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October 11, 2022

Consolidated Financial Results for the Six Months Ended August 31, 2022 (Under Japanese GAAP)

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 Listing: Tokyo
 Securities code: 7516
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 Scheduled date to file quarterly securities report: October 12, 2022
 Scheduled date to commence dividend payments: November 8, 2022
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results briefing: Yes (for institutional investors)

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated financial results for the six months ended August 31, 2022 (from March 1, 2022 to August 31, 2022)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	Operating revenue		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended August 31, 2022	222,224	–	13,499	–	12,796	–	8,522	–
August 31, 2021	226,675	(1.2)	16,030	(25.6)	15,154	(27.3)	10,117	(20.3)

Note: Comprehensive income For the six months ended August 31, 2022: ¥8,891 million [–%]
 For the six months ended August 31, 2021: ¥10,224 million [(19.8)%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended August 31, 2022	274.82	274.74
August 31, 2021	313.27	313.18

Note: The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations from the beginning of the first quarter of the fiscal year ending February 28, 2023, and each figure for the six months ended August 31, 2022 is the figure after applying the accounting standard and relevant ASBJ regulations. The percentage of year-on-year change is not shown.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
As of	Millions of yen	Millions of yen	%
August 31, 2022	407,974	146,391	35.9
February 28, 2022	398,076	142,444	35.8

Reference: Equity
 As of August 31, 2022: ¥146,391 million
 As of February 28, 2022: ¥142,444 million

Note: The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations from the beginning of the first quarter of the fiscal year ending February 28, 2023, and each figure as of August 31, 2022 is the figure after applying the accounting standard and relevant ASBJ regulations.

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended February 28, 2022	–	35.00	–	35.00	70.00
Fiscal year ending February 28, 2023	–	45.00			
Fiscal year ending February 28, 2023 (Forecast)			–	45.00	90.00

Note: Revisions to the cash dividend forecasts most recently announced: No

3. Consolidated financial forecasts for the fiscal year ending February 28, 2023 (from March 1, 2022 to February 28, 2023)

(Percentages indicate year-on-year changes.)

	Operating revenue		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	436,000	1.2	21,300	(17.6)	19,800	(18.4)	12,800	(18.1)	412.78

Note: Revisions to the financial forecasts most recently announced: No

From the beginning of the first quarter of the fiscal year ending February 28, 2023, the Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations. Accordingly, the amounts presented in the above forecast of consolidated financial results reflect the application of the accounting standard and relevant ASBJ regulations, and the year-on-year changes are also calculated on the assumption that the accounting standard and relevant ASBJ regulations had been applied in the fiscal year ended February 28, 2022.

* **Notes**

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): No
- (2) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements: No
- (3) Changes in accounting policies, changes in accounting estimates, and restatement
- (i) Changes in accounting policies due to revisions to accounting standards and other regulations: Yes
 - (ii) Changes in accounting policies due to other reasons: No
 - (iii) Changes in accounting estimates: No
 - (iv) Restatement: No

Note: For details, please refer to the attached materials on page 9 “2. Quarterly consolidated financial statements and significant notes thereto, (4) Notes to quarterly consolidated financial statements, Notes - Changes in accounting policies.

(4) Number of issued shares (common shares)

- (i) Total number of issued shares at the end of the period (including treasury shares)

As of August 31, 2022	34,682,112 shares
As of February 28, 2022	34,682,113 shares

- (ii) Number of treasury shares at the end of the period

As of August 31, 2022	4,299,757 shares
As of February 28, 2022	3,247,218 shares

- (iii) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

Six months ended August 31, 2022	31,008,560 shares
Six months ended August 31, 2021	32,295,307 shares

Note: The number of treasury shares excluded from the calculation of the number of treasury shares at the end of the period and the average number of shares outstanding during the period includes shares of the Company held by Custody Bank of Japan, Ltd. (Trust Account E), as trust assets for the executive officer incentive plan “Employee Share Benefit Trust (J-ESOP),” the employee incentive plan “Employee Share Benefit Trust (J-ESOP),” and the “Employee Share Benefit Trust (employee stock holding association disposal type).”

* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

1. Consolidated subsidiary KOHNAN VIETNAM CO., LTD. has its fiscal year-end at the end of December, so there is a two-month difference from the consolidated fiscal year-end (end of February).

For the six months under review, the company’s quarterly financial statements as of the end of June have been used, with important transactions occurring during the interval between then and the quarterly consolidated fiscal year-end (end of August) adjusted as necessary for consolidation.

2. Forward-looking statements in these materials, such as the forecast for financial results, are based on information currently available to the Company and assumptions deemed reasonable. They do not constitute a promise by the Company regarding their achievement. Furthermore, actual performance and so forth may differ considerably due to various factors.

The Company plans to hold financial results briefings for institutional investors on Tuesday, October 11 and Thursday, October 13, 2022.

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1. Qualitative information on quarterly financial statements

(1) Operations explanation

The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations from the first quarter. As a result, because the accounting treatment of revenue is different from that of the first six months of the previous fiscal year, year-on-year changes and percentage year-on-year changes are not given in explanations of operating results below.

During the six months ended August 31, 2022, under the prolonged impact of the novel coronavirus disease (COVID-19), the Japanese economy showed signs of moving towards normalization of socio-economic activity. On the other hand, the combination of rapid depreciation of the yen and the global surge in resource prices that has taken place against the background of heightened geopolitical risks caused by the Russian invasion of Ukraine and other factors, has resulted in continued uncertainty with regard to the outlook for business conditions. Furthermore, the environment for consumer spending has grown increasingly harsh mainly due to impacts of increasing costs of commodities needed for daily living.

Under these conditions, the KOHNAN Group (the “Group”) is working on various measures to achieve the plan of its Medium-Term Management Plan Part III, “We love KOHNAN!! just fit for you, now and always,” which was released in April 2021.

In the area of store expansion, we opened 5 Home Center KOHNAN stores, 5 KOHNAN PRO stores, 2 CAMP DEPOT stores, 1 BEAVER PRO store, 1 KOHNAN VIETNAM store, and 3 KEN DEPOT stores. This brought the number of stores as of the end of the quarter under review to 519 (313 Home Center KOHNAN stores, 107 KOHNAN PRO stores, 8 CAMP DEPOT stores, 6 Home Center BEAVERTOZAN stores, 5 BEAVER PRO stores, 9 KOHNAN VIETNAM stores, 69 KEN DEPOT corporate stores and 2 KEN DEPOT franchise stores). Also, because the first six months of KOHNAN VIETNAM CO., LTD. ran from January 1, 2022 to June 30, 2022, the number of stores as of the end of the quarter under review refers to the number of stores as of June 30, 2022.

As result of these developments, operating revenue for first six months of the fiscal year under review was ¥222,224 million (¥226,675 million for the first six months of the previous fiscal year), while gross profit was ¥81,232 million (¥82,957 million for the first six months of the previous fiscal year). Selling, general and administrative expenses for the first six months of the fiscal year under review were ¥75,633 million (¥74,629 million for the first six months of the previous fiscal year), and operating profit was ¥13,499 million (¥16,030 million for the first six months of the previous fiscal year). Mainly due to the decline in operating profit, ordinary profit was ¥12,796 million (¥15,154 million for the first six months of the previous fiscal year), while profit attributable to owners of parent came to ¥8,522 million (¥10,117 million for the first six months of the previous fiscal year).

(2) Financial position explanation

As of August 31, 2022, total assets increased by ¥9,898 million from the previous fiscal year-end to ¥407,974 million. Merchandise and finished goods increased by ¥5,217 million, accounts receivable - trade increased by ¥2,299 million, and construction in progress increased by ¥2,039 million, while cash and deposits decreased by ¥2,941 million.

Total liabilities increased by ¥5,951 million from the previous fiscal year-end to ¥261,583 million. Accounts payable - trade and electronically recorded obligations - operating increased by ¥6,916 million, while short-term borrowings decreased by ¥2,625 million.

As of August 31, 2022, net assets stood at ¥146,391 million, and the equity ratio was 35.9%.

Status of cash flows

Cash and cash equivalents as of August 31, 2022 decreased by ¥2,941 million from the previous fiscal year-end to ¥9,282 million.

The status of cash flows during the first six months of the fiscal year under review and the main factors are as follows.

Cash flows from operating activities

Operating activities provided net cash of ¥13,148 million (up ¥8,178 million year on year). This mainly reflected profit before income taxes of ¥12,476 million, depreciation of ¥6,483 million, and an increase in

trade payables of ¥6,883 million, partially offset by an increase in trade receivables of ¥2,299 million, an increase in inventories of ¥5,363 million, and income taxes paid of ¥3,068 million.

Cash flows from investing activities

Investing activities used net cash of ¥9,245 million (up ¥2,534 million year on year). This was mainly the result of purchase of property, plant and equipment of ¥7,172 million, payments of guarantee deposits of ¥1,951 million, and proceeds from refund of guarantee deposits of ¥985 million.

Cash flows from financing activities

Financing activities used net cash of ¥6,956 million (up ¥6,515 million year on year). This mainly reflected proceeds from short-term borrowings of ¥15,000 million and proceeds from long-term borrowings of ¥15,500 million, which were more than offset by repayments of short-term borrowings of ¥17,625 million, repayments of long-term borrowings of ¥12,933 million, and purchase of treasury shares of ¥4,000 million.

(3) Consolidated earnings forecast and other forward-looking statements

For the consolidated earnings forecasts, please refer to “Notice Concerning Revisions to Consolidated Earnings Forecasts” announced on October 7, 2022.

2. Quarterly consolidated financial statements and significant notes thereto

(1) Quarterly consolidated balance sheet

(Millions of yen)

	As of February 28, 2022	As of August 31, 2022
Assets		
Current assets		
Cash and deposits	12,242	9,301
Accounts receivable - trade	10,636	12,936
Merchandise and finished goods	93,113	98,330
Raw materials and supplies	1,115	1,248
Other	6,780	9,268
Allowance for doubtful accounts	(3)	(9)
Total current assets	123,884	131,074
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	109,851	109,857
Land	50,191	50,191
Leased assets, net	20,559	20,044
Construction in progress	887	2,927
Other, net	6,081	6,448
Total property, plant and equipment	187,571	189,469
Intangible assets		
Trademark right	3,410	3,244
Customer-related assets	2,536	2,424
Goodwill	15,245	14,665
Other	6,976	7,146
Total intangible assets	28,169	27,481
Investments and other assets		
Investment securities	3,920	4,585
Guarantee deposits	46,781	47,753
Deferred tax assets	6,123	6,013
Other	1,896	1,839
Allowance for doubtful accounts	(270)	(242)
Total investments and other assets	58,451	59,949
Total non-current assets	274,192	276,899
Total assets	398,076	407,974

(Millions of yen)

	As of February 28, 2022	As of August 31, 2022
Liabilities		
Current liabilities		
Accounts payable - trade	30,306	36,676
Electronically recorded obligations - operating	9,105	9,652
Short-term borrowings	9,187	6,562
Current portion of long-term borrowings	25,741	26,709
Lease obligations	3,815	3,873
Income taxes payable	3,717	4,656
Contract liabilities	–	3,205
Provision for bonuses	2,259	2,326
Provision for point card certificates	705	–
Provision for loss on disaster	–	52
Other	17,574	14,266
Total current liabilities	102,414	107,981
Non-current liabilities		
Long-term borrowings	85,988	87,586
Lease obligations	22,651	21,963
Guarantee deposits received	10,543	10,428
Provision for loss on voluntary recall of goods	667	629
Provision for share awards	307	457
Asset retirement obligations	16,356	16,513
Other	16,702	16,022
Total non-current liabilities	153,217	153,602
Total liabilities	255,632	261,583
Net assets		
Shareholders' equity		
Share capital	17,658	17,658
Capital surplus	17,923	17,922
Retained earnings	118,946	126,382
Treasury shares	(12,483)	(16,341)
Total shareholders' equity	142,045	145,622
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	142	144
Deferred gains or losses on hedges	(39)	38
Foreign currency translation adjustment	235	528
Remeasurements of defined benefit plans	60	57
Total accumulated other comprehensive income	399	768
Total net assets	142,444	146,391
Total liabilities and net assets	398,076	407,974

(2) Quarterly consolidated statement of income and quarterly consolidated statement of comprehensive income**Quarterly consolidated statement of income (cumulative)**

(Millions of yen)

	Six months ended August 31, 2021	Six months ended August 31, 2022
Net sales	218,972	214,324
Cost of sales	136,015	133,091
Gross profit	82,957	81,232
Operating revenue	7,702	7,900
Selling, general and administrative expenses	74,629	75,633
Operating profit	16,030	13,499
Non-operating income		
Interest income	58	53
Insurance claim income	39	31
Foreign exchange gains	89	165
Gain on investments in silent partnerships	140	142
Other	94	126
Total non-operating income	421	518
Non-operating expenses		
Interest expenses	1,125	1,067
Other	172	153
Total non-operating expenses	1,297	1,221
Ordinary profit	15,154	12,796
Extraordinary income		
Gain on cancellation of guaranteed deposits received	7	67
Total extraordinary income	7	67
Extraordinary losses		
Impairment losses	62	107
Loss on disaster	–	230
Loss on retirement of non-current assets	9	50
Total extraordinary losses	71	387
Profit before income taxes	15,090	12,476
Income taxes - current	4,855	3,987
Income taxes - deferred	117	(32)
Total income taxes	4,973	3,954
Profit	10,117	8,522
Profit attributable to owners of parent	10,117	8,522

Quarterly consolidated statement of comprehensive income (cumulative)

(Millions of yen)

	Six months ended August 31, 2021	Six months ended August 31, 2022
Profit	10,117	8,522
Other comprehensive income		
Valuation difference on available-for-sale securities	30	2
Deferred gains or losses on hedges	(7)	77
Foreign currency translation adjustment	85	293
Remeasurements of defined benefit plans, net of tax	(1)	(3)
Total other comprehensive income	106	369
Comprehensive income	10,224	8,891
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	10,224	8,891
Comprehensive income attributable to non-controlling interests	—	—

(3) Quarterly consolidated statement of cash flows

(Millions of yen)

	Six months ended August 31, 2021	Six months ended August 31, 2022
Cash flows from operating activities		
Profit before income taxes	15,090	12,476
Depreciation	6,396	6,483
Amortization of goodwill	579	579
Increase (decrease) in provision for bonuses for directors (and other officers)	(211)	(211)
Increase (decrease) in provision for loss on voluntary recall of goods	(47)	(37)
Increase (decrease) in provision for share awards	155	149
Gain on cancellation of guaranteed deposits received	(7)	(67)
Impairment losses	62	107
Loss on disaster	–	230
Loss on retirement of non-current assets	9	50
Interest and dividend income	(58)	(53)
Interest expenses	1,125	1,067
Decrease (increase) in trade receivables	(3,019)	(2,299)
Decrease (increase) in inventories	(5,756)	(5,363)
Increase (decrease) in trade payables	1,711	6,883
Increase (decrease) in advances received	1,243	(1,806)
Increase (decrease) in contract liabilities	–	3,205
Increase (decrease) in accrued consumption taxes	(902)	(1,008)
Other, net	(3,615)	(3,136)
Subtotal	12,756	17,248
Interest and dividends received	32	62
Interest paid	(1,155)	(1,087)
Payments associated with disaster loss	–	(7)
Income taxes refund (paid)	(6,662)	(3,068)
Net cash provided by (used in) operating activities	4,969	13,148
Cash flows from investing activities		
Purchase of property, plant and equipment	(4,503)	(7,172)
Purchase of intangible assets	(1,060)	(479)
Payments of guarantee deposits	(1,586)	(1,951)
Proceeds from refund of guarantee deposits	772	985
Guarantee deposits received	103	95
Refund of guarantee deposits received	(208)	(149)
Other, net	(228)	(572)
Net cash provided by (used in) investing activities	(6,711)	(9,245)
Cash flows from financing activities		
Proceeds from short-term borrowings	50,500	15,000
Repayments of short-term borrowings	(44,625)	(17,625)
Proceeds from long-term borrowings	15,051	15,500
Repayments of long-term borrowings	(13,794)	(12,933)
Repayments of lease obligations	(1,238)	(1,221)
Repayments of installment payables	(761)	(682)
Dividends paid	(1,039)	(1,136)
Purchase of treasury shares	(4,547)	(4,000)
Other, net	14	141
Net cash provided by (used in) financing activities	(441)	(6,956)
Effect of exchange rate change on cash and cash equivalents	34	112
Net increase (decrease) in cash and cash equivalents	(2,148)	(2,941)
Cash and cash equivalents at beginning of period	14,663	12,224
Cash and cash equivalents at end of period	12,514	9,282

(4) Notes to quarterly consolidated financial statementsUncertainties of entity's ability to continue as going concern

Not applicable

Notes when there are significant changes in amounts of equity

In accordance with the resolution of the Board of Directors meeting held on April 11, 2022, the Company purchased 1,085,100 treasury shares during the first six months of the fiscal year under review. As a result, treasury shares during the first six months of the fiscal year under review increased by ¥3,858 million, including changes caused by disposals of treasury shares from the "Employee Share Benefit Trust (employee stock holding association disposal type)" dedicated trust to the employee stock holding association, and reached ¥16,341 million at the end of the first six months of the fiscal year under review.

Notes - Changes in accounting policies*Application of accounting standard for revenue recognition, etc.*

The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations from the beginning of the first quarter, and it has recognized revenue at the time the control of promised goods or services is transferred to the customer at the amount expected to be received upon exchange of said goods or services. The main changes resulting from the application of the Accounting Standard for Revenue Recognition and relevant ASBJ regulations are as follows.

1. Revenue recognition for the point system operated by the Group

Based on the point system operated by the Group, some members of the Group award points to members in accordance with the purchase amount, and provide goods or services equivalent to the points used. Previously, in preparation for the usage of points granted, the amount expected to be used in future was recorded as a points reserve and a provision for points was recorded in selling, general and administrative expenses. However, the points granted have now been identified as a performance obligation, and the method has been changed to one of deferred revenue recognition.

2. Revenue recognition for the point system operated by other companies

Based on the point systems operated by other companies, points granted to customers following sales of merchandise were previously recorded in selling, general and administrative expenses, but the method has been changed to one of recognizing revenue by deducting from the transaction price an amount equivalent to points awarded.

3. Revenue recognition for agent transactions

For transactions in which the Group's role in providing goods or services to the customer is equivalent to that of an agent, the total amount received as consideration from the customer was previously recognized as revenue, but the method has been changed to one of recognizing the net revenue after deducting the amount to be paid to related parties from the total amount of consideration.

The application of the Accounting Standard for Revenue Recognition and relevant ASBJ regulations is subject to the transitional treatment provided for in the proviso to paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect of the retrospective application, assuming the new accounting policy had been applied to periods prior to the beginning of the first quarter was added to or deducted from the opening balance of retained earnings of the first quarter, and thus the new accounting policy was applied from such opening balance.

For the first six months of the fiscal year under review, as a result of this change, net sales decreased by ¥4,919 million, cost of sales decreased by ¥4,184 million and selling, general and administrative expenses decreased by ¥731 million, while operating profit, ordinary profit and profit before income taxes each decreased by ¥2 million. In addition, the opening balance of retained earnings increased by ¥50 million.

Due to the application of the Accounting Standard for Revenue Recognition and relevant ASBJ regulations, part of "Advances received" and "Provision for point card certificates" under current liabilities of the

consolidated balance sheet as of the end of the previous fiscal year has been included in “Contract liabilities” under current liabilities from the quarterly consolidated balance sheet as of the end of the first quarter. In accordance with the transitional treatment provided for in paragraph 89-2 of the Accounting Standard for Revenue Recognition, figures for the previous fiscal year have not been restated in accordance with the new approach to presentation.

Application of accounting standard for fair value measurement, etc.

The Company has applied the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019) and relevant ASBJ regulations from the beginning of the first quarter, and it has applied the new accounting policy provided for by the Accounting Standard for Fair Value Measurement, etc. prospectively in accordance with the transitional measures provided for in paragraph 19 of the Accounting Standard For Fair Value Measurement, and paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019). There is no impact on the quarterly consolidated financial statements.

Additional information*Transactions for issuing shares of the Company to employees, etc. through a trust*

1. Executive officer incentive plan “Employee Share Benefit Trust (J-ESOP)”

In accordance with a resolution of the Board of Directors meeting held on January 11, 2019, the Company has introduced a “Employee Share Benefit Trust (J-ESOP)” plan for executive officers, an executive officer incentive plan that uses shares of the Company from January 25, 2019.

(1) Overview of transactions

In accordance with the Executive Officer Share Benefit Regulations formulated upon introduction of the plan, it is a system for providing shares of the Company to executive officers of the Company who satisfy certain conditions.

To acquire shares to be provided in the future beforehand, the Company entrusts money to Custody Bank of Japan, Ltd. (Trust Account E) as a trust asset for the executive officer incentive plan “Employee Share Benefit Trust (J-ESOP)” system, and the trust bank uses the entrusted money as financial funds to acquire the Company’s shares through the trading markets or by receiving the Company’s disposal of treasury shares.

(2) Shares of the Company remaining in the trust

Shares of the Company that remain in the trust are recorded as treasury shares under net assets at their carrying value in the trust (excluding the amount of incidental expenses). The carrying value and number of these treasury shares were ¥31 million and 11,400 shares as of the previous fiscal year-end and ¥29 million and 10,900 shares as of the end of the quarter under review.

(3) Carrying value of borrowings recorded under application of the gross amount method

Not applicable

2. Employee incentive plan “Employee Share Benefit Trust” (J-ESOP)”

In accordance with a resolution of the Board of Directors meeting held on July 12, 2021, the Company has introduced the “Employee Share Benefit Trust (J-ESOP)” an incentive plan that provides shares of the Company to employees from July 26, 2021.

(1) Overview of transactions

In accordance with the Employee Officer Share Benefit Regulations formulated upon introduction of the plan, it is a system for providing shares of the Company to employees of the Company who satisfy certain conditions.

To acquire shares to be provided in the future beforehand, the Company entrusts money to Custody Bank of Japan, Ltd. (Trust Account E) as a trust asset for the employee incentive plan “Employee Share Benefit Trust (J-ESOP)” system, and the trust bank uses the entrusted money as financial funds to acquire the Company’s shares through the trading markets or by receiving the Company’s disposal of treasury shares.

(2) Shares of the Company remaining in the trust

Shares of the Company that remain in the trust are recorded as treasury shares under net assets at their carrying value in the trust (excluding the amount of incidental expenses). The carrying value and number of these treasury shares were ¥3,996 million and 940,700 shares as of the previous fiscal year-end and ¥3,995 million and 940,500 shares as of the end of the quarter under review.

(3) Carrying value of borrowings recorded under application of the gross amount method

Not applicable

3. “Employee Share Benefit Trust (employee stock holding association disposal type)”

In accordance with a resolution of the Board of Directors meeting held on July 12, 2021, the Company introduced a “Employee Share Benefit Trust (employee stock holding association disposal type)” from July 30, 2021.

(1) Overview of transactions

This plan is an incentive plan for returning the benefit of an increase in the Company's stock price to all employees who are enrolled in the KOHNAN SHOJI Employee Shareholders Association" (hereinafter, the "Shareholders Association").

The trustee of the plan acquires at once beforehand all of the shares of the Company expected to be acquired by the Shareholders Association over the five years following the establishment of the trust, using the Trust Account E set up at Custody Bank of Japan, Ltd. and sells the shares of the Company when the Shareholders Association acquires them. Until the trust is terminated, in the case where an amount corresponding to the proceeds from sale of shares has accumulated within the entrusted assets of the trust through sales to the Shareholding Association, the amount is distributed as residual assets to persons enrolled in the Shareholders Association who satisfy the qualifying conditions for beneficiaries. Moreover, since the Company guarantees borrowings for the trustee to acquire the Company's shares, upon termination of the trust, in cases where there is a loan balance in an amount corresponding to a loss on sale of the shares, the Company is to settle the balance in accordance with the guarantee contract.

(2) Shares of the Company remaining in the trust

Shares of the Company that remain in the trust are recorded as treasury shares under net assets at their carrying value in the trust (excluding the amount of incidental expenses). The carrying value and number of these treasury shares were ¥428 million and 96,900 shares as of the previous fiscal year-end and ¥296 million and 67,100 shares as of the end of the quarter under review.

(3) Carrying value of borrowings recorded under application of the gross amount method

At the end of the previous fiscal year: ¥453 million; at the end of the quarter under review: ¥357 million

Outbreak of fire at consolidated subsidiary of the Company

On June 13, 2022, a fire broke out at the Soka Sezaki store of consolidated subsidiary KEN DEPOT Corporation, and was extinguished on the following day, June 14.

This incident resulted in the damage and destruction by fire of the leased estate and accompanying facilities owned by the company. Accordingly, a provision for loss on disaster and a loss on destruction of non-current assets, etc. were recorded as a loss on disaster of ¥230 million under extraordinary losses in the quarterly consolidated statement of income. This disaster also caused property, plant and equipment in the quarterly consolidated balance sheet for the first six months of the fiscal year under review to decrease by ¥33 million. The provision for loss on disaster includes losses related to the leased estate, such as the cost of dismantling and removing the building destroyed by fire, and payments to settle obligations to the extent that can be reasonably estimated, etc., resulting in a book value for the provision for loss on disaster of ¥52 million at the end of the first six months of the fiscal year under review. The company is insured for the damage in question, but because the amounts, etc. to be received in relation to the first six months of the fiscal year under review have not been finalized, and insurance income has not been recorded.

Subsequent events*Absorption-type merger of consolidated subsidiary*

At a meeting of the Board of Directors held on September 20, 2022, it was resolved that an absorption-type merger would be conducted with an effective date of March 1, 2023, with KOHNAN SHOJI CO., LTD. as the company surviving in the absorption-type merger, and KOHNAN SHOJI CO., LTD.'s wholly-owned consolidated subsidiary BEAVERTOZAN Co., Ltd. (hereinafter, "BEAVERTOZAN") as the company disappearing in the absorption-type merger. The absorption-type merger agreement was concluded on the same date.

1. Purpose of the merger

Amid changes in the business environment, the Group seeks to enhance corporate value by engaging in structural reforms of the business and the organization. On this occasion, in order to integrate the organizations of both companies with the objective of increasing management efficiency, it was decided that the Company would conduct an absorption-type merger of wholly-owned subsidiary BEAVERTOZAN.

2. Summary of the merger

(i) Merger timeline

Board of Directors meeting to approve the merger	September 20, 2022
Date on which merger agreement concluded	September 20, 2022
Merger date (effective date)	March 1, 2023 (scheduled)

- * Because this merger is a simplified merger for the Company pursuant to Article 796, paragraph (2) of the Companies Act, as well as a short-form merger pursuant to Article 784, paragraph (1) of the Companies Act for BEAVERTOZAN, the merger will be executed without receiving approval for the merger agreement from a general meeting of shareholders.

(ii) Method of the merger

As this is an absorption-type merger in which the Company is the surviving company, BEAVERTOZAN will be dissolved.

(iii) Details of allotment concerning the merger

Because in this merger BEAVERTOZAN is a wholly-owned subsidiary of the Company, no shares or other monies, etc. will be granted or allotted.

(iv) Treatment of share acquisition rights or bonds with share acquisition rights arising from the merger

Not applicable

3. Overview of company disappearing in the absorption-type merger (as of February 28, 2022)

Company name	BEAVERTOZAN Co., Ltd.
Location	24-1 Toda, Atsugi City, Kanagawa Prefecture
Title and name of representative	MAMORU SAKAKIEDA, PRESIDENT
Nature of business	Home center business
Share capital	¥100 million
Net assets	¥1,293 million
Total assets	¥3,541 million

4. Situation after completion of the merger

There will be no change in the name, location, title and name of representative, nature of business, share capital, or fiscal year of the Company as a result of this merger.

5. Overview of accounting treatment

In accordance with the “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, January 16, 2019) and the “Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, January 16, 2019), the Company will account for the business combination as a transaction under common control.

3. Supplementary information

Detailed breakdown of net sales by product division

By product division	Amount (millions of yen)	Year-on-year change (%)
Home improvement (DIY supplies)	105,731	—
Housekeeping (household supplies)	71,217	—
Pet and leisure (pet and leisure supplies)	30,866	—
Other	6,508	—
Total	214,324	—

(Notes) 1. The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations from the first quarter. As a result, because the accounting treatment of revenue is different from that of the first six months of the previous fiscal year, percentage year-on-year changes are not given in the detailed breakdown of net sales by product division.

2. The composition of each product division is as follows.

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|----------------------|--|
| (1) Home improvement | (Timber, building materials, tools, hardware and plumbing, painting and work supplies, gardening supplies, gardening plants, materials, exteriors, housing equipment, remodeling) |
| (2) Housekeeping | (Dining supplies, interiors, electrical materials and lighting, daily necessities, storage supplies, chemicals, footwear and clothing, household goods, home appliances, nursing care supplies, food, alcoholic beverages) |
| (3) Pet and leisure | (Automotive supplies, pet supplies, stationery and office supplies, cycling and leisure supplies) |
| (4) Other | (100 Yen Shop, books, vending machines, kerosene) |