

Summary of Consolidated Financial Results
for the Third Quarter of the Fiscal Year Ending March 31, 2023
(Nine Months Ended December 31, 2022)

[Japanese GAAP]

Company name: KI-STAR REAL ESTATE CO., LTD. Listing: Tokyo Stock Exchange
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 Scheduled date of filing of Quarterly Report: February 13, 2023
 Scheduled date of payment of dividend: -
 Preparation of supplementary materials for quarterly financial results: Yes
 Holding of quarterly financial results meeting: None

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

1. Consolidated Financial Results for the First Nine Months (April 1, 2022 – December 31, 2022) of the Fiscal Year Ending March 31, 2023

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended Dec. 31, 2022	160,209	17.7	14,683	(19.1)	14,183	(20.7)	9,055	(19.4)
Nine months ended Dec. 31, 2021	136,112	24.0	18,159	121.4	17,885	117.6	11,235	131.1

Note: Comprehensive income (million yen) Nine months ended Dec. 31, 2022: 9,497 (down 22.0%)
 Nine months ended Dec. 31, 2021: 12,176 (up 122.2%)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended Dec. 31, 2022	573.64	573.35
Nine months ended Dec. 31, 2021	755.72	755.13

Note: KI-STAR REAL ESTATE CO., LTD. ("the Company") has established a performance-linked stock compensation plan for directors and employee stock distribution trust program. Shares for these plans held by the trust are recorded as treasury shares in the quarterly consolidated balance sheet and included in treasury shares for calculating the average number of shares during the period for determining net income per share.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Dec. 31, 2022	202,565	53,356	23.7
As of Mar. 31, 2022	163,240	49,037	27.0

Reference: Shareholders' equity (million yen) As of Dec. 31, 2022: 48,109 As of Mar. 31, 2022: 44,026

Note: The Company has established a performance-linked stock compensation plan for directors and employee stock distribution trust program. Shares for these plans held by the trust are recorded as treasury shares in the quarterly consolidated balance sheet.

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Mar. 31, 2022	-	115.00	-	150.00	265.00
Fiscal year ending Mar. 31, 2023	-	140.00	-		
Fiscal year ending Mar. 31, 2023 (forecasts)				90.00	230.00

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

3. Consolidated Forecast for the Fiscal Year Ending March 31, 2023 (April 1, 2022 – March 31, 2023)

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	220,000	19.3	18,500	(21.8)	18,000	(22.4)	12,000	(18.6)	760.54

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

*** Notes**

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

Newly added: -

Excluded: -

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: None

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

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

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

3) Changes in accounting estimates: None

4) Restatements: None

(4) Number of issued shares (common shares)

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

As of Dec. 31, 2022:	15,861,500 shares	As of Mar. 31, 2022:	15,857,200 shares
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2) Number of treasury shares at the end of the period

As of Dec. 31, 2022:	104,833 shares	As of Mar. 31, 2022:	41,433 shares
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3) Average number of shares during the period

Nine months ended Dec. 31, 2022:	15,785,422 shares	Nine months ended Dec. 31, 2021:	14,867,235 shares
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Note: The Company has established a performance-linked stock compensation plan for directors and employee stock distribution trust program. Shares for these plans held by the trust are included in treasury shares for calculating the number of treasury shares at the end of the period and the average number of shares during the period.

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

* Cautionary statement with respect to forward-looking statements, and other special items

Cautionary statement with respect to forecasts

Forecasts of future performance in this report are based on assumptions judged to be valid and information currently available to the Company. Actual results may differ significantly from these forecasts for a number of factors.

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

In the first nine months of the current fiscal year, easing of COVID-19 related border restrictions combined with the depreciation of the yen led to a rapid recovery in demand from foreign tourists. As a result, business confidence in consumer-related services sectors, such as hotels and food services, improved significantly. At the same time, consumer prices spiked and pressured household budgets because of a prolonged weak yen and the Ukraine conflict. As a result, the economic outlook remains uncertain.

In the Japanese housing sector, where the KI-STAR Group operates, even though the rapid rise of interest in owning a home has paused due to convergence of the COVID-19 pandemic, demand on the whole remains steady. On the other hand, prices of parts and materials are soaring due to global inflation and other factors. Procurement continues to be difficult.

By supplying design houses with outstanding quality at affordable prices based on our vision of “house ownership for everyone,” the Group continued to concentrate on the growth strategy for its core homebuilding and sales business. Activities are guided by the management philosophy of “creating lives that are fulfilling, enjoyable and pleasant.” We have expanded operations to new areas and are working to further develop the markets in which we already operate with the aim of increasing our market share.

The Group is also committed to improving management efficiency through the use of DX (Digital Transformation). One activity is the use of MITSUKARU Pro and other information technologies to operate with even greater efficiency, raise productivity, and optimize profit.

Sales increased 24,097 million yen (17.7%) to a record-high 160,209 million yen. Operating profit decreased 3,476 million yen (19.1%) to 14,683 million yen due to intensive sales promotions. Ordinary profit decreased 3,702 million yen (20.7%) to 14,183 million yen because of non-operating expenses increased 379 million yen primarily due to commission expenses associated with a new syndicated loan to give group companies quick access to funds required for initiatives for growth. Profit attributable to owners of parent was down 2,180 million yen (19.4%) to 9,055 million yen.

Results by business segment are as follows:

The Tokyo Big House business segment has been deleted because the Company sold part of its holding of Tokyo Big House, Inc. stock in the previous fiscal year and this company is no longer included in the consolidated financial statements.

i) Homebuilding and sales business

In this business, there were many activities involving the market share growth strategy. We have expanded operations to new areas while strengthening operations in areas where we currently operate. Backed by marketing activities that link the KEIAI brand with outstanding designs, we continued to supply design houses with outstanding quality at low prices. Prices of houses are set at a level that makes the monthly mortgage payments less expensive than renting a residence. We placed priority on the turnover ratio by shortening the time between the purchase of land and sale of houses. Building houses faster and improving construction processes also contributed to lowering expenses in this business. In addition, we continued to upgrade our sales capabilities by building stronger ties with real estate brokers throughout Japan, increasing purchases of land and increasing the use of outsourced sales activities.

During the first nine months, 3,161 houses (including land sale) were sold, up 458 from one year earlier. Sales increased 15,680 million yen to 109,144 million yen. Segment profit was down 2,685 million yen to 13,285 million yen primarily due to aggressive sales promotions.

ii) Custom-built housing business

This custom-built housing business is concentrating on increasing the number of orders from Fit-Pro custom-built houses for real estate companies and the single-story IKI semi custom-built houses.

The number of houses sold during the first nine months increased by 78 from one year earlier to 181. Sales were up 1,380 million yen to 3,348 million yen. Segment profit increased 22 million yen to 96 million yen caused by the up-front general and administrative expenses that incurred because of the increasing number of orders for the single-story IKI semi custom-built houses.

iii) Yokatown business

Subsidiary Yokatown Co., Ltd. sells built-for-sale houses, land and custom-built houses mainly in Fukuoka prefecture. Yokatown has been working on strengthening its built-for-sale house sales business.

The number of built-for-sale houses sold during the first nine months increased by 80 to 727 (including land sale). The number of custom-built houses sold decreased by 14 to 39, because built-for-sale houses are the main activity of this business. Sales increased 2,075 million yen to 20,511 million yen and segment profit decreased 1,153 million yen to 973 million yen.

iv) Asahi Housing business

Subsidiary Asahi Housing Co., Ltd. sells built-for-sale houses mainly in Kanagawa prefecture. There have been many activities at this company involving development projects for the built-for-sale house sales business.

The number of built-for-sale houses sold during the first nine months increased by 52 to 249 (including land sale). Sales increased 2,269 million yen to 10,710 million yen and segment profit increased 52 million yen to 1,448 million yen.

v) Kensin business

Subsidiary Kensin Construction inc. primarily sells built-for-sale houses, land and custom-built houses and performs building site preparation work mainly in Kanagawa prefecture. The company has been involved with many real estate development projects that required the preparation of building sites at locations with sloped ground. Kensin plans to strengthen its built-for-sale house sales business.

The number of built-for-sale houses sold during the first nine months increased by 85 to 271 (including land sale) and custom-built houses sold decreased by 5 to 91 as Kensin has been working on strengthening its built-for-sale house sales business. Sales increased 4,071 million yen to 13,950 million yen and segment profit increased 57 million yen to 799 million yen.

vi) KEIAI Presto business

The main activities of KEIAI Presto K.K. are the sales of built-for-sale houses mainly in Saitama prefecture. There have been many activities at this company involving development projects for the built-for-sale house sales business.

The number of built-for-sale houses sold during the first nine months increased by 48 to 62 (including land sale). Sales increased 988 million yen to 1,679 million yen and segment profit increased 110 million yen to 127 million yen.

(2) Explanation of Financial Position

Assets

Total assets increased by 39,325 million yen from the end of the previous fiscal year to 202,565 million yen at the end of third quarter of the current fiscal year. This was mainly due to an increase of 51,721 million yen in inventories, which include real estate for sale, real estate for sale in process and costs on uncompleted construction contracts, and a decrease of 13,400 million yen in cash and deposits resulting mainly from income taxes paid.

Liabilities

Total liabilities increased by 35,006 million yen to 149,209 million yen. The main reasons include an increase of

35,770 million yen in borrowings, which include short-term borrowings, current portion of long-term borrowings and long-term borrowings because of procurement of funds to purchase land.

Net assets

Total net assets increased by 4,318 million yen to 53,356 million yen. The main reason was an increase of 9,055 million yen in retained earnings due to profit attributable to owners of parent, which was partly offset by a 4,599 million yen decrease as a result of payments of cash dividends.

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

In the fiscal year ending March, 31, 2023, the Group continued to focus on maintaining high inventory turnover and intensively promoting sales as the market is returning to normal after the temporary surge in demand resulting from the Corona pandemic. Consequently, sales have been favorable as demand rose above the pre-pandemic level. On the other hand, gross profit margin has been declining. In view of these factors, we have revised the forecasts of operating profit, ordinary profit, and profit attributable to owners of parent to 18,500 million yen, 18,000 million yen, and 12,000 million yen, respectively. For details, please refer to “Revisions to Earnings Forecast” which was announced today.

2. Quarterly Consolidated Financial Statements and Notes**(1) Quarterly Consolidated Balance Sheet**

	FY3/22 (As of Mar. 31, 2022)	(Thousands of yen) Third quarter of FY3/23 (As of Dec. 31, 2022)
Assets		
Current assets		
Cash and deposits	43,043,330	29,642,422
Accounts receivable from completed construction contracts	578,815	60,907
Real estate for sale	30,473,523	59,702,104
Real estate for sale in process	72,763,078	94,651,955
Costs on uncompleted construction contracts	4,495,297	5,099,210
Advance payments to suppliers	2,037,313	2,297,173
Other	2,361,831	3,706,135
Allowance for doubtful accounts	(66,716)	(33,814)
Total current assets	155,686,474	195,126,093
Non-current assets		
Property, plant and equipment	3,988,463	4,156,741
Intangible assets		
Goodwill	636,615	539,418
Other	521,789	462,901
Total intangible assets	1,158,405	1,002,320
Investments and other assets	2,407,417	2,280,715
Total non-current assets	7,554,287	7,439,778
Total assets	163,240,761	202,565,872
Liabilities		
Current liabilities		
Electronically recorded obligations-operating	3,530,979	4,586,791
Accounts payable for construction contracts	14,779,983	17,582,961
Short-term borrowings	56,864,048	85,514,429
Current portion of bonds payable	3,171,000	2,178,000
Current portion of long-term borrowings	3,700,353	3,199,863
Lease obligations	51,137	49,724
Income taxes payable	5,491,725	781,095
Provision for bonuses	580,149	257,662
Other	3,483,381	3,815,322
Total current liabilities	91,652,758	117,965,851
Non-current liabilities		
Bonds payable	2,603,300	3,649,700
Long-term borrowings	19,658,833	27,279,311
Lease obligations	52,026	19,271
Asset retirement obligations	69,054	69,461
Other	166,965	225,518
Total non-current liabilities	22,550,179	31,243,262
Total liabilities	114,202,938	149,209,113

	(Thousands of yen)	
	FY3/22 (As of Mar. 31, 2022)	Third quarter of FY3/23 (As of Dec. 31, 2022)
Net assets		
Shareholders' equity		
Share capital	4,810,052	4,815,281
Capital surplus	5,698,164	5,703,399
Retained earnings	33,631,891	38,087,980
Treasury shares	(77,711)	(377,320)
Total shareholders' equity	44,062,396	48,229,340
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(59,299)	(117,493)
Foreign currency translation adjustment	23,205	(2,704)
Total accumulated other comprehensive income	(36,094)	(120,197)
Share acquisition rights	12,569	17,736
Non-controlling interests	4,998,950	5,229,879
Total net assets	49,037,822	53,356,758
Total liabilities and net assets	163,240,761	202,565,872

(2) Quarterly Consolidated Statements of Income and Comprehensive Income**Quarterly Consolidated Statement of Income****(For the Nine-month Period)**

(Thousands of yen)

	First nine months of FY3/22 (Apr. 1, 2021 – Dec. 31, 2021)	First nine months of FY3/23 (Apr. 1, 2022 – Dec. 31, 2022)
Net sales	136,112,329	160,209,801
Cost of sales	105,738,224	132,402,127
Gross profit	30,374,105	27,807,674
Selling, general and administrative expenses	12,214,337	13,123,985
Operating profit	18,159,767	14,683,688
Non-operating income		
Interest income	717	12,556
Dividend income	41,738	5,057
Refund of real estate acquisition tax	290,703	342,526
Other	271,301	397,753
Total non-operating income	604,461	757,894
Non-operating expenses		
Interest expenses	547,436	804,719
Commission expenses	216,262	387,926
Other	114,865	65,567
Total non-operating expenses	878,564	1,258,213
Ordinary profit	17,885,664	14,183,370
Extraordinary income		
Gain on sale of non-current assets	420	1,517
Gain on sale of investment securities	70,114	-
Total extraordinary income	70,534	1,517
Extraordinary losses		
Loss on sale of non-current assets	1,157	3,815
Loss on retirement of non-current assets	12,929	2,320
Loss on sale of investment securities	75,207	-
Total extraordinary losses	89,295	6,135
Profit before income taxes	17,866,904	14,178,751
Income taxes-current	5,740,961	4,098,780
Income taxes-deferred	(91,625)	498,796
Total income taxes	5,649,336	4,597,577
Profit	12,217,568	9,581,173
Profit attributable to non-controlling interests	982,131	526,059
Profit attributable to owners of parent	11,235,436	9,055,114

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

(Thousands of yen)

	First nine months of FY3/22 (Apr. 1, 2021 – Dec. 31, 2021)	First nine months of FY3/23 (Apr. 1, 2022 – Dec. 31, 2022)
Profit	12,217,568	9,581,173
Other comprehensive income		
Valuation difference on available-for-sale securities	(43,902)	(58,193)
Foreign currency translation adjustment	2,889	(25,909)
Total other comprehensive income	(41,012)	(84,103)
Comprehensive income	12,176,555	9,497,070
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	11,197,412	8,971,010
Comprehensive income attributable to non-controlling interests	979,142	526,059

(3) Notes to Quarterly Consolidated Financial Statements**Going Concern Assumption**

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Changes in Accounting Policies

Application of the Implementation Guidance on the Accounting Standard for Fair Value Measurement

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

Segment and Other Information

Segment information

First nine months of FY3/22 (Apr. 1, 2021 – Dec. 31, 2021)

1. Information related to net sales and profit or loss for each reportable segment

(Thousands of yen)

	Reportable segment				
	Homebuilding and sales	Custom-built housing	Yokatown	Asahi Housing	Kensin
Net sales					
Sales to external customers	93,463,300	1,323,493	18,435,865	8,441,130	9,879,833
Inter-segment sales and transfers	-	644,499	-	-	-
Total	93,463,300	1,967,992	18,435,865	8,441,130	9,879,833
Segment profit	15,971,959	73,600	2,127,288	1,395,864	741,779

	Reportable segment			Others (Note 1)	Adjustments (Note 2)	Amounts shown on the quarterly consolidated statement of income (Note 3)
	Tokyo Big House	KEIAI presto	Total			
Net sales						
Sales to external customers	1,730,991	691,872	133,966,486	2,145,843	-	136,112,329
Inter-segment sales and transfers	-	-	644,499	715,275	(1,359,775)	-
Total	1,730,991	691,872	134,610,985	2,861,119	(1,359,775)	136,112,329
Segment profit	50,055	17,670	20,378,218	388,728	(2,607,179)	18,159,767

Notes: 1. Others represent the businesses which are not included in any of the reportable segments and mainly consist of pre-owned home, real estate leasing and brokerage businesses.

2. The -2,607 million yen adjustment to segment profit includes elimination for inter-segment transactions of 30 million yen and -2,637 million yen in corporate expenses that are not attributable to any of the reportable segments.

3. Segment profit is adjusted with operating profit shown on the consolidated statement of income.

First nine months of FY3/23 (Apr. 1, 2022 – Dec. 31, 2022)

1. Information related to net sales and profit or loss for each reportable segment

(Thousands of yen)

	Reportable segment				
	Homebuilding and sales	Custom-built housing	Yokatown	Asahi Housing	Kensin
Net sales					
Sales to external customers	109,144,118	2,514,285	20,511,097	10,710,706	13,950,976
Inter-segment sales and transfers	-	833,938	-	-	-
Total	109,144,118	3,348,224	20,511,097	10,710,706	13,950,976
Segment profit	13,285,991	96,020	973,740	1,448,601	799,235

	Reportable segment		Others (Note 1)	Adjustments (Note 2)	Amounts shown on the quarterly consolidated statement of income (Note 3)
	KEIAI Presto	Total			
Net sales					
Sales to external customers	1,679,885	158,511,069	1,698,732	-	160,209,801
Inter-segment sales and transfers	-	833,938	636,643	(1,470,582)	-
Total	1,679,885	159,345,008	2,335,375	(1,470,582)	160,209,801
Segment profit	127,957	16,731,547	600,994	(2,648,853)	14,683,688

Notes: 1. Others represent the businesses which are not included in any of the reportable segments and mainly consist of pre-owned home, real estate leasing and brokerage businesses.

2. The -2,648 million yen adjustment to segment profit includes elimination for inter-segment transactions of 20 million yen and -2,669 million yen in corporate expenses that are not attributable to any of the reportable segments.

3. Segment profit is adjusted with operating profit shown on the consolidated statement of income.

2. Information related to revisions for reportable segments

The Tokyo Big House business segment has been deleted because the Company sold part of its holding of Tokyo Big House, Inc. stock in the previous fiscal year and this company is no longer included in the consolidated financial statements.

Additional Information

1. The Company has established a performance-linked stock compensation plan for directors. Shares for this plan held by the trust are recorded as treasury shares in the consolidated balance sheet. The number of shares of the Company's stock held by the trust was 41,300 shares with a book value of 77 million yen as of March 31, 2022 and December 31, 2022.

2. As part of incentive plans for employees, the KI-STAR Group started an employee stock distribution trust program in the second quarter of the current fiscal year. The purpose is to further increase motivation to contribute to the medium and long-term growth of sales and earnings and the growth of corporate value.

(1) Summary

The employee stock distribution trust program, which is established and funded by KI-STAR, purchases KI-STAR stock that is subsequently distributed to employees of KI-STAR and its group companies who have fulfilled the requirements for receiving stock in accordance with stock distribution rules determined by the Board of Directors.

(2) Remaining stock held by the trust

Stock remaining in the trust is recorded at book value (excluding associated expenses) as treasury stock in net assets. As of December 31, 2022, there are 63,400 shares of this trust treasury stock with a book value of 299 million yen.

(3) Book value of borrowings recognized by using the gross method

Not applicable

3. Downturn of the global economy continues because of the COVID-19 pandemic. It is uncertain when this crisis will end and it is currently impossible to predict the effects of this crisis on the performance of the KI-STAR Group. As of the date of this earnings announcement, the COVID-19 crisis has not created any problems serious enough to affect accounting estimates. Consequently, accounting estimates as of the end of the third quarter of the current fiscal year do not incorporate any effects of the COVID-19 crisis.

This financial report is solely a translation of “Kessan Tanshin” (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.