>Stock Option #12</u>
<u>Non-vested</u>			
August 1, 2022—Outstanding	—	—	—
Granted	—	—	—
Forfeited	—	—	—
Vested	—	—	—
July 31, 2023—Outstanding	—	—	—
<u>Vested</u>			
August 1, 2022—Outstanding	14,400	50,000	1,387,000
Vested	—	—	—
Exercised	14,400	17,600	—
Canceled	—	—	—
July 31, 2023—Outstanding	—	32,400	1,387,000

	<u>Stock Option #13</u>	<u>Stock Option #14</u> (Number of Shares)	<u>Stock Option #15</u>
<u>Non-vested</u>			
August 1, 2022—Outstanding	—	—	—
Granted	84,740	385,000	335,000
Forfeited	10,952	35,000	—
Vested	13,338	—	—
July 31, 2023—Outstanding	60,450	350,000	335,000
<u>Vested</u>			
August 1, 2022—Outstanding	—	—	—
Vested	13,338	—	—
Exercised	5,162	—	—
Canceled	—	—	—
July 31, 2023—Outstanding	8,176	—	—
	<u>Stock Option #16</u>	(Number of Shares)	
<u>Non-vested</u>			
August 1, 2022—Outstanding	—		
Granted	60,490		
Forfeited	460		
Vested	—		
July 31, 2023—Outstanding	60,030		
<u>Vested</u>			
August 1, 2022—Outstanding	—		
Vested	—		
Exercised	—		
Canceled	—		
July 31, 2023—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 became effective on February 1, 2018 and a two-for-one stock split that became effective on February 1, 2023.

(3) Price information is as follows:

	Yen		
	<u>Stock Option #4</u>	<u>Stock Option #7</u>	<u>Stock Option #6-2</u>
Exercise price	¥ 157	¥ 157	¥ 157
Average stock price at exercise	1,543	—	1,540
Fair value at grant date	—	—	—

	Yen		
	<u>Stock Option #6-3</u>	<u>Stock Option #9</u>	<u>Stock Option #9-2</u>
Exercise price	¥ 157	¥ 157	¥ 157
Average stock price at exercise	1,534	1,528	1,359
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	¥ 157	¥ 157	¥ 157
Average stock price at exercise	1,055	—	1,359
Fair value at grant date	—	—	—

	Yen		
	<u>Stock Option #10</u>	<u>Stock Option #11</u>	<u>Stock Option #12</u>
Exercise price	¥ 157	¥ 170	¥ 1,590
Average stock price at exercise	1,528	1,528	—
Fair value at grant date	—	—	1,488

	Yen		
	<u>Stock Option #13</u>	<u>Stock Option #14</u>	<u>Stock Option #15</u>
Exercise price	¥ 1	¥ 1,558	¥ 1,558
Average stock price at exercise	1,287	—	—
Fair value at grant date	2,958	1,296	1,296

	Yen
	<u>Stock Option #16</u>
Exercise price	¥ 1
Average stock price at exercise	—
Fair value at grant date	1,316

(NOVASELL)

(1) Stock options that existed in the year ended July 31, 2023 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 #1	1 director 42 employees	6,100 shares	September 28, 2022	Note 3
Stock Option #1-2	10 employees	13,400 shares	January 31, 2023	Note 3
Stock Option #1-3	8 directors	5,600 shares	June 6, 2023	Note 3

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

2. For vesting, at least one of the following conditions is required to be met. In case of condition (b), exercise of stock options requires approval by the resolution made at a shareholders' meeting.

(a) Common stock of NOVASELL is listed on any of the stock exchange markets in Japan by the end of January 2027.

(b) If condition (a) above is not met, in any of the fiscal years ending on or before July 31, 2026 (fiscal year shall be as set forth in the Articles of Incorporation), all of the following conditions must be met as of the end of the relevant fiscal year. The amount shall be based on the consolidated statement of income of the parent company that is audited by the accounting auditor of the parent company:

- a. Gross profit exceeds ¥2,500 million and sales from SaaS business exceed ¥500 million.
- b. The amount of operating income attributable to NOVASELL included in the consolidated statement of income of the parent company, audited by the accounting auditor of the parent company, is larger than zero.
- c. The growth rate of gross profit as compared to the previous year exceeds 30%. The growth rate shall be calculated by the following formula:
The growth rate of gross profit (%) = (gross profit for the current fiscal year / gross profit for the previous year -1) multiplied by 100

(c) In the event where there is (i) any change in the definition of gross profit, net sales, operating income, SaaS business and others; (ii) any change of the fiscal year during the period, or (iii) similar circumstances requiring adjustments made to the indicators, it is approved at a shareholders' meeting that the conditions equivalent to those in (b) above are met.

3. Exercise period shall be either of the following:

(a) If common stock of NOVASELL is listed on any of the stock exchange markets in Japan:

On or after the date of such listing

(b) If common stock of NOVASELL is not listed on any of the stock exchange markets in Japan:

Until three years have passed since the business report is submitted and the financial statements for the fiscal year are approved at the ordinary general shareholders' meeting for the fiscal year in which the conditions described in the vesting conditions are met for the first time

4. Stock options in the table above do not have any service-period requirements for vesting.

(2) Stock option activity during the year ended July 31, 2023 is as follows:

	<u>Stock Option #1</u>	<u>Stock Option #1-2</u> (Number of Shares)	<u>Stock Option #1-3</u>
<u>Non-vested</u>			
August 1, 2022—Outstanding	—	—	—
Granted	61,000	13,400	5,600
Forfeited	700	—	—
Vested	—	—	—
July 31, 2023—Outstanding	60,300	13,400	5,600
<u>Vested</u>			
August 1, 2022—Outstanding	—	—	—
Vested	—	—	—
Exercised	—	—	—
Canceled	—	—	—
July 31, 2023—Outstanding	—	—	—

(3) Price information is as follows:

	Yen					
	<u>Stock Option #1</u>		<u>Stock Option #1-2</u>		<u>Stock Option #1-3</u>	
Exercise price	¥	1,200	¥	1,200	¥	1,200
Average stock price at exercise		—		—		—
Fair value at grant date		—		—		—

3. Assumptions used to measure fair value of stock options

(The Company)

The method and assumptions used to measure the fair value of stock options are as follows:

	<u>Stock Option #13</u>
Volatility of stock price	61.19%
Estimated remaining period	0.5 years
Estimated dividend per share	¥0
Risk free interest rate	(0.117)%
	<u>Stock Option #14 and #15</u>
Volatility of stock price	69.86%
Estimated remaining period	3 years
Estimated dividend per share	¥0
Risk free interest rate	(0.001)%

Stock Option #16

Volatility of stock price	53.53%
Estimated remaining period	0.5 years
Estimated dividend per share	¥0
Risk free interest rate	(0.132)%

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 June 13, 2022 to December 6, 2022 for Stock Option #13, from December 24, 2019 to December 6, 2022 for Stock Option #14 and #15, and from December 5, 2022 to May 30, 2023 for Stock Option #16. Since 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 most recent fiscal year. The risk-free interest rate is based on the yield of Japanese government bonds that corresponds to the remaining term of the respective option.

(NOVASELL)

Since NOVASELL is an unlisted company at the grant date of the stock options #1, #2 and #1-3, 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.

4. Estimation of the number of vested stock options

Since 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, 2023 amounted to ¥611 million.

The total intrinsic value of the stock options exercised during the year ended July 31, 2023, as of the date of exercise, was ¥377 million.

15. TAX EFFECT ACCOUNTING

Significant components of deferred tax assets and liabilities as of July 31, 2023 and 2022 are as follows:

	Millions of Yen	
	2023	2022
Deferred tax assets:		
Tax loss carryforwards	¥ 631	¥ 1,471
Stock compensation expenses	426	319
Investments in unconsolidated subsidiaries and associates	1,008	275
Other	192	147
Subtotal	2,258	2,214
Valuation allowance for tax loss carryforwards	(131)	(610)
Valuation allowance for total deductible temporary differences	(1,467)	(605)
Total valuation allowances	(1,599)	(1,216)
Deferred tax assets	¥ 659	¥ 997
Deferred tax liabilities:		
Unrealized gain on available-for-sale securities	¥ (1,339)	¥ (9)
Other	(17)	(19)
Deferred tax liabilities	¥ (1,357)	¥ (29)
Deferred tax assets, net	¥ —	¥ 968
Deferred tax liabilities, net	¥ (698)	¥ —

Tax loss carryforwards as of July 31, 2023 and 2022 expire as follows:

	Millions of Yen		
	2023		
	Tax Loss Carryforwards (Note 1)	Valuation Allowance	Deferred Tax Assets (Note 2)
Due within 1 year	¥ —	¥ —	¥ —
Due after 1 year through 2 years	—	—	—
Due after 2 years through 3 years	190	—	190
Due after 3 years through 4 years	—	—	—
Due after 4 years through 5 years	—	—	—
Due after 5 years	440	(131)	308
Total	¥ 631	¥ (131)	¥ 499

	Millions of Yen					
	2022					
	Tax Loss Carryforwards (Note 1)		Valuation Allowance		Deferred Tax Assets (Note 2)	
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		486		(402)		83
Total	¥	1,471	¥	(610)	¥	860

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, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Effective statutory tax rate	30.6%	30.6%
Per capita levy of inhabitant tax	0.3	1.4
Entertainment and other expenses not deductible for income tax purposes	0.1	0.8
Stock compensation expenses	0.6	5.0
Amortization of goodwill	6.1	15.3
Share of losses of entities accounted for by the equity method	6.3	32.8
Loss (gain) on changes in ownership interest	(9.6)	1.1
Gain on a step acquisition	—	(45.9)
Tax credits	(4.0)	(10.1)
Changes in valuation allowances	15.3	(136.0)
Other—net	1.2	(0.6)
Effective tax rate	<u>46.9%</u>	<u>(105.6)%</u>

16. BUSINESS COMBINATIONS

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 HACOPELL, a company to be newly established, 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 of the Company Split

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

HACOBELL 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, 2022):

Sales amounting to ¥3,478 million

(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	89	Non-current liabilities	—
Total	¥ 1,038	Total	¥ 709

4. Method of the Company Split

A simplified incorporation-type company split in which the Company is a split company and HACOBELL 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 the 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:

HACOBELL INC.

(b) Nature of business:

Hacobell (logistics platform) business

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

Number of shares transferred:	28,714 shares
Transfer price:	¥1,004 million
Ownership ratio after the Share Transfer and the third-party allotment as discussed below:	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 current fiscal year

For the series of the transactions above, the Company recorded gain on sale of investments in a subsidiary of ¥1,588 million in the special gain section for the year ended July 31, 2023.

17. 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 years ended July 31, 2023 and 2022 are as follows:

	Millions of Yen	
	2023	2022
Balance at beginning of year	¥ 106	¥ 105
Disposal of property and equipment	(1)	—
Adjustment due to passage of time	0	0
Balance at end of year	<u>¥ 105</u>	<u>¥ 106</u>

18. REVENUE RECOGNITION

1. Disaggregation of revenue from contracts with customers

Information about disaggregation of revenue from contracts with customers is presented in Note 19 "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, 2023 and 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.

	Millions of Yen	
	2023	2022
Receivables arising from contracts with customers	¥ 4,718	¥ 4,903
Contract liabilities arising from contracts with customers	160	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.

19. 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 two reportable segments, namely, Raksul and Novasell. Raksul provides a sharing platform service for printing and customer-acquisition support (advertising). Novasell provides a platform service for TV commercial advertising.

During the year ended July 31, 2023, the Company established HACOPELL through an incorporation-type company split. Subsequently, the holding ratio of the voting rights in HACOPELL decreased to 49.9% due to transfer of shares and issuance of new shares through a third-party allotment. As a result, HACOPELL has been accounted for by the equity method. In relation to this change, HACOPELL segment is excluded from the reportable segments.

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, 2023

	Millions of Yen						
	Reportable segments			Other Business	Total	Reconciliation	Consolidated
	Raksul	Novasell	Total				
Sales							
Sales to external customers	¥ 37,751	¥ 2,652	¥ 40,403	¥ 614	¥ 41,018	¥ —	¥ 41,018
Intersegment sales and transfers	5	3	9	32	42	(42)	—
Total	¥ 37,756	¥ 2,656	¥ 40,413	¥ 647	¥ 41,060	¥ (42)	¥ 41,018
Segment profit (loss)	¥ 3,701	¥ (15)	¥ 3,686	¥ 176	¥ 3,862	¥ (2,097)	¥ 1,765
Other items:							
Depreciation and amortization	¥ 197	¥ 11	¥ 208	¥ 5	¥ 214	¥ 17	¥ 231
Capital expenditures	69	62	132	1	133	31	165

- Notes:
- "Other Business" represents business segments other than reportable segments, which includes the system-development support business.
 - Reconciliation of segment profit of ¥ (2,097) million includes corporate expenses that are not allocable to the reportable segments of ¥ (2,097) million. Such corporate expenses are primarily comprised of general and administrative expenses.
 - Segment profit (loss) corresponds to operating income on the consolidated statement of income.

For the year ended July 31, 2022

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

- Notes:
- "Other Business" represents business segments other than reportable segments, which includes the system-development support business.
 - 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.
 - Segment profit (loss) corresponds to operating income on the consolidated statement of income.

Related Information

For the year ended July 31, 2023

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.

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, 2023

No items to report.

For the year ended July 31, 2022

No items to report.

Information on amortization and remaining balance of goodwill

As of and for the year ended July 31, 2023

	Millions of Yen				
	<u>Raksul</u>	<u>Novasell</u>	<u>Total</u>	<u>Other Business</u>	<u>Consolidated</u>
Amortization of goodwill	¥ 495	¥ —	¥ 495	¥ —	¥ 495
Remaining balance	4,212	—	4,212	—	4,212

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, 2023

No items to report.

For the year ended July 31, 2022

No items to report.

20. RELATED PARTY TRANSACTIONS

Transactions of the Company with unconsolidated subsidiaries and associates

For the year ended July 31, 2023

No items to report.

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, 2023

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, 2023
Yasukane Matsumoto, CEO and Representative Director	13.0	Exercise of stock options (Note 1)	¥ 11	¥ —
		Contribution in kind of remuneration receivable (Note 2)	11	—
Yo Nagami, Director	0.9	Exercise of stock options (Note 1)	12	—
		Contribution in kind of remuneration receivable (Note 2)	11	—
		Loan of funds (Note 3)	40	40
Masaki Tabe, Director (Note 4)	0.1	Loan of funds (Note 3)	15	15

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, 2022
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 fiscal year:

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
#9-5	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 fiscal year.

- 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.
- The interest rate of the loan of funds was rationally determined considering the market interest rate. The amount of transaction represents the average balance for the fiscal year.
- Mr. Masaki Tabe resigned the position of director at the conclusion of the 13th Annual General Meeting of Shareholders held on October 27, 2022.

Information about parent company and other significant associates

The following condensed financial statements have been prepared by aggregating the financial statements of Peraichi, NET SQUARE and HACOPELL, the significant associates of the Company:

	Millions of Yen	
	2023	2022
Current assets	¥ 3,882	¥ 1,531
Non-current assets	936	855
Current liabilities	2,261	1,321
Long-term liabilities	716	801
Net assets	1,839	264
Net sales	9,073	3,018
Profit (loss) before income taxes	(607)	(108)
Net loss	(701)	(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. The condensed financial statements include operating results of NET SQUARE for the period of being an equity-method associate.
 3. Since the deemed acquisition date of NET SQUARE is September 30, 2021, its operating results for the nine-month period ended July 31, 2022 have been aggregated.

21. PER SHARE INFORMATION

Per share information as of and for the years ended July 31, 2023 and 2022 was as follows:

	Yen	
	2023	2022
Net assets per share	¥ 215.89	¥ 144.26
Basic earnings per share	22.86	17.69
Diluted earnings per share	21.56	16.47

Notes: 1. Basis for computing basic and diluted earnings per share is as follows:

	2023		2022
Basic earnings per share			
Net profit (Millions of Yen)	¥ 1,329	¥	1,021
Net profit not attributable to common shareholders (Millions of Yen)	—		—
Net profit attributable to owners of the parent (Millions of Yen)	1,329		1,021
Average number of shares of common stock outstanding during the year (shares)	58,158,961		57,753,900
Diluted earnings per share			
Adjustments to net profit attributable to owners of the parent (Millions of Yen)	¥ (6)	¥	(6)
Increase in the number of shares of common stock (shares)	3,162,567		3,876,393
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
		Stock Option #12: 6,935 rights (common shares: 1,387,000 shares)	
		Stock Option #14: 1,750 rights (common shares: 350,000 shares)	
		Stock Option #15: 1,675 rights (common shares: 335,000 shares)	

2. The Company conducted a two-for-one stock split effective February 1, 2023. The figures in the table above have been adjusted to reflect the effect of the stock split assuming the stock split had occurred as of the beginning of the previous fiscal year.

22. SUBSEQUENT EVENT

(Absorption-type merger of a consolidated subsidiary)

At the Board of Directors' meeting held on May 18, 2023, the Company resolved to conduct an absorption-type merger with DANBALL, a wholly owned subsidiary of the Company, in which the Company was going to be the surviving company (the "Merger"). On the same date, the Company and DANBALL have entered into a merger agreement, and subsequently, the absorption-type merger was completed on August 1, 2023.

Since the Merger is a simplified merger as stipulated in Article 796, Paragraph 2 of the Companies Act for the Company and a short-form merger as stipulated in Article 784, Paragraph 1 of the Companies Act for DANBALL, the Merger was conducted without obtaining approval at a general meeting of shareholders.

1. Outline of the business combination

(1) Name of absorbed 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) Date of business combination

August 1, 2023

(3) Legal form of the business combination

Absorption-type merger in which the Company was the surviving company and DANBALL was the absorbed company

(4) Other items

(a) Purpose of the Merger:

Considering the rapid changes in the business environment surrounding the Group and the current situation, the Company decided to conduct the Merger in order to improve the Group's business promotion function and management efficiency.

(b) Allocation of shares and monies:

Since the Merger is a merger with a wholly owned subsidiary, there were no allocation of shares or monies.

2. Outline of the accounting treatment

The Merger was accounted for as a transaction under common control in accordance with "Accounting Standard for Business Combinations" (ASBJ Statement 21 issued on January 16, 2019) and "Guidance on Accounting Standards for Business Combinations and Business Divestitures" (ASBJ Guidance 10 issued on January 16, 2019).

(Acquisition of shares of a newly established company through a company split)

At the Board of Directors' meeting held on March 10, 2023, the Company resolved to acquire all shares of RAKSUL FACTORY INC. ("RAKSUL FACTORY"), a newly established subsidiary of NET SQUARE, which would assume the Raksul business-related on-demand printing business through a company split. On August 1, 2023, the Company acquired all shares of RAKSUL FACTORY, and as a result, RAKSUL FACTORY became a subsidiary of the Company.

1. Reasons

The Company promotes further enhancement of value provided to customers through expansion of digital printing products and update of the value chain within the Raksul business segment. With the expectation of synergies from sharing services and operational know-how of the printing business in this area, NET SQUARE became an equity method associate of the Company in September 2021. NET SQUARE has one of the largest number of on-demand printing machines in Japan and is developing its business by leveraging its knowledge in the on-demand printing field, and has established a system to provide products in small lots at low cost, with quick delivery. In addition, the Company and NET SQUARE are creating synergies by utilizing the Company's operational know-how, automating and streamlining of services, and improving productivity as a result. Moreover, digital printing emits less CO₂ during the printing process compared to offset printing, which contributes to reducing the environmental impact of the Company's supply chain. The Company and NET SQUARE have agreed that the Company would acquire shares of the RAKSUL FACTORY and make it a wholly owned subsidiary as the Company believes that this will contribute to maximizing the Company's corporate value from the perspective of improving the value of the Company's services including QCD (Quality, Cost, Delivery) by leveraging NET SQUARE's assets, while maintaining the flexibility of the Company's sharing business model.

2. Outline of acquired company

(1) Company name	RAKSUL FACTORY INC.	
(2) Address	1-10-24, Edagawa, Koto, Tokyo	
(3) Representative	Yoshihisa Urakami, Representative Director and President	
(4) Business	On-demand printing business	
(5) Share capital	¥1 million	
(6) Date of establishment	May 29, 2023	
(7) Major shareholder and ownership ratio	NET SQUARE:	100.0%
(8) Relationship with the Company	Capital:	None
	Personnel:	None
	Business:	None

Note: The most recent operating results of RAKSUL FACTORY are omitted since the first year of its incorporation (fiscal year ended July 31, 2023) was only its incorporation activities and it did not engage in any operating activities.

3. Outline of counter party

(1) Company name	NET SQUARE Co., Ltd.
(2) Address	2-4-11, Edagawa, Koto, Tokyo
(3) Representative	Yoshihisa Urakami, Representative Director and President
(4) Business	On-demand printing business for corporate clients and online printing business for individuals primarily New Year's cards
(5) Share capital	¥50 million
(6) Date of establishment	November 21, 2000
(7) Net assets	¥207 million
(8) Total assets	¥1,687 million
(9) Major shareholder and ownership ratio	Yoshihisa Urakami: 94.15% and another shareholder
(10) Relationship with the Company (as of July 31, 2023 (Note))	Capital: None Personnel: The Company has dispatched one employee, two directors and one Audit and Supervisory Board member Business: There are business transactions with the Company Related party status: Not applicable

Note: In accordance with the share transfer agreement under which the Company's shareholding in NET SQUARE was repurchased by NET SQUARE, the Company transferred its NET SQUARE shares on July 1, 2023. As a result, the capital relationship was dissolved excluding NET SQUARE from the scope of applying the equity method.

4. Outline of counter party

(1) Number of shares before acquisition	0 shares (ratio of voting rights: 0.0%)
(2) Number of shares acquired	100 shares (number of voting rights: 100)
(3) Acquisition cost	¥1,200 million
(4) Number of shares after acquisition	100 shares (number of voting rights: 100) (ratio of voting rights: 100%)

5. Schedule

(1) Date of agreement	June 9, 2023
(2) Date of transfer	August 1, 2023

(Tender offer for shares of AmidA Holdings Co., Ltd.)

At the Board of Directors' meeting held on August 10, 2023, the Company resolved to acquire shares of AmidA Holdings Co., Ltd. (Securities Code: 7671, listed on the Tokyo Stock Exchange Growth Market, "AmidA") through a tender offer (the "Tender Offer") under the Financial Instruments and Exchange Act by a written resolution in lieu of a resolution of the Board of Directors pursuant to Article 370 of the Companies Act and Article 24 of the Company's Articles of Incorporation. The Tender Offer is part of a transaction to make AmidA a wholly owned subsidiary of the Company.

1. Purpose of the Tender Offer

With the recent expansion of the Company's customer base, the Company believes that it is important to accurately grasp the diversifying customer needs, expand the product lineup, and promote expansion into new categories. In such a situation, the Company anticipates cross-selling potential from the main products of the Company and AmidA, which are printed materials (business cards, envelopes, novelties and so on) and Japanese seals, respectively, because of their customer affinity. Moreover, the Company expects that the combination of the Company's and AmidA's respective supply chains will create customer value in the e-commerce mail-order business, "a variety of products available cheaply, quickly, and conveniently in one place," thereby improving the corporate value of the Company.

2. Outline of the target company

(1) Company name	AmidA Holdings Co., Ltd.		
(2) Address	1-13-1 Utsubo hon-machi, Nishi-ku, Osaka		
(3) Representative	Masaru Fujita, Representative Director and CEO		
(4) Business	E-commerce business focusing on Japanese seals		
(5) Share capital	¥79 million (as of June 30, 2023)		
(6) Date of establishment	March 9, 2000		
(7) Major shareholder and ownership ratio (Note)	Masaru Fujita:		47.65%
	Hideto Fujita:		10.93%
	Egg, Inc.:		9.51%
	Chizuru Fujita:		4.75%
	Vision Inc.:		4.00%
	Rakuten Securities, Inc.:		1.59%
	Motoshige Imazu:		1.16%
	Yosuke Nagaoka:		0.76%
	AmidA Holdings Employees' Stockholding Association:		0.71%
	Shigeshi Fujita:		0.48%
	Aiko Fujita:		0.48%
(8) Relationship with the Company	Capital:	None	
	Personnel:	None	
	Business:	None	

Note: This information is based on AmidA's Quarterly Securities Report submitted on February 10, 2023.

3. Outline of the Tender Offer

The Company has set the minimum number of shares to be purchased in the Tender Offer at 2,805,200 shares (ownership ratio: 66.67%). If the number of shares tendered in the Tender Offer is below the minimum number, the Company would not purchase any of AmidA's shares. If the total number of the tendered shares is the same or more than the minimum number of shares to be purchased (2,805,200 shares), the Company would purchase all of the tendered shares, as the Company intends to make AmidA a wholly owned subsidiary of the Company.

(1) Number of shares to be purchased

Type of shares	Number of shares to be purchased	Minimum number of shares to be purchased	Maximum number of shares to be purchased
Common stock (shares)	4,207,846	2,805,200	—
Total (shares)	4,207,846	2,805,200	—

(2) Period of the Tender Offer

From Monday, August 14, 2023 to Monday, September 25, 2023 (30 business days)

(3) Tender price

¥951 per share

(4) Purchase price (at maximum)

¥4,001 million

(the number of shares to be purchased of 4,207,846 shares multiplied by tender price ¥951)

- (5) Commencement date of settlement

Monday, October 2, 2023

- (6) Source of fund

The Company's fund on hand

3. Result of the Tender Offer

- (1) Since the total number of tendered shares (3,992,374 shares) exceeded the minimum number of shares to be purchased (2,805,200 shares), the Company will purchase all of the tendered shares.
- (2) Number of shares purchased, purchase price and shareholding status before and after the acquisition

Number of shares before the acquisition:	0 shares (voting rights: 0) (ratio of voting rights: 0%)
Number of shares purchased	3,992,374 shares (voting rights: 39,923) (ratio of voting rights: 94.88%)
Purchase price (Note)	¥3,796 million
Number of shares after the acquisition:	3,992,374 shares (voting rights: 39,923) (ratio of voting rights: 94.88%)

Note: Purchase price does not include advisory fees and other fees.

(Additional investments in JOSYS)

At the Board of Directors' meeting held on July 20, 2023, the Company resolved to subscribe Class B preferred shares to be issued by JOSYS. The Company and JOSYS entered into the subscription agreement on August 31, 2023, and subsequently, payment for which was completed on September 19, 2023.

1. Purpose

JOSYS provides integrated management services for IT devices and SaaS, automating analog operations of information system departments and thereby creating new systems. JOSYS was initially a part of the Company from which was subsequently spun off, and fits the Company's vision of "BETTER SYSTEMS, BETTER WORLD". Therefore, the Company and JOSYS have entered into the subscription agreement to create a new world together.

2. Outline of acquisition of shares

- (1) Number of shares acquired

256,780 shares

- (2) Acquisition cost

¥2,000 million

- (3) Voting rights ratio after the acquisition

12.7% (of which 1.8% is held by those who have close relationships)

(Sale of shares of an associate to which the equity method is applied)

At the Board of Directors' meeting held on October 19, 2023, the Company resolved to sell a part of its holding shares of HACOPELL, an associate to which the equity method is applied.

1. Purpose and circumstance

HACOPELL aims to create a new open platform in the logistics industry. The Company is responding to the HACOPELL's request as part of HACOPELL's capital policy to further strengthen its services and business growth.

2. Counterparty of the sale

Sankyu Inc.
Fukuyama Transporting Co., Ltd.
Japan Logistic Systems Corp.

3. Date of the sale

October 31, 2023 (scheduled)

4. Name and nature of business of the associate to which the equity method is applied

- | | |
|-------------------------|--|
| (1) Name: | HACOPELL INC. |
| (2) Nature of business: | Hacobell (logistics platform) business |

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

- | | |
|---|------------------------------------|
| (1) Number of shares to be sold: | 15,874 shares |
| (2) Sales price | ¥1,000 million (¥63,000 per share) |
| (3) Number of holding shares and ownership ratio after the sale | 55,412 shares (34.9%) |
- (Note):

Note: The ownership ratio is stated after reflecting the new share issuance through a third-party allotment by HACOPELL at the same time of the sale of the shares above.

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

A special gain of ¥1,180 million including gain on sales of investments in an associate is expected to be recorded in the following year due to the series of the transactions above.

(Post-delivery restricted stock remuneration for Representative Director, President and CEO)

At the Board of Directors' meeting held on October 26, 2023, the Company resolved to implement a post-delivery restricted stock remuneration plan (the "Plan") for Representative Director, President and CEO (the "Eligible Director").

1. Outline of the Plan

The Plan is a post-delivery type stock-based compensation plan under which the rights to the shares are granted to the Eligible Director who was appointed to Representative Director, President & CEO for the performance of his duties during the 10 fiscal years from FY2023 (August 1, 2023 to July 31, 2024) to FY2032 (August 1, 2032 to July 31, 2033). The portion of the right to the shares attributable to the respective fiscal year vests only when certain conditions are met. The conditions under which the shares are to be delivered are that the Eligible Director shall continuously hold the position of Representative Director, President and CEO until the end of the relevant fiscal year (the "Service Conditions") and that he shall achieve the performance condition predetermined by the Nomination and Remuneration Committee (the "Performance Conditions"). The number of shares to be delivered does not vary according to the degree of performance achieved. In addition, there is no plans at this time to enter into an agreement between the Company and the Eligible Director regarding the transfer restrictions of shares when the shares are delivered.

2. Outline of the remuneration under the Plan

(1) Calculation Method for Remuneration under the Plan

The Company shall grant the Eligible Director 87,700 Restricted Stock Units ("RSU"), representing 87,700 shares, which is approximately 0.15% of the Company's 58,476,092 total issued shares, per fiscal year. RSU will be granted for the 10 fiscal years from FY2023 to FY2032. Only if both the Service Conditions and Performance Conditions have been satisfied for each fiscal year, the rights will be vested at the conclusion of the Annual General Meeting of Shareholders for the relevant fiscal year.

The Performance Conditions established by the Board of Directors in response to the proposal by the Nomination and Remuneration Committee are as follows.

(Performance Conditions)

Consolidated gross profit growth for the subject fiscal year shall be more than 15% on a year-over-year basis. However, if the Board of Directors approves that the year's growth rate is less than 15% due to M&A or similar activities made in the previous fiscal year of the relevant fiscal year, an average annual growth rate of more than 15% for two years shall suffice.

Upon the vesting of RSU, the Company shall, at the first Board of Directors' meeting held after the vesting, decide to issue new shares or dispose of treasury shares in the number of the Company's common stock equivalent to one share per RSU for the relevant fiscal year, which shall be delivered to the Eligible Director without compensation. After the gratis delivery of shares, if the performance for the relevant fiscal year is revised and the revised performance does not satisfy the Performance Conditions, the Company may request the return of the delivered shares.

In principle, RSU for each fiscal year shall expire if the Service Conditions are not fulfilled; however, as an exception, if the position of Representative Director, President and CEO is forfeited for reasons deemed justifiable by a resolution of the Board of Directors of the Company, the Board of Directors shall separately determine the percentage of shares to be issued in consideration of the percentage of the tenure of the eligible Director during the relevant fiscal year.

In the event of a loss of the position of Representative Director, President and CEO due to death (including death before vesting), RSU for the relevant fiscal year shall be paid in cash, converted at the market value of the Company's shares at the time of death, to the successor in title designated from among his heirs.

In addition, in the event of approval of a merger in which the Company becomes a dissolving company, a split-off type corporate split in which the Company becomes a split company, a share exchange in which the Company becomes a wholly owned subsidiary, a share transfer, a reverse stock split, or other means in which the Company ceases to be a public company, settlement shall be made in the amount of money reasonably calculated under certain conditions.

(2) Upper limit of remuneration under the Plan

The total number of shares to be delivered to the Eligible Director under the Plan through RSU for the 10 fiscal years from FY2023 to FY2032 shall not exceed 877,000 shares. However, if the total number of issued shares of the Company increases or decreases due to a reverse stock split or a stock split (including gratis allotment) after the resolution of the general meeting of shareholders and before the delivery of shares, the ratio shall be adjusted according to the ratio of the reverse stock split or stock split.

(3) Circumstances for forfeiture of the right to receive remuneration under the Plan

The Eligible Director shall forfeit the right to receive remuneration under the Plan in the event of certain misconduct or resignation for certain reasons as determined by the Board of Directors. In the event of such misconduct, the Company may demand the Eligible Director to return the shares already delivered.

23. SUPPLEMENTAL SCHEDULES

Bonds

	Millions of Yen		Date of issuance	Due Date
	August 1, 2022	July 31, 2023		
Unsecured Zero-coupon Euro-Yen convertible bonds due 2024	¥ 5,023	¥ 5,013	November 29, 2019	November 29, 2024

Notes: 1. Details of the convertible bonds, after reflecting the two-for-one stock split that became effective on February 1, 2023, are as follows:

Shares to be issued upon conversion:	Common stock of the Company
Conversion price (yen):	¥2,037
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, 2023 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, 2022	July 31, 2023		
Short-term loans payable	¥ 800	¥ 800	0.5	—
Current portion of long-term loans payable	1,695	1,647	0.7	—
Long-term loans payable, less current portion	6,417	4,451	0.7	From 2024 to 2030
Other interest-bearing liabilities	—	—	—	—
Total	¥ 8,912	¥ 6,899	—	—

Notes: 1. The weighted average interest rate represents the average interest rate on the balances outstanding as of July 31, 2023.

2. A repayment schedule of long-term loans payable, less current portion as of July 31, 2023 is as follows:

	Millions of Yen			
	2023			
	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	¥ 1,393	¥ 1,307	¥ 1,299	¥ 214

Asset retirement obligations

Supplemental schedules of asset retirement obligations are not presented because applicable information is disclosed in Note 17 "Asset retirement obligations."

* * * * *