

February 10, 2023

Summary of Financial Results for the Third Quarter of Fiscal Year Ending March 31, 2023 [Japanese Standards] (Consolidated)

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 The supplementary explanation document for the third quarter of accounts is created. No
 The briefing for the third quarter of accounts is held. No

(Millions of yen rounded down)

1. Consolidated Operating Results for the Third Quarter of Fiscal Year Ending March 31, 2023 (From April 1, 2022 to December 31, 2022)

(1) Consolidated Operating Results (Cumulative)

(% figures represent year-on-year increase or decrease)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Shareholders of Parental Company	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
3Q/ FY ending March 31, 2023	57,251	5.5	4,347	(16.5)	4,317	(16.9)	2,918	(14.7)
3Q/ FY ended March 31, 2022	54,261	12.6	5,204	12.2	5,193	13.4	3,419	10.4

(Note)

Comprehensive income:

3Q/ FY ending March 31, 2023: ¥2,952 million (-14.1%)

3Q/ FY ended March 31, 2022: ¥3,438 million (11.0%)

	Net Income Per Share	Net Income Per Share After Dilution
	Yen	Yen
3Q/ FY ending March 31, 2023	89.28	—
3Q/ FY ended March 31, 2022	104.62	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio	Net Assets Per Share
	Millions of yen	Millions of yen	%	Yen
As of December 31, 2022	80,369	60,300	75.0	1,844.88
As of March 31, 2022	82,659	58,917	71.3	1,802.55

(Reference)

Shareholders' equity:

As of December 31, 2022: ¥60,300 million

As of March 31, 2022: ¥58,917 million

2. Dividends

	Dividends Per Share				
	End of 1Q	End of 2Q	End of 3Q	End of 4Q	Annual
	Yen	Yen	Yen	Yen	Yen
FY ended March 31, 2022	—	24.00	—	24.00	48.00
FY ending March 31, 2023	—	24.00	—		
FY ending March 31, 2023 (Forecast)				24.00	48.00

(Note) Revision to the latest forecast of dividends: No

3. Forecasts of Consolidated Operating Results for the Fiscal Year Ending March 31, 2023 (From April 1, 2022 to March 31, 2023)

(% figures represent year-on-year increase or decrease)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Shareholders of Parental Company		Net Income Per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	85,000	3.3	7,500	(17.5)	7,500	(17.4)	5,000	(21.1)	152.97

(Note) Revision of forecasts on the consolidated operating results: No

*Notes

(1) Changes in major subsidiaries during this nine-month period ended December 31, 2022 (changes in specific subsidiaries affecting the scope of consolidation): No

New: — (Company name: —), Excluded: — (Company name: —)

(2) Application of accounting methods specific to the preparation of quarterly consolidated financial statements: No

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

1) Changes due to revisions to accounting standards, etc.: Yes

2) Changes other than 1): No

3) Changes in accounting estimates: No

4) Restatements: No

(4) Number of outstanding shares (common stock)

1) Number of shares outstanding at term-end (including treasury stock)

Nine months ended December 31, 2022	34,646,500 shares	FY ended March 31, 2022	34,646,500 shares
Nine months ended December 31, 2022	1,961,157 shares	FY ended March 31, 2022	1,961,157 shares
Nine months ended December 31, 2022	32,685,343 shares	Nine months ended December 31, 2021	32,685,343 shares

2) Amount of treasury stock at term-end

3) Amount of average stock during term (Quarter accumulation)

* This quarterly summary of consolidated financial results is excluded from the quarterly review by a certified public accountant or audit corporations.

* Explanation and other special notes regarding the appropriate use of the earnings forecast

(Notes on forward-looking statements)

The forward-looking statements such as result forecasts included in this document are based on the information available to the Company at the time of the announcement and on certain assumptions considered reasonable, and the Company makes no representations as to their achievability. Actual results may differ materially from the forecast depending on a range of factors.

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1. Qualitative Information Regarding the Consolidated Financial Results in the Third Quarter

(1) Explanation of Operating Results

During this nine-month consolidation period (first three quarters of the fiscal year ending March 31, 2023), the Japanese economy showed signs of recovery. Responses to the COVID-19 pandemic advanced alongside socioeconomic activity. Against the background of the effects of various national policies, signs of a gradual recovery emerged, despite weakness in some areas of the economy. On the international scene, overseas economies slid into succession amid fluctuations in financial and capital markets and rising inflation, as accelerating worldwide monetary tightening. Continued vigilance is in order, as the risk continues that these events overseas may exert downward pressure on the Japanese economy.

In the condominium marketplace in the Tokyo metropolitan area, uncertainty deepened regarding prospects for future construction, including purchasing of construction materials. Accordingly, the number of new condominiums offered in the Tokyo metropolitan area in 2022 (January to December) declined by 12.1% from last year to 29,569 units. Purchase demand trended firm: The average rate of first-month contracts consummated during the same period was 70.4% (a level of 70% or higher is said to be a rough indication of good sales performance). (All figures are derived from a survey by Real Estate Economic Institute Co., Ltd.)

In the market for investment-type condominiums which compose our corporate group's main business area, lease demand remained strong in the Tokyo metropolitan area centering on singles. Purchase demand for investment-type condominiums is solid, supported by low interest rates and by increasing recognition as income-earning properties that can be expected to provide steady earnings.

Under this business environment, our corporate group has been striving to enhance the customer support system, strengthen our brand name and expand the development and sales of the "Gala Condominium series" which provide various advantages for asset management mainly in the Tokyo metropolitan area, and "Gala Residence series" which are condominiums designed for families under our own brand. Furthermore, we are fully committed to improving the value of the corporate group. Additionally, in spite of the continuing impacts of the COVID-19 pandemic, we have worked to promote our business while implementing various measures to prevent the spread of infectious diseases such as utilization of IT for handling of important explanatory meetings, web seminars, and other sales functions without meeting in person.

As a result, net sales were ¥57,251 million (an increase of 5.5% compared with the same period of the previous fiscal year (YOY)), operating income amounted ¥4,347 million (a decrease of 16.5% YOY), and ordinary income was ¥4,317 million (a decrease of 16.9% YOY). Furthermore, net income attributable to shareholders of parental company totaled ¥2,918 million (a decrease of 14.7% YOY).

The operating results for each business segment are as follows:

(Real estate development segment)

During the first nine months of the fiscal year ending March 31, 2023, we focused on the sales of new properties such as Gala Station Yokohama-OdoriKoen, Gala Grandy - Fukagawa Sumiyoshi, and Gala Residence Hibarigaoka, and also actively conducted sales of pre-owned condominiums.

As a result, net sales were ¥13,514 million for newly built condominiums (464 units), ¥31,663 million for pre-owned condominiums (1,274 units), ¥4,897 million for real estate rental income, and ¥162 million from other income sources. Therefore, the total net sales in the segment reached ¥50,237 million (an increase of 7.2% YOY) and the segment profit was ¥3,488 million (a decrease of 14.2% YOY).

Breakdown of net sales, etc.

Category	Nine-month consolidation period ended December 31, 2021 (Apr. 1, 2021 – Dec. 31, 2021)			Nine-month consolidation period ended December 31, 2022 (Apr. 1, 2022 – Dec. 31, 2022)		
	No. of Units	Amount (millions of yen)	YOY (%)	No. of Units	Amount (millions of yen)	YOY (%)
Gala Condominium series	903	22,771	129.1	315	7,700	33.8
Gala Residence series	64	2,864	130.6	149	5,814	203.0
Pre-owned condominiums	637	15,709	100.9	1,274	31,663	201.6
Real estate rental income	—	5,320	101.4	—	4,897	92.1
Other income	—	180	169.4	—	162	90.0
Total	1,604	46,845	115.0	1,738	50,237	107.2

(Note) The aggregation categories have been changed from the previous consolidated fiscal year, and in order to facilitate comparison, the figures for the first nine months of the previous consolidated fiscal year have been recalculated and listed according to the changed aggregation categories.

(Real estate management segment)

During the first nine months of the fiscal year ending March 31, 2023, as the result of undertaking new managed properties that were developed by the corporate group and external developers, the number of managed units for leasing reached 17,723 and the number of buildings managed reached 337.

As a result, net sales in the real estate management segment were ¥2,697 million (an increase of 5.2% YOY), and segment profit was ¥660 million (an increase of 6.3% YOY).

(Construction segment)

During the first nine months of the fiscal year ending March 31, 2023, net sales and income decreased compared to the same period of the previous consolidated fiscal year due to fewer completed construction contracts.

As a result, net sales in the construction segment were ¥3,337 million (a decrease of 16.8% YOY), and segment profit was ¥148 million (a decrease of 70.9% YOY).

(Japanese inn segment)

During the first nine months of the fiscal year ending March 31, 2023, occupancy rates and average room rates exceeded the corresponding figures for the same period of the previous fiscal year, thanks in part to government measures to stimulate tourist demand (national travel support policies).

As a result, in the Japanese inn segment, net sales increased to ¥937 million (an increase of 17.3% YOY), and segment profit was ¥17 million (compared to a segment loss of ¥30 million in the same period of the previous fiscal year).

(Other segments)

Net sales in other segments were ¥41 million in the first nine months of the fiscal year ending March 31, 2023 (a decrease of 3.9% YOY). Segment profit was ¥27 million (a decrease of 6.0% YOY).

Note that among the real estate development business, which is the main line of business of our corporate group, for sales of condominiums, only the proceeds from condominiums that have been actually handed over to the customer are posted. Therefore, there may be unbalances in quarterly business results depending on the dates of completion of the housing or dates of delivery.

(2) Explanation of Financial Position

(Assets)

At the end of the consolidated third quarter under review, current assets were ¥67,997 million, a decrease of ¥2,011 million as compared with the end of the previous consolidated fiscal year. A major increase was ¥4,154 million in real estate for sale in process, while major decreases were ¥4,774 million in real estate for sale and ¥2,888 million in cash and deposits. Non-current assets recorded ¥12,371 million, a decrease of ¥279 million as compared with the end of the previous consolidated fiscal year.

As a result, total assets were ¥80,369 million, a decrease of ¥2,290 million as compared with the end of the previous consolidated fiscal year.

(Liabilities)

At the end of the consolidated third quarter under review, current liabilities were ¥9,489 million, a decrease of ¥1,375 million as compared with the end of the previous consolidated fiscal year. Major decreases were ¥1,451 million in income taxes payable and ¥847 million in accrued consumption taxes. Non-current liabilities recorded ¥10,579 million, a decrease of ¥2,298 million as compared with the end of the previous consolidated fiscal year. This is mainly because long-term loans payable decreased by ¥2,385 million.

As a result, total liabilities were ¥20,068 million, a decrease of ¥3,674 million as compared with the end of the previous consolidated fiscal year.

(Net assets)

At the end of the consolidated third quarter under review, total net assets were ¥60,300 million, an increase of ¥1,383 million as compared with the end of the previous consolidated fiscal year. A major increase was ¥2,918 million in net income attributable to shareholders of parental company, while a ¥1,568 million decrease was recorded in dividends of surplus. As a result, the equity ratio was 75.0% (it was 71.3% at the end of the previous consolidated fiscal year).

(3) Explanation of Future Forecasts Such as the Forecast of Consolidated Operating Results

Regarding the forecast for the fiscal year ending March 31, 2023, there has been no change to the forecasted numbers listed in the “Summary of Financial Results for the Fiscal Year Ended March 31, 2022” that was released on May 13, 2022.

2. Consolidated Financial Statements and Important Notes

(1) Consolidated Balance Sheets in the Third Quarter

(Millions of yen)

	As of March 31, 2022	As of December 31, 2022
ASSETS		
Current assets		
Cash and deposits	35,593	32,705
Notes and operating accounts receivable-trade, and contract assets	2,176	2,652
Real estate for sale	11,262	6,488
Real estate for sale in process	19,025	23,180
Costs on uncompleted construction contracts	5	8
Raw materials and supplies	28	40
Advance payments-trade	107	321
Other	1,809	2,601
Allowance for doubtful accounts	(1)	(1)
Total current assets	70,008	67,997
Non-current assets		
Property, plant and equipment		
Buildings and structures	7,047	7,047
Accumulated depreciation	(1,384)	(1,571)
Buildings and structures, net	5,663	5,476
Land	5,169	5,169
Other	378	383
Accumulated depreciation	(301)	(322)
Other, net	77	60
Total property, plant and equipment	10,910	10,706
Intangible assets	44	42
Investments and other assets		
Investment securities	305	360
Deferred tax assets	782	661
Other	608	602
Total investments and other assets	1,696	1,623
Total non-current assets	12,651	12,371
Total assets	82,659	80,369

(Millions of yen)

	As of March 31, 2022	As of December 31, 2022
LIABILITIES		
Current liabilities		
Notes and accounts payable-trade	1,038	1,004
Current portion of long-term loans payable	3,279	3,645
Accounts payable-other	504	501
Income taxes payable	1,670	218
Accrued consumption taxes	1,103	256
Deposits received	2,128	2,574
Provision for bonuses	276	277
Other	863	1,011
Total current liabilities	10,864	9,489
Non-current liabilities		
Long-term loans payable	9,363	6,978
Provision for directors' retirement benefits	816	858
Net defined benefit liabilities	795	846
Long-term lease and guarantee deposited	1,816	1,801
Long-term deposits received	86	94
Total non-current liabilities	12,878	10,579
Total liabilities	23,742	20,068
NET ASSETS		
Shareholders' equity		
Capital stock	2,774	2,774
Capital surplus	3,054	3,054
Retained earnings	54,292	55,641
Treasury stock	(1,211)	(1,211)
Total shareholders' equity	58,910	60,259
Accumulated other comprehensive income		
Valuation difference on marketable securities	34	64
Remeasurements of defined benefit plans	(27)	(23)
Total accumulated other comprehensive income	7	41
Total net assets	58,917	60,300
Total liabilities and net assets	82,659	80,369

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statement of Income

(For the Nine-Month Consolidation Period)

(Millions of yen)

	1Q-3Q/ FY ended March 31, 2022 (Apr. 1, 2021 – Dec. 31, 2021)	1Q-3Q/ FY ending March 31, 2023 (Apr. 1, 2022 – Dec. 31, 2022)
Net sales	54,261	57,251
Cost of sales	40,813	45,227
Gross profit	13,447	12,024
Selling, general and administrative expenses		
Advertising expenses	1,447	1,318
Salaries, allowances and bonuses	2,611	2,622
Provision for bonuses	291	266
Retirement benefit expenses	64	80
Provision for directors' retirement benefits	40	41
Other	3,787	3,346
Total selling, general and administrative expenses	8,243	7,676
Operating income	5,204	4,347
Non-operating income		
Interest income	0	0
Dividend income	5	7
Penalty income	14	7
Compensation income	8	—
Subsidy income	15	10
Other	13	11
Total non-operating income	57	37
Non-operating expenses		
Interest expenses	65	34
Commission fee	2	—
Miscellaneous losses	—	32
Other	0	1
Total non-operating expenses	68	68
Ordinary income	5,193	4,317
Extraordinary income		
Gain on sale of non-current assets	10	—
Total extraordinary income	10	—
Income before income taxes	5,204	4,317
Income taxes-current	1,786	1,292
Income taxes-deferred	(2)	106
Total income taxes	1,784	1,398
Net income	3,419	2,918
Net income attributable to shareholders of parental company	3,419	2,918

Quarterly Consolidated Statement of Comprehensive Income
(For the Nine-Month Consolidation Period)

(Millions of yen)

	1Q-3Q/ FY ended March 31, 2022 (Apr. 1, 2021 – Dec. 31, 2021)	1Q-3Q/ FY ending March 31, 2023 (Apr. 1, 2022 – Dec. 31, 2022)
Net income	3,419	2,918
Other comprehensive income		
Valuation difference on marketable securities	18	29
Remeasurements of defined benefit plans, net of tax	0	4
Total of other comprehensive income	19	34
Comprehensive income	3,438	2,952
(Breakdown)		
Comprehensive income attributable to shareholders of parental company	3,438	2,952
Comprehensive income attributable to non-controlling interests	—	—

(3) Notes Regarding Quarterly Consolidated Financial Statements

(Notes Regarding Going Concern)

None.

(Changes to the Scope of Consolidation and Application of the Equity Method)

None.

(Changes in Accounting Policies)

(Application of Implementation Guidance on Accounting Standard for Fair Value Measurement)

Implementation Guidance on Accounting Standard for Fair Value Measurement (Accounting Standards Board of Japan (ASBJ) Guidance No. 31, June 17, 2021) of the Japanese generally accepted accounting principles (J-GAAP) (hereinafter “Implementation Guidance on Accounting Standard for Fair Value Measurement”) is applied from the beginning of the consolidated first quarter of this fiscal year. In accordance with the stipulations on transitional handling in Paragraph 27-2 of Implementation Guidance on Accounting Standard for Fair Value Measurement, the new accounting policy stipulated in Implementation Guidance on Accounting Standard for Fair Value Measurement will be applied in the future. This application has no effect on the quarterly consolidated financial statements.

(Notes in Event of Significant Changes in Shareholders’ Equity)

None.

(Application of Accounting Methods Specific to the Preparation of Quarterly Consolidated Financial Statements)

None.

(Additional Information)

(Approach Regarding Impact of the COVID-19 Pandemic on Accounting Estimates)

The assumptions used to estimate the accounts in view of the impact of the COVID-19 pandemic in the first three quarters of the consolidated fiscal year under review are unchanged from those listed in “5. Accounts 1) Consolidated Financial Statements (1) Notes on the Consolidated Financial Statements (Important Accounting Estimates)” of the Annual Securities Report for the previous consolidated fiscal year.

These assumptions are highly uncertain. If COVID-19 spreads further, resulting in restrictions on the Company’s business activities, the financial statements for the fourth quarter onward may be impacted.

(Accounting treatment associated with group tax sharing system)

Effective from the consolidated first quarter of the current fiscal year, the Company and its consolidated subsidiaries transitioned from the non-consolidated taxation system to the group tax sharing system. In accordance with this change, the Company applies the “Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System” (PITF No.42, issued on August 12, 2021) for accounting treatment and disclosure of corporate taxes, local corporate taxes and tax effect accounting.

(Segment Information)

I. For the Nine Months ended December 31, 2021 (From April 1, 2021 to December 31, 2021)

1. Information on the amount of sale and profit or loss for reported segments along with the breakdown of revenue

(Millions of yen)

	Reported segment					Other segments (Note) 1	Total	Adjustment (Note) 2	Amounts shown on Quarterly Consolidated Statement of Income (Note) 3
	Real estate development segment	Real estate management segment	Construction segment	Japanese inn segment	Subtotal				
Net sales									
Newly-built condominiums	25,636	—	—	—	25,636	—	25,636	—	25,636
Previously- owned condominiums	15,709	—	—	—	15,709	—	15,709	—	15,709
Other	180	2,305	4,009	799	7,293	—	7,293	—	7,293
Revenue from contracts with customers	41,525	2,305	4,009	799	48,639	—	48,639	—	48,639
Other revenue (Note) 4	5,320	259	—	—	5,579	42	5,622	—	5,622
Net sales to external customers	46,845	2,564	4,009	799	54,218	42	54,261	—	54,261
Inter-segment sales or exchange	11	289	92	11	404	—	404	(404)	—
Total	46,857	2,853	4,101	810	54,623	42	54,666	(404)	54,261
Segment profit (loss)	4,065	621	511	(30)	5,167	29	5,197	7	5,204

(Notes) 1. "Other segments" are business segments that are not included in the reported segments. These include the financial-services business.

2. The adjustment amount of segment profit (loss) of ¥7 million includes ¥90 million in elimination of inter-segment transactions, Company-wide expenses not allocated to reported segments of negative ¥86 million and adjustment of inventories and non-current assets of ¥2 million. Company-wide expenses mainly consist of general and administrative expenses not attributed to reported segments.

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

4. Other revenue is mainly real estate rental income.

II. For the Nine Months ended December 31, 2022 (From April 1, 2022 to December 31, 2022)

1. Information on the amount of sale and profit for reported segments along with the breakdown of revenue

(Millions of yen)

	Reported segment					Other segments (Note) 1	Total	Adjustment (Note) 2	Amounts shown on Quarterly Consolidated Statement of Income (Note) 3
	Real estate development segment	Real estate management segment	Construction segment	Japanese inn segment	Subtotal				
Net sales									
Newly-built condominiums	13,514	—	—	—	13,514	—	13,514	—	13,514
Previously-owned condominiums	31,663	—	—	—	31,663	—	31,663	—	31,663
Other	162	2,522	3,337	937	6,959	—	6,959	—	6,959
Revenue from contracts with customers	45,340	2,522	3,337	937	52,137	—	52,137	—	52,137
Other revenue (Note) 4	4,897	175	—	—	5,072	41	5,113	—	5,113
Net sales to external customers	50,237	2,697	3,337	937	57,210	41	57,251	—	57,251
Inter-segment sales or exchange	10	298	31	13	354	—	354	(354)	—
Total	50,248	2,996	3,368	950	57,564	41	57,606	(354)	57,251
Segment profit	3,488	660	148	17	4,316	27	4,343	3	4,347

(Notes) 1. "Other segments" are business segments that are not included in the reported segments. These include the financial-services business.

2. The adjustment amount of segment profit of ¥3 million includes negative ¥213 million in elimination of inter-segment transactions, Company-wide revenue of ¥400 million and Company-wide expenses of negative ¥181 million not allocated to each reported segments, and adjustment of inventories and non-current assets of negative ¥0 million. The elimination of inter-segment transactions mainly consists of the elimination of dividends from consolidated subsidiaries to the Company, Company-wide revenue is mainly the dividend income stated above, and Company-wide expenses are mainly general and administrative expenses not attributed to reported segments.

3. Segment profit is adjusted with operating income in the quarterly consolidated statement of income.

4. Other revenue is mainly real estate rental income.

(Significant Subsequent Events)

(Corporate Merger Through Share Purchase)

At its December 2, 2022 meeting of the Board of Directors, FJ NEXT CO., LTD., a consolidated subsidiary of the Company, resolved to acquire all outstanding shares of Ito Ippeki Management Services Co., Ltd. to make it a subsidiary. Ito Ippeki Management Services is a company newly established by ITOCHU Corporation. ITOCHU Corporation and its wholly owned subsidiary, IP Management Co., Ltd., will transfer their cottage management operations in the Ippeki cottage area to Ito Ippeki Management Services through an absorption-type demerger. The parties concluded a stock transfer agreement as of the same date. The process of share acquisition was completed as of February 1, 2023.

(1) Overview of corporate merger

1) Name of acquired company and details of its operations

Name of acquired company: Ito Ippeki Management Services Co., Ltd.

Details of operations: Cottage-area management operations, etc.

2) Main reasons for corporate merger

Ito Ippeki Management Services is a company established for the purpose of conducting cottage-area management operations in the Ippeki cottage area (Futo, City of Ito, Shizuoka Prefecture). The Group judges that, by acquiring this company, the Group will be able to expand its business results still further by leveraging the experience and expertise it has acquired in conducting real-estate development operations, inn operations and real-estate management operations in the area.

3) Date of corporate merger

February 1, 2023

4) Legal format of corporate merger

Share acquisition

5) Name of company after merger

Ito Ippeki Management Services Co., Ltd.

6) Share of voting rights acquired

100%

7) Main means of acquisition of this company

FJ NEXT CO., LTD., a subsidiary of the Company, acquired the company using cash.

(2) Cost of acquisition of the acquired company and breakdown of types of acquisition

Based on a confidentiality agreement with the party from whom shares are acquired, this information is not disclosed.

- (3) Details and amounts of main acquisition expenses
Advisory remuneration and fees: ¥6 million
- (4) Amount of goodwill generated, causes of generation, method of amortization and amortization period
To be determined
- (5) Values and main breakdown of assets and liabilities acquired on the date of the corporate merger
To be determined