



Nine-month Consolidated Financial Report for the Fiscal Year ending October 31, 2020 [Japan GAAP]

September 4, 2020

Listed Company Name **Kanamoto Co., Ltd.**
 Company Code Number **9678**
 Listing Exchanges **Tokyo Stock Exchange, Sapporo Stock Exchange**
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Scheduled date for submission of Quarterly Report September 11, 2020
 Scheduled date for commencement of dividend payments —
 Preparation of Quarterly Settlement Supplementary Explanatory Materials No
 Quarterly Earnings Briefings No

(Numbers less than one million yen have been rounded down)

1. Consolidated Operating Results for the Nine-Month Period of the Fiscal Year Ending October 31, 2020

(November 1, 2019 – July 31, 2020)

(1) Consolidated Operating Results (Cumulative)

(Percentages show the change from the prior year)

	Net Sales		Operating Profit		Ordinary Profit		Profit Attributable to Owners of Parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal Year ending October 31, 2020: Third quarter	132,961	-0.6	10,658	-19.4	10,459	-23.0	6,143	-28.1
Fiscal Year ended October 31, 2019: Third quarter	133,823	7.0	13,229	-1.4	13,580	-0.6	8,550	3.6

(Note) Comprehensive income (millions of yen)

Fiscal Year Ending October 31, 2020, Third Quarter	6,096	(-29.7%)
Fiscal Year Ended October 31, 2019, Third Quarter	8,671	(-0.3%)

	Net Income per Share	Net Income per Share on a Fully Diluted Basis
	Yen	Yen
Fiscal Year ending October 31, 2020: Third quarter	160.09	—
Fiscal Year ended October 31, 2019: Third quarter	220.97	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio
	Millions of yen	Millions of yen	%
Fiscal Year ending October 31, 2020: Third quarter	279,582	123,348	41.7
Fiscal Year ended October 31, 2019	268,182	121,779	43.1

(Reference) Equity (millions of yen)

Fiscal Year Ending October 31, 2020 Third Quarter	116,471
Fiscal Year Ended October 31, 2019	115,507

2. Dividends

	Annual Dividends per Share				
	End of first quarter	End of second quarter	End of third quarter	Year-end	Full-year
Fiscal year ended October 31, 2019	Yen —	Yen 25.00	Yen —	Yen 40.00	Yen 65.00
Fiscal year ending October 31, 2020	—	25.00	—		
Fiscal Year ending October 31, 2020 (Projected)				40.00	65.00

(Note) Has the Company revised its most recently released dividend projection? No

3. Projected Consolidated Operating Results for the Fiscal Year Ending October 2020

(November 1, 2019 – October 31, 2020)

(Percentages show the change from the prior year)

	Net Sales		Operating Profit		Ordinary Profit		Profit Attributable to Owners of Parent		Net Income per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	177,900	-1.5	13,700	-23.2	13,600	-25.6	8,000	-30.0	208.46

(Note) Has the Company revised its most recently released projected consolidated operating results during the quarter?

Yes

For the revisions to projected consolidated operating results, please refer to the press release "Notification Concerning Revision of Projected Operating Results for the Business Period Ending October 2020" issued today (September 4, 2020).

4. Notes

(1) Changes in material subsidiaries during the period under review (Changes in specific subsidiaries in conjunction with a change in the scope of consolidation): No

Company newly included (Company name) —

Company newly excluded (Company name) —

(2) Application of special accounting method in the preparation of quarterly consolidated financial statements: No

(3) Changes in accounting principles, changes in accounting estimates and retrospective restatements

(a) Changes in accounting policy in conjunction with revision of accounting standards: No

(b) Changes other than the above: Yes

(c) Changes in accounting estimates: Yes

(d) Retrospective restatements: No

(Note) These changes fall under Article 10-5 of the *Regulation on the Terminology, Forms, and Preparation Methods of Quarterly Consolidated Financial Statements*. For details please refer to “2. Quarterly Consolidated Financial Statements and Notes (3) Notes Concerning Quarterly Consolidated Financial Statements (Change in Accounting Policy)” on p. 12 of the Attachments.

(4) Number of shares issued (common shares)

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

Fiscal year ending October 31, 2020 Third Quarter: 38,742,241 shares

Fiscal year ended October 31, 2019: 38,742,241 shares

(b) Number of shares of treasury stock at the end of the period

Fiscal year ending October 31, 2020 Third Quarter: 939,142 shares

Fiscal year ended October 31, 2019: 3,259 shares

(c) Average number of shares during the period (consolidated year-to-date)

Fiscal year ending October 31, 2020 Third Quarter: 38,377,113 shares

Fiscal year ended October 31, 2019 Third Quarter: 38,695,084 shares

Note: Quarterly earnings reports are not subject to quarterly review by certified public accountants or independent account auditors.

Note: Explanation concerning appropriate use of the projected operating results and other items to note

Note Concerning Forward-Looking Statements

The forward-looking statements, including business results forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions deemed to be reasonable. The Company does not guarantee the achievement of the projections. Actual operating results may differ substantially due to a number of factors. Please refer to “1. Qualitative Information Concerning Quarterly Consolidated Operating Results (3) Explanation Concerning Future Forecasts Including Projected Consolidated Operating Results” on Page 7 of the Attachments for the conditions used as assumptions for the projected operating results and matters to note before using the projected operating results.

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1. Qualitative Information Concerning Quarterly Consolidated Operating Results

(1) Qualitative Information Concerning Consolidated Operating Results

During the first nine months of Kanamoto's current consolidated fiscal year, Japan's economy continued to face harsh conditions and an uncertain outlook, including a decline in corporate earnings and deterioration of the employment environment, as economic activity was severely constrained by the spread of COVID-19 coronavirus infections. Although expected to recover as various government policies take effect, substantial concerns about a second wave of infections remain, together with a general sense of economic uncertainty, and overall circumstances continue to be unpredictable.

In the construction industry related to the Kanamoto Group, public works expenditures centered on disaster recovery and infrastructure maintenance and repair works remain steady, but there are concerns about cutbacks in private sector construction investment because of a slump in the real economy. In addition, conditions such as the shortage of skilled construction workers and the trend in prices for materials and equipment continue to warrant close attention.

Given such circumstances, the Kanamoto Group moved forward with its three priority policies of expanding its domestic base of operations, developing its overseas business, and optimizing internal operational processes, and made every effort to further enhance its corporate value, with the aim of realizing its new Medium-Term Management Plan (FY2020-FY2024) "Creative 60". The Group worked diligently to fulfill its mission as well, including capital investment and the development of social capital to strengthen support systems for natural disaster recovery and reconstruction activities, while striving to prevent the spread of new coronavirus infections, with the highest priority on ensuring the safety of our customers and employees.

Turning to the operating results of the Kanamoto Group for the consolidated nine-month period, net sales were ¥132,961 million, down 0.6% compared with the same period of the prior consolidated fiscal year. In terms of earnings, operating profit fell 19.4% from the same period of the prior consolidated fiscal year to ¥10,658 million, reflecting investments in the human resources who will be responsible for future growth and restraints on sales of used construction equipment to improve rental business profitability, while ordinary profit declined 23.0% year-on-year to ¥10,459 million and nine-month profit attributable to owners of parent contracted 28.1% year-on-year to ¥6,143 million.

Operating results for each of the Company's business segments were as follows.

< Business related to the Construction Equipment Rental Division >

In the construction-related business that is Kanamoto's primary business, construction equipment rental demand generally was brisk, particularly for disaster recovery and disaster prevention-related works and infrastructure-related works, despite temporary project delays or cancellations seen at some worksites that were affected by coronavirus infections.

In addition, the Kanamoto Group worked to maintain an efficient management organization and further strengthen its business structure, in order to maintain a product lineup capable of supplying a broad range of requests and ensure the Group's portfolio possesses the optimal quantities and models of equipment.

Used construction equipment sales declined 19.0% from the corresponding period of the prior consolidated fiscal year, as the Company proceeded with sales in line with its initial plan.

As a result of the above factors, net sales for Kanamoto's construction-related businesses were ¥119,984 million, nearly unchanged from the same period of the prior consolidated fiscal year, and operating profit decreased 21.4% year-on-year to ¥9,613 million.

< Other businesses >

In the Company's other businesses, sales in the welfare-related business and information and telecommunications-related business were robust. Because steel products-related demand remained at a low level compared with the same period one year earlier, however, reflecting the drop in demand because of steel materials prices, net sales slipped 6.4% from the same period of the previous consolidated fiscal year to ¥12,976 million, and operating profit rose 5.7% year-on-year to ¥721 million.

(2) Qualitative Information Concerning Consolidated Financial Position

Assets, liabilities, and net assets

Total assets at the end of the third quarter under review increased by ¥11,399 million compared with the end of the previous consolidated fiscal year to ¥279,582 million. The principal items contributing to this change were an increase of ¥4,008 million in cash and deposits, an increase of ¥8,807 million in rental equipment, and an increase of ¥1,327 million in construction machine parts, and a decrease of ¥3,094 million in notes and accounts receivable-trade and a decrease of ¥1,005 million in electronically recorded monetary claims-operating, respectively.

Total liabilities were ¥156,233 million, an increase of ¥9,830 million compared with the end of the prior consolidated fiscal year. The principal items contributing to this change were an increase of ¥1,940 million in short-term loans payable, an increase of ¥1,034 million in accounts payable-other, an increase of ¥4,356 million in long-term loans payable and an increase of ¥5,759 million in long-term accounts payable-other, and a decrease of ¥1,373 million in notes and accounts payable-trade and a decrease of ¥3,668 million in income taxes payable, respectively.

Total net assets came to ¥123,348 million, ¥1,569 million higher than at the end of the prior consolidated fiscal year. This mainly reflected profit attributable to owners of parent for the nine-month period of ¥6,143 million, the acquisition of ¥2,000 million of treasury shares, and a decrease of ¥2,505 million for dividends from surplus.

(3) Explanation Concerning Future Forecasts Including Projected Consolidated Operating Results

Because of the difficulty of reasonably estimating when the COVID-19 coronavirus will be brought under control and the pandemic's impact on the real economy, Kanamoto has revised the projected consolidated operating results forecast released on December 6, 2019 based solely on recent market trends and information available to the Company at this time, and has not changed its full-year projected consolidated operating results to reflect the effects of the coronavirus.

For details, please refer to the press release "Notification Concerning Revision of Projected Operating Results for the Business Period Ending October 2020" issued today (September 4, 2020).

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

(Unit: Millions of yen)

	As of October 31, 2019	As of July 31, 2020
Assets		
Current assets		
Cash and deposits	43,751	47,759
Notes and accounts receivable - trade	39,574	36,479
Electronically recorded monetary claims - operating	6,347	5,341
Merchandise and finished goods	1,017	1,084
Costs on uncompleted construction contracts	33	73
Raw materials and supplies	800	1,159
Construction machine parts	17,567	18,895
Other	2,527	2,585
Allowance for doubtful accounts	-225	-197
Total current assets	111,393	113,181
Non-current assets		
Property, plant and equipment		
Rental equipment	220,812	236,185
Accumulated depreciation	-134,957	-141,523
Rental equipment, net	85,855	94,662
Buildings and structures	37,453	38,847
Accumulated depreciation	-22,060	-22,799
Buildings and structures, net	15,393	16,048
Machinery, equipment and vehicles	7,828	7,992
Accumulated depreciation	-6,377	-6,500
Machinery, equipment and vehicles, net	1,451	1,492
Land	37,211	37,421
Other	2,857	3,270
Accumulated depreciation	-1,684	-1,735
Other, net	1,173	1,534
Total property, plant and equipment	141,084	151,159
Intangible assets		
Goodwill	201	94
Other	1,478	1,430
Total intangible assets	1,680	1,524
Investments and other assets		
Investment securities	9,319	8,766
Deferred tax assets	1,714	1,853
Other	3,344	3,724
Allowance for doubtful accounts	-353	-627
Total investments and other assets	14,024	13,716
Total non-current assets	156,789	166,400
Total assets	268,182	279,582

(Unit: Millions of yen)

	As of October 31, 2019	As of July 31, 2020
Liabilities		
Current liabilities		
Notes and accounts payable - trade	33,657	32,284
Short-term loans payable	1,120	3,060
Current portion of long-term loans payable	11,147	11,559
Lease obligations	885	1,040
Income taxes payable	4,245	576
Provision for bonuses	1,320	865
Accounts payable - other	23,370	24,405
Other	2,772	3,836
Total current liabilities	78,519	77,630
Non-current liabilities		
Long-term loans payable	17,206	21,562
Lease obligations	1,800	2,298
Long-term accounts payable - other	48,043	53,802
Net defined benefit liability	285	340
Asset retirement obligations	492	526
Other	55	72
Total non-current liabilities	67,883	78,603
Total liabilities	146,403	156,233
Net assets		
Shareholders' equity		
Capital stock	17,829	17,829
Capital surplus	19,324	19,324
Retained earnings	76,638	80,276
Treasury shares	-9	-2,009
Total shareholders' equity	113,783	115,421
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,918	1,255
Deferred gains or losses on hedges	0	-
Foreign currency translation adjustment	-192	-179
Remeasurements of defined benefit plans	-2	-25
Total accumulated other comprehensive income	1,723	1,050
Non-controlling interests	6,272	6,876
Total net assets	121,779	123,348
Total liabilities and net assets	268,182	279,582

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income
(Quarterly Consolidated Statements of Income)
(Consolidated Nine-month Period ended July 31)

(Unit: Millions of yen)

	Nine months ended July 31, 2019	Nine months ended July 31, 2020
Net sales	133,823	132,961
Cost of sales	94,552	95,063
Gross profit	39,271	37,898
Selling, general and administrative expenses	26,041	27,239
Operating profit	13,229	10,658
Non-operating income		
Interest income	19	33
Dividend income	164	165
Rent income	59	65
Other	396	336
Total non-operating income	639	600
Non-operating expenses		
Interest expenses	67	60
Foreign exchange losses	25	112
Share issuance cost	46	—
Provision of allowance for doubtful accounts	—	331
Loss on cancellation of leases	27	50
Other	122	244
Total non-operating expenses	289	799
Ordinary profit	13,580	10,459
Extraordinary income		
Gain on sales of non-current assets	32	9
Subsidy income	19	12
Gain on sales of investment securities	14	—
Total extraordinary income	67	22
Extraordinary losses		
Loss on sales and retirement of non-current assets	118	171
Loss on valuation of shares of subsidiaries and associates	3	66
Loss on valuation of investment securities	—	119
Total extraordinary losses	122	357
Profit before income taxes	13,525	10,124
Income taxes – current	4,320	3,177
Income taxes – deferred	32	168
Total income taxes	4,352	3,345
Profit	9,172	6,779
Profit attributable to non-controlling interests	622	635
Profit attributable to owners of parent	8,550	6,143

(Quarterly Consolidated Statements of Comprehensive Income)
(Consolidated Nine-month Period ended July 31)

(Unit: Millions of yen)

	Nine months ended July 31, 2019	Nine months ended July 31, 2020
Profit	9,172	6,779
Other comprehensive income		
Valuation difference on available-for-sale securities	-379	-666
Deferred gains or losses on hedges	-0	-0
Foreign currency translation adjustment	-120	12
Remeasurements of defined benefit plans, net of tax	-0	-28
Total other comprehensive income	-501	-682
Comprehensive income	8,671	6,096
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	8,053	5,470
Comprehensive income attributable to non-controlling interests	617	625

(3) Notes Concerning Quarterly Consolidated Financial Statements

(Notes Relating to the Going Concern Assumption)

The Company had no material items to report.

(Note on Significant Changes to Shareholders' Equity)

Based on a resolution adopted at the Board of Directors meeting held on March 17, 2020, the Company acquired 935,800 treasury shares.

As a result, treasury shares increased by ¥2,000 million during the consolidated nine-month period ended July 31, 2020, and treasury shares at the end of the third quarter consolidated accounting period totaled –¥2,009 million.

(Change in Accounting Policy)

(Changes in accounting policies that are difficult to separate from changes in accounting estimates)

Traditionally, certain of the Company's domestic consolidated subsidiaries depreciated rental assets by applying the declining balance method. Beginning from the first quarter consolidated accounting period, these subsidiaries have changed their depreciation method to the straight-line depreciation method.

This change was based on the judgment the straight-line method is a reasonable method to appropriately reflect actual conditions of future use as the long-term, stable use of rental assets is achieved through actions to "enhance the environment to promote Group logistics" and other measures, and was the result of using formulation of the Kanamoto Group's new Medium-Term Corporate Management Plan "Creative 60", which positions "strengthening intra-Group cooperation and aligning vectors up to the strategic and tactical levels" as a key component, as an opportunity to review the depreciation method.

As a result, operating profit, ordinary profit and income before income taxes and minority interests for the nine-month period ended July 31 increased by ¥774 million, respectively, compared with what they otherwise would have been had the traditional depreciation method been applied. The effect of this change on the Company's information by segment is described in the relevant section.

(Business Segment Information)

I Third quarter of the prior consolidated fiscal year (From November 1, 2018 to July 31, 2019)

1. Information concerning net sales and profit or loss by reporting segment

(Unit: Millions of yen)

	Reporting segment	Other Businesses (See note)	Total
	Business related to the Construction Equipment Rental Division		
Net sales			
Net sales to outside customers	119,965	13,857	133,823
Net sales or transfers between related segments	—	—	—
Total	119,965	13,857	133,823
Segment profit	12,230	682	12,912

(Note) The “Other businesses” classification encompasses business segments not included in the reporting segment, and includes business related to the Steel Sales Division, the Information Products Division, welfare-related businesses, and other businesses.

2. Difference between total reporting segment profit or loss and the amount reported on the Quarterly Consolidated Statements of Income, and the main reasons for the difference (Matters Pertaining to Reconciliation of Difference)

(Unit: Millions of yen)

Income	Amount
Reporting segment total	12,230
Income for “Other businesses” classification	682
Other adjustments	317
Operating profit reported on the Consolidated Quarterly Statements of Income	13,229

3. Information concerning fixed asset impairment loss and goodwill by reporting segment

The Company had no material items to report.

II Third quarter of the current consolidated fiscal year (From November 1, 2019 to July 31, 2020)

1. Information concerning net sales and profit or loss by reporting segment

(Unit: Millions of yen)

	Reporting segment	Other Businesses (See note)	Total
	Business related to the Construction Equipment Rental Division		
Net sales			
Net sales to outside customers	119,984	12,976	132,961
Net sales or transfers between related segments	—	—	—
Total	119,984	12,976	132,961
Segment profit	9,613	721	10,334

(Note) The “Other businesses” classification encompasses business segments not included in the reporting segment, and includes business related to the Steel Sales Division, the Information Products Division, welfare-related businesses, and other businesses.

2. Difference between total reporting segment profit or loss and the amount reported on the Quarterly Consolidated Statements of Income, and the main reasons for the difference (Matters Pertaining to Reconciliation of Difference)

(Unit: Millions of yen)

Income	Amount
Reporting segment total	9,613
Income for “Other businesses” classification	721
Other adjustments	323
Operating profit reported on the Consolidated Quarterly Statements of Income	10,658

3. Information concerning fixed asset impairment loss and goodwill by reporting segment

The Company had no material items to report.

4. Matters concerning changes to reporting segments

(Change in the depreciation method of property, plant and equipment)

As described in “Change in Accounting Policy”, beginning from the first quarter of the current consolidated accounting fiscal year certain domestic subsidiaries have changed their method for depreciation of rental equipment from the declining balance method to the straight-line depreciation method.

In conjunction with this change, the income from business related to the Construction Equipment Rental Division for the third quarter consolidated accounting period under review increased by ¥774 million compared with what it otherwise would have been had the accounting standard used in past periods been applied.

(Material Events After the Reporting Period)

At its Board of Directors meeting held on September 4, 2020, the Company resolved to acquire all of the ownership interests in the Australia-domiciled companies Porter Group Nominees Pty Ltd, Porter Utilities Holdings Pty Ltd, and Madica Pty Ltd (collectively, “the Porter Plant Group”), through Kanamoto Australia Holdings Pty Ltd, a wholly-owned subsidiary, and convert the three companies to subsidiaries. To enable it to hold the Porter Plant Group investment interests, Kanamoto Australia Holdings Pty Ltd intends to increase its capital by selling stock to Kanamoto, and because Kanamoto’s investment in Kanamoto Australia Holdings Pty Ltd will exceed 10% of the Company’s capital stock after execution of this transaction, Kanamoto Australia Holdings Pty Ltd will become a specific subsidiary of the Company.

Business combination resulting from the acquisitions

1. Business combination summary

(1) Names and businesses of the companies to be acquired

① Acquired company name	Porter Group Nominees Pty Ltd
Business	Management of subsidiary
② Acquired company name	Porter Utilities Holdings Pty Ltd
Business	Management of subsidiary
③ Acquired company name	Madica Pty Ltd
Business	Civil engineering and public works, dispatch of specialized operators
④ Name of acquired company’s subsidiary	Porter Excavations Pty Ltd
Business	Construction equipment rental
⑤ Name of acquired company’s subsidiary	Porter Utilities Pty Ltd
Business	Gas pipe laying works

(2) Main reasons for the business combination

Under its group philosophy of being “an excellent and dynamic group that uses its solid earnings as a base to reward shareholders, customers and employees”, Kanamoto seeks to establish a true general rental company and expand its operating base by positioning “expansion of domestic base of operations, overseas development, and optimization of internal operational processes” as a priority policy in Kanamoto’s new Medium-term Corporate Management Plan “Creative 60”, which will extend through the Business Period ending October 2024.

The Porter Plant Group is developing businesses in sectors such as construction equipment rental, civil engineering and public works, dispatching of specialized operators, and gas pipe laying, primarily in the state of Victoria, Australia.

The Company has resolved to acquire the investment interests in the Porter Plant Group and manage it as a subsidiary because it believes the group’s firms will help strengthen Kanamoto’s overseas expansion, which is a key measure of the management plan as described above.

(3) Business combination date

On or after September 30, 2020

The business combination will be executed pursuant to receiving approval from the relevant authorities

(4) Legal form of the business combination

Acquisition of stock for consideration of cash

(5) Company names subsequent to business combination

The names of the companies will not change subsequent to the business combination

(6) Percentage of ownership interest to be acquired

Porter Group Nominees Pty Ltd:	100%
Porter Utilities Holdings Pty Ltd:	100%
Madica Pty Ltd:	100%

(7) Principal reason for deciding to acquire the company

To enable Kanamoto Australia Holdings Pty Ltd, a wholly-owned subsidiary of Kanamoto, to acquire the ownership interests in the companies in exchange for cash.

2. Breakdown by acquired company acquisition cost and type of consideration
To be determined.
3. Description and amount of main acquisition-related costs
To be determined.
4. Amount and cause of goodwill to be generated, depreciation method, and amortization period
To be determined.
5. Amount and main breakdown of assets and liabilities to be received on date of business combination
To be determined.