



Summary of Consolidated Financial Results for the Second Quarter of Fiscal Year Ending March 31, 2020 (Japanese Accounting Standards)

November 7, 2019

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 Code Number: 7550 URL <http://www.zensho.co.jp/>
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 Scheduled date for submission of quarterly securities report: November 7, 2019
 Scheduled date for payment of dividends: December 3, 2019
 Supplementary documents for quarterly results : Yes
 Quarterly results briefing : Yes

(Figures rounded down to the nearest million yen)

1. Consolidated Financial Results for the Cumulative Second Quarter (April 1, 2019 to September 30, 2019)

(1) Consolidated Financial Results (Percentages (%) indicate changes from the previous year)

	Net Sales		Operating Profit		Ordinary Profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended September 30, 2019	319,853	6.7	13,392	29.5	12,884	28.0	7,614	52.4
September 30, 2018	290,760	3.0	10,340	3.1	10,065	(0.5)	4,996	(2.1)

Note: Comprehensive income Six months ended September 30, 2019 4,680 million yen(-21.9 %)
 Six months ended September 30, 2018 5,995 million yen(22.3 %)

Six months ended	Basic earnings per share	Diluted earnings per share
	Yen	Yen
September 30, 2019	51.83	-
September 30, 2018	34.19	-

(2) Consolidated Financial Position

	Total Assets	Net Assets	Shareholders' Equity Ratio	Net Assets per share
	Million yen	Million yen	%	Yen
September 30, 2019	362,658	88,420	21.5	520.23
March 31, 2019	377,779	87,083	19.1	496.34

Note: Shareholders' Equity: September 30, 2019 78,000 million yen March 31, 2019 72,162 million yen

2. Dividends

	Dividend per Share				
	End of Q1	End of Q2	End of Q3	Year-end	Full year
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2019	-	9.00	-	9.00	18.00
Fiscal year ending March 31, 2020	-	10.00	-	-	-
Fiscal year ending March 31, 2020 (forecast)	-	-	-	10.00	20.00

Note: Revisions to dividend forecasts published recently : None

3. Consolidated Forecasts for Fiscal Year Ending March 31, 2020 (April 1, 2019 to March 31, 2020)

(Percentages (%) indicate changes from the previous year)

	Net Sales		Operating Profit		Ordinary Profit		Profit attributable to owners of parent		Profit attributable to owners of parent per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	661,367	8.8	23,848	26.6	22,133	21.5	10,460	5.4	71.20

Note: Revisions to consolidated financial forecasts published recently : None

※ Notes

- (1) Changes of important subsidiaries during the period
(changes in specified subsidiaries resulting in change in scope of consolidation) : None
- (2) Application of particular accounts procedures to the preparation of quarterly consolidated financial statements : None
- (3) Changes in accounting policies, changes in accounting estimates, and restatement
- (i) Changes in accounting policies caused by revision of accounting standards : None
 - (ii) Changes in accounting policies other than (i) : None
 - (iii) Changes in accounting estimates : None
 - (iv) Restatement : None

(4) Shares issued and outstanding (common stock)

(i) Number of shares outstanding at the end of the period (including treasury stock)	As of September 30, 2019	151,990,403	shares	As of March 31, 2019	149,640,445	shares
(ii) Number of treasury stocks at the end of the period	As of September 30, 2019	2,055,096	shares	As of March 31, 2019	4,251,546	shares
(iii) Average number of shares outstanding during the term (quarter cumulative)	As of September 30, 2019	146,904,809	shares	As of September 30, 2018	146,170,962	shares

※ This quarterly consolidated financial results report is not subject to a quarterly review.

※ Explanation and other special notes concerning the appropriate use of forecasted business performance

(Notes on forecasted business performance and others)

The forecast figures indicated above are projections based on the information available at the time of the announcement and certain assumptions include some degree of uncertainty. Actual business performance and other results may differ from the forecast depending on the changes in business conditions and others. Please refer to p.4 of the Appendix for information on the above forecast.

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1. Qualitative Information on Results for the Cumulative Second Quarter Ended September 30, 2019

(1) Details of Consolidated Financial Results

In the cumulative second quarter of the fiscal year under review (from April 1, 2019 to September 30, 2019), economic conditions in Japan continued a modest recovery with the backdrop of improvements in employment and income environment. However, the economy remains depressed with trade issues such as US-China trade friction, rising tensions in the Middle East, impact of natural disasters including typhoons, and a risk related to the consumption tax hike in October, which may cause a stagnation in consumption.

In the restaurant industry, business environment remained stringent, because of lackluster personal consumption, strong frugal mindset among consumers and an increase in personnel expenses due to a rise in hourly wage of part-time workers.

Under these circumstances, the same-store sales in the Gyudon category including Sukiya, the Family Dining category including Coco's and Jolly-Pasta, and the Fast Food Service category including Hamazushi were 102.1%, 94.6%, and 102.9% year-on-year, respectively.

At the end of the second quarter of the fiscal year under review, the number of stores stood at 9,724 (including 4,255 franchised stores), resulting from 228 store openings, 150 closures, and the conversion of TCRS Restaurants Sdn. Bhd. (hereinafter referred to as "TCRS") into a wholly owned subsidiary.

Consequently, the business performance in the cumulative second quarter of the fiscal year under review showed sales of 319,853 million yen (up 6.7% year-on-year), operating profit of 13,392 million yen (up 29.5% year-on-year), ordinary profit of 12,884 million yen (up 28.0% year-on-year), and profit attributable to owners of parent of 7,614 million yen (up 52.4% year-on-year).

An overview of conditions by business segment is provided below.

1) Restaurant business

Sales of the restaurant business in the cumulative second quarter of the fiscal year under review were 279,220 million yen (up 8.3% year-on-year), and the operating profit was 13,561 million yen (up 31.1% year-on-year).

The performance of the restaurant business for each major category is as follows.

(Gyudon category)

The number of restaurants in the Gyudon category at the end of September 30, 2019 stood at 2,959 (including 11 franchised restaurants), as a result of 87 new restaurant openings and 19 closures.

Sukiya, a Gyudon chain operated by Sukiya Co., Ltd., has made efforts to enhance the product competitiveness by launching "Gyudon w/ Caesar Salad" (regular size: 500 yen [tax included]), "Gyudon w/ Lettuce & Hot Tomato Sauce" (regular size: 500 yen [tax included]), "Gyudon w/ Chili Garlic Sprout" (regular size: 500 yen [tax included]), "Okonomiyaki Style Gyudon" (Steamed Cabbage, Raw Egg, Mayo & Sauce) (regular size: 520 yen [tax included]), and "Okonomiyaki Style Gyudon w/ Kimcheese" (regular size: 680 yen [tax included]) to address the various needs of customers, under the theme of "Let's be Healthy at Sukiya".

Sukiya is striving to further strengthen quality controls and improve its service to allow customers to continue to enjoy safe and delicious products, as well as to pursue the development of restaurants loved by customers.

Nakau, rice bowl dishes and Kyoto-style udon noodle chain, operated by Nakau Co., Ltd., sought to improve business performance by undertaking various sales promotions while enhancing product competitiveness through introduction of new and seasonal products and improvement of existing products.

As a result of the above, sales in the Gyudon category in the cumulative second quarter of the fiscal year under review totaled 112,158 million yen (up 4.0% year-on-year).

(Family Dining category)

The number of restaurants in the Family Dining category at the end of September 30, 2019 stood at 1,359 (including 79 franchised restaurants), as a result of 7 new restaurant openings and 22 closures.

Coco's, the family restaurant chain operated by Coco's Japan Co., Ltd., has made efforts to improve its business performance by enriching the menu, introducing dainty campaign menus, and improving the standard of service across the chain.

Big Boy, the chain of hamburger steak and steak restaurants and other chain operated by Big Boy Japan, Inc., sought to improve its business performance by various ways, such as improving the main products, enriching salad bar and soup bar, and adding special menus.

Jolly-Pasta, the pasta specialty restaurant chain, operated by Jolly-Pasta Co., Ltd., expanded the lineup of the menu and introduced new dishes using seasonal ingredients to enhance the taste of products and to convey the pasta specialty restaurant's attractiveness to customers, under the slogan, "When you want pasta, it's Jolly-Pasta".

Hanaya Yohei, the Japanese-cuisine restaurant chain operated by Hanaya Yohei Co., Ltd., has been working to improve customers satisfaction by various ways, including development of products using seasonal ingredients, improvement of service standard with enhanced training of restaurant employees, and improvement of labor productivity.

Due to these efforts, sales in the Family Dining category in the cumulative second quarter of the fiscal year under review were 61,968 million yen (down 4.4% year-on-year).

(Fast Food Service category)

The number of restaurants in the Fast Food Service category at the end of September 30, 2019 stood at 925 (including 6 franchised restaurants), as a result of 17 new restaurant openings and 6 closures.

Hamazushi, 100-yen sushi chain stores (kaiten-sushi restaurants) operated by Hamazushi Co., Ltd., sought to expand its businesses by increasing the number of restaurants, enhancing quality of products and strengthening services at the restaurants.

Zensho Holdings Co. Ltd. made TCRS, which operates specialty chicken rice chain stores in Malaysia, a wholly-owned subsidiary by implementing the share acquisition as of May 31, 2019.

Due to these efforts, sales in the Fast Food Service category in the cumulative second quarter of the fiscal year under review were 76,584 million yen (up 9.5% year-on-year).

(Other category)

The number of stores in the Other category at the end of September 30, 2019 stood at 4,345 (including 4,159 franchised stores), as a result of 115 new store openings and 99 closures.

Main businesses in this category include Advanced Fresh Concepts Corp., which operates takeout sushi stores in US, Canada, and Australia; Tolona Japan Co., Ltd., which sells frozen pizza, etc.; Global Fresh Supply Co., Ltd., a company which handles logistics functions for the Zensho Group; and Global Table Supply Co., Ltd., which procures uniforms, equipment etc.

Sales in the Other category in the cumulative second quarter of the fiscal year under review were 28,508 million yen (up 88.7% year-on-year).

2) Retail Business

Sales in the Retail business in the cumulative second quarter of the fiscal year under review were 40,633 million yen (down 3.3% year-on-year), and the operating loss was 168 million yen (operating loss of 5 million yen in the same period of the previous year).

The retail business includes the supermarket business operated by Maruya co., Ltd., Maruei Co., Ltd., Owariya Co., Ltd., and Fresh Corporation Co., Ltd., and fruit and vegetables stores operated by United Veggies Co., Ltd.

(2) Details of Consolidated Financial Position

1) Assets, liabilities, and net assets

(Total Assets)

Total assets stood at ¥362,658 million as of September 30, 2019, a decrease of ¥15,121 million compared with the previous fiscal year-end. This decrease was mainly due to a decrease in cash and deposits, partly offset by increases in non-current assets and property, plant and equipment resulted from new store investments and M&A.

(Liabilities)

Liabilities amounted to ¥274,237 million as of September 30, 2019, a decrease of ¥16,458 million compared with the previous fiscal year-end. This decrease was mainly due to a decrease in interest-bearing liabilities.

(Net Assets)

Net Assets came at ¥88,420 million as of September 30, 2019, an increase of ¥1,337 million compared with the previous fiscal year-end. This increase was mainly due to an increase in retained earnings and decreases in foreign currency translation adjustment and non-controlling interests.

2) Cash flows

(Cash flows from operating activities)

Cash flows from operating activities resulted in an increase in funds of 17,670 million yen (an increase in funds of 16,122 million yen in the same period of the previous fiscal year). This was mainly due to net income before taxes recorded and depreciation.

(Cash flows from investing activities)

Cash flows from investing activities resulted in a decrease in funds of 20,213 million yen (a decrease in funds of 10,281 million yen in the same period of the previous fiscal year). This was mainly due to acquisition of property, plant and equipment to open new stores and M&A.

(Cash flows from financing activities)

Cash flows from financing activities resulted in a decrease of funds of 18,032 million yen (an increase in funds of 25,259 million yen in the same period of the previous fiscal year). This was mainly due to repayments of interest-bearing liabilities and purchases of treasury stock by a consolidated subsidiary.

As a result of the above, cash and cash equivalents decreased 21,445 million yen from the end of previous fiscal year and totaled 35,795 million yen at September 30, 2019.

(3) Information on the Future Outlook, Including Consolidated Business Performance Forecasts

There are no changes to the consolidated business performance forecasts announced on May 14, 2019, for the period ending March 31, 2020.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheet

	(Million yen)	
	End of Previous fiscal year (As of March 31, 2019)	End of 2Q, Current fiscal year (As of September 30, 2019)
Assets		
Current Assets		
Cash and deposits	57,240	35,795
Notes and accounts receivable - trade	14,310	13,735
Merchandise and finished goods	20,936	20,578
Work in process	692	708
Raw materials and supplies	5,611	5,906
Other	15,980	15,396
Allowance for doubtful accounts	(96)	(91)
Total current assets	114,675	92,028
Non-current assets		
Property, plant and equipment, net		
Buildings and structures	196,985	202,434
Accumulated Depreciation	(114,431)	(118,047)
Buildings and structures, net	82,554	84,386
Machinery, equipment and vehicles	13,300	13,823
Accumulated Depreciation	(8,035)	(8,490)
Machinery, equipment and vehicles, net	5,264	5,332
Other	107,714	114,563
Accumulated Depreciation	(53,772)	(57,272)
Other, net	53,942	57,290
Total property, plant and equipment	141,760	147,010
Intangible assets		
Trade mark right	34,446	33,494
Goodwill	16,644	22,000
Other	3,568	3,630
Total intangible assets	54,659	59,125
Investments and other assets		
Investment securities	3,425	2,148
Guarantee deposits	33,295	33,607
Other	29,862	28,656
Allowance for doubtful accounts	(14)	(14)
Total investments and other assets	66,569	64,398
Total non-current assets	262,989	270,534
Deferred assets	114	95
Total assets	377,779	362,658

(Million yen)

	End of Previous fiscal year (As of March 31, 2019)	End of 2Q, Current fiscal year (As of September 30, 2019)
Liabilities		
Current Liabilities		
Notes and accounts payable, trade	22,305	22,068
Short-term loans payable	1,382	1,243
Current portions of bonds	1,600	1,600
Current portion of long-term loans payable	24,891	22,055
Income taxes payable	3,456	2,758
Provision	2,300	2,626
Other	35,515	32,035
Total current liabilities	91,451	84,388
Non-current liabilities		
Bonds payable	27,200	26,400
Long-term loans payable	141,163	131,655
Net defined benefit liability	781	791
Asset retirement obligations	3,100	3,130
Other	26,998	27,871
Total non-current liabilities	199,244	189,848
Total liabilities	290,696	274,237
Net assets		
Shareholders' equity		
Capital stock	23,470	23,470
Capital surplus	24,261	22,510
Retained earnings	34,432	40,752
Treasury shares	(8,021)	(3,879)
Total shareholders' equity	74,143	82,853
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(73)	(70)
Deferred gains or losses on hedges	(0)	(58)
Remeasurements of defined benefit plans	(227)	(123)
Foreign currency translation adjustment	(1,680)	(4,600)
Total accumulated other comprehensive income	(1,980)	(4,852)
Non-controlling interests	14,920	10,419
Total net assets	87,083	88,420
Total liabilities and net assets	377,779	362,658

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
(Quarterly Consolidated Statements of Income)
(Cumulative Second Quarter, Fiscal Year ending March 31, 2020)

	(Million yen)	
	Cumulative 2Q, Previous fiscal year (From April 1, 2018 to September 30, 2018)	Cumulative 2Q, Current fiscal year (From April 1, 2019 to September 30, 2019)
Net Sales	299,760	319,853
Cost of Sales	128,746	136,032
Gross Profit	171,013	183,821
Selling, General and Administrative Expenses	160,672	170,428
Operating Profit	10,340	13,392
Other Income		
Interest income	247	322
Dividend income	2	1
Rent income	66	71
Foreign exchange gains	23	76
Share of profit of entities accounted for using equity method	—	8
Subsidy income	—	228
Other	389	429
Total non-operating income	729	1,138
Non-operating expenses		
Interest expenses	522	1,007
Rent expenses	37	20
Other	444	619
Total non-operating expenses	1,004	1,646
Ordinary profit	10,065	12,884
Extraordinary income		
Gain on sales of non-current assets	105	0
Gain on sales of investment securities	38	—
Compensation income	88	28
Insurance income	20	21
Other	9	24
Total extraordinary income	261	74
Extraordinary losses		
Loss on sales of non-current assets	0	0
Loss on retirement of non-current assets	615	527
Impairment loss	—	375
Other	291	329
Total extraordinary losses	907	1,232
Profit before income taxes	9,419	11,726
Income taxes - current	2,938	3,190
Income taxes - deferred	1,169	976
Total income taxes	4,107	4,167
Profit	5,311	7,559
Profit attributable to non-controlling interests	314	(54)
Profit attributable to owners of parent	4,996	7,614

(Quarterly Consolidated Statements of Comprehensive Income)
(Cumulative Second Quarter, Fiscal Year ending March 31, 2020)

	(Million yen)	
	Cumulative 2Q, Previous fiscal year (From April 1, 2018 to September 30, 2018)	Cumulative 2Q, Current fiscal year (From April 1, 2019 to September 30, 2019)
Profit	5,311	7,559
Other comprehensive income		
Valuation difference on available-for-sale securities	(32)	1
Deferred gains or losses on hedges	735	(57)
Remeasurements of defined benefit plans, net of tax	8	103
Foreign currency translation adjustment	(28)	(2,922)
Share of other comprehensive income of entities accounted for using equity method	—	(3)
Total other comprehensive income	684	(2,878)
Comprehensive income	5,995	4,680
(Breakdown)		
Comprehensive income attributable to owners of parent	5,689	4,742
Comprehensive income attributable to non- controlling interests	306	(61)

(3) Quarterly Consolidated Statements of Cash Flows

	(Million yen)	
	Cumulative 2Q, Previous fiscal year (From April 1, 2018 to September 30, 2018)	Cumulative 2Q, Current fiscal year (From April 1, 2019 to September 30, 2019)
Cash flows from operating activities		
Profit before income taxes	9,419	11,726
Depreciation	9,809	10,606
Impairment loss	—	375
Amortization of goodwill	711	824
Amortization of negative goodwill	(1)	(1)
Increase (decrease) in provision for bonuses	0	(2)
Increase (decrease) in net defined benefit liability	525	321
Interest and dividend income	18	33
Interest expenses	(250)	(323)
Foreign exchange losses (gains)	522	1,007
Loss (gain) on sales of shares of subsidiaries and associates	(9)	(35)
Loss (gain) on sales of investment securities	(38)	0
Loss (gain) on sales of property, plant and equipment	(114)	(0)
Loss on retirement of property, plant and equipment	539	456
Other extraordinary loss (income)	(0)	8
Other non-operating expenses (income)	(29)	(3)
Decrease (increase) in notes and accounts receivable - trade	(564)	368
Decrease (increase) in inventories	(2,469)	48
Increase (decrease) in notes and accounts payable - trade	(1,222)	(532)
Share of (profit) loss of entities accounted for using equity method	—	(8)
Increase (decrease) in accrued consumption taxes	759	(715)
Decrease (increase) in other current assets	(917)	94
Decrease (increase) in other non-current assets	358	467
Increase (decrease) in other current liabilities	276	(2,731)
Increase (decrease) in other non-current liabilities	(4)	106
Subtotal	17,317	22,092
Interest and dividend income received	82	160
Interest expenses paid	(359)	(1,002)
Income taxes paid	(918)	(3,580)
Net cash provided by (used in) operating activities	16,122	17,670

	(Million yen)	
	Cumulative 2Q, Previous fiscal year (From April 1, 2018 to September 30, 2018)	Cumulative 2Q, Current fiscal year (From April 1, 2019 to September 30, 2019)
Cash flows from investing activities		
Purchase of property, plant and equipment	(10,554)	(11,598)
Proceeds from sales of property, plant and equipment	2,347	914
Purchase of intangible assets	(684)	(503)
Purchase of long-term prepaid expenses	(81)	(107)
Purchase of long-term investment securities	(286)	(332)
Proceeds from sales of long-term investment securities	51	0
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(6,703)
Payments of loans receivable	(221)	(574)
Collection of loans receivable	0	3
Payments for guarantee deposits	(304)	(566)
Proceeds from collection of guarantee deposits	510	603
Decrease (increase) in insurance funds	(1)	(1)
Decrease (increase) in premium receivable	(58)	(48)
Purchase of long term prepaid rents	(834)	(824)
Other, net	(164)	(474)
Net cash provided by (used in) investing activities	(10,281)	(20,213)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(134)	(67)
Proceeds from long-term loans payable	47,507	689
Repayments of long-term loans payable	(17,736)	(13,133)
Redemption of bonds	(980)	(800)
Repayments of lease obligations	(1,228)	(1,640)
Purchase of treasury shares	(0)	(9)
Proceeds from sales of treasury shares	—	0
Repayments of installment payables	(182)	—
Proceeds from share issuance to non-controlling shareholders	104	—
Cash dividends paid	(1,312)	(1,308)
Repayments to non-controlling shareholders	—	(1,802)
Dividends paid to non-controlling interests	(128)	(87)
Other, net	(650)	127
Net cash provided by (used in) financing activities	25,259	(18,032)
Effect of exchange rate change on cash and cash equivalents	(17)	(1,196)
Net increase (decrease) in cash and cash equivalents	31,082	(21,772)
Beginning balance of cash and cash equivalents	26,142	57,240
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	83	327
Ending balance of cash and cash equivalents	57,308	35,795

(4) Notes on Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumptions)

Not applicable.

(Notes for Case Where Shareholders' Equity underwent Significant Changes in Value)

Not applicable.

(Segment Information)

【Segment Information】

I Second quarter of Previous Fiscal Year (From April 1, 2018 to September 30, 2018)

1. Information on net sales, profits or losses by reporting segment

(Units : Millions of yen)

	Reporting segments		Total	Adjustment (Note1)	Amount on consolidated balance sheet (Note2)
	Restaurant business	Retail business			
Net Sales					
Sales to External Customers	257,755	42,004	299,760	—	299,760
Intersegment Sales or Transfers	982	23	1,006	(1,006)	—
Total	258,737	42,028	300,766	(1,006)	299,760
Segment Profit/(Loss)	10,346	(5)	10,340	0	10,340

(Note) 1. Adjustment amount of segment profit/(loss) of 0 million yen is mainly elimination of intersegment transactions.

2. The total amount of segment profit/(loss) is adjusted with the operating profit in the quarterly consolidated statements of income.

3. Intersegment sales or transfers amounts are calculated based on prevailing market prices.

2. Information on impairment loss, goodwill, etc. on non-current assets by reportable segment

(Important impairment loss on non-current assets)

Not applicable.

(Major change in goodwill)

Not applicable.

(Major negative goodwill profit)

Not applicable.

II Second quarter of Fiscal Year under review (From April 1, 2019 to September 30, 2019)

1. Information on net sales, profits or losses by reporting segment

(Unit : Millions of yen)

	Reporting segments		Total	Adjustment (Note1)	Amount on consolidated balance sheet (Note2)
	Restaurant business	Retail business			
Net Sales					
Sales to External Customers	279,220	40,633	319,853	—	319,853
Intersegment Sales or Transfers	1,208	16	1,225	(1,225)	—
Total	280,428	40,650	321,079	(1,225)	319,853
Segment Profit/(Loss)	13,561	(168)	13,392	0	13,392

- (Note) 1. Adjustment amount of segment profit/(loss) of 0 million yen is mainly elimination of intersegment transactions.
2. The total amount of segment profit/(loss) is adjusted with the operating profit in the quarterly consolidated statements of income.
3. Intersegment sales or transfers amounts are calculated based on prevailing market prices.

2. Information on impairment loss, goodwill, etc. on non-current assets by reportable segment

(Important impairment loss on non-current assets)

In the “Restaurant Business” segment, impairment losses of 375 million yen were recognized during the six months ended September 2019. This was relating to the fixed assets at restaurants and a food processing plant.

(Major change in goodwill)

In the “Restaurant Business” segment, Zensho Holdings Malaysia Sdn. Bhd., a consolidated subsidiary of Zensho, has acquired all the shares of TCRS Restaurants Sdn. Bhd., and it has been included in the scope of consolidation with effect from the first quarter of fiscal year ending March 31, 2020. With this acquisition, goodwill increased by 5,067 million yen.

The above figure is a tentative amount, since we could not identify the identifiable assets and liabilities, estimate the fair value, and complete the allocation of acquisition cost.

(Major negative goodwill profit)

Not applicable.

(Business combination, etc.)

Transaction under common control, etc.

Conversion into wholly owned subsidiary through a stock swap agreement

At the Board of Directors meeting held on May 14, 2019, Zensho Holdings Co., Ltd. (hereinafter referred to as “Zensho”) resolved to carry out a stock swap to make the company a wholly-owning parent company and make Jolly-Pasta Co., Ltd. (hereinafter referred to as “Jolly-Pasta”), a wholly-owned subsidiary, and entered into a stock swap agreement on the same day. The stock swap was carried out with effective date of August 1, 2019, by Zensho through the use of a simplified stock swap arrangement in accordance with the provisions in Article 796, Paragraph 2 of the Companies Act, without obtaining approval at a General Meeting of Shareholders; and carried out by Jolly-Pasta with approval of the stock swap by a General Meeting of Shareholders held on June 13, 2019.

1. Outline of the business combination

(1) Name of acquired company and its business

Name of acquired company: Jolly-Pasta Co., Ltd.

Business of the acquired company: Operation of pasta specialty restaurant chain

(2) Date of business combination

August 1, 2019

(3) Legal form of the business combination

A stock swap to make the company a wholly-owning parent company and make Jolly-Pasta Co., Ltd. a wholly-owned subsidiary

(4) Name of acquired company after acquisition

No change

(5) Other matters relating to the outline of the transaction

Ratio of voting rights for the additional stocks acquired through this stock swap is approximately 36%, and through this transaction, Zensho made Jolly-Pasta its wholly owned subsidiary.

Zensho and Jolly-Pasta have reached a common understanding that various benefits are expected from the stock swap. The possible benefits include significant expansion of number of restaurants and sales areas, and increased ability to attract customers through new business development, as well as reduction of logistics costs through further promotion of group-wide sharing of plants and logistics functions on the part of Jolly-Pasta, while on the part of Zensho, realization of speedy and flexible decision-making and thorough policy enforcement, establishment of agile and flexible operating structure through elimination of potential conflicts of interest resulted from de-listing, and elimination of expenses necessary for being listed are expected.

2. Overview of Accounting Practices

In accordance with “Accounting Standards for Business Combinations” and “Application Guidelines for Accounting Standards for Business Combinations and Accounting Standards for Business Divestitures”, the stock swap is treated as a transaction with non-controlling shareholder under common control transaction.

3. Matters relating to additional share acquisition through stock swap with a subsidiary

(1) Acquisition cost and breakdown by type of consideration

Consideration of acquisition	Zensho common stock with fair value as of the date of business combination	10,719 million yen
Acquisition cost		10,719 million yen

(2) Details of the allocation of shares associated with the stock swap

Note 1 : Share allocation ratio

For every one share of Jolly-Pasta common stock, 0.8 shares of Zensho common stock was allocated.

Note 2 : Calculation method for the share allocation ratio

Zensho selected Mizuho Securities Co., Ltd., and Jolly-Pasta selected Stream Co., Ltd. as an independent third party, respectively, to calculate a share allocation ratio. Based on the reports submitted by the third parties, Zensho and Jolly-Pasta discussed and determined the share allocation ratio.

Note 3 : Number of shares allocated through the stock swap

4,549,958 shares (Newly issued shares : 2,349,958, Treasury stock : 2,200,000)