
Kurotani Corporation and Subsidiary

*Consolidated Financial Statements
for the Year Ended August 31, 2023,
and Independent Auditor's Report*

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Kurotani Corporation:

Opinion

We have audited the consolidated financial statements of Kurotani Corporation and its subsidiary (the "Group"), which comprise the consolidated balance sheet as of August 31, 2023, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of August 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

	Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
1	<p>The Accuracy of Inventory Evaluation</p> <p>The Group recorded inventories of JPY 7,188 million on the consolidated balance sheet as of August 31, 2023. The consolidated statement of income for the year ended August 31, 2023 included an inventory write-down of JPY (133) million as disclosed in Note 4 to the consolidated financial statements.</p> <p>As described in Note 2 "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—c. Inventories," inventories are stated at the lower of costs or net selling value. The Group evaluates its inventories using the average unit sale prices or average unit replacement costs for the most recent month as the net selling value, which is floating in the nonferrous metals markets.</p> <p>The Group's inventories are exposed to the risk of price fluctuations in volatile markets, such as the nonferrous metals markets. In particular, the markets have recently become highly volatile due to an influx of speculative investments in the commodities market. As such, there is a risk that fluctuation in the Group's inventory value may significantly impact the Group's business results.</p> <p>We have identified inventory evaluation as a key audit matter because the inventory balance is material to the consolidated financial statements and write-down of inventories resulting from market price fluctuations can have a significant impact on the Group's business results.</p>	<p>Our audit procedures related to the accuracy of inventory evaluation as of August 31, 2023 included the following, among others:</p> <ol style="list-style-type: none"> 1. We obtained an understanding of the methodologies and calculation processes regarding the cost calculations and computational procedures for inventory write-downs. We then evaluated the design and operating effectiveness of the controls addressing both the existence and accuracy of inventories and inventory write-down. 2. For the assessment of calculating the inventory costs, we performed an inventory observation to examine the accuracy of the weight measurements. We recalculated the cost calculations in order to test the accuracy. 3. We performed an analysis to identify any net selling values that are outliers when compared to the trends in the market by comparing the fluctuation in the nonferrous metals market on a scatter plot created with the data of those prices or costs at near the fiscal year end. 4. For the assessment of calculating net selling value, we performed detailed testing and recalculations on a sample basis. 5. We tested the accuracy of write-downs of inventories by recalculating the differences between costs and net selling values.

Other Information

Other information comprises the information included in the Group's disclosure documents accompanying the audited consolidated financial statements, but does not include the consolidated financial statements and our auditor's report thereon.

We determined that no such information existed and therefore, we did not perform any work thereon.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit & Supervisory Board members and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Deloitte Touche Tohmatsu LLC

March 7, 2024

Kurotani Corporation and Subsidiary

Consolidated Balance Sheet August 31, 2023

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2023	2022	2023
CURRENT ASSETS:			
Cash and cash equivalents (Notes 14 and 15)	¥ 1,062	¥ 770	\$ 7,275
Short-term investments (Note 15)	201	505	1,376
Receivables (Note 15):			
Trade notes	99	127	681
Electronically recorded monetary claims—operating	1,507	1,435	10,319
Trade accounts	8,486	9,121	58,125
Other	1,642	1,497	11,244
Inventories (Note 4)	7,188	6,772	49,234
Short-term advance to associated company	29		200
Prepaid expenses and other current assets	1,642	2,262	11,242
Total current assets	21,856	22,489	149,696
PROPERTY, PLANT AND EQUIPMENT—Net (Note 5):			
Land	1,521	1,521	10,419
Buildings and structures	437	353	2,996
Machinery and equipment	369	266	2,525
Furniture and fixtures	94	112	647
Construction in progress	37	182	255
Total property, plant and equipment—net	2,458	2,434	16,842
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 6 and 15)	382	465	2,616
Investments in associated company	272	244	1,860
Software	37	50	253
Deferred tax assets (Note 11)	50	31	344
Other assets	13	12	85
Total investments and other assets	754	802	5,158
TOTAL	¥25,068	¥25,725	\$ 171,696

LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2023	2022	2023
CURRENT LIABILITIES:			
Short-term bank loans (Notes 7 and 15)	¥ 9,500	¥ 9,909	\$ 65,068
Current portion of long-term debt (Notes 7 and 15)	1,108	1,300	7,590
Payables:			
Trade notes	97	82	664
Electronically recorded obligations—operating	298	298	2,042
Trade accounts	2,193	1,835	15,023
Other	434	479	2,972
Income taxes payable	12	14	83
Accrued expenses	29	34	202
Other current liabilities	103	12	691
Total current liabilities	13,774	13,963	94,335
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7 and 15)	2,071	2,418	14,182
Liability for retirement benefits (Note 8)	127	126	870
Total long-term liabilities	2,198	2,544	15,052
COMMITMENTS AND CONTINGENT LIABILITIES (Note 16)			
EQUITY (Note 9):			
Common stock—authorized, 28,000,000 shares; issued, 14,337,200 shares in 2023 and 2022	1,000	1,000	6,849
Capital surplus:			
Additional paid-in capital	293	293	2,007
Other capital surplus	404	402	2,768
Retained earnings:			
Legal reserve	9	9	62
Unappropriated	7,164	7,277	49,068
Treasury stock—at cost, 230,416 shares in 2023 and 112,166 shares in 2022	(126)	(53)	(861)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	162	133	1,112
Foreign currency translation adjustments	190	157	1,304
Total equity	9,096	9,218	62,309
TOTAL	¥25,068	¥25,725	\$ 171,696

See notes to consolidated financial statements.

Kurotani Corporation and Subsidiary

Consolidated Statement of Income Year Ended August 31, 2023

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2023</u>	<u>2022</u>	<u>2023</u>
NET SALES (Note 12)	¥84,594	¥89,103	\$ 579,414
COST OF SALES	<u>82,504</u>	<u>86,530</u>	<u>565,096</u>
Gross profit	2,090	2,573	14,318
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 10)	<u>1,557</u>	<u>1,711</u>	<u>10,668</u>
Operating income	<u>533</u>	<u>862</u>	<u>3,650</u>
OTHER INCOME (EXPENSES):			
Interest and dividend income	12	11	82
Insurance income		5	2
Equity in net income of associated company	13		90
Foreign exchange (loss) gain	(176)	134	(1,206)
(Loss) gain on derivative transactions	(50)	58	(345)
Loss on valuation of marketable securities		(91)	
Interest expense	(127)	(124)	(869)
Gain on sales of investment securities	33		223
Other—net	<u>22</u>	<u>(10)</u>	<u>154</u>
Other expenses—net	<u>(273)</u>	<u>(17)</u>	<u>(1,869)</u>
INCOME BEFORE INCOME TAXES	<u>260</u>	<u>845</u>	<u>1,781</u>
INCOME TAXES (Note 11):			
Current	95	255	650
Deferred	<u>(5)</u>	<u>43</u>	<u>(35)</u>
Total income taxes	<u>90</u>	<u>298</u>	<u>615</u>
NET INCOME	<u>170</u>	<u>547</u>	<u>1,166</u>
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	<u>¥ 170</u>	<u>¥ 547</u>	<u>\$ 1,166</u>
	<u>Yen</u>		<u>U.S. Dollars</u>
PER SHARE OF COMMON STOCK (Note 2.o):			
Basic net income	¥12.03	¥38.49	\$0.08
Cash dividends applicable to the year	20.00	20.00	0.13

See notes to consolidated financial statements.

Kurotani Corporation and Subsidiary

Consolidated Statement of Comprehensive Income Year Ended August 31, 2023

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2023</u>	<u>2022</u>	<u>2023</u>
NET INCOME	<u>¥170</u>	<u>¥547</u>	<u>\$1,166</u>
OTHER COMPREHENSIVE INCOME (Note 13):			
Unrealized gain on available-for-sale securities	29	138	202
Foreign currency translation adjustments	18	58	127
Share of other comprehensive income in associates	<u>15</u>	<u>26</u>	<u>100</u>
Total other comprehensive income	<u>62</u>	<u>222</u>	<u>429</u>
COMPREHENSIVE INCOME	<u>¥232</u>	<u>¥769</u>	<u>\$1,595</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥232	¥769	\$1,595
Noncontrolling interests			

See notes to consolidated financial statements.

Kurotani Corporation and Subsidiary
**Consolidated Statement of Changes in Equity
Year Ended August 31, 2023**

Millions of Yen										
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus		Retained Earnings		Treasury Stock	Accumulated Other Comprehensive Income (Loss)		Total Equity
			Additional Paid-in Capital	Other Capital Surplus	Legal Reserve	Unappropriated		Unrealized Gain (Loss) on Available-for-Sale Securities	Foreign Currency Translation Adjustments	
BALANCE, AUGUST 31, 2021	14,197,334	¥1,000	¥293	¥398	¥9	¥6,979	¥ (66)	¥ (5)	¥ 73	¥8,681
Net income attributable to owners of the parent						547				547
Cash dividends, ¥20.00 per share						(249)				(249)
Purchase of treasury stock	(200)						13			17
Disposal of treasury stock	27,900			4						17
Net change in the year								138	84	222
BALANCE, AUGUST 31, 2022	14,225,034	1,000	293	402	9	7,277	(53)	133	157	9,218
Net income attributable to owners of the parent						170				170
Cash dividends, ¥20.00 per share						(283)				(283)
Purchase of treasury stock	(142,700)						(85)			(85)
Disposal of treasury stock	24,450			2			12			14
Net change in the year								29	33	62
BALANCE, AUGUST 31, 2023	14,106,784	¥1,000	¥293	¥404	¥9	¥7,164	¥(126)	¥162	¥190	¥9,096

Thousands of U.S. Dollars (Note 1)									
	Common Stock	Capital Surplus		Retained Earnings		Treasury Stock	Accumulated Other Comprehensive Income (Loss)		Total Equity
		Additional Paid-in Capital	Other Capital Surplus	Legal Reserve	Unappropriated		Unrealized Gain (Loss) on Available-for-Sale Securities	Foreign Currency Translation Adjustments	
BALANCE, AUGUST 31, 2022	\$6,849	\$2,007	\$2,755	\$62	\$49,842	\$(361)	\$ 910	\$1,077	\$63,141
Net income attributable to owners of the parent					1,166				1,166
Cash dividends, \$0.13 per share					(1,940)				(1,940)
Purchase of treasury stock						(585)			(585)
Disposal of treasury stock			13			85			98
Net change in the year							202	227	429
BALANCE, AUGUST 31, 2023	<u>\$6,849</u>	<u>\$2,007</u>	<u>\$2,768</u>	<u>\$62</u>	<u>\$49,068</u>	<u>\$(861)</u>	<u>\$1,112</u>	<u>\$1,304</u>	<u>\$62,309</u>

See notes to consolidated financial statements.

Kurotani Corporation and Subsidiary

Consolidated Statement of Cash Flows Year Ended August 31, 2023

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2023	2022	2023
OPERATING ACTIVITIES:			
Income before income taxes	¥ 260	¥ 845	\$ 1,781
Adjustments for:			
Income taxes—paid	(130)	(1,127)	(890)
Income taxes—refund	147		1,010
Depreciation and amortization	220	180	1,507
Gain on sales of investment securities	(33)		(223)
Changes in assets and liabilities:			
Decrease (increase) in receivables	479	(1,530)	3,278
(Increase) decrease in inventories	(416)	209	(2,852)
Increase in payable	296	37	2,025
Other—net	775	(682)	5,310
Total adjustments	1,338	(2,913)	9,165
Net cash provided by (used in) operating activities	1,598	(2,068)	10,946
INVESTING ACTIVITIES:			
Payments into time deposits	(648)	(1,104)	(4,435)
Proceeds from withdrawal of time deposits	952	1,004	6,519
Purchases of investment securities	(11)	(15)	(74)
Proceeds from sales of investment securities	141		968
Purchases of property, plant and equipment	(349)	(199)	(2,391)
Purchases of software and other intangible assets	(1)	(29)	(5)
Payments for advance to associated company	(28)		(190)
Other—net	1		
Net cash provided by (used in) investing activities	57	(343)	392
FINANCING ACTIVITIES:			
(Decrease) increase in short-term bank loans—net	(475)	1,900	(3,257)
Proceeds from long-term debt	900	1,500	6,164
Repayments of long-term debt	(1,440)	(1,485)	(9,860)
Dividends paid	(284)	(249)	(1,943)
Purchase of treasury stock	(85)		(585)
Net cash (used in) provided by financing activities	(1,384)	1,666	(9,481)
FOREIGN CURRENCY TRANSLATION ADJUSTMENT ON CASH AND CASH EQUIVALENTS	21	114	141
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	292	(631)	1,998
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	770	1,401	5,277
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 14)	¥1,062	¥ 770	\$ 7,275

See notes to consolidated financial statements.

Kurotani Corporation and Subsidiary

Notes to Consolidated Financial Statements Year Ended August 31, 2023

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Kurotani Corporation (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥146 to \$1, the approximate rate of exchange at August 31, 2023. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Consolidation**—The consolidated financial statements as of August 31, 2023, include the accounts of the Company and its subsidiary (together the "Group").

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group has also been eliminated.

The fiscal year-end of the subsidiary is December 31. Accordingly, it is consolidated using pro forma financial information as of June 30, and adjustments were made to accounting for significant transactions that occurred from July 1 to August 31.

- b. Cash Equivalents**—Cash equivalents are short-term investments that are readily convertible into cash and are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificates of deposit, commercial paper, and bond funds, all of which mature or become due within three months of the date of acquisition.

- c. Inventories**—Inventories are stated at the lower of cost, determined by the average method for merchandise, finished products, work in process, raw materials and supplies, or net selling value (see Note 4).

- d. Marketable and Investment Securities**—Marketable and investment securities are classified and accounted for, depending on management's intent, as follows:

Available-for-sale securities, which are not classified as either trading securities that are held for the purpose of earning capital gains in the near term or held-to-maturity debt securities that are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable available-for-sale equity securities are stated at cost determined by the moving-average method.

For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to the income statement.

- e. Allowance for Doubtful Accounts**—The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Company's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

- f. Property, Plant and Equipment**—Property, plant and equipment are stated at cost.

Depreciation of property, plant and equipment is computed by the declining-balance method, while the straight-line method is applied to buildings acquired on or after April 1, 1998, and facilities attached to buildings and structures acquired on or after April 1, 2016. The range of useful lives is principally from 10 to 35 years for buildings and structures, from 4 to 7 years for machinery and equipment and from 5 to 8 years for furniture and fixtures.

- g. Software**—Software is carried at cost less accumulated amortization, which is calculated by the straight-line method over five years.

- h. Long-Lived Assets**—The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

- i. Retirement and Pension Plans**—The Company's employees' retirement benefits consist of two plans, a defined contribution pension plan and an unfunded retirement benefit plan as a defined benefit plan, which cover substantially all of the Company's employees.

The liability for the defined benefit plan is recorded at the amount that would be required if all employees retired at the balance sheet date.

- j. Revenue Recognition**—The Group operates nonferrous metals business and arts and crafts business. Performance obligation and timing of revenue recognition in each business are as follows:

Nonferrous metals business

Nonferrous metals business involves the manufacture and sale of ingots and processing and sales of scrap. The performance obligation in nonferrous metals business is to deliver the products.

In domestic sales, the Group recognizes revenue upon shipping the products because the time spent between shipping and transfer of control over products is minimal.

In export sales, the Group recognizes revenue upon shipment of products because the contracts stipulates that the control over products is transferred at the point of shipment.

In the sale of scrap, a provisional unit price may be used when the grade of ingredients is determined after delivery to the customer. A provisional unit price is estimated based on variable consideration and quality inspection results. If the provisional unit price is not fixed and variable based on the result of quality inspections, the Group uses the highest probable price. The price used to measure revenue is reasonably not likely to be reduced in the future.

Arts and crafts business

Arts and crafts business involves the manufacture and sale of art and crafts. The performance obligation in arts and crafts business is to deliver the products.

The Group recognizes revenue upon shipping of products because the time spent between shipping and transfer of control over products is minimal.

- k. Income Taxes**—The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.
- l. Foreign Currency Transactions**—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income.
- m. Foreign Currency Financial Statements**—The balance sheet accounts of the subsidiary are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income (loss) in a separate component of equity. Revenue and expense accounts of the subsidiary are translated into yen at the average exchange rate.
- n. Derivatives and Hedging Activities**—The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and nonferrous metal prices. Foreign exchange forward contracts and options are utilized by the Group to reduce foreign currency exchange risk. Also, commodity forward contracts are utilized by the Group to reduce nonferrous metal price risk. The Group does not enter into derivatives for trading or speculative purposes.

All derivative financial instruments are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of income.
- o. Per Share Information**—Basic net income or loss per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share of common stock is not disclosed herein because the Company has not issued any securities that are potentially dilutive for the years ended August 31, 2023 and 2022.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective years, including dividends to be paid after the end of the year.

3. SIGNIFICANT ACCOUNTING ESTIMATES

There are no significant accounting estimates that may have a material impact on the consolidated financial statements for the years ended August 31, 2023 and 2022, respectively.

4. INVENTORIES

Inventories as of August 31, 2023 and 2022, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2023</u>	<u>2022</u>	<u>2023</u>
Merchandise	¥ 3	¥ 3	\$ 21
Finished products	890	840	6,094
Work in process	234	238	1,601
Raw materials and supplies	<u>6,061</u>	<u>5,691</u>	<u>41,518</u>
Total	<u>¥7,188</u>	<u>¥6,772</u>	<u>\$ 49,234</u>

Write-downs, net of reversal of write-downs recognized during the prior fiscal year, of ¥(133) million (\$ (913) thousand) and ¥158 million are included in the cost of sales for the fiscal years ended August 31, 2023 and 2022, respectively.

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of August 31, 2023 and 2022, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2023</u>	<u>2022</u>	<u>2023</u>
Land	¥1,521	¥1,521	\$ 10,419
Buildings and structures	2,502	2,381	17,138
Machinery and equipment	3,351	3,119	22,953
Furniture and fixtures	465	447	3,182
Construction in progress	<u>36</u>	<u>182</u>	<u>255</u>
Acquisition cost	7,875	7,650	53,947
Accumulated depreciation	<u>(5,417)</u>	<u>(5,216)</u>	<u>(37,105)</u>
Net book value	<u>¥2,458</u>	<u>¥2,434</u>	<u>\$ 16,842</u>

6. INVESTMENT SECURITIES

Investment securities as of August 31, 2023 and 2022, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2023</u>	<u>2022</u>	<u>2023</u>
Noncurrent:			
Marketable equity securities	¥374	¥457	\$2,563
Nonmarketable equity securities	<u>8</u>	<u>8</u>	<u>53</u>
Total	<u>¥382</u>	<u>¥465</u>	<u>\$2,616</u>

The cost and aggregate fair value of investment securities as of August 31, 2023 and 2022, were as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
<u>August 31, 2023</u>				
Available-for-sale—Equity securities	<u>¥183</u>	<u>¥193</u>	<u>¥(2)</u>	<u>¥374</u>
Total	<u>¥183</u>	<u>¥193</u>	<u>¥(2)</u>	<u>¥374</u>
<u>August 31, 2022</u>				
Available-for-sale—Equity securities	<u>¥281</u>	<u>¥178</u>	<u>¥(2)</u>	<u>¥457</u>
Total	<u>¥281</u>	<u>¥178</u>	<u>¥(2)</u>	<u>¥457</u>
	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
<u>August 31, 2023</u>				
Available-for-sale—Equity securities	<u>\$1,250</u>	<u>\$1,319</u>	<u>\$(6)</u>	<u>\$2,563</u>
Total	<u>\$1,250</u>	<u>\$1,319</u>	<u>\$(6)</u>	<u>\$2,563</u>

The impairment losses on available-for-sale equity securities for the year ended August 31, 2022, were ¥90 million. For the year ended August 31, 2023, no impairment loss was recorded.

The proceeds, realized gains and realized losses of the available-for-sale securities which were sold during the year ended August 31, 2023, were as follows:

	Millions of Yen		
	Proceeds	Realized Gains	Realized Losses
<u>August 31, 2023</u>			
Available-for-sale—Equity securities	<u>¥141</u>	<u>¥33</u>	<u>—</u>
Total	<u>¥141</u>	<u>¥33</u>	<u>—</u>
	Thousands of U.S. Dollars		
	Proceeds	Realized Gains	Realized Losses
<u>August 31, 2023</u>			
Available-for-sale—Equity securities	<u>\$968</u>	<u>\$223</u>	<u>—</u>
Total	<u>\$968</u>	<u>\$223</u>	<u>—</u>

There was no security which was sold during the year ended August 31, 2022.

7. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans as of August 31, 2023 and 2022, consisted of the following:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2023</u>	<u>2022</u>	<u>2023</u>
Unsecured bank loans with a weighted-average interest rate of 0.76% (2023) and 1.14% (2022)	¥9,500	¥9,909	\$ 65,068

Long-term debt as of August 31, 2023 and 2022, consisted of the following:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2023</u>	<u>2022</u>	<u>2023</u>
Unsecured bank loans due serially to 2028 with a weighted-average interest rate of 0.52% (2023) and 0.47% (2022)	¥3,179	¥3,718	\$ 21,772
Total	3,179	3,718	21,772
Less current portion	(1,108)	(1,300)	(7,590)
Long-term debt, less current portion	<u>¥2,071</u>	<u>¥2,418</u>	<u>\$ 14,182</u>

Annual maturities of long-term debt as of August 31, 2023, were as follows:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Within one year	¥1,108	\$ 7,590
In the 2nd year	1,001	6,855
In the 3rd year	718	4,918
In the 4th year	312	2,134
In the 5th year	<u>40</u>	<u>275</u>
Total	<u>¥3,179</u>	<u>\$ 21,772</u>

8. RETIREMENT BENEFITS

a. Overview of the Company's Retirement Benefit Plan

The employees' retirement benefits consist of two plans, a defined contribution pension plan and an unfunded retirement benefit plan as a defined benefit plan, which cover substantially all of the Company's employees.

The liability for the defined benefit plan is recorded at the amount that would be required if all employees retired at the balance sheet date (the simplified method).

b. Defined Benefit Plan

Movement in liability for retirement benefit of the defined benefit plan applying the simplified method for the years ended August 31, 2023 and 2022, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2023</u>	<u>2022</u>	<u>2023</u>
Balance at beginning of year	¥ 126	¥ 121	\$ 865
Retirement benefit cost	13	7	86
Benefits paid	<u>(12)</u>	<u>(2)</u>	<u>(81)</u>
Balance at end of year	<u>¥ 127</u>	<u>¥ 126</u>	<u>\$ 870</u>

Reconciliation of retirement benefit obligations to liability for retirement benefits as of August 31, 2023 and 2022, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2023</u>	<u>2022</u>	<u>2023</u>
Unfunded retirement benefit obligations	¥ 127	¥ 126	\$ 870
Total net liability for retirement benefits at end of year	<u>¥ 127</u>	<u>¥ 126</u>	<u>\$ 870</u>

Retirement benefit cost of the defined benefit plan applying the simplified method for the years ended August 31, 2023 and 2022, was ¥13 million (\$86 thousand) and ¥7 million, respectively.

c. Defined Contribution Pension Plan

The amount of contributions to the defined contribution plan for the years ended August 31, 2023 and 2022, was ¥9 million (\$63 thousand) and ¥10 million, respectively.

9. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria, including (1) having the Board of Directors, (2) having independent auditors, (3) having an Audit and Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the Company has prescribed so in its articles of incorporation. With respect to the third condition above, the Board of Directors of companies with (a) board committees (namely, appointment committee, compensation committee and audit committee) or (b) an audit and supervisory committee (as implemented under the Companies Act effective May 1, 2015) may also declare dividends at any time because such companies, by nature, meet the criteria under the Companies Act. The Company is organized as a company with an audit and supervisory committee, effective November 25, 2021, and reorganized as a company with an Audit and Supervisory Board, effective November 22, 2023. However, the Company does not meet all the above criteria.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the Company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve, and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula.

Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

10. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Significant components of selling, general and administrative expenses for the years ended August 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Board members' compensation	¥ 231	¥ 244	\$1,579
Salaries	182	173	1,250
Provision of reserve for bonuses	6	6	43
Net periodic retirement benefit costs	6	2	38
Sales charges	656	797	4,495
Total	<u>¥1,081</u>	<u>¥1,222</u>	<u>\$7,405</u>

11. INCOME TAXES

The Company is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.5% for the years ended August 31, 2023 and 2022.

The tax effects of significant temporary differences, which resulted in deferred tax assets and liabilities as of August 31, 2023 and 2022, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2023</u>	<u>2022</u>	<u>2023</u>
Deferred tax assets:			
Inventories	¥ 49	¥ 48	\$ 337
Accrued expenses	7	8	48
Accrued enterprise tax	3	3	19
Depreciation and amortization	14	15	97
Liability for retirement benefits	39	39	265
Investment securities	47	47	325
Other	22	18	152
Subtotal	181	178	1,243
Less valuation allowance for temporary differences	(101)	(100)	(689)
Deferred tax assets	<u>80</u>	<u>78</u>	<u>554</u>
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	(29)	(44)	(201)
Other	(1)	(3)	(9)
Deferred tax liabilities	<u>(30)</u>	<u>(47)</u>	<u>(210)</u>
Net deferred tax assets	<u>¥ 50</u>	<u>¥ 31</u>	<u>\$ 344</u>

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended August 31, 2023, with the corresponding figures for 2022, is as follows:

	<u>2023</u>	<u>2022</u>
Normal effective statutory tax rate	30.5%	30.5%
Expenses not deductible for income tax purposes	3.1	0.8
Per capita levy of corporate tax	1.7	0.5
Valuation allowance for deferred tax assets	0.1	3.2
Equity in loss of the associated company	(1.5)	
Other—net	0.6	0.3
Actual effective tax rate	<u>34.5%</u>	<u>35.3%</u>

12. REVENUE

(1) *Information Regarding Disaggregated Revenue from Contracts with Customers*

Information regarding disaggregated revenue from contracts with customers is disclosed in Note 19 to the consolidated financial statements.

(2) *Basic Information to Understand Revenues from Contracts with Customers*

Basic information to understand revenues from contracts with customers is disclosed in Note 2.j to the consolidated financial statements.

(3) Contract Balances

Neither contract assets nor contract liabilities were recorded at the beginning or end of the period.

(4) Transaction Prices Allocated to Remaining Performance Obligations

There are no remaining performance obligations.

13. OTHER COMPREHENSIVE INCOME

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

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2023</u>	<u>2022</u>	<u>2023</u>
Unrealized gain on available-for-sale securities:			
Gains arising during the year	¥48	¥ 98	\$ 327
Reclassification adjustments to profit or loss	(33)	84	(223)
Amount before income tax effect	15	182	104
Income tax effect	14	(44)	98
Total	<u>¥29</u>	<u>¥138</u>	<u>\$ 202</u>
Foreign currency translation adjustments:			
Adjustments arising during the year	¥18	¥ 58	\$ 127
Reclassification adjustments to profit or loss	—	—	—
Amount before income tax effect	18	58	127
Income tax effect	—	—	—
Total	<u>¥18</u>	<u>¥ 58</u>	<u>\$ 127</u>
Share of other comprehensive income in associates:			
Gains arising during the year	¥15	¥ 26	\$ 100
Total	<u>¥15</u>	<u>¥ 26</u>	<u>\$ 100</u>
Total other comprehensive income	<u>¥62</u>	<u>¥222</u>	<u>\$ 429</u>

14. SUPPLEMENTAL CASH FLOWS INFORMATION

A reconciliation of cash and cash equivalents between the consolidated balance sheet and the consolidated statement of cash flows as of August 31, 2023 and 2022, was as follows:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2023</u>	<u>2022</u>	<u>2023</u>
Cash and cash equivalents in the consolidated balance sheet	¥1,062	¥770	\$7,275
Cash and cash equivalents in the consolidated statement of cash flows	<u>¥1,062</u>	<u>¥770</u>	<u>\$7,275</u>

15. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) *Group Policy for Financial Instruments*

The Group uses financial instruments, including bank loans and bonds, based on its capital financing plan. Cash surpluses, if any, are invested in low-risk financial assets. Short-term bank loans are used to fund its ongoing operations. Derivatives are used not for speculative purposes, but to manage exposure to financial risks as described in (2) below.

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

Receivables, such as trade notes, electronically-recorded monetary claims—operating and trade accounts, are exposed to customer credit risk. Also, receivables in foreign currencies are exposed to the risk of fluctuations in foreign currency exchange rates. Investment securities, mainly equity instruments of customers and suppliers of the Group, are exposed to the risk of market price fluctuations.

Payment terms of payables, such as trade notes, electronically recorded obligations—operating and trade accounts, are less than one year. Short-term bank loans are used for operating funds. Long-term debt is used for capital expenditures.

Maturities of bank loans are less than five years after the consolidated balance sheet date.

Derivatives mainly include forward foreign currency contracts, options, and commodity forward contracts, which are used to manage exposure to risks of changes in foreign currency exchange rates of receivables and of fluctuations of nonferrous metal prices. Please see Note 16 for more detail about derivatives.

(3) *Risk Management for Financial Instruments*

Credit risk management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of major customers by each business administration department to identify default risk of customers at an early stage. With respect to derivative transactions, as a means of mitigating the risk of financial loss from defaults, the Group has adopted a policy of only dealing with creditworthy counterparties.

Market risk management (foreign exchange risk and interest rate risk)

Foreign currency bank deposits, bank loans, and trade receivables and payables are exposed to risk resulting from fluctuations in foreign currency exchange rates. Such foreign exchange risk is hedged principally by forward foreign currency contracts and options.

Investment securities are managed by monitoring the market values and financial position of issuers on a regular basis.

With respect to derivative transactions, the Group has internal guidelines that prescribe the authority and the limit for each transaction by the corporate planning department. The director who is in charge of the corporate planning department is required to report the status and results of derivative transactions to the chief executive officer on a monthly and annual basis. Reconciliation of transactions and balances with counterparties is made by the corporate treasury department.

Liquidity risk management

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on maturity dates. The Group manages its liquidity risk by holding adequate volumes of liquid assets along with adequate financial planning by the corporate treasury department.

(4) Fair Values of Financial Instruments

Fair values of financial instruments are as follows: Investments in equity instruments that do not have a quoted market price in an active market are not included in the following table. The fair values of cash and cash equivalents, short-term investments, receivables, short-term bank loans, payables and income taxes payable are not disclosed because their maturities are short and the carrying values approximate fair value. Also, please see Note 16 for details of the fair values of derivatives.

Fair value of financial instruments

	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
<u>August 31, 2023</u>			
Investment securities	¥ 374	¥ 374	—
Total	<u>¥ 374</u>	<u>¥ 374</u>	<u>—</u>
Long-term debt	¥3,179	¥3,162	¥(17)
Derivative transactions— Foreign currency forward contracts	<u>84</u>	<u>84</u>	<u>—</u>
Total	<u>¥3,263</u>	<u>¥3,246</u>	<u>¥(17)</u>
<u>August 31, 2022</u>			
Investment securities	¥ 457	¥ 457	—
Derivative transactions— Commodity forward contracts	<u>59</u>	<u>59</u>	<u>—</u>
Total	<u>¥ 516</u>	<u>¥ 516</u>	<u>—</u>
Long-term debt	¥3,718	¥3,714	¥ (4)
Total	<u>¥3,718</u>	<u>¥3,714</u>	<u>¥ (4)</u>
	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
<u>August 31, 2023</u>			
Investment securities	\$ 2,563	\$ 2,563	—
Total	<u>\$ 2,563</u>	<u>\$ 2,563</u>	<u>—</u>
Long-term debt	\$21,772	\$21,654	\$(118)
Derivative transactions— Foreign currency forward contracts	<u>574</u>	<u>574</u>	<u>—</u>
Total	<u>\$22,346</u>	<u>\$22,228</u>	<u>\$(118)</u>

Carrying amount of investments in equity instruments that do not have a quoted market price in an active market

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Unlisted equity instruments	¥ 8	¥ 8	\$ 53
Investments in associated company	272	244	1,860

Maturity analysis for financial assets and securities with contractual maturities

Millions of Yen				
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
<u>August 31, 2023</u>				
Cash and cash equivalents	¥ 1,059			
Short-term investments	201			
Receivables	11,734			
Total	<u>¥12,994</u>			
<u>August 31, 2022</u>				
Cash and cash equivalents	¥ 768			
Short-term investments	505			
Receivables	12,180			
Total	<u>¥13,453</u>			
Thousands of U.S. Dollars				
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
<u>August 31, 2023</u>				
Cash and cash equivalents	\$ 7,252			
Short-term investments	1,376			
Receivables	80,369			
Total	<u>\$88,997</u>			

Please see Note 7 for annual maturities of long-term debt.

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 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 classified 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*

<u>August 31, 2023</u>	Millions of Yen			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment securities	<u>¥374</u>	—	—	<u>¥374</u>
Total assets	<u>¥374</u>	—	—	<u>¥374</u>
Derivative transactions— Foreign currency forward contracts	—	<u>¥84</u>	—	<u>¥ 84</u>
Total liabilities	—	<u>¥84</u>	—	<u>¥ 84</u>

<u>August 31, 2022</u>	Millions of Yen			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment securities	<u>¥457</u>	—	—	<u>¥457</u>
Derivative transactions— Commodity forward contracts	—	<u>¥59</u>	—	<u>59</u>
Total assets	<u>¥457</u>	<u>¥59</u>	—	<u>¥516</u>

<u>August 31, 2023</u>	Thousands of U.S. Dollars			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment securities	<u>\$2,563</u>	—	—	<u>\$2,563</u>
Total assets	<u>\$2,563</u>	—	—	<u>\$2,563</u>
Derivative transactions— Foreign currency forward contracts	—	<u>\$574</u>	—	<u>\$ 574</u>
Total liabilities	—	<u>\$574</u>	—	<u>\$ 574</u>

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

<u>August 31, 2023</u>	Millions of Yen			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Long-term debt	—	<u>¥3,162</u>	—	<u>¥3,162</u>
Total liabilities	—	<u>¥3,162</u>	—	<u>¥3,162</u>

<u>August 31, 2022</u>	Millions of Yen			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Long-term debt	—	<u>¥3,714</u>	—	<u>¥3,714</u>
Total liabilities	—	<u>¥3,714</u>	—	<u>¥3,714</u>

<u>August 31, 2023</u>	Thousands of U.S. Dollars			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Long-term debt	_____	<u>\$ 21,654</u>	_____	<u>\$ 21,654</u>
Total liabilities	=====	<u>\$ 21,654</u>	=====	<u>\$ 21,654</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.

Derivatives

The fair values of derivative transactions are measured at the quoted price obtained from financial institutions, trading companies and London Metal Exchange ("LME") brokers and are categorized as Level 2.

Long-Term Debt

The fair values of long-term debt are determined by discounting the cash flows related to the debt at the Group's assumed corporate borrowing rate and are categorized as Level 2.

16. DERIVATIVES

The Group enters into foreign currency forward contracts and options to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Group also enters into commodity forward contracts to hedge future price fluctuations of nonferrous metal inventories.

All derivative transactions are entered into to hedge foreign currency and nonferrous metal price exposures incorporated within the Group's business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities.

Because the counterparties to these derivatives are limited to major international financial institutions, trading companies, and LME brokers, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal policies, which regulate the authorization and credit limit amount.

Derivative Transactions to Which Hedge Accounting Is Not Applied

<u>August 31, 2023</u>	Millions of Yen			
	<u>Contract Amount</u>	<u>Contract Amount Due after One Year</u>	<u>Fair Value</u>	<u>Unrealized Gain/Loss</u>
Foreign currency forward contracts— Selling	<u>¥1,517</u>	_____	<u>¥(84)</u>	<u>¥(84)</u>
Total	<u>¥1,517</u>	=====	<u>¥(84)</u>	<u>¥(84)</u>

	Millions of Yen			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss
<u>August 31, 2022</u>				
Commodity forward contracts:				
Selling	¥ 850		¥64	¥64
Buying	<u>60</u>	<u> </u>	<u>(5)</u>	<u>(5)</u>
Total	<u>¥910</u>	<u> </u>	<u>¥59</u>	<u>¥59</u>

	Thousands of U.S. Dollars			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss
<u>August 31, 2023</u>				
Foreign currency forward contracts—				
Selling	\$ 10,389	<u> </u>	\$ (574)	\$ (574)
Total	<u>\$ 10,389</u>	<u> </u>	<u>\$ (574)</u>	<u>\$ (574)</u>

The fair value of derivative transactions is measured at the quoted price obtained from financial institutions, trading companies and LME brokers.

The contract or notional amounts of derivatives, which are shown in the above table, do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

17. RELATED PARTY DISCLOSURES

Transaction of the Company with the associated company for the years ended August 31, 2023 and 2022, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2023</u>	<u>2022</u>	<u>2023</u>
Purchases	¥3,117	¥3,331	\$ 21,349

The balances of advance payment for the purchases from the associated company as of August 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2023</u>	<u>2022</u>	<u>2023</u>
Advance payment	¥57	¥325	\$ 390

18. SUBSEQUENT EVENT

The following appropriation of retained earnings as of August 31, 2023, will be approved at the shareholders' meeting to be held on November 22, 2023:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥10.0 (\$0.07) per share	¥141	\$ 965

19. SEGMENT INFORMATION

Under Accounting Standards Board of Japan ("ASBJ") Statement No. 17, "Accounting Standard for Segment Information Disclosures," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available, and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(1) *Description of Reportable Segments*

The Group has two segments. The nonferrous metals segment is engaged in the manufacture and sale of ingots and processing and sales of scrap. The arts and crafts segment is engaged in the manufacture and sale of arts and crafts.

(2) *Method of Measurement for the Amounts of Sales, Profit (Loss), Assets and Other Items for Each Reportable Segment*

The accounting policies of each reportable segment are basically consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

Operating income is applied in "Segment profit (loss)." "Intersegment sales or transfers" are calculated based on market price.

(3) *Information about Sales, Profit (Loss), Assets and Other Items*

	Millions of Yen				
	2023				
	Reportable Segment			Reconcil- iations	Consol- idated
	Nonferrous Metals	Arts and Crafts	Total		
Sales:					
Revenue from contracts with customers	¥84,199	¥ 395	¥84,594		¥84,594
Sales to external customers	84,199	395	84,594		84,594
Intersegment sales or transfers		2	2	¥ (2)	
Total	¥84,199	¥ 397	¥84,596	¥ (2)	¥84,594
Segment profit	¥ 528	¥ 5	¥ 533		¥ 533
Segment assets	20,942	1,100	22,042	¥3,026	25,068
Other:					
Depreciation	207	13	220		220
Investment in associated company	272		272		272
Increase in property, plant and equipment and intangible assets	407	4	411		411

Millions of Yen					
2022					
	Reportable Segment			Reconcil- iations	Consol- idated
	Nonferrous Metals	Arts and Crafts	Total		
Sales:					
Revenue from contracts with customers	<u>¥88,729</u>	<u>¥ 374</u>	<u>¥89,103</u>	<u> </u>	<u>¥89,103</u>
Sales to external customers	<u>88,729</u>	<u>374</u>	<u>89,103</u>	<u> </u>	<u>89,103</u>
Total	<u>¥88,729</u>	<u>¥ 374</u>	<u>¥89,103</u>	<u> </u>	<u>¥89,103</u>
Segment profit (loss)	¥ 864	¥ (2)	¥ 862		¥ 862
Segment assets	21,230	1,062	22,292	¥3,433	25,725
Other:					
Depreciation	165	15	180		180
Investment in associated company	244		244		244
Increase in property, plant and equipment and intangible assets	348	4	352		352

Thousands of U.S. Dollars					
2023					
	Reportable Segment			Reconcil- iations	Consol- idated
	Nonferrous Metals	Arts and Crafts	Total		
Sales:					
Revenue from contracts with customers	<u>\$ 576,704</u>	<u>\$2,710</u>	<u>\$ 579,414</u>	<u> </u>	<u>\$ 579,414</u>
Sales to external customers	<u>576,704</u>	<u>2,710</u>	<u>579,414</u>		<u>579,414</u>
Intersegment sales or transfers	<u> </u>	<u>11</u>	<u>11</u>	<u>\$ (11)</u>	<u> </u>
Total	<u>\$ 576,704</u>	<u>\$2,721</u>	<u>\$ 579,425</u>	<u>\$ (11)</u>	<u>\$ 579,414</u>
Segment profit	\$ 3,614	\$ 36	\$ 3,650		\$ 3,650
Segment assets	143,441	7,530	150,971	\$20,725	171,696
Other:					
Depreciation	1,415	92	1,507		1,507
Investment in associated company	1,860		1,860		1,860
Increase in property, plant and equipment and intangible assets	2,787	26	2,813		2,813

Reconciliations to segment assets as of August 31, 2023 and 2022 (¥3,026 million (\$20,725 thousand) and ¥3,433 million, respectively) represent corporate assets. Corporate assets mainly consist of cash and cash equivalents, land and the assets associated with the administration headquarters of the Group.

(4) Information about Products and Services

Millions of Yen					
2023					
	<u>Ingots</u>	<u>Scrap</u>	<u>Arts and Crafts</u>	<u>Other</u>	<u>Total</u>
Sales to external customers	¥27,857	¥56,236	¥396	¥105	¥84,594

Millions of Yen					
2022					
	<u>Ingots</u>	<u>Scrap</u>	<u>Arts and Crafts</u>	<u>Other</u>	<u>Total</u>
Sales to external customers	¥27,563	¥61,023	¥374	¥143	¥89,103

Thousands of U.S. Dollars					
2023					
	<u>Ingots</u>	<u>Scrap</u>	<u>Arts and Crafts</u>	<u>Other</u>	<u>Total</u>
Sales to external customers	\$ 190,799	\$ 385,178	\$ 2,710	\$ 727	\$ 579,414

(5) Information about Geographical Areas

(a) Sales

Millions of Yen					
2023					
<u>Japan</u>	<u>Korea</u>	<u>Asia (except Japan and Korea)</u>	<u>Europe</u>	<u>Other</u>	<u>Total</u>
¥66,889	¥8,032	¥7,574	¥1,931	¥168	¥84,594

Millions of Yen					
2022					
<u>Japan</u>	<u>Korea</u>	<u>Asia (except Japan and Korea)</u>	<u>Europe</u>	<u>Other</u>	<u>Total</u>
¥70,880	¥7,957	¥8,344	¥1,754	¥168	¥89,103

Thousands of U.S. Dollars					
2023					
<u>Japan</u>	<u>Korea</u>	<u>Asia (except Japan and Korea)</u>	<u>Europe</u>	<u>Other</u>	<u>Total</u>
\$ 458,146	\$ 55,013	\$ 51,877	\$ 13,229	\$ 1,149	\$ 579,414

Note: Sales are classified by country or region based on the location of customers.

(b) Property, plant and equipment

More than 90% of property, plant and equipment is located in Japan. The remainder is not significant, and therefore does not require disclosure.

(6) *Information about Major Customers*

<u>Name of Customers</u>	<u>2023</u>	
	<u>Millions of Yen</u>	<u>Related Segment Name</u>
	<u>Sales</u>	
Sumitomo Metal Mining Co., Ltd.	¥ 17,304	Nonferrous metals segment
JX Metals Corporation	9,763	Nonferrous metals segment

<u>Name of Customers</u>	<u>2022</u>	
	<u>Millions of Yen</u>	<u>Related Segment Name</u>
	<u>Sales</u>	
Sumitomo Metal Mining Co., Ltd.	¥ 16,650	Nonferrous metals segment

<u>Name of Customers</u>	<u>2023</u>	
	<u>Thousands of U.S. Dollars</u>	<u>Related Segment Name</u>
	<u>Sales</u>	
Sumitomo Metal Mining Co., Ltd.	\$ 118,518	Nonferrous metals segment
JX Metals Corporation	66,867	Nonferrous metals segment

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