April 11, 2023

Summary of Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending August 31, 2023 (Six Months Ended February 28, 2023)

[Japanese GAAP]

Company name: KOSHIDAKA HOLDINGS Co., LTD.　　Listing: Tokyo Stock Exchange
Stock code: 2157　　URL: https://www.koshidakaholdings.co.jp/
Representative: Hiroshi Koshidaka, Representative Director and President
Contact: Yoshihito Doi, Managing Director
Tel: +81-3-6403-5710
Scheduled date of filing of Quarterly Report: April 12, 2023
Scheduled date of payment of dividend: May 10, 2023
Preparation of supplementary materials for quarterly financial results: Yes
Holding of quarterly financial results meeting: Yes (for analysts and institutional investors)

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Second Quarter Ended February 28, 2023 (Sep. 1, 2022 – Feb. 28, 2023)

(1) Consolidated results of operations (Percentages are year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended Feb. 28, 2023	25,609	54.9	3,525	-	3,683	23.9	2,499	32.7
Six months ended Feb. 28, 2022	16,533	36.5	275	-	2,973	-	1,883	-

Note: Comprehensive income (million yen) Six months ended Feb. 28, 2023: 2,481 (up 35.5%)
Six months ended Feb. 28, 2022: 1,831 (-%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Feb. 28, 2023	30.66	28.15
Six months ended Feb. 28, 2022	23.10	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Feb. 28, 2023	52,581	21,324	40.5
As of Aug. 31, 2022	47,273	19,508	41.2

Reference: Shareholders' equity (million yen) As of Feb. 28, 2023: 21,315 As of Aug. 31, 2022: 19,500

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Aug. 31, 2022	-	4.00	-	4.00	8.00
Fiscal year ending Aug. 31, 2023	-	5.00			
Fiscal year ending Aug. 31, 2023 (forecast)			-	5.00	10.00

Note: Revisions to the most recently announced dividend forecast: None

3. Consolidated Earnings Forecast for the Fiscal Year Ending August 31, 2023 (Sep. 1, 2022 – Aug. 31, 2023)

(Percentages are year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	53,830	41.7	7,570	243.2	7,700	44.4	7,470	105.0	91.62

Note: Revisions to the most recently announced earnings forecast: Yes

* Notes

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation): None

Newly added: - Excluded: -

(2) Application of special accounting methods in the preparation of the quarterly consolidated financial statements: None

(3) Changes in accounting policies and accounting-based estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others: Yes

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting-based estimates: None

4) Restatements: None

(4) Number of outstanding shares (common stock)

1) Number of shares outstanding at the end of the period (including treasury shares)

As of Feb. 28, 2023:	82,300,000 shares	As of Aug. 31, 2022:	82,300,000 shares

2) Number of treasury shares at the end of the period

As of Feb. 28, 2023:	767,335 shares	As of Aug. 31, 2022:	767,296 shares

3) Average number of shares outstanding during the period

Six months ended Feb. 28, 2023:	81,532,681 shares	Six months ended Feb. 28, 2022:	81,532,704 shares

* The current financial report is not subject to quarterly review by certified public accountants or auditing firms.

* Explanation of appropriate use of earnings forecasts, and other special items

Forecasts of future performance in these materials are based on assumptions judged to be valid and information available to the Company’s management at the time the materials were prepared. These materials are not promises by the Company regarding future performance. Actual results may differ significantly from these forecasts for a number of reasons. Please refer to page 4 of the attachments “(3) Explanation of Consolidated Earnings Forecast and Other Forward-looking Statements” for forecast assumptions and notes of caution for usage.

Contents of Attachments

1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

In the first half of the current fiscal year, the Japanese economy was largely at a standstill against a backdrop several concerns, such as continuing inflation caused by shortages of energy and food products in many countries due to the protracted Ukraine crisis. The depreciation of the yen caused by interest rate hikes in the U. S. also spurred price rises in Japan. However, the pace of interest rate hikes in the U. S. has now slowed. Regarding the pandemic, though the 8th wave had impact on consumer behavior as it constrained consumer movement, the pandemic seems to be ending as there were no moves toward cutting working hours and border control measures were relaxed. Due to these factors, there has been reactionary rebound in consumption in certain sectors, such as tourism, since the beginning of this year.

Business segment performance was as follows.

Karaoke

The karaoke business started on a positive note in the first half of the current fiscal year. Although sales were sluggish in the peak season from late-November through December as consumers refrained from going out due to the 8th wave of the pandemic, same-store sales rebounded and stayed above the pre-pandemic level in January and February as the pandemic seemed to be petering out. Aggressive store openings during the pandemic continued in the first half with 28 new Karaoke Manekineko locations in Japan.

Many activities are under way to accomplish the medium-term management vision of “Entertainment as Infrastructure,” which was started in September 2019. Major initiatives are forms of entertainment other than karaoke, such as PlayGarden (an amusement facility with billiards, darts and other games) and Mirror Pon! (use of karaoke screen and speakers to watch personal content), many types of content collaboration, and measures to upgrade and expand recruiting and training activities. In addition, we have been preparing to develop and introduce DX to enhance operating efficiency and offer new types of entertainment.

In other countries, we restarted opening new stores in Southeast Asia, three in Malaysia and two in Thailand during the first half.

At the end of February 2023, the number of karaoke locations in Japan was 604, 22 more than at the end of the previous fiscal year. The number of overseas karaoke stores was 16 in four countries, consisting of four in South Korea, nine in Malaysia, two in Thailand and one in Indonesia, five more than at the end of the previous fiscal year.

Sales in the Karaoke segment were 24,442 million yen, up 56.1% year on year, and there was a profit of 4,038 million yen, an increase of 3,417 million yen, up 550.5% year on year.

Bath House

As in the Karaoke segment, this segment was also affected by the 8th wave of the pandemic. But customer traffic picked up in January and February. On the other hand, soaring utility costs put pressure on profits.

Sales in the Bath House segment were 524 million yen, up 20.0% year on year, and the segment profit increased 56 million yen from one year earlier to 10 million yen.

Real Estate Management

Occupancy was almost 100% at both of the major properties in this segment, the AQERU Maebashi commerce & business complex and the Fleuret Hanasaki Building in Yokohama as we actively leased properties owned by the company. In addition, we have acquired properties in preparation for future new store openings. Besides, we expect an extraordinary profit of 4,350 million yen in the third quarter as a decision has been made in the first half to sell “Sport Nagoya,” a property owned by our subsidiary, on March 31, 2023.

Sales in the Real Estate Management segment were 753 million yen, up 40.4% year on year, and the segment profit was 129 million yen, an increase of 60 million yen, up 88.3% year on year.

Overall, the Koshidaka Group (KOSHIDAKA HOLDINGS Co., LTD. and its consolidated subsidiaries) had sales of 25,609 million yen, up 54.9% year on year. The operating profit was 3,525 million yen, 12.8 times that of the same period of the previous fiscal year, the ordinary profit was 3,683 million yen, up 23.9% year on year, and the profit attributable to owners of parent was 2,499 million yen, up 32.7% year on year.

(2) Explanation of Financial Position

1) Assets, liabilities, and net assets

Assets

Current assets decreased 1,241 million yen (12.5%) to 8,669 million yen. This was mainly due to a decrease of 1,452 million yen in cash and deposits.

Property, plant and equipment increased 5,321 million yen (19.6%) to 32,423 million yen. This was mainly due to increases of 3,113 million yen in land and 1,859 million yen in buildings and structures .

Intangible assets increased 43 million yen (10.0%) to 483 million yen.

Investments and other assets increased 1,183 million yen (12.1%) to 11,004 million yen. This was mainly due to increases of 871 million yen in leasehold and guarantee deposits, and 565 million yen in long-term prepaid expenses.

Total non-current assets increased 6,549 million yen (17.5%) to 43,911 million yen.

As a result, total assets increased 5,307 million yen (11.2%) to 52,581 million yen.

Liabilities

Current liabilities increased 3,345 million yen (34.7%) to 12,989 million yen. This was mainly due to an increase of 3,198 million yen in short-term borrowings.

Non-current liabilities increased 146 million yen (0.8%) to 18,267 million yen. This was mainly due to an increase of 497 million yen in asset retirement obligations and a decrease of 356 million yen in long-term borrowings.

As a result, total liabilities increased 3,492 million yen (12.6%) to 31,256 million yen.

Net assets

Net assets increased 1,815 million yen (9.3%) to 21,324 million yen. This was mainly due to an increase of 1,834 million yen in retained earnings.

2) Cash flows

Cash and cash equivalents (hereinafter “net cash”) at the end of the second quarter of the current fiscal year decreased 1,443 million yen from the end of the previous fiscal year to 4,936 million yen.

The cash flow components during the first half and the main reasons for changes are as described below.

Cash flows from operating activities

Net cash provided by operating activities totaled 4,936 million yen, compared with 6,341 million yen provided in the same period of the previous fiscal year. Main factors include profit before income taxes of 3,638 million yen, depreciation of 1,816 million yen, and income taxes paid of 652 million yen.

Cash flows from investing activities

Net cash used in investing activities totaled 8,970 million yen, compared with 4,901 million yen used in the same period of the previous fiscal year. Main factors include purchase of property, plant and equipment of 7,367 million yen, payments of leasehold and guarantee deposits of 889 million yen and loan advances of 613 million yen.

Cash flows from financing activities

Net cash provided by financing activities totaled 2,419 million yen, compared with 1,364 million yen used in the same period of the previous fiscal year. Main factors include a net increase of 3,198 million yen in short-term borrowings, proceeds from long-term borrowings of 700 million yen, repayments of long-term borrowings of 1,153 million yen and dividends paid of 326 million yen.

(3) Explanation of Consolidated Earnings Forecast and Other Forward-looking Statements

Uncertainties such as the prolonged war in Ukraine, price hikes due to the resulting shortages of energy and food, and the global economic slowdown due to monetary tightening to combat inflation are likely to continue. However, policies to restrict movement of people that were introduced to fight the successive outbreaks of the pandemic and had a significant impact on consumer behavior over the past three years are being lifted. In particular, during the 7th and 8th waves of the pandemic, we seem to be moving toward the period of having to live “with Corona” or living in a “post-corona” world as no requests were issued to restaurants, including karaoke stores, to close or shorten operating hours. etc. Border controls were also eased, and on May 8, 2023 COVID will be reclassified to infection category V, the same as seasonal influenza, etc., under the Infection Control Law. Demand had been suppressed due to policy measures to contain the pandemic and by voluntary restraints by consumers during the pandemic. We are entering the second half of the year with the feeling that this pent-up demand will emerge in earnest.

Since we had assumed at the time of releasing the initial forecast that the pandemic would subside and that a reactionary demand surge would emerge, we have not changed the initial forecast for net sales, operating profit, and ordinary profit for the second half of the fiscal year. But we revised the fiscal year forecast upward by the amount the first half results exceeded the initial forecast. The net income forecast is also revised upward to factor in the gain on sale of non-current assets in the second half, which was announced on February 24, and the amount by which the first half results exceeded the initial forecast.

Overall, we forecast consolidated net sales of 53,830 million yen, up 41.7%, operating profit of 7,570 million yen, up 243.2% year on year, ordinary profit of 7,700 million yen, up 44.4% year on year, and profit attributable to owners of parent of 7,470 million yen, up 105.0% year on year.

We have positioned (1) expansion of the store network and increase in the number of karaoke rooms, (2) provision of various types of entertainment, and (3) recruitment and training of human resources as our three priority tasks under our medium-term management vision, "Entertainment Infrastructure Plan". Toward these goals, we are (1) actively recruiting of high-level human resources and building an organizational structure capable of sustaining growth, (2) leveraging DX to Create new customer experiences that transcend the limitations of location and space by fusing real and digital entertainment and increase the number of Private Entertainment Rooms (PER), and (3) developing "well-tainment", a new business model, that combines entertainment and wellness. To reap the benefits of the capital and business alliance with Advantage Advisors, we are introducing in the current fiscal year "Metacara", a new DX-based PER initiative, and taking actions to enhance operating efficiency.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheet

(Thousands of yen)

	FY8/22 (As of Aug. 31, 2022)	Second Quarter of FY8/23 (As of Feb. 28, 2023)
Assets		
Current assets		
Cash and deposits	6,977,443	5,525,400
Notes and accounts receivable-trade	525,866	690,133
Merchandise	23,707	178,609
Raw materials and supplies	240,144	281,164
Other	2,161,669	1,996,750
Allowance for doubtful accounts	(17,677)	(2,545)
Total current assets	9,911,154	8,669,512
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	20,405,196	22,264,914
Vehicles, tools, furniture and fixtures, net	2,196,998	2,542,954
Land	4,490,814	7,604,482
Construction in progress	9,010	11,616
Total property, plant and equipment	27,102,019	32,423,968
Intangible assets		
Goodwill	4,915	2,861
Software	223,418	230,691
Other	210,914	249,562
Total intangible assets	439,248	483,115
Investments and other assets		
Investment securities	141,677	196,885
Shares of subsidiaries and associates	10,284	5,330
Long-term loans receivable	1,397,800	1,726,800
Long-term prepaid expenses	44,866	610,643
Leasehold and guarantee deposits	6,045,882	6,917,724
Deferred tax assets	2,563,537	1,981,659
Other	182,386	151,774
Allowance for doubtful accounts	(565,660)	(586,317)
Total investments and other assets	9,820,774	11,004,501
Total non-current assets	37,362,042	43,911,585
Total assets	47,273,196	52,581,097

(Thousands of yen)

	FY8/22 (As of Aug. 31, 2022)	Second Quarter of FY8/23 (As of Feb. 28, 2023)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	443,200	480,593
Short-term borrowings	-	3,198,730
Current portion of long-term borrowings	2,188,243	2,091,577
Accounts payable-other	1,744,506	1,974,330
Accrued expenses	1,377,403	1,337,110
Income taxes payable	736,756	639,545
Provision for bonuses	229,570	324,538
Deposits received	56,297	247,823
Other	2,867,573	2,695,129
Total current liabilities	9,643,551	12,989,378
Non-current liabilities		
Convertible-bond-type bonds with share acquisition rights	4,000,000	4,000,000
Long-term borrowings	8,744,700	8,388,080
Deferred tax liabilities	233,336	250,562
Asset retirement obligations	4,225,294	4,723,107
Other	917,666	905,631
Total non-current liabilities	18,120,998	18,267,380
Total liabilities	27,764,549	31,256,759
Net assets		
Shareholders’ equity		
Share capital	2,070,257	2,070,257
Capital surplus	3,302,786	3,302,786
Retained earnings	14,423,589	16,257,791
Treasury shares	(105,662)	(105,695)
Total shareholders’ equity	19,690,970	21,525,139
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	24,189	33,049
Foreign currency translation adjustment	(215,134)	(242,473)
Total accumulated other comprehensive income	(190,945)	(209,423)
Share acquisition rights	8,622	8,622
Total net assets	19,508,647	21,324,337
Total liabilities and net assets	47,273,196	52,581,097

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statement of Income

(For the Six-month Period)

(Thousands of yen)

	First six months of FY8/22 (Sep. 1, 2021 – Feb. 28, 2022)	First six months of FY8/23 (Sep. 1, 2022 – Feb. 28, 2023)
Net sales	16,533,456	25,609,214
Cost of sales	14,407,372	19,529,911
Gross profit	2,126,084	6,079,302
Selling, general and administrative expenses	1,850,939	2,554,199
Operating profit	275,144	3,525,102
Non-operating income		
Interest and dividend income	9,046	17,657
Foreign exchange gains	62,563	147,858
Subsidy income	2,637,429	-
Other	63,855	59,560
Total non-operating income	2,772,895	225,076
Non-operating expenses		
Interest expenses	29,542	20,737
Provision of allowance for doubtful accounts	38,669	39,289
Other	5,874	6,600
Total non-operating expenses	74,086	66,627
Ordinary profit (loss)	2,973,952	3,683,551
Extraordinary income		
Gain on sale of non-current assets	84,224	296
Total extraordinary income	84,224	296
Extraordinary losses		
Loss on retirement of non-current assets	10,730	35,736
Impairment losses	57,113	2,018
Loss on valuation of investment securities	22,508	8,023
Total extraordinary losses	90,351	45,778
Profit before income taxes	2,967,825	3,638,070
Income taxes-current	540,935	543,048
Income taxes-deferred	543,094	595,192
Total income taxes	1,084,029	1,138,241
Profit	1,883,795	2,499,828
Profit attributable to owners of parent	1,883,795	2,499,828

Quarterly Consolidated Statement of Comprehensive Income

(For the Six-month Period)

(Thousands of yen)

	First six months of FY8/22 (Sep. 1, 2021 – Feb. 28, 2022)	First six months of FY8/23 (Sep. 1, 2022 – Feb. 28, 2023)
Profit	1,883,795	2,499,828
Other comprehensive income		
Valuation difference on available-for-sale securities	(3,230)	8,860
Foreign currency translation adjustment	(48,976)	(27,338)
Total other comprehensive income	(52,206)	(18,477)
Comprehensive income	1,831,588	2,481,350
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,831,588	2,481,350

(3) Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

	First six months of FY8/22 (Sep. 1, 2021 – Feb. 28, 2022)	First six months of FY8/23 (Sep. 1, 2022 – Feb. 28, 2023)
Cash flows from operating activities		
Profit before income taxes	2,967,825	3,638,070
Depreciation	1,690,963	1,816,175
Impairment losses	57,113	2,018
Amortization of goodwill	2,373	2,054
Increase (decrease) in provision for bonuses	92,798	94,968
Increase (decrease) in allowance for doubtful accounts	38,669	4,191
Interest and dividend income	(9,046)	(17,657)
Interest expenses	29,542	20,737
Loss (gain) on sale of property, plant and equipment	(84,224)	(296)
Loss on retirement of non-current assets	10,730	35,736
Decrease (increase) in trade receivables	(240,816)	(157,470)
Decrease (increase) in inventories	(20,617)	(65,591)
Decrease (increase) in accounts receivable-other	1,574,800	(3,158)
Increase (decrease) in trade payables	110,087	36,555
Increase (decrease) in accounts payable-other, and accrued expenses	110,919	25,289
Other, net	89,146	161,010
Subtotal	6,420,265	5,592,634
Interest and dividends received	9,046	17,657
Interest paid	(29,221)	(20,899)
Income taxes paid	(58,743)	(652,894)
Net cash provided by (used in) operating activities	6,341,346	4,936,497
Cash flows from investing activities		
Purchase of property, plant and equipment	(4,774,700)	(7,367,241)
Proceeds from sale of property, plant and equipment	248,770	50,741
Purchase of intangible assets	(46,423)	(124,809)
Purchase of investment securities	-	(50,000)
Proceeds from sale of investment securities	6,760	5,520
Payments of leasehold and guarantee deposits	(374,484)	(889,945)
Proceeds from refund of leasehold and guarantee deposits	61,114	13,458
Loan advances	-	(613,476)
Proceeds from collection of loans receivable	3,991	5,323
Other, net	(27,015)	(40)
Net cash provided by (used in) investing activities	(4,901,987)	(8,970,469)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(2,500,000)	3,198,730
Proceeds from long-term borrowings	2,872,000	700,000
Repayments of long-term borrowings	(1,573,752)	(1,153,286)
Purchase of treasury shares	-	(33)
Dividends paid	(163,065)	(326,130)
Net cash provided by (used in) financing activities	(1,364,817)	2,419,279
Effect of exchange rate change on cash and cash equivalents	1,539	157,633
Net increase (decrease) in cash and cash equivalents	76,081	(1,457,059)
Cash and cash equivalents at beginning of period	5,171,157	6,379,401
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	-	13,878
Cash and cash equivalents at end of period	5,247,238	4,936,220

(4) Notes to Quarterly Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Changes in Accounting Policies

Koshidaka Holdings has applied the Implementation Guidance on Accounting Standard for Fair Value Measurement (Accounting Standards Board of Japan (ASBJ) Guidance No. 31, June 17, 2021) from the beginning of the first quarter of the fiscal year, and has applied the new accounting policies set forth by the Implementation Guidance on Accounting Standard for Fair value Measurement prospectively in accordance with the transitional treatment prescribed in Paragraph 27-2 of the Implementation Guidance on Accounting Standard for Fair Value Measurement. There is no effect of the application of this guidance on the quarterly consolidated financial statements.

Segment and Other Information

Segment Information

I. First six months of FY8/22 (Sep. 1, 2021 – Feb. 28, 2022)

1. Information related to net sales and profit/loss and disaggregation of revenue for each reportable segment

(Thousands of yen)

	Reportable segment			Total	Adjustment (Note 1)	Amounts shown on quarterly consolidated statement of income (Note 2)
	Karaoke	Bath House	Real Estate Management			
Net sales						
Revenue from contracts with customers	15,660,597	437,655	1,199	16,099,452	-	16,099,452
Other revenue	-	-	434,004	434,004	-	434,004
External sales	15,660,597	437,655	435,203	16,533,456	-	16,533,456
Inter-segment sales and transfers	-	-	101,295	101,295	(101,295)	-
Total	15,660,597	437,655	536,499	16,634,752	(101,295)	16,533,456
Segment profit (loss)	620,899	(46,031)	68,539	643,407	(368,263)	275,144

Notes: 1. The -368,263 thousand yen adjustment to segment profit (loss) mainly includes general and administrative expenses that cannot be attributed to reportable segments.
2. Segment profit (loss) is adjusted to be consistent with operating profit shown on the quarterly consolidated statement of income.

2. Information related to impairment losses on non-current assets, goodwill, etc. for each reportable segment

No applicable items.

II. First six months of FY8/23 (Sep. 1, 2022 – Feb. 28, 2023)

1. Information related to net sales and profit/loss and disaggregation of revenue for each reportable segment

(Thousands of yen)

	Reportable segment			Total	Adjustment (Note 1)	Amounts shown on quarterly consolidated statement of income (Note 2)
	Karaoke	Bath House	Real Estate Management			
Net sales						
Revenue from contracts with customers	24,442,358	524,985	87,044	25,054,388	-	25,054,388
Other revenue	-	-	554,825	554,825	-	554,825
External sales	24,442,358	524,985	641,870	25,609,214	-	25,609,214
Inter-segment sales and transfers	-	-	111,373	111,373	(111,373)	-
Total	24,442,358	524,985	753,244	25,720,588	(111,373)	25,609,214
Segment profit	4,038,690	10,648	129,069	4,178,408	(653,305)	3,525,102

Notes: 1. The -653,305 thousand yen adjustment to segment profit mainly includes general and administrative expenses that cannot be attributed to reportable segments.
2. Segment profit is adjusted to be consistent with operating profit shown on the quarterly consolidated statement of income.

2. Information related to impairment losses on non-current assets, goodwill, etc. for each reportable segment

No applicable items.

Business Combinations

Transaction under common control

Absorption-type merger of an unconsolidated subsidiary by a consolidated subsidiary

1. Summary of business combination

(1) Name and business activities of companies involving business combination

a. Merging company

Name: KOSHIDAKA PRODUCTS Co., LTD.

Business activities: Ownership, operation and management of the Group’s real estate holdings

b. Company being merged

Name: KP Management Co., Ltd.

Business activities: Operation and management of the Group’s real estate holdings

(2) Date of business combination

December 1, 2022

(3) Method of business combination

KP Management, which was dissolved, was absorbed by KOSHIDAKA PRODUCTS, which was the surviving company.

(4) Name of the company after business combination

KOSHIDAKA PRODUCTS Co., LTD.

(5) Other information concerning the business combination

The Company merged Koshidaka Products, a consolidated subsidiary, and KP Management, a non-consolidated subsidiary, to restructure its business, since the latter had completed its function as a facility management company.

2. Summary of accounting method

Accounting methods as a transaction under common control are based on “Accounting Standard for Business Combination (ASBJ Statement No. 21, January 16, 2019)” and “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, January 16, 2019).”

Revenue Recognition

Information related to disaggregation of revenue from contracts with customers is described in the Segment and Other Information section.

Material Subsequent Events

Transfer of consolidated subsidiary's assets

The Company's Board of Directors on February 24, 2023 approved a resolution to transfer certain non-current assets owned by Koshidaka Products, a consolidated subsidiary. The contract was signed on the same day and the transfer of the property was completed on March 31, 2023.

1. Reason for the transfer

The Group has decided to transfer the non-current assets listed below following a review of its asset holdings for the purpose of efficient utilization of the Group's management resources and strengthening of its financial position.

2. Details of assets to be transferred

a.	Name of the assets	Land and building held by the Company in Nagoya, Aichi prefecture
b.	Location	4511 Shinsakae 2 Cho-me, Naka-ku, Nagoya City, Aichi
c.	Area of land	5,917.55m^2
d.	Total floor space of the building	15,802.65m^2
e.	Asset type	Rental real estate
f.	Gain on transfer	4.35 billion yen (estimated amount)

*The gain on transfer is the estimated amount of the transfer price less the book value and various costs related to the transfer.

3. Overview of the transferee

The transferee is a Japanese corporation. The transferee does not have any capital, personal or business relationship with the Company, and is not a related party of the Company.

4. Effect of the subsequent event on consolidated financial results

The gain of 4.35 billion yen from the transfer of the aforementioned non-current assets will be recorded as extraordinary income in the consolidated financial statements for the third quarter of the fiscal year ending August 31, 2023.