

Consolidated Financial Summary for the First Quarter of the Fiscal Year Ending July 2023 (Japanese GAAP)

December 15, 2022

Name of listed company: Meiho Enterprise Co., Ltd.

Listing
exchange:

Tokyo Stock Exchange

Code 8,927

URL <https://www.meiho-est.com>

Representative: (Position) Chairman & Representative Director (Name) Mitsuru Yabuki

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Scheduled date for submission of quarterly report: December 15, 2022 Scheduled date for start of dividend payment:

Creation of supplementary explanatory materials: None

Holding of accounts briefing meeting: None

(Amounts are rounded down to the nearest million yen)

1. Consolidated results for the first quarter of fiscal year ending July 2023 (August 1, 2021 to October 31, 2022)

(1) Consolidated operating results (cumulative) (% figures show the rate of increase (decrease) compared with the same period of the previous fiscal year)

	Revenues		Operating profit		Ordinary profit		Profit attributable to owners of parent Profit attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
First quarter of fiscal year ending July 2023	1,686	0.2	82	(29.6)	14	(83.2)	28	(48.5)
First quarter of fiscal year ending July 2022	1,682	(5.3)	116	14.2	89	1.3	54	(18.6)

(Note) Comprehensive income First quarter of fiscal year ending July 2023 25 million yen ((53.5)%) First quarter of fiscal year ending July 2022 55 million yen ((19.1)%)

	Basic profit per share	Basic profit per share (diluted)
	yen sen	yen sen
First quarter of fiscal year ending July 2023	1.19	-
First quarter of fiscal year ending July 2022	2.31	-

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
	million yen	million yen	%
First quarter of fiscal year ending July 2023	18,164	5,375	29.5
Fiscal year ended July 2022	13,987	5,530	39.5

(Reference) Equity capital First quarter of fiscal year ending July 2023 5,366 million yen Fiscal year ended July 2022 5,530 million yen

2. Dividends

	Annual dividend				
	End of first quarter	End of second quarter	End of third quarter	Year-end	Total
	yen sen	yen sen	yen sen	yen sen	yen sen
Fiscal year ended July 2022	-	0.00	-	8.00	8.00
Fiscal year ended July 2023	-	-	-	-	-
Fiscal year ending July 2023 (Forecast)	-	0.00	-	8.00	8.00

(Note) Revisions to the most recent dividend forecast: None

3. Consolidated earnings forecast for the fiscal year ending July 2023 (from August 1, 2022 to July 31, 2023)

(% figures show the rate of increase (decrease) from the previous fiscal year)

	Revenues		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen sen
End of second quarter (cumulative)	2,700	(6.8)	(260)	-	(380)	-	(410)	-	(17.36)
Full year	18,000	61.3	1,070	(4.2)	770	(17.4)	490	(23.5)	20.75

(Note) Revisions to the most recent earnings forecast: None

* Explanatory notes

(1) Changes in significant subsidiaries during the period : : Yes

(Changes in specified subsidiaries resulting in change in scope of consolidation)

Newly included: 1 company (Company name) Kyoeigumi Co.,Ltd., Excluded: — companies (Company name)

(2) Application of accounting method specific to preparation of quarterly consolidated financial statements : None

(3) Changes in accounting policies, changes in accounting estimates, and restatement

1) Changes in accounting policies with revision of accounting standards : None

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

3) Changes in accounting estimates : None

4) Restatement : None

(4) Number of shares issued and outstanding (ordinary shares)

1) Number of shares issued and outstanding (including treasury shares) at end of the period	First quarter of FY ending July 2023	24,661,000 shares	Fiscal year ended July 2022	24,661,000 shares
2) Number of treasury shares at end of the period	First quarter of FY ending July 2023	1,047,160 shares	Fiscal year ended July 2022	1,047,160 shares
3) Average number of shares during the period (quarterly cumulative)	First quarter of FY ending July 2023	23,613,840 shares	First quarter of FY ending July 2022	23,613,840 shares

* Quarterly Financial Summary is outside the scope of the quarterly review by a certified public accountant or audit firm.

* Explanation regarding appropriate use of earnings forecasts, and other notes

The earnings outlook and other forward-looking statements contained herein are based on information currently available and certain assumptions that are thought to be reasonable by the Company. Accordingly, actual business performance and other results may differ materially due to various factors. For the conditions forming the assumptions on which earnings forecasts are based and explanatory notes for use of earnings forecasts, etc., please see "Attachment 1. Qualitative Information on Quarterly Financial Results (3) Explanation of Consolidated Earnings Forecasts and Other Forward-Looking Information" on page 2.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

During the current consolidated cumulative first quarter (August 1st 2022 to October 31, 2022), Economic conditions in Japan have been showing signs of a gradual, albeit gradual, recovery in socioeconomic activities as the impact of the COVID-19 infection is gradually coming to an end. Meanwhile, the crisis in Ukraine, as well as other causes, are driving up the cost of energy and raw materials. Additionally, the yen is depreciating quickly due to the widening interest rate differential between Japan and the U.S. The scenario still necessitates paying close enough attention to market fluctuations and other factors.

In the real estate industry in which the Meiho Group operates, with regard to real estate investments, mainly residential real estate, foreign investors are paying attention to Japanese real estate against the backdrop of the continuing low-interest rate environment and the weak yen, and both supply and demand continue to be strong. However, careful consideration is still required

for the current situation caused by increases in real estate prices caused by rises in costs such as land prices, and the costs of construction work.

Under these business circumstances, the Group made the following efforts in each business segment.

In the real estate sales business, the Group is proceeding to enhance its ability to procure properties by leveraging its strengths in information analysis and business planning to its fullest while strengthening its resistance to market fluctuation risks by carefully selecting locations and reducing procurement costs. In addition, in the sales activities of our main brands, MIJAS and EL FARO, we handed over one property, EL FARO Ookayama (Meguro-ku, Tokyo) (three properties in the same quarter of the previous fiscal year). We also have completed the delivery of one piece of land for a development project.

In the real estate leasing business, we were forced to suspended various seminars that we used to hold regularly for existing owners, and we are still in a situation where it is difficult to have face-to-face contact. However, we actively engage in communication activities and CS activities for non-face-to-face and remote locations, utilize social media, and offer VR preview tours for tenants to respond to the changing environment. By maintaining high occupancy rates and providing and proposing services that anticipate diversifying customer requirements, we strive to preserve the value of important assets, improve customer satisfaction and maintain and enhance our relationship of trust with our customers. For our main brands, the MIJAS and EL FARO series, the Group offers a one-stop service, from the creation of products to their management, thereby endeavoring to maintain high quality and high occupancy rates. Consequently, the series is creating synergies within the Group, with their positive recognition as highly profitable real estate investment products. As a result, group synergies have been achieved, triggering repeated purchases of real estate investment

product series, etc.

In the real estate brokerage business, the Group is working to increase revenues by introducing properties in line with customer needs through the use of its unique information network comprising real estate sales business and other businesses.

In the contracting business, the Group worked to increase earnings through the design supervision, and construction of two properties in the MIJAS series (construction in progress) and four properties in the EL FARO series (construction in progress), as well as remodeling and renovations suiting the characteristics of other properties under our management.

As a result of the above, in the first quarter of the Group's fiscal year, consolidated net sales stood at 1,686 million yen (up 0.2% year on year), operating income stood at 82 million yen (down 29.6% year on year), and ordinary profit stood at 14 million yen (down 83.2% year on year). In addition, during the first quarter of the fiscal year, negative goodwill accrued as a result of acquiring Kyoiegumi Co., Ltd. under extraordinary income recorded, and profit attributable to owners of the parent amounted to 28 million yen (down 48.5% year on year).

Operating results by segment are as follows.

[Real estate sales business]

In the real estate sales business, we handed over one property in the EL FARO series (rental apartment project), and sold an additional property for development projects. As a result, net sales totaled 1,013 million yen (down 6.8% year on year), and segment income totaled 90 million yen (down 1.1% year on year).

[Real estate leasing business]

In the real estate leasing business, due to property management fees and other factors, net sales totaled 509 million yen (up 1.5% year on year), and segment income totaled 39 million yen (down 35.5% year on year).

[Real estate brokerage business]

In the real estate brokerage business, net sales totaled 2 million yen (down 76.3% year on year) and segment income totaled 2 million yen (down 73.5% year on year), reflecting real estate brokerage fees.

[Contracting business]

Regarding the contracting business, due to the execution of construction contracts and renovation works, net sales totaled 1 million 41 million yen (up 88.9% year on year), and segment Profit totaled 11 million yen (compared to the segment Loss of 2 million in the same period of the previous year).

[Other]

This section refers to business segments not included in the reportable segments. Mainly due to insurance agency services, net sales totaled 19 million yen (up 157.6% year on year), and segment income totaled 18 million yen (up 162.4% year on year).

(2) Explanation of Financial Position

Total assets at the end of the first quarter of the current fiscal year increased by 4,177 million yen from the end of the previous consolidated fiscal year to 18,164 million yen. This was due to an increase in inventories of 4,127 million yen resulting from the acquisition of property for development projects, investment properties under construction, etc., as well as the added subsidiary.

Liabilities increased by 4,331 million yen from the end of the previous consolidated fiscal year to 12,789 million yen. This was mainly attributable to a 1,421 million yen increase in short-term borrowings and a 2,532 million yen increase in long-term loans (including the current portion of long-term borrowings) payable due to the procurement of funds for the acquisition of properties for new development projects, etc., and the increase in the number of consolidated subsidiaries .

Net assets decreased by 154 million yen from the end of the previous fiscal year to 5,375 million yen, while the equity ratio decreased by 10.0 percentage points from the end of the previous consolidated fiscal year to 29.5%.

(3) Explanation of Consolidated Earnings Forecasts and Other Forward-Looking Information

With respect to consolidated earnings forecasts, there is no change in the consolidated earnings forecast for the fiscal year ending July 31, 2023, which was announced in the "Consolidated Financial Summary for the Fiscal Year Ended July 31, 2022," on September 14, 2022.

The business base, including the markets for the Group's main line of businesses, remains firm, and its purchasing and sales conditions are favorable. We will work together to promote business activities to further increase profitability.

The Group promotes operating activities while actively introducing a range of measures to prevent the spread of COVID-19, such as staggered working hours, working from home, and teleworking, in consideration of the health of its officers, employees, and customers. At this point, it is difficult to predict the impact of the COVID-19 infection on the consolidated business performance of the Group, including future conditions of the real estate market. However, if we determine that revisions to the full-year consolidated business performance forecast are necessary, we will make announcements in a timely manner, depending on changes in conditions.

2. Quarterly Consolidated Financial Statements and Main Notes

(1) Quarterly Consolidated Balance Sheet

(Unit: thousand yen)

	Previous consolidated fiscal year (July 31, 2022)	First quarter of the current fiscal year (October 31, 2022)
Assets		
Current assets		
Cash and deposits	3,528,925	2,308,225
Accounts receivable - trade and contract assets	93,625	221,467
Real estate for sale	2,222,879	3,079,526
Real estate for sale in process	6,075,515	9,346,100
Short-term loans receivable	725,500	575,500
Other	334,414	360,210
Allowance for doubtful accounts	(668)	(19,957)
Total current assets	12,980,191	15,871,074
Non-current assets		
Property, plants and equipment	646,123	1,882,995
Intangible assets	4,993	9,317
Investments and other assets		
Investment securities	19,800	17,300
Long-term loans receivable	428,349	429,322
Long-term accounts receivable	395,440	392,950
Deferred tax assets	66,770	85,599
Other	266,355	294,130
Allowance for doubtful accounts	(820,440)	(817,950)
Total investments and other assets	356,276	401,352
Total non-current assets	1,007,393	2,293,665
Total assets	13,987,584	18,164,739

(Unit: thousand yen)

	Previous consolidated fiscal year (July 31, 2022)	First quarter of the current fiscal year (October 31, 2022)
Liabilities		
Current liabilities		
Notes payable and accounts payable	278,927	434,799
Short-term borrowings	884,500	2,305,690
Current portion of long-term borrowings	1,994,094	3,831,522
Current portion of bonds payable	16,000	16,000
Lease obligations	1,807	1,720
Income taxes payable	258,723	22,115
Provision for bonuses	72,973	17,447
Allowance for compensation for completed construction	-	964
Allowance for order losses	-	21,961
Other	513,161	828,576
Total current liabilities	4,020,187	7,480,797
Non-current liabilities		
Long-term borrowings	4,212,341	4,907,846
Corporate bonds	16,000	8,000
Retirement benefits liabilities	-	77,000
Lease obligations	1,365	1,005
Deferred tax liabilities	-	109,972
Other	207,486	204,529
Total non-current liabilities	4,437,193	5,308,354
Total liabilities	8,457,381	12,789,151
Net assets		
Shareholders' equity		
Share capital	100,000	100,000
Capital surplus	1,500,411	1,500,411
Retained earnings	4,306,266	4,145,433
Treasury shares	(380,474)	(380,474)
Total shareholders' equity	5,526,203	5,365,370
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,000	1,500
Total accumulated other comprehensive income	4,000	1,500
Non-controlling interests	-	8,717
Total net assets	5,530,203	5,375,587
Total liabilities and net assets	13,987,584	18,164,739

(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income

Quarterly Consolidated Statement of Income

Consolidated cumulative first quarter

(Unit: thousand yen)

	Previous consolidated cumulative first quarter (August 1, 2021 to October 31, 2021)	Current consolidated cumulative first quarter (August 1, 2022 to October 31, 2022)
Revenues	1,682,818	1,686,296
Cost of sales	1,324,955	1,265,973
Gross profit	357,863	420,322
Selling, general and administrative expenses	241,176	338,175
Operating profit	116,686	82,147
Non-operating income		
Interest income	10,992	9,854
Penalty income	80	-
Surrender value of insurance policies	606	10,192
Reversal allowance for doubtful accounts	2,490	2,490
Other	113	246
Total non-operating income	14,282	22,782
Non-operating expenses		
Interest expenses	31,434	52,506
Commissions expenses	10,254	37,357
Other	261	130
Total non-operating expenses	41,949	89,994
Ordinary profit	89,018	14,935
Extraordinary income		
Goodwill accrued	-	16,183
Total extraordinary income	-	16,183
Profit before income taxes	89,018	31,119
Income taxes - current	9,314	21,871
Income taxes - deferred	24,924	(18,828)
Total income taxes	34,238	3,042
Profit	54,780	28,077
Profit attributable to non-controlling interests	234	-
Profit attributable to owners of parent Profit attributable to owners of parent	54,545	28,077

Quarterly Consolidated Statement of Comprehensive Income

Consolidated cumulative first quarter

(Unit: thousand yen)

	Previous consolidated cumulative first quarter (August 1, 2021 to October 31, 2021)	Current consolidated cumulative first quarter (August 1, 2022 to October 31, 2022)
Profit	54,780	28,077
Other comprehensive income		
Valuation difference on available-for-sale securities	250	(2,500)
Total other comprehensive income	250	(2,500)
Comprehensive income	55,030	25,577
(Breakdown)		
Comprehensive income attributable to owners of parent	54,795	25,577
Comprehensive income attributable to non-controlling interests	234	-

(3) Notes to Quarterly Consolidated Financial Statements

(Notes Related to Going Concern Assumption)

Not applicable.

(Notes on Substantial Changes in Amount of Shareholders' Equity)

Previous consolidated cumulative first quarter (August 1, 2021 to October 31, 2021)

1. Dividends paid

Resolution	Classes of shares	Total amount of dividends (thousand yen)	Dividend paid per share (yen)	Record date	Effective date	Source of Dividends
October 27, 2021 Ordinary general meeting of shareholders	Ordinary shares	188,910	8.00	July 31, 2021	October 28, 2021	Retained earnings

2. For dividends for which the record date belongs to the current consolidated cumulative first quarter but the effective date comes after the end of the first quarter of the current fiscal year

Not applicable.

3. Substantial Changes in Amount of Shareholders' Equity

Not applicable.

Current consolidated cumulative first quarter (August 1, 2022 to October 31, 2022)

1. Dividends paid

Resolution	Classes of shares	Total amount of dividends (thousand yen)	Dividend paid per share (yen)	Record date	Effective date	Source of Dividends
October 27, 2022 Ordinary general meeting of shareholders	Ordinary shares	188,910	8.00	July 31, 2022	October 28, 2022	Retained earnings

2. For dividends for which the record date belongs to the current consolidated cumulative first quarter but the effective date comes after the end of the first quarter of the current fiscal year

Not applicable.

3. Substantial Changes in Amount of Shareholders' Equity

Not applicable.

(Additional Information)

(Application of tax effect accounting for the transition from a consolidated tax payment system to a non-consolidated tax payment system)

The Company and its consolidated subsidiaries will transition to a non-consolidated tax payment system from the current consolidated fiscal year. Accordingly, based on the Treatment of Accounting and Disclosure in the Case of Applying the Group Aggregation System (Practical Issues Report No. 42, August 12, 2021), the deferred tax assets and deferred tax liabilities since the end of the previous consolidated fiscal year are recorded as if the non-consolidated tax payment system were applied from the current consolidated fiscal year.

(Change in scope of consolidation or scope of application of equity method)

In the first quarter of the current fiscal year, Kyoeigumi Co., Ltd. was included in the scope of consolidation following the acquisition of its shares. Furthermore, as September 30, 2022 is the deemed acquisition date, only the balance sheet is consolidated in the first quarter of the current fiscal year.

Also, from the first quarter of the current fiscal year, Meiho Engineering Corporation has been included in the scope of consolidation due to its establishment.

(Segment Information, etc.)

I. Previous consolidated cumulative first quarter (August 1, 2021 to October 31, 2021)

1. Information on Net Sales and Income or Loss Amounts by Reportable Segment and Revenue Disaggregation

(Unit: thousand yen)

	Reportable segment					Other (* 3)	Total	Reconciliation (Note 1)	Amount recorded in quarterly consolidated statement of income (Note 2)
	Real estate sales business	Real estate leasing business	Real estate brokerage business	Contracting business	Total				
Revenues									
MIJAS・EL FARO	727,519	-	-	-	727,519	-	727,519	-	727,519
Other	359,579	118,169	11,746	74,546	564,042	7,712	571,754	-	571,754
Revenue from contracts with customers	1,087,099	118,169	11,746	74,546	1,291,562	7,712	1,299,274	-	1,299,274
Other revenue	-	383,544	-	-	383,544	-	383,544	-	383,544
Net sales to external customers	1,087,099	501,713	11,746	74,546	1,675,106	7,712	1,682,818	-	1,682,818
Transactions with other segments	-	-	-	442	442	-	442	(442)	-
Total	1,087,099	501,713	11,746	74,989	1,675,549	7,712	1,683,261	(442)	1,682,818
Segment profit or loss	91,645	60,707	10,141	(2,088)	160,405	7,220	167,626	(50,940)	116,686

(Note) 1. The segment income (loss) adjustment of -50,940 thousand yen consists of the elimination of inter-segment transactions of 2,138 thousand yen and corporate expenses of -53,078 thousand yen not distributed to the reportable segments. Corporate expenses consist primarily of general and administrative expenses not attributable to the reportable segments.

2. Segment income (loss) is adjusted to the operating profit in quarterly consolidated statement of income.

3. The "Other" section represents business segments not included in the reporting segments and is primarily comprised of the insurance agency operations.

2. Information on Impairment Loss on Non-Current Assets or Goodwill, etc. by Reporting Segment

Not applicable.

II. Current consolidated cumulative first quarter (August 1, 2022 to October 31, 2022)

1. Information on Net Sales and Income or Loss Amounts by Reportable Segment and Revenue Disaggregation

(Unit: thousand yen)

	Reportable segment					Other (*3)	Total	Reconciliation (Note 1)	Amount recorded in quarterly consolidated statement of income (* 2)
	Real estate sales business	Real estate leasing business	Real estate brokerage business	Contracting business	Total				
Revenues									
MIJAS・EL FARO	813,387	-	-	-	813,387	-	813,387	-	813,387
Other	199,882	136,054	2,787	141,601	480,326	19,865	500,191	-	500,191
Revenue from contracts with customers	1,013,269	136,054	2,787	141,601	1,293,713	19,865	1,313,579	-	1,313,579
Other revenue	-	372,717	-	-	372,717	-	372,717	-	372,717
Net sales to external customers	1,013,269	508,771	2,787	141,601	1,666,430	19,865	1,686,296	-	1,686,296
Transactions with other segments	-	281	-	81	362	-	362	(362)	-
Total	1,013,269	509,052	2,787	141,682	1,666,792	19,865	1,686,658	(362)	1,686,296
Segment profit	90,655	39,167	2,682	11,627	144,133	18,944	163,077	(80,930)	82,147

(*) 1. The segment income adjustment of -80,930 thousand yen consists of the elimination of inter-segment transactions of 5,607 thousand yen and corporate expenses of -80,930 thousand yen not distributed to the reportable segments. Corporate expenses consist primarily of general and administrative expenses not attributable to the reportable segments.

2. Segment income is adjusted to the operating profit in quarterly consolidated statement of income.
3. The "Other" section represents business segments not included in the reporting segments and is primarily comprised of the insurance agency operations.

2. Disclosure of assets in reportable segments

In the first quarter of the current fiscal year, segment assets in the "Contracting business" increased by 2,125,989 thousand yen from the end of the previous fiscal year due to the acquisition of Kyoeigumi Co., Ltd. and its inclusion in the scope of consolidation.

3. Information on Impairment Loss on Non-Current Assets or Goodwill, etc. by Reporting Segment

(Significant goodwill accrued)

In the "Contracting Business" segment, negative goodwill accrued of 16,183 thousand yen was recorded as extraordinary income following the acquisition of Kyoeigumi Co., Ltd. Also, the goodwill accrued is not allocated to any reportable segment.

(Business combination and Related Matters)

(Business combination through acquisition)

At the Board of Directors meeting held on August 25, 2022, the Company resolved to acquire shares of Kyoeigumi Co., Ltd. (hereinafter referred to as "Kyoeigumi") and acquired its shares on August 31, 2022.

(1) Overview of the business combination

1) Name of the acquired company and its business

Name of the acquired company: Kyoeigumi Co., Ltd.

Business: Contracting for construction work, etc.

2) Main reasons for the business combination

Kyoeigumi is a general construction company headquartered in Setagaya-ku, Tokyo, with 70 years of history since its establishment in 1952.

Kyoeigumi has many certified construction-related personnel and engineers and has completed a large number of construction jobs, mainly for public buildings, condominiums, commercial buildings, and large-scale renovations.

At the time of acquisition of Kyoeigumi, the Group consists of the Company and three consolidated subsidiaries, and operates a planning and sales business for whole-building investment products, a property management business, a construction contracting business, and so on.

In particular, one of our subsidiaries, Meiho Properties Co., Ltd., constructs seven to eight buildings per year in our mainstay MIJAS and EL FARO series, which are newly-constructed whole-building investment apartments for rent. However, to counter the shortage and aging of construction engineers and the rising construction costs in the future, as well as to further increase the number of buildings we supply and expand the scale of our sales, we need to secure a construction company that can continuously and stably undertake our construction work. We believe that Kyoeigumi's participation in the Group will greatly contribute in this regard.

This also helps Kyoeigumi and the Group share designing and construction technology by collaborating in the construction of commercial buildings and development of real estate, and enables us to improve construction technology and expand sales scale Group-wide by exchanging employees, mainly engineers, within the Group.

For the above reasons, we determined that making Kyoeigumi our subsidiary will contribute to the enhancement of the Group's business foundation and the expansion of our business in the medium to long term, and decided to acquire its shares.

3) Date of business combination

August 31, 2022 (share acquisition date)

September 30, 2022 (deemed acquisition date)

4) Legal form of business combination

Acquisition of shares for cash consideration

5) Name of the company after combination

Unchanged.

6) Ratio of voting rights acquired

92%

7) Primary basis for determining the acquiring company

By the Company's acquiring shares for cash consideration.

(2) Period of the acquired company's results included in the Quarterly Consolidated statement of Income for the period

Because only the balance sheet is consolidated during the period, the financial results of the acquired company are not included in the consolidated financial statements.

(3) Cost of acquiring the acquired company and breakdown by type of consideration

Not disclosed, due to the non-disclosure agreement with the counter party.

(4) Amount of goodwill accrued and reason for the accrual

1) Amount of goodwill accrued was 16,183 thousand yen

2) Cause of occurrence

Since the net asset value at the time of business combination exceeded the acquisition cost, the difference was recognized as negative goodwill accrued

(Significant events after reporting period)

(Transactions under common control)

At the Board of Directors meeting held on October 26, 2022, the Company resolved to establish a new subsidiary (Meiho Engineering Co., Ltd.) to spin-off the construction contracting business division of Meiho Properties Co., Ltd., a subsidiary of the Company, and to take over its business corporation, and to conduct an absorption-type demerger (hereinafter referred to as the "Demerger") between the splitting company, Meiho Properties Co., Ltd., and the succeeding company, Meiho Engineering Co., Ltd. In line with this, Meiho Engineering Co., Ltd. was established on October 26, 2022, and the conclusion of an absorption-type demerger agreement was approved by a resolution of the Board of Directors on December 15, 2022, the absorption-type demerger agreement was concluded on the same date. Furthermore, as for the demerger becoming effective, it is subject to the approval of the related proposals at the Extraordinary General Meetings of Shareholders of both the splitting company and the successor company scheduled to be held in late January 2023.

Also, upon the demerger, the successor company will issue 15 shares of common stock of the successor company, all of which will be allotted and delivered to the spin-off company. On the effective date of the demerger, the spin-off company will distribute such shares to the Company as surplus (distribution-in-kind).

(1) Overview of the demerger transactions

1) Name and description of the subject business

Business name: Contracting business conducted by Meiho Properties Co., Ltd., a consolidated subsidiary of the Company

Business activities: Business activities related to design supervision and construction contracting business

2) Timetable for the demerger

Date of resolution of the Board of Directors meeting approving the absorption-type demerger agreement (Company and the spin-off company) December 15, 2022

Signing date of the absorption-type demerger agreement December 15, 2022

General Meeting of Shareholders to approve the absorption-type demerger (spin-off company and successor company) By January 31, 2023 (scheduled)

Absorption-type demerger scheduled date (effective date) February 1, 2023 (scheduled)

3) Legal form of the demerger

An absorption-type demerger in which Meiho Properties Co., Ltd. is the spin-off company and Meiho Engineering Co., Ltd is the successor company.

4) Name of the company after combination

Meiho Engineering Co., Ltd.

(5) Other matters concerning the overview of the transaction

The demerger will allow the successor company to concentrate its management resources, including the planning and design divisions of the Company and the construction division of the spin-off company, and to further hire outstanding technical employees to handle the design and construction of the "MIJAS" and "EL FARO" series, our mainstay products.

In order to improve the corporate value of the Group as a whole, the Company intends to strengthen cooperation among its businesses, and at the same time, by specializing in the business of each Group company, we aim to establish a system in which

the Group can offer consistent services such as property purchase, planning, construction, sales, property management after sale, brokerage, rental solicitation, renovation proposals, etc.

As described above, in order for each company of the Group to independently chart its own growth strategy and to strengthen and expand its business corporation base, we have decided on this demerger because it will be possible to promote the growth of the whole Group by further increasing the speed of management through the establishment of each company's system, defining authority and responsibility, and accelerating decision making.

(2) Overview of accounting processing

The demerger is expected to be processed as a transaction under common control based on the "Accounting Standard for Business Combinations" and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures."