



Summary of Accounts for First Two Quarters of Fiscal Year Ending December 2023 (Japanese GAAP) (Consolidated)

July 25, 2023

Name of listed company: ES-CON JAPAN Ltd.	Listing exchange: Tokyo Stock Exchange
Code: 8892	URL: https://www.es-conjapan.co.jp/english/
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Scheduled date for submission of periodic securities report:	July 25, 2023
Scheduled date for start of dividend payment:	-
Supplementary explanatory materials created for accounts? Yes/No: No	
Accounts briefing meeting held? Yes/No: Yes (for analysts)	

(Amounts are rounded down to the nearest million yen)

1. Consolidated results for first two quarters of fiscal year ending December 2023 (from January 1, 2023 to June 30, 2023)

(1) Consolidated operating results (cumulative)

(% figures show the rate of increase (decrease) compared with the same period of the previous year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
First two quarters of fiscal year ending December 2023	47,939	17.3	6,842	21.3	6,317	23.0	4,209	27.7
First two quarters of fiscal year ended December 2022	40,876	63.6	5,641	120.2	5,136	165.6	3,296	137.4

(Note) Comprehensive income

First two quarters of fiscal year ending December 2023: 4,253 million yen [37.7 %]	First two quarters of fiscal year ended December 2022: 3,090 million yen [126.9%]
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	Basic earnings per share	Diluted earnings per share
	yen	yen
First two quarters of fiscal year ending December 2023	44.18	44.10
First two quarters of fiscal year ended December 2022	34.52	34.46

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Book value per share
	million yen	million yen	%	yen
First two quarters of fiscal year ending December 2023	292,194	64,736	22.8	697.73
Fiscal year ended Dec. 2022	263,729	64,144	25.0	691.87

Reference: Equity

First two quarters of fiscal year ending December 2023: 66,487 million yen	Fiscal year ended Dec. 2022: 65,906 million yen
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2. Dividends

	Annual dividend				
	End of first quarter	End of second quarter	End of third quarter	Year-end	Total
	yen	yen	yen	yen	yen
Fiscal year ended Dec. 2022	—	0.00	—	38.00	38.00
Fiscal year ending Dec. 2023	—	0.00	—	—	—
Fiscal year ending Dec. 2023 (Forecast)	—	—	—	38.00	38.00

(Note) Revisions from latest dividends forecast: None

3. Consolidated earnings forecast for fiscal year ending December 2023 (from January 1, 2023 to December 31, 2023)
 (% figures show the rate of increase (decrease) compared with the previous period)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Basic earnings per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Full fiscal year	110,000	10.6	16,200	4.6	14,200	1.3	9,400	29.6	98.65

(Note) Revisions from latest earnings forecast: None

*Explanatory notes

- (1) Changes in significant subsidiaries during the first two quarters
 (Changes in specified subsidiaries resulting in change in scope of consolidation): None
 Newly included: – (Company name)
 Excluded: – (Company name)
- (2) Application of accounting treatments 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 due to amendment of accounting standards, etc.: 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 (common shares)

1) Number of shares issued and outstanding (including treasury shares) at end of fiscal year	First two quarters of fiscal year ending Dec. 2023	98,580,887 shares	Fiscal year ended Dec. 2022	98,580,887 shares
2) Number of treasury shares at end of period	First two quarters of fiscal year ending Dec. 2023	3,290,350 shares	Fiscal year ended Dec. 2022	3,322,800 shares
3) Average number of shares during period (cumulative)	First two quarters of fiscal year ending Dec. 2023	95,281,979 shares	First two quarters of fiscal year ended Dec. 2022	95,494,503 shares

(Note) The number of treasury shares at end of period includes shares of ES-CON JAPAN held in a board benefit trust for executives and a share-based payment benefits-type ESOP trust (first two quarters of fiscal year ending December 2023: 851,000 shares in the board benefit trust for executives and 548,900 shares in the share-based payment benefits-type ESOP trust). In the calculation of the average number of shares during the fiscal year, the treasury shares to be subtracted in that calculation includes ES-CON JAPAN shares held in the share-based payment benefits trust for directors and the share-based payment benefits-type ESOP trust (first two quarters of the fiscal year ending December 2023: 1,403,782 shares).

- * This quarterly summary of accounts is not subject to quarterly review of certified public accountant or audit corporation.

Explanation regarding appropriate use of earnings forecasts, and other notes

The earnings outlook and other forward-looking statements contained in this document are based on information currently available to and certain assumptions that are thought to be reasonable by ES-CON JAPAN. Accordingly, actual business performance and other results may differ materially due to various reasons. 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 Results; (4) Explanation of Consolidated Earnings Forecast and Other Forward-Looking Information" on page 13.

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Attachment

1. Qualitative Information on Quarterly Results

(1) Business Risks

There are no business risks that newly arose in the first two quarters of the fiscal year ending December 2023.

In addition, there are no significant changes in the business risks stated in the previous fiscal year's securities report.

(2) Explanation of Operating Results

In the first two quarters of the fiscal year under review (fiscal year ending December 2023), the Japanese economy continued to see improvement in business sentiment centered on domestic demand as the normalization of domestic economic activities and the recovery of inbound demand have progressed with the lifting of behavioral restrictions and immigration restrictions due to the change in the classification of COVID-19 under the Infectious Diseases Control Law in May while the spread of the virus was curbed.

In the real estate industry in which the ES-CON JAPAN Group operates, as work-style reform and new ways of living, including teleworking, become widespread, the real market remained robust thanks to the stable housing demand due to the outlook of the continuation of monetary easing measures.

On the other hand, the outlook remains less optimistic overseas due to concerns over the impact on the Japanese economy of the downturn in overseas economies caused by such factors as global monetary tightening, in addition to raw material and energy prices driven upward by the prolonged situation in Ukraine. Furthermore, prices are rising at an accelerating pace domestically. And, in the real estate industry, there are concerns about soaring construction costs and labor shortage, as well as the possibility of a medium- to long-term increase in interest rates.

Amid these highly unpredictable business circumstances, we aim for sustainable growth by building a firm management base capable of withstanding any economic environment to maximize corporate value under the fourth medium-term management plan "IDEAL to REAL 2023" (the three-year period from the fiscal year ended December 2021 through the fiscal year ending December 2023) formulated in February 2021 with the theme of "Transformation and Rapid Progress."

In FY2023, the final fiscal year of the fourth medium-term management plan, ES-CON JAPAN will push forward toward "Rapid Progress" through concerted efforts.

1) Progress of Fourth Medium-term Management Plan "IDEAL to REAL 2023"

With the capital increase through third-party allotment with Chubu Electric Power Co., Inc. (hereinafter "Chubu Electric Power") as the allottee conducted in 2021, our creditworthiness was significantly enhanced. ES-CON JAPAN made Picasso Co., Ltd. and its seven group companies (the "Picasso Group") its subsidiaries and secured stable rental income, resulting in the steady progress in our "Transformation," a basic policy of our medium-term management plan.

The fiscal year under review, the final fiscal year of the medium-term management plan, is the final stage of the transition from "Transformation" to "Rapid Progress." We are striving to achieve our plan, which calls for record-high performance, and develop synergies within the Chubu Electric Power Group. The condominium business is on track to achieve over 80% of the planned sales of 61.9 billion yen on a contract basis. The joint project with the Chubu Electric Power Group described below is also building a record of accomplishment. Furthermore, the acquisition of Shijo Omiya Building Co., Ltd. (following corporate separation; announced in February 2023), which engages in businesses such as real estate leasing (share transfer scheduled for July 31, 2023), should contribute to the further enhancement of stock earnings.

The details of the fourth medium-term management plan are as follows.

(a) Basic Management Strategy Policies

- Establish business foundations able to withstand unexpected changes in economic conditions
Establish a solid business and financial standing that can maintain fund-raising ability under any economic environment.
- Simultaneously change the revenue structure and expand business domains
Transform the revenue structure from one based on flows to one based on stock by strengthening the real estate leasing business while simultaneously realizing business diversification and expanding business territories

(b) Basic Policy: Transformation and Rapid Progress

Transformation

- Proactive investment in long-term revenue-generating real estate and improvement of balance sheet structure
- Transform the focus of management from flows to stock

Rapid Progress

- Demonstrating synergies within the Chubu Electric Power Group
- Achieving net sales of 110 billion yen and operating income of 16 billion yen (in the final fiscal year of the medium-term management plan)

(c) Management Strategies

- Transformation to a structure of sustained and stable revenues
- Stable growth in existing core businesses through business diversification and area strategies
- Growing new businesses into core businesses through business diversification and area strategies
- Taking on the challenges of new business domains
- Enhancing synergies within the ES-CON JAPAN Group
- Expanding business bases, primarily in the five major urban areas
- Enhancing synergies with the Chubu Electric Power Group
- Promoting ESG initiatives

(d) Performance Plan

(Unit: million yen)

	Fiscal year ended Dec. 2021	Fiscal year ended Dec. 2022				Fiscal year ending Dec. 2023
	Actual	Actual	Initial plan	Difference from initial plan	Increase/decrease	Initial plan
Net sales	79,017	99,431	100,000	(568)	(0.6%)	110,000
Operating income	10,381	15,492	14,000	1,492	10.7%	16,200

(e) Management Targets

	Fiscal year ended Dec. 2021	Fiscal year ended Dec. 2022			Fiscal year ending Dec. 2023
	Actual	Actual	Plan	Percentage change from plan	Plan ⁴
Share of profits from leasing ¹	21.2%	21.5%	26.0%	(4.5%)	30.0%
Return on equity (ROE)	11.8%	11.3%	13.0%	(1.7%)	13.0%
Return on invested capital (ROIC) ²	3.2%	4.6%	4.0%	0.6%	4.0%
Equity ratio	24.8%	25.0%	23.0%	2.0%	21.0%
Share of long-term earnings from real estate ³	20.6%	19.5%	21.0%	(1.5%)	23.0%
Net assets	62.6 billion yen	64.1 billion yen	67.3 billion yen	(3.1 billion yen)	72.0 billion yen

(Note) 1 Share of profits for leasing: Leasing segment profits / Total segment profits (excluding adjustments)

2 Return on invested capital (ROIC): After-tax operating income / (Shareholders' equity + Interest-bearing liabilities)

3 Share of long-term earnings from real estate: Real estate generating leasing revenues recorded as non-current assets / Total assets

- 4 In the first fiscal year of the fourth medium-term management plan, ES-CON JAPAN rapidly realized “transformation” of the revenue structure by accelerating progress on investment plans ahead of schedule and securing stable leasing income. “Share of profits from leasing,” “equity ratio,” and “share of long-term earnings from real estate” for the fiscal year ending December 2023 were also revised on March 25, 2022.

(f) Investment Plan

(Unit: million yen)

	Fiscal year ended Dec. 2021	Fiscal year ended Dec. 2022	Cumulative total for 2021 and 2022			Fiscal year ending Dec. 2023		Three-year cumulative total
	Actual	Actual	Actual	Plan	Increase/decrease	Semiannual results	Plan	Plan
Investment in revenue generating real estate	76,799	10,808	87,607	70,000	25.2%	7,635	65,700	130,000
Investment in other development	19,191	26,103	45,294	55,000	(17.6%)	21,237	22,300	90,000
Gross investment	95,990	36,911	132,902	125,000	6.3%	28,872	88,000	220,000

2) Status of Demonstration of Synergy Effect with the Chubu Electric Power Group

ES-CON Japan is currently engaged its fifth project, the development of TSUNAGU GARDEN SENRI FUJISHIRODAI (Fujishirodai, Suita City, Osaka Prefecture), as a joint project with Chuden Real Estate Co., Inc., a wholly owned subsidiary of Chubu Electric Power. The project aims to create an appealing community in harmony with the surrounding living environment on a site of approximately 20,000 tsubos. It is the first mixed-use development project jointly with Chuden Real Estate which is engaged in the integrated residential and commercial facility development.

Two projects are currently underway as joint projects with Chubu Electric Power. In August 2022, a consortium of businesses led by Chubu Electric Power, of which ES-CON Japan is a member (hereinafter the “Consortium”), entered into a basic planning agreement for the development project at the former site of Nagoya Horse Racing Track. In addition, the Consortium submitted a plan to utilize wood produced in Aichi Prefecture for “Ideas for Projects/Plans for the Realization of Carbon Neutrality” solicited by Aichi Prefecture and entered into an “Agreement on the Promotion of the Utilization of Wood in Public Buildings” with Aichi Prefecture, the first of its kind in the prefecture, in September 2022.

Furthermore, we established TSUNAGU Community Farm LLC with Chubu Electric Power and Spread Co., Ltd. (hereinafter “Spread”), and started construction of Techno Farm Fukuroi, which will be the world’s largest vertical farm utilizing fully artificial light and capable of producing 10 tons of lettuce per day. By combining Chubu Electric Power’s know-how in energy management, ES-CON JAPAN’s real estate development capabilities, and Spread’s cultivation technology, we are working on the efficient and stable production of “safe and secure” lettuce with the aim of launching production in January 2024.

We will continue to strengthen our partnership with the Chubu Electric Power Group and actively work to achieve large-scale urban development and realize a “new form of community.”

3) Progress of Projects in Hokkaido

ES CON FIELD HOKKAIDO, with which ES-CON JAPAN has concluded a naming rights agreement, the new Hokkaido Nippon Ham Fighters stadium in Kitahiroshima City, Hokkaido, opened in March 2023. ES-CON JAPAN has participated in the urban development concept of HOKKAIDO BALLPARK F VILLAGE (total development area: approx. 36.7 ha; hereinafter “F VILLAGE”) centered on the new stadium. The condominium “Le JADE Hokkaido Ballpark” (118 units in total) situated in a rare location 80 meters in a straight line from the stadium was immensely popular and sold out. Furthermore, MASTERS VARUS HOKKAIDO BALLPARK was decided as the name of the residence for active seniors with a medical mall being developed in the southeast corner of F VILLAGE. Moreover, informal agreements with six tenants for the medical mall F VILLAGE MEDICAL SQUARE have been reached. The building is scheduled for completion in spring 2024, with tenants taking occupancy in June 2024.

In addition, we are advancing development of the JR Kitahiroshima Station “Train Station West Exit Area Revitalization Project” in Kitahiroshima City as a partner of the project. The train station is garnering further attention as an important point of access to F VILLAGE. Continuing from November 2021, we acquired part of the development site for the project in March 2023. We are in the process of developing a station square in front of JR Kitahiroshima Station, an exchange center complex comprising commercial facilities and a hotel, a three-dimensional indoor/outdoor plaza and park, and residential exchange facilities. Of the development projects on the site, we aim to complete the commercial facilities in fiscal 2024 and are steadily conducting development in front of the station.

Beyond Kitahiroshima City, we sold out “Le JADE Sapporo Motomachi” (Higashi Ward, Sapporo City; 39 units in total), our first condominium in Sapporo City, in November 2022 and have also been making steady progress with projects in Hokkaido, such as condominium development for Le JADE Sapporo Naebo (Higashi Ward, Sapporo City; 42 units in total; scheduled for completion in February 2024).

We will continue to cooperate in the promotion of sports and culture and contribute to the revitalization and development of the entire Hokkaido region for the happiness of its residents.

4) Initiatives Aimed at Regional and Area Revitalization through Real Estate Development

In February 2022, we conducted redevelopment to create a bustling atmosphere around the station through the “Namiki no Mori City” development project, a mixed-use facility of residential, commercial and parking lot buildings in Iwaki City, Fukushima Prefecture, together with the Iwaki Station Namiki-dori District Urban Redevelopment Association and Hoosiers Corporation. In November 2022, we commenced unit sales for the residential building MID TOWER IWAKI, the tallest barrier-free seismic isolation structure tower condominium in the city.

With regard to a development project in the vicinity of Shin-Omura Station on the Nishi-Kyushu Shinkansen line in Nagasaki Prefecture, we concluded a basic agreement with Omura City together with Daiwa House Industry Co., Ltd. and Izumi Co., Ltd. as a member of a business group composed of the three companies in March 2022 and acquired the project site in March 2023. In line with the opening of Shin-Omura Station in September 2022, the project, named “SAKURA MIRAI SHIN OMURA,” entails developing condominiums, commercial facilities, etc. where residents and visitors from outside the city can interact with each other in line with the town development policy of Omura City. ES-CON JAPAN is engaged in the development of two condominiums (two blocks; 191 units in total), “Le JADE SHIN-OMURA STATION FRONT” and “Le JADE SHIN-OMURA PARK SIDE.”

Furthermore, in February 2023, “tonarie Utsunomiya (Utsunomiya City, Tochigi Prefecture)” was redesigned into a facility that can contribute to further revitalization of the region. In March 2023, “tonarie Hoshida (Katano City, Osaka Prefecture),” a community-based shopping center, opened in the area of the “Hoshida Station North Land Readjustment Project” (total area: approximately 26.4 ha). The development began as a joint project with MIRARTH Holdings, Inc. In the surrounding area, development of industrial facilities, such as condominiums, detached houses, and business offices, is planned, with future development anticipated. The facility is the tenth facility in our commercial facility brand “tonarie” series.

5) Promotion of Development of Various Condominiums in Rare Locations

We are not only expanding the number of units but also providing a diverse range centered on product plans that draw out the full value of sites purchased.

In January 2023, we acquired a project site in Karuizawa-cho, Kitasaku-gun, Nagano Prefecture. The property is situated in a location surrounded by the abundant nature of Karuizawa, where it will be our second building development. The first building, Ost Residence Karuizawa (33 units in total, sold out in 2021), was recognized for its high-quality product planning and awarded the Good Design Award for the fiscal year 2022.

In addition, we have acquired two project sites in Hayama Town, Miura District, Kanagawa Prefecture, and are working to develop condominiums that fully utilize the abundant natural environment, such as Morito Beach. ES-CON JAPAN is also promoting high-value-added product planning, such as early selling out ahead of schedule in December 2022 of “Le JADE Cross Chiyoda Jimbocho (50 units in total; scheduled for completion in October 2023),” a new condominium for sale with fixed-term land lease rights currently under development in a site adjacent to the “Toho Gakkai Main Building,” a historical building designated as an important building for the scenic development of Chiyoda Ward, Tokyo.

Furthermore, as a company creating “lifelong items” in the form of housing, we formulated the IDEAL COMPASS quality management guideline and provide the Escon Premium After Support long-term after-sales service supporting the lifestyles of people living in condominiums. We will continue to provide housing that makes our customers feel safer, more secure, and more comfortable.

6) Implementation of Strategic M&As

As previously mentioned, following the Picasso Group in October 2021, ES-CON JAPAN decided to make Shijo Omiya Building Co., Ltd. which is involved in the real estate leasing and other businesses, a subsidiary in February 2023 (scheduled execution date of share transfer: July 31, 2023). The company was founded in 2010 in Kyoto City and has developed its real estate leasing business mainly in the city, owning a number of prime revenue-generating assets, such as rental condominiums and commercial facilities.

We will continue to actively pursue strategic M&A projects to enhance the Group’s businesses and expand its domain.

7) Taking on the Challenges of New Business Domains

We are promoting efforts to diversify business content with the next generation in view by stating “growing new businesses into core businesses” and “taking on the challenges of new business domains” in the fourth medium-term management plan.

ES-CON JAPAN began selling permanent use rights of Ryomon, an urban-type columbarium in Minato Ward, Tokyo, in March 2021 in an effort to solve a problem facing modern society, namely the difficulty of obtaining graves particularly in the city center, while aiming for developing a new area of the real estate business.

Furthermore, in November 2022, we completed the construction of ESCON Kudan Kita Building, our first office building in the Tokyo metropolitan area, and in December 2022 invested and participated in a project promoted by Britania Public Company Limited, a subsidiary of Thai real estate developer Origin Property Public Company Limited, as our first overseas project to develop detached houses.

In January 2023, we established the Overseas Business Department in the Strategic Business Division and began full-scale overseas business development.

We will continue to focus on initiatives in new business fields with a view to the next era and implement a multifaceted real estate business.

8) Declaration of Support for TCFD Recommendations and Disclosures

Based on the goal of achieving a carbon-neutral society by 2050, we are seeking to create new value for the environment through next-generation urban development and related efforts.

As a key management strategy to address climate change, we have selected members from management and each department to create the ESG Promotion Group, which has worked on disclosing information based on the framework of the Task Force on Climate-related Financial Disclosures (TCFD) recommendations calling for analyzing risks and opportunities presented by climate change and promoting disclosure on them. The ES-CON JAPAN Group declared its support for the TCFD recommendations in June 2022.

Please visit our website (https://www.es-conjapan.co.jp/english/about_us/environment.php) for details of disclosures based on the TCFD recommendations (governance, strategies, risk management, indicators and targets on climate change risks and opportunities).

9) Status of ESG Initiatives

One of our key management strategies is addressing social issues through ESG promotion. Centered on the “ESG Promotion Group” and the “Health & Culture Fostering Team” designed to promote health management further, we will promote company-wide efforts and focus on enhancing essential company value that cannot be measured by financial information alone.

The contents of the most recent major initiatives are as follows.

(a) Environment (E)

• Acquisition of Various Certifications

In May 2020, ES-CON JAPAN acquired EcoAction 21 Certification, a Japanese environmental management system (EMS) established by the Ministry of the Environment. Furthermore, “tonarie Fujimino,” a commercial facility owned by ES-CON JAPAN, obtained “Rank S,” the highest rank of the Certification for CASBEE^{(*)1} for Real Estate from a CASBEE accreditation body authorized by the Institute for Building Environment and Energy Conservation. Also, “tonarie Yamato-Takada,” “tonarie Toga-Mikita,” “tonarie Minamisenri,” “tonarie Seiwadai,” and “Asumigaoka Brand New Mall,” which are commercial facilities owned by ESCON JAPAN REIT Investment Corporation (hereinafter “EJR”), obtained DBJ Green Building Certification from Development Bank of Japan Inc. Our group as a whole is working to improve the value of the facilities, and the above six properties are being operated and managed by our subsidiary ES-CON PROPERTY Ltd.

*1 CASBEE (Comprehensive Assessment System for Built Environment Efficiency) is a system to comprehensively assess the quality of a building, which evaluates and ranks the environmental performance of the building by taking into account not only environmental considerations such as energy savings and use of environmentally friendly materials but also comfort in the building and its visual impact on the area.

• Continuous and Proactive Development of Environmentally Friendly ZEH-compatible Housing

In August 2022, ES-CON JAPAN obtained ZEH^{(*)2}-M Oriented certification for its condominium “Le JADE Honkawagoe” (Kawagoe City, Saitama Prefecture; 102 units in total), as the property features excellent heat insulation performance and helps reduce annual primary energy consumption. This is our third ZEH condominium following “Le JADE Okurayama” (Kohoku Ward, Yokohama City; 25 units in total), which won the Good Design Award for the fiscal year 2021, and Le JADE Yao Sakuragaoka (Yao City, Osaka Prefecture; 72 units in total), and was contracted to sell out early in June 2022.

We will continue to make the most of the development know-how of a general developer and proactively work on the development of environmentally friendly ZEH condominiums that are appreciated by our customers.

Moreover, in November 2020, ES-CON Home Co., Ltd. and ES-CON Craft Co., Ltd., consolidated subsidiaries of ES-CON JAPAN which sell detached houses mainly in Saitama Prefecture, were registered for ZEH Builder Certification.

*2 ZEH (Net Zero Energy House) is a house aiming to make the annual primary energy consumption zero by introducing renewable energy after realizing significant conservation of energy while maintaining the quality of the indoor environment with significant improvement in the thermal insulation performance of the outer building skin as well as the introduction of a highly efficient equipment system.

• Construction and Operation of “Techno Farm Fukuroi,” a Vertical Farm Utilizing Fully Artificial Light

As previously mentioned, we are collaborating with Chubu Electric Power and Spread to develop Techno Farm Fukuroi, which will be the world’s largest vertical farm utilizing fully artificial light and capable of producing 10 tons of lettuce per day. The three companies including ES-CON JAPAN will solve issues in food and agricultural fields through the plant factory business while also contributing to the realization of a sustainable and livable society and the achievement of SDGs by making efforts towards decarbonization such as the proactive use of green energy and effective use of CO₂ in the process of cultivation.

• Efforts to Promote the Use of Wood in the Development Project of the Former Site of Nagoya Horse Racing Track

The consortium has entered into the “Agreement on the Promotion of the Utilization of Wood in Public Buildings” with Aichi Prefecture. We will make efforts to contribute to decarbonization through the project, such as active utilization of wood produced in Aichi Prefecture.

(b) Social (S)

• Formulating General Employer Action Plans

In December 2022, ES-CON JAPAN formulated and published general employer action plans (action period: January 1, 2023 to December 31, 2024) in accordance with the Act on Advancement of Measures to Support Raising Next-Generation Children and the Act on the Promotion of Women’s Active Engagement in Professional Life in order to help employees juggle career and family and create a workplace where human resources, including women, can continue to be in employment and succeed.

- Received Certification as an “Excellent Health Management Corporation 2023”

We are promoting health management, believing that the health of our employees is the cornerstone of our business activities and an essential element for our sustainable growth. As a result, in March 2023, ES-CON JAPAN was certified as an “Excellent Health Management Corporation 2023” mainly for its efforts to promote and enhance employee health, improve work comfort, and diversity.

- Support for Kitahiroshima City, Hokkaido Prefecture, by Utilizing “Corporate Version of Hometown Tax”

ES-CON JAPAN donated 300 million yen to Kitahiroshima City, Hokkaido Prefecture, as in last year, in March 2023 by utilizing the “Corporate Version of Hometown Tax” under the hope that further progress in urban development and its spread to various fields such as transportation, tourism, sports and education, etc. will contribute to the further development of the city. The funds will be utilized to maintain a vibrant city into the future.

- Contributing to Healthcare

Since 2020, we have been donating to the Kyoto University “iPS Cell Research Fund” to support activities realizing provision of early and inexpensive treatment using iPS cells for people suffering from diseases and injuries.

We have also been providing monetary donations to Osaka University’s Graduate School of Medicine since 2019 to support clinical trials for cancer vaccines showing promise for the treatment of cancer. In May 2022, we donated funds for the establishment of an endowed cancer immunology course the school is developing, for the purpose of research of cancer immune therapy.

In November 2022, we co-sponsored the Osaka Great Santa Run 2022 charity running event (hosted by the Great Santa Organization in Osaka Akaru Club). The event is designed to give a part of participation fees to children who are battling disease as presents.

- Contribution to Sports Promotion

In April 2021, we invested in Ryukyu Football Club Co., Ltd., which operates FC Ryukyu, a professional soccer team. With this investment, we will contribute to the local community through sports promotion by securing a foothold for the creation of business opportunities in Okinawa while at the same time supporting FC Ryukyu’s regional revitalization activities deeply rooted in Okinawa Prefecture.

- Human Resources Development

To achieve sustainable growth, recognizing the further enhancement of organizational power, human capital—that is, our employees or their knowledge, skills, talents, and the like—is our top priority, we have established a Human Resources Strategy Department in the Corporate Planning Division and formulated the “Basic Policy for Human Resources Development (Basic Human Resources Requirements)” as guidelines to accelerate “human resources development and employee growth.” We have formulated a human resources development program to ensure that all employees understand and adhere to these guidelines, and launched the program in the fiscal year under review. In addition, in order to cope with the impact of recent high prices and to maintain and improve employee engagement, as well as to secure talented human resources, ES-CON JAPAN has raised base wages effective April 2023.

(c) Governance (G)

- Establishment of Voluntary Committee on Nomination and Remuneration of Directors

In January 2020, we established the “Nomination and Remuneration Advisory Committee” for the purpose of strengthening the independence and objectivity of functions as well as the accountability of the Board of Directors with regard to nomination and remuneration of directors and other matters. Effective March 2023, three of the four committee members have been replaced by independent outside directors from the Board of Directors, who are members of the Audit and Supervisory Committee. In addition to ensuring fairness and transparency in the selection of directors and their compensation, ES-CON JAPAN strives to improve corporate governance by clarifying the right of Audit and Supervisory Committee members to express their opinions concerning director election and remuneration.

- Nurturing Successors

We also launched initiatives for a succession plan called the candidate successor system. We appointed a total of seven employed executive officers in January 2023.

- Diversity of the Board of Directors

At the 28th Annual General Meeting of Shareholders held on March 24, 2023, one outside director and one director who is a member of the Audit and Supervisory Committee were newly elected, bringing the Board of Directors to a total of 10 members: three executive directors, three outside directors, and four directors who are also members of the Audit and Supervisory Committee. By appointing five independent directors (including one woman), which is half of the Board of Directors, ES-CON JAPAN has expanded the diversity of the Board of Directors and created a more effective governance structure.

- Promotion of Compliance Management

In October 2022 ES-CON JAPAN established the Compliance Office directly under the President, taking the administrative disposition on ES-CON ASSET MANAGEMENT Ltd. (hereinafter "EAM"), its consolidated subsidiary, with utmost seriousness. The purpose of the Compliance Office is to strengthen legal compliance and internal control systems and to monitor every aspect of transactions with the parties in question, as well as establish a framework for managing any conflicts of interest that arise in order to prevent the recurrence of such incidents.

In March 2023, we also reviewed our Compliance Code of Conduct and issued a compliance declaration. Through these efforts, we will thoroughly strengthen the promotion of compliance management throughout the Company and the Group.

(d) Other

We have been participating in the Global ESG Benchmark for Real Assets (GRESB), which is an annual benchmark assessment measuring ESG consideration in the real estate sector, every year since 2018 with an aim to continuously improve the assessment results. In October 2022, we acquired "2 Stars" in the GRESB Rating, a five-grade evaluation system that reflects the applicant's relative evaluation based on the overall score, for efforts on environmental consideration and sustainability in the "Development Benchmark" (reporting period: January 1, 2021 to December 31, 2021). In addition, we acquired the "Green Star"^(*) rating for the fourth consecutive year.

*3 The "Green Star" in the "Development Benchmark" is awarded to participants who score 50% or higher in the absolute assessment based on the two main points, "Management Component" and "Development Component."

10) Administrative Disposition against EAM

On July 15, 2022, the commissioner of the Financial Services Agency implemented an administrative disposition, which consists of injunctions to suspend business operations and institute improved practices targeting our consolidated subsidiary EAM. In response, EAM formulated a business improvement report, which was submitted to and accepted by the commissioner of the Financial Services Agency on August 15, 2022. Moreover, in connection with this administrative disposition, EAM was disciplined by The Investment Trusts Association, Japan on June 8, 2023, in connection with this administrative disposition. There was, however, no new undue encouragement to impair the independence of real estate appraisers, impropriety in the real estate appraiser selection process, or breach of any other fiduciary duties. ES-CON JAPAN, the parent company of EAM and main sponsor of ESCON JAPAN REIT Investment Corporation ("EJR"), for which EAM is entrusted with asset management, took this administrative disposition on EAM with utmost seriousness and recognized the prevention of recurrence as a priority issue for our group as a whole. In order to build a system for managing conflicts of interest as mentioned above, we established the Compliance Office.

Moreover, EAM made a fresh start in January 2023 after reviewing its management structure, including a change of representative and the termination of its concurrent position with ES-CON JAPAN. Understanding the background to and root causes of this matter, we will continue to exert every effort to prevent the recurrence of such events based on thorough enhancement of our approaches to compliance and internal control of all members of the ES-CON JAPAN Group, not just at EAM, as well as the steadfast implementation of improvements.

11) Business Development by Segment

In the real estate sales business, our core business, we are selling revenue-generating real estate and other properties, in addition to achieving steady progress in condominium sales.

In the condominium sales business, ES-CON JAPAN has commenced sales of new projects: “Le JADE Abeno Harimacho (Abeno Ward, Osaka City; 48 units in total),” “Le JADE City Hashimoto I & II (Midori Ward, Sagami-hara City; 69 units in total for I and 87 units in total for II),” “Le JADE Sapporo Naebo (Higashi Ward, Sapporo City; 42 units in total),” “Le JADE Chigasaki Higashikaigan Minami (Chigasaki City, Kanagawa Prefecture; 31 units in total),” “Le JADE Shinyokohama (Kohoku Ward, Yokohama City; 190 units in total),” “Le JADE Fukuroi Ekimae (Fukuroi City, Shizuoka Prefecture; 48 units in total),” and “Le JADE Tanimachi 5-chome (Chuo Ward, Osaka City; 42 units in total).” As for sales progress, among properties completed in this period, five properties, including “Le JADE Hokkaido Ball Park (Kitahiroshima City, Hokkaido; 118 units in total),” all units are delivered, and at six properties including “Le JADE Matsudo Station Front (Matsudo City, Chiba Prefecture; 44 units in total)” among those scheduled for delivery in this and the subsequent period, all units are contracted to sell out.

In addition, we are expanding our business area by steadily progressing the condominium business in Hokkaido. We also have begun development in Nagasaki following Fukuoka and Kumamoto in Kyushu. On top of these, we are making a foray into Okinawa.

In the real estate leasing business, as mentioned above, we made Shijo Omiya Building Co., Ltd. (after implementation of the company split) our subsidiary in addition to the Picasso Group and thereby expect to secure stable earnings by further strengthening the leasing business. Furthermore, we have launched a new brand of rental residences, “TOPAZ,” which we will actively develop down the road.

In addition, we are striving to secure stable rental income from commercial facilities and increase asset value, such as the acquisition of new commercial land with leasehold interest in Kurashiki City, Okayama Prefecture, and the opening of the aforementioned community-based shopping center “tonarie Hoshida” in March 2023.

In the real estate planning agency and consulting business, we have started sales of the permanent use rights to our urban columbarium. Leveraging our strength in planning, we are focusing on non-asset, high-margin business, such as the commissioning business and the planning agency and consulting business.

As a result, ES-CON JAPAN achieved net sales of 47,939 million yen (up 17.3%), operating income of 6,842 million yen (up 21.3%), ordinary income of 6,317 million yen (up 23.0%), and profit attributable to owners of parent of 4,209 million yen (up 27.7%), for the first two quarters of the fiscal year under review, all compared with the same period of the previous fiscal year.

The following describes the operating results per segment (comparisons are with the same period of the previous fiscal year).

(i) Real estate sales business

In the real estate sales business, ES-CON JAPAN achieved net sales of 41,314 million yen (up 17.9%), and segment income of 7,836 million yen (up 19.3%).

(ii) Real estate leasing business

In the real estate leasing business, focus was placed on leasing activities and the property management business in view of enhancement of asset value, including increase in rental income of owned revenue-generating real estate, resulting in net sales of 6,296 million yen (up 14.2%) and segment income of 2,505 million yen (up 17.4%).

(iii) Real estate planning agency and consulting business

In the real estate planning agency and consulting business, proactive efforts were made in such aspects as entrustment with planning, consulting and other services by making the best use of planning and multifaceted business-building abilities, resulting in net sales of 327 million yen (up 7.5%) and segment income of 177 million yen (up 832.3%).

(3) Explanation of Financial Position

1) Financial position

Assets at the end of the second quarter increased by 28,465 million yen from the end of the previous fiscal year to 292,194 million yen. This was mainly attributable to inventories increasing by 28,333 million yen and cash and deposits and property, plant and equipment decreasing by 1,424 million yen and 593 million yen, respectively.

Liabilities increased by 27,873 million yen compared with the end of the previous fiscal year to 227,458 million yen. This was mainly attributable to long-term loans payable and short-term loans payable increasing by 33,224 million yen.

Net assets increased by 591 million yen compared with the end of the previous fiscal year to 64,736 million yen. This was mainly attributable to cash dividends paid of 3,673 million yen and recording of profit attributable to owners of parent of 4,209 million yen. As a result, the equity ratio was 22.8% (25.0% at the end of the previous fiscal year).

2) Cash flows

Cash and cash equivalents ("net cash") at the end of the first two quarters decreased by 1,614 million yen compared with the beginning of the fiscal year to 33,990 million yen (34,677 million yen at the end of the same period of the previous fiscal year).

The following outlines the cash flows and the factors of change in cash flows in the first two quarters.

(Cash flows from operating activities)

Net cash used in operating activities was 31,224 million yen (net cash used in operating activities was 16,204 million yen in the same period of the previous fiscal year). This was mainly attributable to profit before income taxes of 6,317 million yen, increase in inventories of 28,685 million yen and income taxes paid of 3,080 million yen.

(Cash flows from investing activities)

Net cash used in investing activities was 39 million yen (net cash used in investing activities was 1,556 million yen in the same period of the previous fiscal year). This was mainly attributable to purchase of investment securities of 234 million yen, purchase of non-current assets of 147 million yen and proceeds from guarantee deposits received of 517 million yen.

(Cash flows from financing activities)

Net cash provided by financing activities was 29,558 million yen (net cash provided by financing activities was 18,866 million yen in the same period of the previous fiscal year). This was mainly attributable to expenditure from and repayments of long-term loans payable and short-term loans payable amounting to net proceeds of 33,224 million yen and payment of cash dividends of 3,670 million yen.

(4) Explanation of Consolidated Earnings Forecast and Other Forward-Looking Information

The consolidated earnings forecast remains unchanged from the forecast announced on January 27, 2023.

Overview of results for the first two quarters of fiscal year ending December 2023

	First two quarters of fiscal year ending December 2023			
	Actual	Initial plan	Percentage change from initial plan	Increase/decrease (%)
Net sales (million yen)	47,939	46,000	1,939	4.2
Operating income (million yen)	6,842	6,000	842	14.0
Ordinary income (million yen)	6,317	5,200	1,117	21.5
Profit attributable to owners of parent (million yen)	4,209	3,400	809	23.8
Basic earnings per share (yen)	44.18	35.69	8.49	23.8

2. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheet

(Unit: million yen)

	Fiscal year ended Dec. 2022 (as of Dec. 31, 2022)	Second quarter of fiscal year ending Dec. 2023 (as of Jun. 30, 2023)
Assets		
Current assets		
Cash and deposits	35,721	34,297
Notes and accounts receivable - trade and contract assets	1,096	1,034
Real estate for sale	4,804	4,202
Real estate for sale in process	138,968	167,904
Other	10,766	12,894
Allowance for doubtful accounts	(1)	(1)
Total current assets	191,357	220,331
Non-current assets		
Property, plant and equipment		
Buildings and structures	22,734	22,833
Accumulated depreciation	(2,353)	(2,933)
Buildings and structures, net	20,380	19,899
Land	31,535	31,535
Other	517	420
Accumulated depreciation	(293)	(309)
Other, net	223	111
Total property, plant and equipment	52,139	51,546
Intangible assets		
Goodwill	7,696	7,436
Other	77	71
Total intangible assets	7,774	7,508
Investments and other assets		
Other	13,935	14,302
Allowance for doubtful accounts	(1,521)	(1,521)
Total investments and other assets	12,413	12,781
Total non-current assets	72,327	71,835
Deferred assets		
Share issuance cost	45	27
Total deferred assets	45	27
Total assets	263,729	292,194

(Unit: million yen)

	Fiscal year ended Dec. 2022 (as of Dec. 31, 2022)	Second quarter of fiscal year ending Dec. 2023 (as of Jun. 30, 2023)
Liabilities		
Current liabilities		
Short-term loans payable	10,061	11,992
Current portion of long-term loans payable	26,193	28,647
Income taxes payable	3,258	2,114
Other	16,177	11,938
Total current liabilities	55,690	54,692
Non-current liabilities		
Long-term loans payable	132,810	161,649
Provision for directors' share-based benefits	186	211
Provision for share-based benefits	109	98
Asset retirement obligations	271	272
Other	10,516	10,534
Total non-current liabilities	143,894	172,765
Total liabilities	199,585	227,458
Net assets		
Shareholders' equity		
Capital stock	16,519	16,519
Capital surplus	12,424	12,426
Retained earnings	38,326	38,862
Treasury shares	(1,457)	(1,448)
Total shareholders' equity	65,813	66,359
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	79	126
Foreign currency translation adjustment	13	1
Total accumulated other comprehensive income	93	127
Subscription rights to shares	0	0
Non-controlling interests	(1,761)	(1,751)
Total net assets	64,144	64,736
Total liabilities and net assets	263,729	292,194

(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income
(Quarterly Consolidated Statement of Income)
(First two quarters of fiscal year ending December 2023)

(Unit: million yen)

	First two quarters of fiscal year ended Dec. 2022 (from Jan. 1, 2022 to Jun. 30, 2022)	First two quarters of fiscal year ending Dec. 2023 (from Jan. 1, 2023 to Jun. 30, 2023)
Net sales	40,876	47,939
Cost of sales	29,979	35,092
Gross profit	10,896	12,846
Selling, general and administrative expenses	5,255	6,003
Operating income	5,641	6,842
Non-operating income		
Interest income	0	1
Dividend income	68	97
Penalty income	27	48
Foreign exchange gains	348	240
Other	7	9
Total non-operating income	452	398
Non-operating expenses		
Interest expenses	925	880
Amortization of share issuance cost	18	18
Share of loss of entities accounted for using equity method	11	21
Other	2	3
Total non-operating expenses	957	923
Ordinary income	5,136	6,317
Extraordinary income		
Gain on reversal of subscription rights to shares	0	0
Total extraordinary income	0	0
Extraordinary losses		
Loss on retirement of non-current assets	0	0
Total extraordinary losses	0	0
Profit before income taxes	5,135	6,317
Income taxes - current	1,665	1,985
Income taxes - deferred	188	113
Total income taxes	1,854	2,098
Profit	3,281	4,219
Net income (loss) attributable to noncontrolling interests	(15)	10
Profit attributable to owners of parent	3,296	4,209

(Quarterly Consolidated Statement of Comprehensive Income)
(First two quarters of fiscal year ending December 2023)

(Unit: million yen)

	First two quarters of fiscal year ended Dec. 2022 (from Jan. 1, 2022 to Jun. 30, 2022)	First two quarters of fiscal year ending Dec. 2023 (from Jan. 1, 2023 to Jun. 30, 2023)
Profit	3,281	4,219
Other comprehensive income		
Valuation difference on available-for-sale securities	(233)	47
Foreign currency translation adjustment	(17)	(30)
Share of other comprehensive income of entities accounted for using equity method	59	18
Total other comprehensive income	(191)	34
Comprehensive income	3,090	4,253
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	3,105	4,243
Comprehensive income attributable to non-controlling interests	(15)	10

(3) Quarterly Consolidated Statement of Cash Flows

(Unit: million yen)

	First two quarters of fiscal year ended Dec. 2022 (from Jan. 1, 2022 to Jun. 30, 2022)	First two quarters of fiscal year ending Dec. 2023 (from Jan. 1, 2023 to Jun. 30, 2023)
Cash flows from operating activities		
Profit before income taxes	5,135	6,317
Depreciation	629	611
Amortization of goodwill	262	260
Amortization of long-term prepaid expenses	16	10
Amortization of share issuance cost	18	18
Increase (decrease) in allowance for doubtful accounts	0	0
Increase (decrease) in provision for directors' share-based benefits	31	25
Increase (decrease) in provision for share-based benefits	(2)	(11)
Interest and dividend income	(69)	(99)
Interest expenses	925	880
Foreign exchange losses (gains)	(348)	(240)
Share of loss (profit) of entities accounted for using equity method	11	21
Loss on retirement of non-current assets	0	0
Decrease (increase) in notes and accounts receivable - trade and contract assets	(46)	61
Decrease (increase) in inventories	(20,995)	(28,685)
Decrease (increase) in prepaid expenses	(44)	(482)
Increase (decrease) in accounts payable - other	752	(1,286)
Decrease/increase in consumption taxes receivable/payable	476	(388)
Increase (decrease) in advances received	(67)	(570)
Increase (decrease) in deposits received	(611)	(2,453)
Decrease (increase) in other assets	(95)	(1,385)
Increase (decrease) in other liabilities	(121)	15
Subtotal	(14,144)	(27,380)
Interest and dividend income received	69	98
Interest expenses paid	(910)	(862)
Income taxes (paid) refund	(1,219)	(3,080)
Net cash provided by (used in) operating activities	(16,204)	(31,224)
Cash flows from investing activities		
Payments into time deposits	(1)	(0)
Proceeds from withdrawal of time deposits	—	2
Purchase of investment securities	(368)	(234)
Proceeds from withdrawal of investment Securities	2	15
Purchase of non-current assets	(1,818)	(147)
Proceeds from sales of non-current assets	(30)	19
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	316	—
Payments of loans receivable	(0)	(64)
Collection of loans receivable	0	1
Repayments of guarantee deposits received	(423)	(69)
Proceeds from guarantee deposits received	767	517
Proceeds from divestments	0	1
Net cash provided by (used in) investing activities	(1,556)	39
Cash flows from financing activities		
Increase in short-term loans payable	2,666	4,506
Decrease in short-term loans payable	(1,803)	(2,683)
Proceeds from long-term loans payable	40,186	46,815
Repayments of long-term loans payable	(18,523)	(15,413)
Repayments of lease obligations	(0)	(0)
Purchase of treasury shares	—	(0)
Proceeds from disposal of treasury shares	6	5
Cash dividends paid	(3,666)	(3,670)

(Unit: million yen)

	First two quarters of fiscal year ended Dec. 2022 (from Jan. 1, 2022 to Jun. 30, 2022)	First two quarters of fiscal year ending Dec. 2023 (from Jan. 1, 2023 to Jun. 30, 2023)
Net cash provided by (used in) financing activities	18,866	29,558
Translation differences on cash and cash equivalents	12	12
Net increase (decrease) in cash and cash equivalents	1,117	(1,614)
Cash and cash equivalents at beginning of period	33,559	35,604
Cash and cash equivalents at end of period	34,677	33,990

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable.

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

Not applicable.

(Additional Information)

(Accounting estimates in line with the spread of COVID-19)

There are no significant changes in the assumptions concerning the impact of the COVID-19 pandemic stated in the previous fiscal year's securities report.

However, there are many factors of uncertainty concerning the impact of the COVID-19 pandemic, and thus if the real estate market deteriorates further, the operating results, financial position, and status of cash flow of the ES-CON JAPAN Group may be materially impacted due to posting of appraisal loss of inventories and impairment loss, etc. for owned properties.

(Board Benefit Trust for Executives)

(1) Overview of the transaction

- 1) ES-CON JAPAN passed a resolution to introduce the performance-based stock reward system (the "System"; The trust established based on the trust agreement concluded with Resona Bank, Limited for the System is referred to as "board benefit trust for executives") at the Annual General Meeting of Shareholders held on March 20, 2015, with an aim to further clarify the relationship between remuneration for ES-CON JAPAN's directors (excluding directors who are Audit and Supervisory Committee Members, external directors and nonexecutive directors) and (authorized) executive managing officers (the "Directors, etc."; hereinafter referred to as the same unless otherwise specified) and ES-CON JAPAN's operating results and share price, with the Directors, etc. not only benefiting from a rise in share price but also sharing the same risks as shareholders in relation to a fall in share price, thereby increasing awareness of contribution to the medium- to long-term improvement of operating results and enhancement of corporate value. Furthermore, ES-CON JAPAN passed a resolution for continuation and partial revision of the System for the Directors, etc. at the Annual General Meetings of Shareholders held on March 26, 2020, and March 26, 2021.

The System after the revision is an incentive system by which ES-CON JAPAN contributes money to a trust with the trust acquiring shares of ES-CON JAPAN with said money as capital, and shares of ES-CON JAPAN and the fair market value of shares of ES-CON JAPAN are granted to ES-CON JAPAN's Directors, etc. through the trust in accordance with the operating results achievement rate, etc. pursuant to the officer stock ownership regulations set by ES-CON JAPAN. The shares of ES-CON JAPAN will be granted to the Director, etc. of ES-CON JAPAN when said Director, etc. retires from all positions such as director in principle.

Under the System, for a set period of three fiscal years from the fiscal year ended December 2021 to the fiscal year ending December 2023 as well as each subsequent period of three fiscal years, ES-CON JAPAN will contribute money up to 330 million yen (110 million yen per fiscal year multiplied by the number of target fiscal years) to the trust.

- 2) Total number of shares to be granted to the Directors, etc.
 - Resolution passed at the Annual General Meeting of Shareholders held on March 20, 2015
Upper limit of funds for acquisition of shares (for the five fiscal years from the fiscal year ended December 2015 to the fiscal year ended December 2019): 240 million yen
 - Resolution passed at the Annual General Meeting of Shareholders held on March 26, 2020
Upper limit of funds for acquisition of shares (for the three fiscal years from the fiscal year ended December 2020 to the fiscal year ended December 2022, and each subsequent period of three fiscal years): 330 million yen
 - Resolution passed at the Annual General Meeting of Shareholders held on March 26, 2021
Upper limit of funds for acquisition of shares (for the three fiscal years from the fiscal year ended December 2021 to the fiscal year ending December 2023, and each subsequent period of three fiscal years): 330 million yen

- 3) Scope of persons who are eligible to receive beneficiary rights and other rights under the System
The Directors, etc. of ES-CON JAPAN who have acquired the right to receive shares based on the officer stock ownership regulations.

(2) Residual Shares of ES-CON JAPAN in the Trust

Residual shares of ES-CON JAPAN in the trust are recorded as treasury shares under net assets using the book value in the trust (excluding the amount of incidental expenses). The book value of the treasury shares and the number of shares is 347 million yen and 851,000 shares for the fiscal year ended December 2022, and 347 million yen and 851,000 shares for the second quarter of the fiscal year ending December 2023.

(Share-Based Payment Benefits-Type ESOP Trust)

(1) Overview of the transaction

ES-CON JAPAN passed a resolution to introduce a share-based payment benefits-type ESOP (the "System"; the trust established based on the trust agreement concluded with Resona Bank, Limited for the System is referred to as "share-based payment benefits-type ESOP trust") at the Board of Directors' meeting held on March 20, 2015, with an aim to further enhance the benefit program for its employees and raise their motivation and morale for improving the share price and operating results. Furthermore, ES-CON JAPAN passed a resolution for continuation and partial revision of the share-based payment benefits-type ESOP trust for employees at the Board of Directors' meeting held on June 30, 2022.

The System after the revision is a system by which ES-CON JAPAN contributes money to a trust for a new period of seven fiscal years from the fiscal year ended December 2022 to the fiscal year ending December 2028 and the period of the seven fiscal years after the elapse of the period, with the trust acquiring shares of ES-CON JAPAN with said money as capital, and shares of ES-CON JAPAN are granted to the ES-CON JAPAN Group's employees who have satisfied certain requirements through the trust, pursuant to the stock ownership regulations set by ES-CON JAPAN.

(2) Residual Shares of ES-CON JAPAN in the Trust

Residual shares of ES-CON JAPAN in the trust are recorded as treasury shares under net assets using the book value in the trust (excluding the amount of incidental expenses). The book value of the treasury shares and the number of shares is 347 million yen and 573,400 shares for the fiscal year ended December 2022, and 341 million yen and 548,900 shares for the second quarter of the fiscal year ending December 2023.

(Business combination through acquisition)

At the Board of Directors' meeting held on February 28, 2023, the Company resolved to acquire all the shares of Shijo Omiya Building Co., Ltd. and signed a share transfer agreement as of the same date. Based on this agreement, the Company plans to acquire all such shares with July 31, 2023, as the execution date of the share transfer.

1. Summary of business combination

(1) Name of the acquired company and its business

Name of the acquired company	Shijo Omiya Building Co., Ltd.
Description of business	Real estate leasing business

(2) Reason for business combination

With the aim of securing stable earnings from rental revenue-generating real estate, the Company decided to acquire 100% of the shares of Shijo Omiya Building Co., Ltd., which is engaged in the real estate leasing business mainly in Kyoto City, following the company's implementation of the incorporation-type split, and make the company a subsidiary.

Shijo Omiya Building Co., Ltd. operates a real estate leasing business mainly in Kyoto City and owns a number of prime revenue-generating properties, such as rental condominiums and commercial facilities.

Under our fourth medium-term management plan called "IDEAL to REAL 2023" (covering the three-year period from the fiscal year ended December 31, 2021, to the fiscal year ending December 31, 2023), we are currently promoting our business under the basic policy of "Transformation and Leap Forward" from flow-oriented management to the stock-oriented counterpart and a sustainable and stable revenue structure.

In October 2021, the Company made Picasso Co., Ltd. and its group companies, which operate a real estate leasing business mainly in the Kansai region and own a number of prime revenue-generating properties, its subsidiaries, thereby steadily promoting a shift to a stable revenue structure. We believe that the recent acquisition of Shijo Omiya Building Co., Ltd. will further promote the transformation of our revenue structure and contribute to the sustainable growth and enhancement of corporate value of our group in the future.

(3) Date of business combination

July 31, 2023 (scheduled)

(4) Legal form of business combination

Acquisition of shares for cash

(5) Name of company after combination

There is no change in the name of the combined company.

(6) Percentage of voting rights to be acquired

100%

(7) Main basis for determining the acquiring company

The acquisition of shares by the Company in exchange for cash

2. Acquisition cost of the acquired company and breakdown by type of consideration

Consideration for acquisition	Cash	30,000 million yen (scheduled)
Acquisition cost		30,000 million yen (scheduled)

3. Description and amount of major acquisition-related expenses

Due diligence costs, etc. (estimated amount): 71 million yen

4. Amount of goodwill to be accrued, reason for accrual, amortization method, and amortization period

Not confirmed at this time

5. Amount of assets and liabilities to be accepted on the date of business combination and their major breakdown

Not confirmed at this time

6. Acquisition fund

The funds for this acquisition will be allocated from cash on hand and loans from banks.

(Segment Information, Etc.)

[Segment Information]

- I. First two quarters of fiscal year ended December 2022 (from January 1, 2022 to June 30, 2022)
1. Information on Net Sales and Income or Loss Amounts by Reporting Segment and Information on Breakdown of Revenue

(Unit: million yen)

	Reporting segment			Total	Reconciliati on (Note 1)	Amount on quarterly consolidated statement of income (Note 2)
	Real estate sales business	Real estate leasing business	Real estate planning agency and consulting business			
Net sales						
Revenue from contracts with customers	35,056	519	304	35,880	—	35,880
Other revenue (Note 3)	—	4,996	—	4,996	—	4,996
Net sales to external customers	35,056	5,515	304	40,876	—	40,876
Intersegment net sales or transfers	—	—	—	—	—	—
Total	35,056	5,515	304	40,876	—	40,876
Segment income	6,570	2,132	19	8,722	(3,081)	5,641

(Note) 1 The reconciliation of segment income of -3,081 million yen is corporate expenses not attributable to any reporting segment. Corporate expenses are general and administrative expenses not attributable to reporting segments.

2 Segment income is reconciled with operating income on the quarterly consolidated statements of income.

3 “Other revenue” is rental income, etc. based on “Accounting Standard for Lease Transactions.”

2. Information on Impairment Loss on Non-Current Assets or Goodwill, Etc. by Reporting Segment
Not applicable.

II. First two quarters of fiscal year ending December 2023 (from January 1, 2023 to June 30, 2023)

1. Information on Net Sales and Income or Loss Amounts by Reporting Segment and Information on Breakdown of Revenue

(Unit: million yen)

	Reporting segment			Total	Reconciliation (Note 1)	Amount on quarterly consolidated statement of income (Note 2)
	Real estate sales business	Real estate leasing business	Real estate planning agency and consulting business			
Net sales						
Revenue from contracts with customers	41,314	595	327	42,237	—	42,237
Other revenue (Note 3)	—	5,701	—	5,701	—	5,701
Net sales to external customers	41,314	6,296	327	47,939	—	47,939
Intersegment net sales or transfers	—	—	—	—	—	—
Total	41,314	6,296	327	47,939	—	47,939
Segment income	7,836	2,505	177	10,519	(3,676)	6,842

(Note) 1 The reconciliation of segment income of -3,676 million yen is corporate expenses not attributable to any reporting segment. Corporate expenses are general and administrative expenses not attributable to reporting segments.

2 Segment income is reconciled with operating income on the quarterly consolidated statements of income.

3 “Other revenue” is rental income, etc. based on “Accounting Standard for Lease Transactions.”

2. Information on Impairment Loss on Non-Current Assets or Goodwill, Etc. by Reporting Segment
Not applicable.

(Significant Subsequent Events)

(Borrowing of a large amount of funds)

The Company resolved at the Board of Directors’ meeting held on July 25, 2023, to conduct the following borrowing of funds for the purpose of procuring funds for share acquisition and refinancing of existing borrowings, etc. upon acquisition of all shares of Shijo Omiya Building Co., Ltd. and making it its subsidiary. The Company is scheduled to conclude a loan agreement of 37,300 million yen in total on July 31, 2023. Said borrowing is scheduled to be converted into a syndicated loan of the same amount by the maturity date.

Overview of borrowing of funds

(1) Lender	Sumitomo Mitsui Banking Corporation
(2) Borrowing amount	37,300 million yen
(3) Drawdown date	July 31, 2023
(4) Maturity date	August 31, 2023
(5) Interest rate	Base rate +0.7%

3. Other

Status of Contracts and Sales

The performance of contracts in the real estate sales business for the second quarter is as follows:

Category	Second quarter of fiscal year ending Dec. 2023 (from Apr. 1, 2023 to Jun. 30, 2023)			
	Contract amount during the period		Balance of contracts at the end of the period	
	Number of units (units)	Amount (million yen)	Number of units (units)	Amount (million yen)
Mid- to high-rise housing, etc.	358	19,527	785	41,980
Other	—	1,184	—	12,764
Total	358	20,711	785	54,745

The main performance of sales by segment for the first two quarters is as follows:

Name of segment	First two quarters of fiscal year ending Dec. 2023 (from Jan. 1, 2023 to Jun. 30, 2023)		
	Property name	Number of units (units)	Amount (million yen)
Real estate sales business	Condominiums	490	31,068
	Logistics facilities in Hashima-shi, Gifu Prefecture	—	8,380
	5-chome Fujishirodai, Suita-shi (land for a healthcare facility for the elderly)	—	308
	Other	—	1,558
	Subtotal	490	41,314
Real estate leasing business			6,296
Real estate planning agency and consulting business			327
	Total		47,939

(Note) There are no transactions between segments.