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July 11, 2023

Consolidated Financial Results for the Three Months Ended May 31, 2023 (Under Japanese GAAP)

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 Listing: Tokyo
 Securities code: 7516
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 Scheduled date to file quarterly securities report: July 12, 2023
 Scheduled date to commence dividend payments: –
 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 three months ended May 31, 2023 (from March 1, 2023 to May 31, 2023)

(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	%
Three months ended								
May 31, 2023	115,080	3.3	8,194	4.2	7,709	5.0	5,523	11.0
May 31, 2022	111,415	–	7,863	–	7,341	–	4,974	–

Note: Comprehensive income For the three months ended May 31, 2023: ¥5,632 million [10.2%]
 For the three months ended May 31, 2022: ¥5,111 million [–%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended		
May 31, 2023	182.11	182.06
May 31, 2022	158.74	158.70

Note: KOHNAN SHOJI CO., LTD. (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 ended February 28, 2023, and each figure for the three months ended May 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
	Millions of yen	Millions of yen	%
As of			
May 31, 2023	445,840	152,738	34.3
February 28, 2023	419,249	149,555	35.7

Reference: Equity
 As of May 31, 2023: ¥152,738 million
 As of February 28, 2023: ¥149,555 million

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, 2023	–	45.00	–	45.00	90.00
Fiscal year ending February 29, 2024	–				
Fiscal year ending February 29, 2024 (Forecast)		47.00	–	48.00	95.00

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

3. Consolidated financial forecasts for the fiscal year ending February 29, 2024 (from March 1, 2023 to February 29, 2024)

(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
Six months ending August 31, 2023	230,500	3.5	14,000	3.7	13,000	1.6	8,500	(0.3)	276.87
Full year	453,200	3.2	22,800	3.5	20,900	0.8	13,450	1.6	438.11

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

* **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 7 “2. Quarterly consolidated financial statements and significant notes thereto, (3) 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 May 31, 2023	34,682,113 shares
As of February 28, 2023	34,682,113 shares

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

As of May 31, 2023	4,565,703 shares
As of February 28, 2023	4,272,157 shares

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

Three months ended May 31, 2023	30,329,600 shares
Three months ended May 31, 2022	31,336,777 shares

Note: The number of treasury shares at the end of the period and the number of treasury shares excluded from the calculation of the average number of shares outstanding during the period include 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 first quarter of the fiscal year ending February 29, 2024, the company’s financial statements as of the end of March have been used, with important transactions occurring during the interval between then and the quarterly consolidated fiscal year-end (end of May) 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, July 11 and Wednesday, July 12, 2023.

Attached Material

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1. Qualitative information on quarterly financial statements

(1) Operations explanation

During the three months ended May 31, 2023, the impact of the novel coronavirus disease (COVID-19) on the economy decreased, and the Japanese economy continued to gradually recover. On the other hand, the risk of economic downturn caused by increasing costs of commodities, the slowdown of overseas economies, etc. has resulted in uncertainty with regard to the outlook for business conditions.

The outlook for business conditions in the retail industry, which is mainly where the KOHNAN Group (the "Group") develops its business, continues to be uncertain as it has been affected by rising costs, such as raw material expenses, logistics expenses, utilities expenses and personnel expenses.

Under these circumstances, 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 2 Home Center KOHNAN stores, 2 KOHNAN PRO stores, and 1 KEN DEPOT store. We also closed 1 Home Center KOHNAN store and 1 KOHNAN PRO store. This brought the number of stores as of the end of the quarter under review to 539 (326 Home Center KOHNAN stores, 120 KOHNAN PRO stores, 9 CAMP DEPOT stores, 11 KOHNAN VIETNAM stores, 70 KEN DEPOT corporate stores and 3 KEN DEPOT franchise stores).

Also, because the first three months of KOHNAN VIETNAM CO., LTD. ran from January 1, 2023 to March 31, 2023, the number of stores as of the end of the quarter under review refers to the number of stores as of March 31, 2023.

As result of these developments, operating revenue for first three months of the fiscal year under review was ¥115,080 million (up 3.3% year on year), while gross profit was ¥42,559 million (up 3.4% year on year). Selling, general and administrative expenses for the first three months of the fiscal year under review were ¥38,357 million (up 2.9% year on year), and operating profit was ¥8,194 million (up 4.2% year on year). Mainly due to an increase in operating profit, ordinary profit was ¥7,709 million (up 5.0% year on year), while profit attributable to owners of parent came to ¥5,523 million (up 11.0% year on year).

(2) Financial position explanation

As of May 31, 2023, total assets increased by ¥26,590 million from the previous fiscal year-end to ¥445,840 million. Cash and deposits increased by ¥8,759 million, accounts receivable - trade increased by ¥3,720 million, and merchandise and finished goods increased by ¥7,848 million.

Total liabilities increased by ¥23,407 million from the previous fiscal year-end to ¥293,102 million. Accounts payable - trade increased by ¥7,561 million and long-term borrowings increased by ¥12,016 million.

As of May 31, 2023, net assets stood at ¥152,738 million, and the equity ratio was 34.3%.

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

Consolidated earnings forecasts for the fiscal year ending February 29, 2024, are unchanged from the consolidated earnings forecasts for the first half and full year ending February 29, 2024 that were announced on April 11, 2023, at the time of the announcement of consolidated financial results for the fiscal year ended February 28, 2023.

The Company resolved at the Board of Directors meeting held on March 20, 2023 to make HOME IMPROVEMENT HIROSE Co., Ltd. (hereinafter, "HI HIROSE") a subsidiary by acquiring its issued shares, and concluded a share transfer agreement on the same date. On June 1, 2023, the Company made HI HIROSE a subsidiary by acquiring all of its shares. As a result, although HI HIROSE has become a consolidated subsidiary of the Company starting from the fiscal year ending February 29, 2024, the impact is currently being examined and is not reflected in consolidated earnings forecast. If any matters requiring disclosure arise in the future, the Company will promptly announce them.

2. Quarterly consolidated financial statements and significant notes thereto

(1) Quarterly consolidated balance sheet

(Millions of yen)

	As of February 28, 2023	As of May 31, 2023
Assets		
Current assets		
Cash and deposits	9,218	17,978
Accounts receivable - trade	13,568	17,288
Merchandise and finished goods	108,898	116,746
Raw materials and supplies	1,494	1,460
Other	8,123	11,939
Allowance for doubtful accounts	(10)	(11)
Total current assets	141,292	165,403
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	113,999	113,553
Land	50,471	50,471
Leased assets, net	17,533	19,547
Construction in progress	867	1,855
Other, net	6,522	6,530
Total property, plant and equipment	189,393	191,958
Intangible assets		
Trademark right	3,078	2,994
Customer-related assets	2,311	2,254
Goodwill	14,086	13,797
Other	7,412	7,481
Total intangible assets	26,888	26,528
Investments and other assets		
Investment securities	4,793	4,935
Guarantee deposits	48,458	49,128
Deferred tax assets	6,525	6,044
Other	2,117	2,044
Allowance for doubtful accounts	(220)	(203)
Total investments and other assets	61,675	61,950
Total non-current assets	277,957	280,436
Total assets	419,249	445,840

(Millions of yen)

	As of February 28, 2023	As of May 31, 2023
Liabilities		
Current liabilities		
Accounts payable - trade	33,053	40,615
Electronically recorded obligations - operating	9,226	9,953
Short-term borrowings	20,937	22,950
Current portion of long-term borrowings	26,624	26,389
Lease liabilities	2,416	2,542
Income taxes payable	3,574	2,954
Contract liabilities	4,622	3,761
Provision for bonuses	2,334	3,481
Other	12,763	13,329
Total current liabilities	115,553	125,978
Non-current liabilities		
Long-term borrowings	87,626	99,643
Lease liabilities	21,197	23,032
Guarantee deposits received	10,397	10,424
Provision for loss on voluntary recall of goods	595	580
Provision for share awards	617	691
Asset retirement obligations	17,178	17,239
Other	16,527	15,511
Total non-current liabilities	154,140	167,124
Total liabilities	269,694	293,102
Net assets		
Shareholders' equity		
Share capital	17,658	17,658
Capital surplus	17,922	17,922
Retained earnings	129,682	133,812
Treasury shares	(16,220)	(17,276)
Total shareholders' equity	149,043	152,117
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	198	138
Deferred gains or losses on hedges	(180)	(41)
Foreign currency translation adjustment	435	467
Remeasurements of defined benefit plans	58	56
Total accumulated other comprehensive income	511	620
Total net assets	149,555	152,738
Total liabilities and net assets	419,249	445,840

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

(Millions of yen)

	Three months ended May 31, 2022	Three months ended May 31, 2023
Net sales	107,470	111,088
Cost of sales	66,292	68,528
Gross profit	41,177	42,559
Operating revenue	3,944	3,992
Selling, general and administrative expenses	37,259	38,357
Operating profit	7,863	8,194
Non-operating income		
Interest income	11	10
Insurance claim income	7	20
Foreign exchange gains	52	–
Subsidy income	–	145
Other	54	82
Total non-operating income	127	259
Non-operating expenses		
Interest expenses	538	543
Foreign exchange losses	–	1
Other	110	198
Total non-operating expenses	649	743
Ordinary profit	7,341	7,709
Extraordinary income		
Gain on cancellation of guarantee deposits received	66	–
Total extraordinary income	66	–
Extraordinary losses		
Loss on retirement of non-current assets	20	3
Total extraordinary losses	20	3
Profit before income taxes	7,387	7,706
Income taxes - current	2,541	2,589
Income taxes - deferred	(128)	(406)
Total income taxes	2,413	2,182
Profit	4,974	5,523
Profit attributable to owners of parent	4,974	5,523

Quarterly consolidated statement of comprehensive income (cumulative)

(Millions of yen)

	Three months ended May 31, 2022	Three months ended May 31, 2023
Profit	4,974	5,523
Other comprehensive income		
Valuation difference on available-for-sale securities	(41)	(60)
Deferred gains or losses on hedges	48	139
Foreign currency translation adjustment	131	31
Remeasurements of defined benefit plans, net of tax	(1)	(2)
Total other comprehensive income	136	108
Comprehensive income	5,111	5,632
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	5,111	5,632
Comprehensive income attributable to non-controlling interests	-	-

(3) 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 shareholders' equity

In accordance with the resolution of the Board of Directors meeting held on April 11, 2023, the Company purchased 308,200 treasury shares during the first three months of the fiscal year under review. As a result, treasury shares during the first three months of the fiscal year under review increased by ¥1,055 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 ¥17,276 million at the end of the quarter under review.

Notes - Changes in significant subsidiaries during the period

Not applicable

Although this does not fall under a change in specified subsidiaries, the Company's wholly owned consolidated subsidiary BEAVERTOZAN Co., Ltd. has been excluded from the scope of consolidation from the first quarter of the fiscal year ending February 29, 2024 as it disappeared due to an absorption-type merger in which the Company was the surviving company on March 1, 2023.

Notes - Changes in accounting policies*Application of implementation guidance on accounting standard for fair value measurement*

The Company has applied the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021; hereinafter the "Guidance on Fair Value Measurement") from the beginning of the first quarter under review, and it has applied the new accounting policy provided for by the Guidance on Fair Value Measurement prospectively in accordance with the transitional measures provided for in paragraph 27-2 of the Guidance on Fair Value Measurement. There is no impact on the quarterly consolidated financial statements as a result of this change.

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 the “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 ¥28 million and 10,500 shares as of the previous fiscal year-end and ¥28 million and 10,500 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

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 ¥3,994 million and 940,300 shares as of the previous fiscal year-end and ¥3,990 million and 939,400 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 the “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 a gain on sale of shares has accumulated within the entrusted assets of the trust through sales to the Shareholders 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 ¥177 million and 40,100 shares as of the previous fiscal year-end and ¥116 million and 26,300 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: ¥256 million; at the end of the quarter under review: ¥221 million

Business combinations*Transactions under common control**Absorption-type merger of consolidated subsidiary*

The Company resolved at the Board of Directors meeting held on September 20, 2022 to conduct an absorption-type merger with the Company's wholly owned subsidiary BEAVERTOZAN Co., Ltd., concluded an absorption-type merger agreement on the same date, and conducted an absorption-type merger with the said company on March 1, 2023.

1. Overview of business combination

(1) Name and business description of entity involved in the business combination

Name of merged company:	BEAVERTOZAN Co., Ltd.
Nature of business:	Home center business

(2) Date of the business combination

March 1, 2023

(3) Legal form of the business combination

The merger is an absorption-type merger in which the Company is the company surviving in the absorption-type merger and BEAVERTOZAN Co., Ltd. is the company disappearing in the absorption-type merger.

(4) Name of entity after the business combination

Unchanged.

(5) Purpose of the business combination

As the Group seeks to enhance corporate value by engaging in structural reforms of the business and the organization, the Company decided to conduct an absorption-type merger with the Company's wholly owned subsidiary BEAVERTOZAN Co., Ltd. with the objective of rationalizing the organization.

2. 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 accounted for the business combination as a transaction under common control.

Subsequent events*Business combination through acquisition*

The Company resolved at the Board of Directors meeting held on March 20, 2023 to make HOME IMPROVEMENT HIROSE Co., Ltd. (hereinafter, "HI HIROSE") a subsidiary by acquiring its issued shares, and concluded a share transfer agreement on the same date. On June 1, 2023, the Company made HI HIROSE a subsidiary by acquiring all of its shares.

1. Overview of business combination

(1) Name and business description of the acquiree

Name of the acquiree:	HOME IMPROVEMENT HIROSE Co., Ltd.
Nature of business:	Retail sales, etc. of housing-related supplies and foods

(2) Primary reasons for the business combination

By bringing HI HIROSE, which is based in the Kyushu region, into the Group, the Company expects to be able to further strengthen its business foundation in the Kyushu region while also expanding the scope of its business operations even more by newly entering the food supermarket business. In addition, the Company decided to make HI HIROSE a subsidiary as it believes that, by providing and integrating the product planning capabilities, sales capabilities and management know-how, such as in the areas of logistics and systems, that have been cultivated by the Group, it will expand the scope of the Group's medium- to long-term business operations as well as contribute to enhancing corporate value.

(3) Date of the business combination

June 1, 2023

(4) Legal form of the business combination

Cash acquisition of shares

(5) Name of entity after the business combination

Unchanged.

(6) Ratio of voting rights acquired

Ratio of voting rights held immediately before the business combination	10.31%
Ratio of voting rights acquired on the date of business combination	89.69%
Ratio of voting rights after acquisition	100.00%

(7) Main basis for reaching a decision on business combination

The Company acquired the shares with cash as consideration.

2. Acquisition cost of acquiree and components thereof by consideration type

Consideration for acquisition	Market value of shares held immediately before the business combination on the date of the business combination	¥1,007 million
	Consideration for additional shares acquired on the date of the business combination (cash)	¥2,735 million
Acquisition cost		¥3,743 million

3. Difference between acquisition cost of acquiree and total acquisition cost of individual transactions leading to acquisition

The loss (gain) on step acquisition has not been incurred.

4. Details and amounts of main acquisition-related costs

Advisory fees, etc. ¥41 million

5. Amount of goodwill, reason for recognition, amortization method and amortization period

Not confirmed at this stage.

6. Amount and breakdown of assets acquired and liabilities assumed as of the date of the business combination

Not confirmed at this stage.

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)	57,034	104.1
Housekeeping (household supplies)	34,310	99.5
Pet and leisure (pet and leisure supplies)	16,241	108.4
Other	3,501	107.7
Total	111,088	103.4

(Note) The composition of each product division is as follows.

- | | |
|----------------------|--|
| (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) |