

ES-CON JAPAN

Our Name Represents Our Core Functions

ES-CON was coined from a combination of “real estate” and “constellation.” All people connected by ES-CON JAPAN produce powerful lights of various colors creating a beautiful harmony that shines brightly into the future—we aspire to be a “constellation in the real estate industry.” Japan is the realm in which the company operates. Thus the name of ES-CON JAPAN Ltd. was adopted.



Annual Report 2019

For the year ended December 31, 2019

<https://www.es-conjapan.co.jp/english/>

Committed to Building a Bright Future for Japan

ES-CON JAPAN Ltd. (“ES-CON JAPAN”) develops a comprehensive selection of real estate assets including retail, hotel and logistics properties, while primarily focusing on high-value condominiums and other residential properties. We at ES-CON JAPAN are committed to creating a new future for Japan by realizing ideal lifestyles and towns that envision the happiness and future of residents.

Corporate Philosophy: Realizing the Importance of Being a Member of Society

The ES-CON JAPAN Group is committed to contributing to society in the best possible manner. Applying our findings derived from our efforts to do so generates results. At the same time, all members of ES-CON JAPAN pursue how they can realize the happiness they seek. Our staff is committed to assisting each other in realizing the goal of positively contributing to society.

In this process, we aim to improve society by delivering and realizing better ideas for a better life. We seek to transform the connections of people into a significant force through our human resources and to expand the possibilities of society through dynamic solutions and concepts generated through brainstorming.

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Forward-looking Statements

The earnings outlook and other forward-looking statements contained in this document are based on information currently available to the management of ES-CON JAPAN and certain assumptions that are thought to be reasonable by ES-CON JAPAN. Accordingly, actual business performance and other results may differ materially. ES-CON JAPAN assumes no obligation to update any forward-looking statements in this report as a result of new information or future events.

Performance Backed by Distinct Business Sections

ES-CON JAPAN has once again enjoyed a strong year in real estate. Presently, the businesses of ES-CON JAPAN can be divided into the real estate sales business, real estate leasing business and real estate planning agency and consulting business, which posted a growth in combined segment income from 14,839 million yen in Fiscal 2018 to 17,091 million yen in Fiscal 2019, a substantial increase of 15.2%.

Real Estate Sales Business	Real Estate Leasing Business	Real Estate Planning Agency and Consulting Business
Net Sales 66,710 million yen	Net Sales 5,022 million yen	Net Sales 372 million yen
Segment Income 13,802 million yen	Segment Income 3,001 million yen	Segment Income 286 million yen

ES-CON JAPAN had a solid year in the real estate sales business. Net sales and segment income in this division grew by 32.0% and 11.8% respectively. We sold 648 condominium units, 85.4% of our annual target. This total was greater than the previous year but fell short primarily because delivery of Le JADE Tsujido Higashi Kaigan slid into the next fiscal year. ES-CON JAPAN posted strong increases in profit and sales through the disposition of hotel projects, profit-generating real estate, land, etc. and sales of retail properties to ESCON JAPAN REIT Investment Corporation (“ESCON REIT” or “the REIT”) and other factors. Hotel sales was 12.6 billion yen and the profit margin for hotel sales was a robust 46.1% on average. ES-CON JAPAN sold 13.7 billion yen in assets to the REIT it sponsors. ES-CON JAPAN continues to lay a strong foundation for a robust future by securing land for for-sale condominiums and retail sites for future business.

Net sales in the real estate leasing business grew 47.7% compared with the previous fiscal year and segment income grew by 41.0% over the same period to 3,001 million yen. This division will strive to secure stable rental income at retail properties we own and enhance asset value. The acquisitions of Aeon Minamisenri and a retail property in Tsukuba and completion of the community-based retail properties tonarie Yamato-Takada and tonarie Toga-Mikita among others greatly contributed to the strong performance in this segment.

Looking ahead, this segment will focus on land for retail properties and expand our stock business, a business generating stable income, to support the external growth strategy of ESCON REIT, the J-REIT we listed in February 2019.

In the real estate planning agency and consulting business, ES-CON JAPAN focuses on non-asset and profitable businesses such as entrustment and planning agency consulting services by utilizing planning abilities as our strengths. Although sales in this segment decreased by 8.1% compared with the previous fiscal year, segment income amounted to 286 million yen. We intend to continue to raise our performance in this segment under the already announced Third Medium-Term Business Plan.

ES-CON JAPAN focuses on delivering products that provide comfortable and high-quality living by considering lifestyle changes and local characteristics as well as envisioning the happiness of the people living in our properties. We are committed to becoming a “life developer” that develops people’s lifestyles and creates communities as well as residences. As part of such initiatives, we acquired all the shares of One’s Own House Co., Ltd. (currently ES-CON Home Ltd.) and Rise Home Co., Ltd. (currently ES-CON Craft Ltd.), which build and sell detached houses mainly in Saitama Prefecture, with the goal of increasing sales of homes and condominiums in the Saitama area. We expect making them our subsidiaries to contribute to greater business expansion in the metropolitan area.

Owned Assets

(Unit: million yen)

	Fiscal 2019	Fiscal 2018
Condominiums	43,588	37,198
Retail properties, etc.	35,155	37,280
Hotels	1,734	5,564
Other	3,377	1,156
Total	83,854	81,199

To Our Shareholders

In the fiscal year under review (Fiscal 2019), ES-CON JAPAN fulfilled almost all of the targets in its Second Medium-Term Business Plan titled “IDEAL to REAL 2019” (Fiscal 2017- Fiscal 2019), with the steady progress in sales of its for-sale condominiums series “Le JADE” and “Grand Le JADE” in the Tokyo metropolitan area and the Kinki area, retail property brand “tonarie,” and real estate for sale including hotels, significantly surpassing the performance for the same period in the previous fiscal year. In 2019, ESCON REIT was listed in February, Nagoya Branch was opened in March, a business site was acquired in Higashi Ward of Nagoya City and the joint project “Nagoya City Higashi Ward Shirakabe 4-Chome Project (tentative name)” with Chuden Real Estate Co., Inc. (“Chuden Real Estate”) was announced. We will achieve synergy effects with Chubu Electric Power Co., Inc. (“Chubu Electric Power”) under the business partnership. We have formulated our Third Medium-Term Business Plan “IDEAL to REAL 2022” for the three-year period from Fiscal 2020 to Fiscal 2022 aiming for further leaps and stable growth in our next stage. Going forward, we aim to maximize corporate value by developing multifaceted businesses by properly addressing the diversifying social issues with the promotion of ESG initiatives to fulfill our targets. Your continued support is appreciated.



Takatoshi Ito

President and
Representative Director
ES-CON JAPAN Ltd.

Assessing the Second Medium-Term Management Plan: IDEAL to REAL 2019

Fiscal 2019 marks the end of ES-CON JAPAN’s Second Medium-Term Management Plan titled “IDEAL to REAL 2019.” In the Second Medium-Term Management Plan that followed our First Medium-Term Management Plan titled “Make the One for 2016” that ended in Fiscal 2016, we have followed the basic philosophy of being a customer-first business, fulfilled our mission as a “life developer” that facilitates living itself and carried out business as a company that is needed by society. As a result, we attained almost all the management and performance targets. In comparison to Fiscal 2016, net sales grew about 2.1 times, operating income grew about 2.8 times and ordinary income grew about 3.3 times in Fiscal 2019.

(Unit: million yen)

	Fiscal 2016 (actual)	Fiscal 2019 (initial target)	Fiscal 2019 (actual)	Year-on- year change	Amount of increase/ decrease (compared to Fiscal 2016)
Net Sales	34,347	60,000-62,000	72,106	32.7%	+37,759
Real Estate Sales Business	30,687	57,800-59,700	66,710	32.0%	+36,023
Real Estate Leasing Business	3,594	2,000-2,100	5,022	47.7%	+1,428
Real Estate Planning Agency and Consulting Business	65	200	372	-8.1%	+307
Operating Income	4,680	8,200-9,500	12,912	11.7%	+8,232
Ordinary Income	3,575	7,200-8,500	11,810	12.5%	+8,235

(Note) Though the year-on-year growth for the Real Estate Planning Agency and Consulting Business was -8.1%, the business itself grew tremendously over the medium-term management plan to 5 times sales at the inception of the plan.

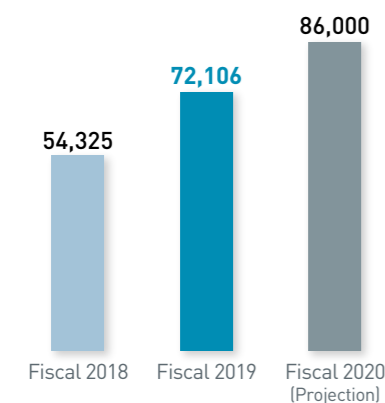
Management Indices Under IDEAL to REAL 2019

As for the management indices in the Second Medium-Term Management Plan, ES-CON JAPAN was able to satisfy four of its five indicators. The equity ratio fell below the original target due to our proactive acquisition of development and other properties following our capital alliance with Chubu Electric Power. In addition, though the target for the equity ratio was unmet, ES-CON JAPAN did raise the ratio to 25.3% from 23.6% in Fiscal 2016.

	Fiscal 2016	Fiscal 2019 (initial target)	Fiscal 2019 (Actual)
Equity Ratio (%)	23.6	33.0-35.0	25.3
ROE (%)	25.1	18.0-21.0	26.8
ROA (%)	6.0	6.0-7.0	6.7
ROIC (%)	6.5	7.0-9.0	7.5
EPS (yen)	58.76	75-85	119.17

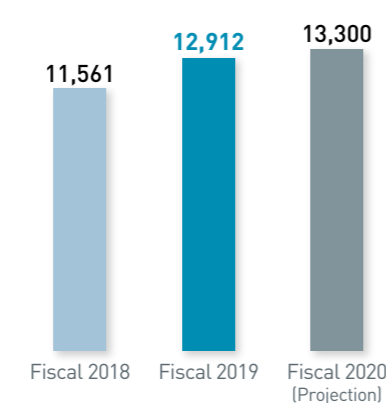
Net Sales

(Unit: million yen)



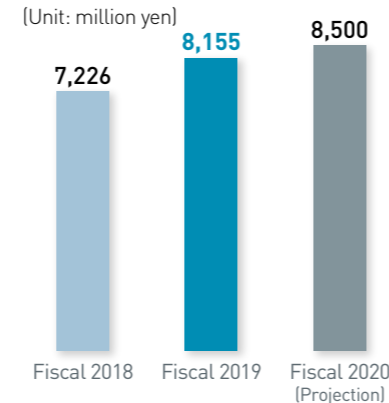
Operating Income

(Unit: million yen)



Profit Attributable to Owners of Parent

(Unit: million yen)



Furthermore, ES-CON JAPAN adopts a progressive dividend policy and the dividend has increased for the fourth consecutive year.

	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019
Dividend (yen)	15	18	32	36
Dividend ratio (%)	25.5	22.0	30.2	30.2
Treasury Stock Buyback (million yen)	429	449	-	40
Total Return Ratio (%)	36.8	30.9	30.2	31.0

Growth Strategies and Primary Steps Taken Under the Second Medium-Term Management Plan

- Reinforcement of core businesses
- Heighten corporate value by establishing diverse aspects of multiple core businesses
- Secure steady long-term stock income through proactive implementation of the real estate leasing business
- Expand real estate sales by steadily supplying good properties to our originated listed REIT and for which ES-CON JAPAN is the main sponsor
- Expand the breadth and depth of our real estate development ability by enhancing our real estate operations business
- Improve our corporate brand
- Use the implementation of ESG measures to create new corporate value and grow sustainably

Primary Steps Taken

1. In our core business of condominium development and sales, we sold 476 units in Fiscal 2017 (sales of 19.5 billion yen), 539 units in Fiscal 2018 (25.0 billion yen) and 648 units in Fiscal 2019 (28.5 billion yen). We have also acquired the sites that will allow us to supply 760 units in Fiscal 2020 (about 36.0 billion yen), 1,200 units in Fiscal 2021 (about 55.0 billion yen) and 480 units in Fiscal 2022 (about 25.0 billion yen). The internal sales team we established is also steadily growing and has reached 32 people.
2. ES-CON JAPAN has also expanded its presence in the retail property and hotel development businesses. We are focused on and developing the new areas logistics center development, site rezoning and development and overseas real estate investment and development.
3. We have particularly strengthened the development of neighborhood shopping centers in the area of retail development. In November 2018 we opened tonarie Yamato-Takada, and in April 2019 tonarie Toga-Mikita. We also acquired retail properties that are already in operation including Tsukuba Q't, Tsukuba MOG in December 2018, Tsukuba CREO in March 2019 and Oh! Me Otsu Terrace in October 2019. These properties are at the center of our strategies for increasing the value of retail properties in operation and aggressive redevelopment.

4. On February 13, 2019, ESCON REIT listed on the Real Estate Investment Trust Securities Market of the Tokyo Stock Exchange. The REIT has also concluded support agreements with Chubu Electric Power and Chuden Real Estate. R&I also rated ESCON REIT in November 2019 giving it an A- (stable) rating.
5. ES-CON JAPAN launched the renovation business in addition to asset management, property management of retail properties and dining operation businesses such as cafes and the apartment management business.
6. ES-CON JAPAN continues to reinforce its corporate brand by releasing a new TV commercial for the Grand Le JADE brand and continuing as a sponsor of a popular TV program.
7. Le JADE Okurayama became ES-CON JAPAN's first business adopted in the Ministry of the Environment's Fiscal 2019 High-Rise ZEH-M Support Projects. ES-CON JAPAN also became the first Japanese business firm granted a "Green Star" and "2 Star" rating under the developer appraisal system of GRESB Real Estate Developer Assessment.

Significant Achievements of Fiscal 2019

ES-CON JAPAN acquired 21 sites for development in Fiscal 2019 with 4 in the Tokyo metropolitan area, 13 in the Kinki metropolitan area, 3 in the Chubu metropolitan area and one other. These properties will be developed as condominiums and commercial projects including retail destinations.

January

ES-CON JAPAN began selling Le JADE Tsujido Higashi Kaigan.

February

ESCON REIT listed on the Tokyo Stock Exchange Real Estate Investment Trust Securities Market. ES-CON JAPAN launched its overseas business with an investment in a Hawaii real estate fund, completed the sale of two new condominiums (Le JADE Kuzuha and Le JADE Sumakaihin Koen) and acquired new business site in front of Nishi-Akashi Station.

March

ES-CON JAPAN opened the Nagoya Branch, sold out Grand Le JADE Ochanomizu, began selling multiple new condominium projects. We acquired the Tsukuba CREO retail property and new development land in Higashinari Ward, Osaka City and Hiratsuka City as well as launched the logistics center brand LOGITRES.



April

ESCON JAPAN fully sold out Grand Le JADE Takatsuki Tenjin and opened tonarie Toga-Mikita community-based shopping center on April 26.

May

ES-CON JAPAN acquired a new development site in Suita City.

June

ES-CON JAPAN acquired new development sites in Nagoya City and Ibaraki City, concluded a contract to

acquire the shares of One's Own House Co., Ltd. and Rise Home Co., Ltd. (executed on July 1). We also concluded the sale of one housing site/for-sale condominium and began selling Le JADE Utsukushigaoka.

July

ES-CON JAPAN acquired three new business sites and a retail property in Sapporo City. We also completed the sale of two condominium projects and invested in ESCON REIT.

August

ES-CON JAPAN acquired new business sites in Hikone City and Osaka Prefecture and joined a project to develop a condominium in Bangkok. We also conducted a share buyback on the market.

September

ES-CON JAPAN obtained “Green Star” and “2 Star” rating from the Global Real Estate Sustainability Benchmark (GRESB) and concluded a three-party agreement between Chuden Real Estate, ESCON REIT and ES-CON Asset Management. Le JADE Okurayama became ES-CON JAPAN's first business adopted in the Ministry of the Environment's “Fiscal 2019 High-Rise ZEH-M Support Projects.”.

October

ES-CON JAPAN acquired retail property and a new development site. We also won Fiscal 2019 Good Design Awards for Le JADE Nakano and tonarie Yamato-Takada. We made a donation for the research of the WT1 cancer vaccine, a cancer immunotherapy. We sold all units in Le JADE Nakano and began selling Grand Le JADE Shukugawa Residence.

November

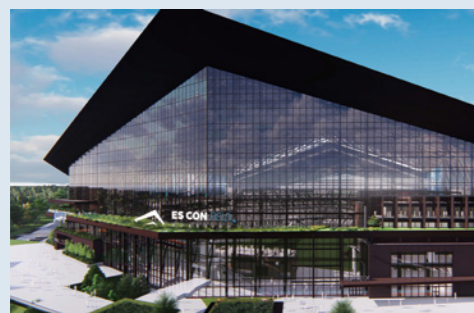
R&I assigned ESCON REIT an A- (stable) rating. For-sale real estate was sold to Chuden Real Estate. ES-CON JAPAN completed the sale of multiple condominium projects and began selling Le JADE Nishiakashi.

December

ES-CON JAPAN launched its Third Medium-Term Management Plan “IDEAL to REAL 2022,” began a joint venture with Chuden Real Estate provisionally named Nagoya City Higashi Ward Shirakabe 4-chome Project and acquired a new business site.

Significant News for Fiscal 2020 (from January to February)

ESCON REIT successfully conducted its first PO. ES-CON JAPAN obtained the naming rights for the Hokkaido Nippon-Ham Fighters' new stadium that will be named ES CON FIELD HOKKAIDO and also opened its first neighborhood shopping center in the Tokyo metropolitan area, tonarie Utsunomiya.



ES CON FIELD HOKKAIDO



tonarie Utsunomiya

Solid Steps Forward in the Alliance with Chubu Electric Power

Since the conclusion of a capital and business partnership agreement with Chubu Electric Power in August 2018, ES-CON JAPAN positions the Chubu region as a core business area comparable to the Tokyo metropolitan area and the Kansai region, and established the Nagoya Branch in March 2019. Concerning the Nagoya City Higashi Ward Shirakabe 4-Chome Project (tentative name), we acquired a business site in June 2019 and will conduct a joint project for condominium development with Chuden Real Estate. In addition to the promotion of such joint projects, the Chubu Electric Power Group and ES-CON JAPAN will promote joint research and development of next generation condominiums utilizing living environments, energy, artificial intelligence (AI) such as next generation smart houses, connected homes, etc. and optimal use of real estate owned by the Chubu Electric Power Group by applying our real estate knowhow and next generation smart houses, connected homes, etc.

As for the properties developed by ES-CON JAPAN, the Chubu Electric Power Group has become a candidate for the acquisition of the properties, selling the properties to Chuden Real Estate, utilizing the warehousing function. ES-CON JAPAN and Chubu Electric Power have also exchanged personnel with Chubu Electric Power assigning one director of ES-CON JAPAN from March 2019 and two ES-CON JAPAN employees assigned to Chuden Real Estate from April 2019. At the same time, ES-CON JAPAN continues to develop businesses utilizing our strength of speed while maintaining the independence of ES-CON JAPAN.

Three-way Support Agreement

On September 27, 2019, Chuden Real Estate, ESCON REIT and ES-CON Asset Management concluded a three-way support agreement. The support is extensive and includes the warehousing service provided by Chuden Real Estate to ESCON REIT. ES-CON JAPAN believes that this support agreement will lead to the growth of ESCON REIT and to realization of synergy between ES-CON JAPAN and the Chubu Electric Power Group in the real estate business. ES-CON JAPAN sold owned retail properties and commercial leasehold to Chuden Real Estate for about 9.5 billion yen utilizing the warehousing function in February 2020.

Under the support agreement, Chuden Electric Power, Chuden Real Estate and ES-CON JAPAN mutually provide the following.

	Chuden Real Estate	Chubu Electric Power	ES-CON JAPAN
Information provision	0	0	0
Preferred acquisition and negotiation rights	—	—	0
Warehousing	0	—	0
Redevelopment support	—	—	0
Environmentally-friendly technology	0	0	—
PM & BM operations	0	0	0
Leasing support	0	—	0
Personnel support	0	—	0
Same boat investment	0	—	0
Permission to use corporate logo	0	0	0

ESG Initiatives

ES CON FIELD Hokkaido: Contributing to Enriching Lives in Hokkaido

ES-CON JAPAN is scheduled to participate in the district development of the approximately 9,400 m² of land adjoining the new ballpark of Hokkaido Nippon-Ham Fighters scheduled for opening in 2023. In January 2020, we acquired the naming rights for the new ballpark and it will be named “ES CON FIELD HOKKAIDO.”

The area surrounding the ballpark is an important base as a planned site for a sports park in Kitahiroshima City and is part of a large-scale development area for HOKKAIDO BALLPARK F VILLAGE (total development area: approx. 36.7 ha) with construction of a new station also planned. We are scheduled to participate in the development of various real estate in the area such as a hotel on the approximately 9,400 m² of land adjoining the ballpark. Under the naming rights agreement, ES-CON JAPAN has the right to name and promote the new ballpark. Beyond the acquisition of the naming rights, we aim to revitalize the entire community and contribute to society from the perspective of ESG through real estate development as a mission of a comprehensive developer.

We plan to open a branch in Hokkaido in July 2020 and will seize this opportunity to support sports and cultural promotion for the happiness of the residents of Hokkaido and to contribute to the revitalization and development of the entire community.

[Overview of the Naming Rights and New Ballpark]

Name of ballpark	ES CON FIELD HOKKAIDO
Period of contract	Long-term contract of 10 years or more starting from January 2020
Project partner	Hokkaido Nippon-Ham Fighters Baseball Club Co., Ltd. Fighters Sports & Entertainment Co., Ltd.
Location	Inside Kitahiroshima Sports Park (Kyoei, Kitahiroshima City, Hokkaido)
Transportation	Approx. 22-minute walk from Kita-Hiroshima Station on the JR Chitose Line Approx. 2-minute walk from the new station to be constructed near the ballpark
Building Area	Approx. 50,000 m ²
Capacity	Approx. 35,000
Number of Floors	6 floors above ground (70 meters from the ground) and 2 below (field)
Specifications	Retractable roof, natural grass



Major ESG Strategies Under the New Medium-Term Management Plan

Positioning the “addressing social problems by promoting ESG” as one of the key management strategies in the Third Medium-Term Management Plan (Fiscal 2020 to Fiscal 2022), ES-CON JAPAN believes that it is its duty to contribute to the community through business activities as a good corporate citizen.

Under the corporate message “IDEAL to REAL (turning ideals into reality and creating a new future),” ES-CON JAPAN is committed to address the changing values over time and aims to realize a sustainable society along with sustainable growth by addressing social issues through the promotion of ESG as a life developer that strives for ideal housing and living.

Based on the “ESG Management Policy,” ES-CON JAPAN positions addressing social issues through promotion of ESG initiatives as a management strategy. Specifically, we assign the Director, Head of President’s Office as the person in charge, and divide the ESG Promotion Group that is comprised of selected members from different departments into the “E (Environment) team,” “S (Social) team” and “G (Governance) team.” We then set annual targets for each team and promote ESG initiatives.

In Fiscal 2019 ES-CON JAPAN participated in the “GRESB Real Estate Developer Assessment” for real estate developers and became the first Japanese business company to receive “Green Star” and “2 Star” ratings.

The following are our major ESG initiatives.

[Environment]

- Promoting the spread of ZEH-M (net zero energy housing)
- Conducting environmentally and socially friendly real estate research and development through industry-academia collaboration and collaboration with other industries
- Promoting the improvement of operational efficiency with IT and increasing the percentage of people taking maternity leave, childcare leave and paid holidays
- Activating in-house communication through holding club activities, no overtime days and other events

[Social]

- Contributing to regional revitalization and creation of communities through the development of “tonarie,” a community-based retail property
- Assigning and increasing the number of people supporting those with dementia at retail properties, holding training courses and conducting test driving of shopping taxis
- Promoting proactive recruitment and success of female employees, the elderly and people with disabilities
- Supporting “Nakanoshima Children’s Book Forest” and research of the “WT1 Cancer Vaccine,” a cancer immunotherapy
- Acquiring naming rights for the new ballpark of Hokkaido Nippon-Ham Fighters and participating in the surrounding district development

[Governance]

- Conducting timely disclosure of business activities and management status
- Holding regular and emergency meetings of the risk management committee, and thoroughly reporting to the risk management committee in the case of an emergency or when an emergency is likely to occur
- Establishing the Nomination and Remuneration Advisory Committee
- Succession plan (successor candidate system) initiatives

ES-CON JAPAN: Diversifying Business Overseas

ES-CON JAPAN launched overseas business development as part of its new business development initiatives.

In March 2019, ES-CON JAPAN invested in BlackSand Capital Opportunity Fund II-A L.P. that targets real estate opportunistic investments within the State of Hawaii. This is a 5 million-dollar investment in a Hawaii-focused closed-end investment fund, which conducts opportunistic investment in Hawaii. ES-CON JAPAN believes that its commitment to the Fund will provide a bridgehead for its entry into the real estate investment business in overseas markets, going forward. The Fund to be invested in by ES-CON JAPAN will target investments in a variety of real estate fields including, retail properties, office buildings, industrial facilities, apartments, hotels and for-sale housing in accordance with changes in market conditions. In terms of investment targets, the Fund looks to real properties, debt/securities, development/redevelopment projects and various other forms of real estate assets. As such, ES-CON JAPAN believes that the Fund should be a beneficial investment instrument.

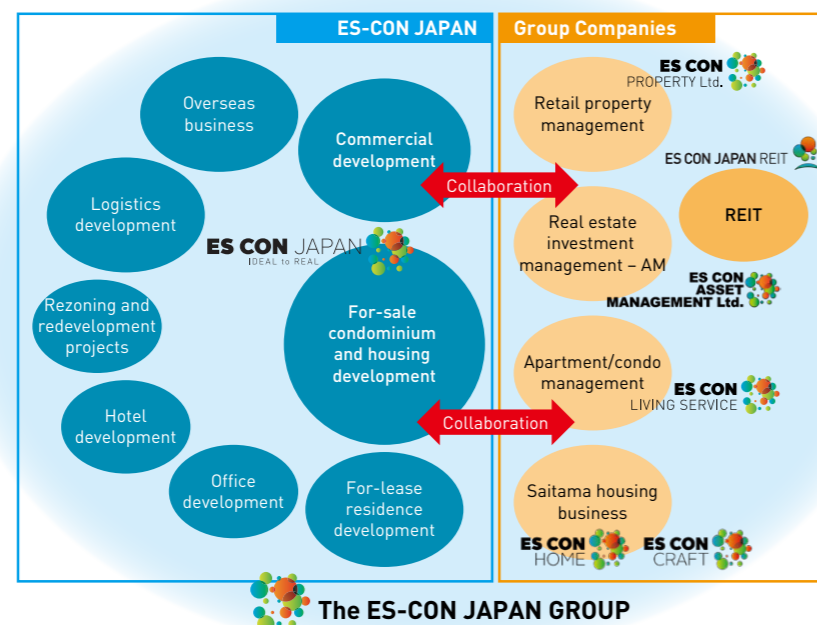


A multifaceted real estate business capable of contributing globally to society

In addition, ES-CON JAPAN established its subsidiary ESCON JAPAN (Thailand) Co., Ltd. in Thailand in July 2019, through which ES-CON JAPAN participated in a for-sale condominium project “KNIGHTSBRIDGE SUKHUMVIT THEPHARAK” (474 units) undertaken by Origin Property PCL, a real estate developer in Thailand. The condominium is located just a 1-minute walk from Thippawan Station of the Mass Rapid Transit (MRT) scheduled to open in 2021. This is a development project in an area with retail properties, international schools, etc. in the surrounding area, which is expected to develop further.

ES-CON JAPAN will continue to focus its endeavors on developing new business fields with an eye on the next era, and shall globally implement a multifaceted real estate business that can contribute to society.

The ES-CON JAPAN GROUP



ESCON JAPAN REIT Investment Corporation

ESCON REIT listed in February 2019 with ES-CON JAPAN as its main sponsor. In February 2020, it conducted its first public offering to raise its portfolio size to 51,980 million yen on an acquisition price basis. ESCON REIT primarily invests in neighborhood shopping centers within the Kinki, Chukyo and Fukuoka metropolitan areas and highly stable retail properties (leasehold land). ESCON REIT aims to build a portfolio roughly split into these two asset types. Growth is supported by the diversified development and real estate management capabilities of ES-CON JAPAN and use of Chubu Electric Power Group’s real estate information and expertise. Furthermore, ESCON REIT was given an A- (stable) rating by R&I in November 2019.

As of February 2020

Portfolio	Acquisition Price	Appraised Amount	Occupancy	Appraised NOI Yield	Appraised NOI Yield After Depreciation	Average Remaining Lease Term
28 assets	51.9 billion yen	56.7 billion yen	99.6%	5.1%	4.6%	11.29 years

Third Medium-Term Management Plan: IDEAL to REAL 2022

ES-CON JAPAN launched its Third Medium-Term Management Plan, “IDEAL to REAL 2022,” over the three-year period from Fiscal 2020 to Fiscal 2022 to take our business to the next level. The plan numerically calls for net sales of 110,000 million yen and operating income of 15,200 million yen a year at the end of the plan.

Basic Policy

Aim to maximize corporate value by setting on track “management stability and sustainable growth” and also accurately addressing the diversifying social issues through promotion of ESG initiatives.

Corporate Strategy Under the Third Medium-Term Management Plan

1. Management stability and sustainable growth

(1) Diversify businesses

1) Diversify development businesses and make them core businesses

In our condominium business, ES-CON JAPAN aims to steadily supply around 1,200 units per year in Kanto, Kansai and now Chukyo as a new key region. In our retail development business, we will continue to develop the “tonarie” brand of neighborhood shopping centers and contribute to revitalizing regions and promoting compact cities by redeveloping and revitalizing operated retail properties.

In our other businesses, in addition to having developed 17 buildings in our hotel business, we will strengthen our logistics business, which launched a new brand, LOGITRES, and undertake a variety of developments such as office buildings and other projects.

2) Diversify business areas

ES-CON JAPAN intends to strengthen our business in the Chubu region known as Chukyo, growing it into

a base as important as the Tokyo metropolitan area and Kansai. We will also make an even greater contribution to society by diversifying our areas of business through ES-CON Home and ES-CON Craft, which became housing business subsidiaries in Saitama Prefecture in 2019, and aggressively investing in overseas business.

(2) Stabilize revenue structure by securing stock revenue bases

1) Strengthen real estate leasing business by developing and holding revenue-generating properties

ES-CON JAPAN seeks to secure stock income (revenue) that covers general and administrative expenses. Our goal for general and administrative expense coverage of real estate segment income for Fiscal 2022, the final year of the plan, is 81%.

2) Strengthen real estate operation business revenue

Specifically we want to reinforce our asset management revenue, property management revenue and management revenue and operation capabilities through three subsidiaries of ES-CON Asset Management, ES-CON Property and ES-CON Living Service.

(3) Exert synergistic effects with the Chubu Electric Power Group

ES-CON JAPAN will use its real estate business know-how and Chubu Electric Power Group's energy business expertise to engage in large development and other joint projects and research development of next-generation condominiums.

(4) External growth of ESCON REIT

1) Steady mutual growth as sponsor of ESCON REIT

ES-CON JAPAN will provide preferential negotiation rights and rights of first refusal to ESCON REIT and promote external growth of ESCON REIT through the steady supply of properties as its sponsor.

2) Mutual growth through collaboration with the Chubu Electric Power Group (supporter of ESCON REIT)

Aiming for mutual growth, Chubu Electric Power Group will secure properties that can be supplied to ESCON REIT through support functions such as warehousing.

2. Address social issues through promotion of ESG initiatives

Environment:

- a. Reducing our environmental burden through energy conservation, circulation of resources and the promotion of environmentally friendly development, etc.
- b. Improving the local environment through urban development
- c. Committing to work reforms with the aim of promoting healthy employee and employee family lives and ultimately greater motivation and job satisfaction

Social:

- a. Creating a new future for local communities through regional revitalization based on urban development
- b. Promoting diversity in the workplace
- c. Socially contributing to better medical and welfare care and supporting safe, secure and comfortable lives
- d. Developing overseas businesses as a means to realize global SDGs

Governance:

- a. Promoting greater disclosure for timely understanding of project and business statuses
- b. Building a governance system that can ensure sound, stable and transparent management
- c. Reinforcing risk management in correlation with greater risks accompanying growth of business

3. Return to shareholders

In our dividend and capital policy, ES-CON JAPAN introduced a progressive dividend policy that sets the dividend payout ratio at 30% or more and, like in the Second Medium-Term Management Plan, aims for the dividend amount per share to not fall below the previous fiscal year's dividend per share (DPS), making it a policy to "not decrease the dividend amount, but rather only maintain or increase the dividend amount" in principle in order to strengthen returns to shareholders and for sustainably enhance corporate value.

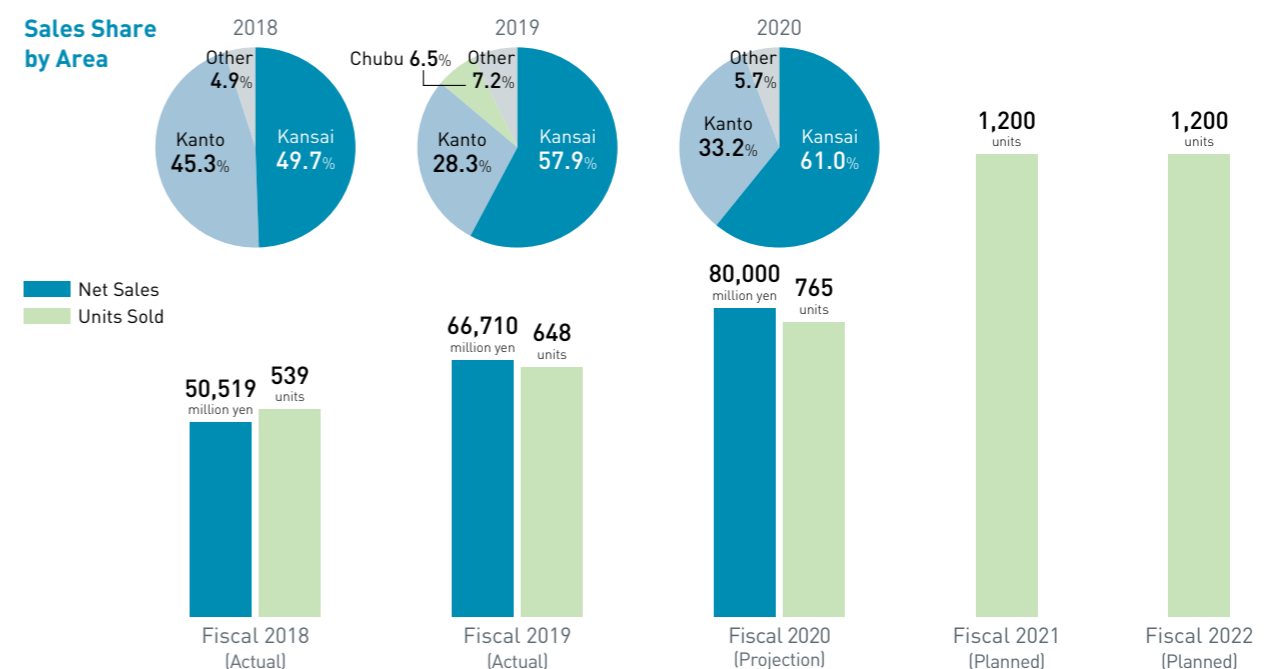
Performance Plan Under the New Medium-Term Management Plan

	Fiscal 2019 (Actual)	Fiscal 2020 (Planned)	Fiscal 2021 (Planned)	Fiscal 2022 (Planned)
Net Sales (million yen)	72,106	86,000	100,000	110,000
Operating Income (million yen)	12,912	13,300	14,000	15,200

Management Indicators Under the Medium-Term Management Plan

	Fiscal 2019 (Actual)	Fiscal 2022 (Planned)
ROE	26.8%	20.0%
ROIC	7.5%	5.5%
Equity Ratio	25.3%	25.0%
Dividend Payout Ratio	30.2%	30.0% or more

Performance of Real Estate Sales Business





Interview of President Takatoshi Ito

ES-CON JAPAN Ltd.

February 3, 2020

Q Can you first give us an overview of the current market conditions?

Well, the price of real estate continues to be high. Financial institutions started becoming a little stricter with their financing in the summer to fall. However, this trend hasn't transformed into an adjustment of prices as of yet.

Q Do you not find it strange that even a well-known foreign asset manager recently stepped in and bought back assets it had sold, and at a much higher price?

The positive yield gap in Japan, and stability of politics and the economy are being judged positively by the overseas investment community and this is resulting in such transactions occurring. For the time being, this means that price adjustment will not occur.

Q It is clear that the pressure from banks has been placed on independent real estate firms, but does this not work in the favor of ES-CON JAPAN, as a member of the Chubu Electric Power Group?

We are blessed by the very robust support provided by the strong credit of the Chubu Electric Power Group. While independent developers are forced to keep an eye on the status of financial institutions, we remain able to proactively select and acquire high-quality properties.

Q Initially your share price dropped a little after Chubu Electric Power acquired your shares, but can you explain why the share price stabilized and rebounded since then?

Eighteen months have passed since we entered a capital and business partnership with Chubu Electric Power and we feel that the market has positively interpreted the ensuing steps we took from opening a Nagoya Branch to listing ESCON REIT, the three company support agreement concluded between Chuden Real Estate, ESCON REIT and ES-CON ASSET MANAGEMENT Ltd. (the Asset Manager), as well as acquisitions by ESCON REIT.

Specifically, we will begin joint ventures on various condominiums during this year and onward. Unfortunately, it takes several years before large development projects like smart cities for the next generation are reflected in the performance, but I am confident that we are steadily demonstrating the synergy of our capital and business partnership with Chubu Electric Power. The market should assess us even more highly if we publicize our accomplishments more effectively going forward.

Q Do you feel you will be able to achieve the targets outlined in your new Third Medium-Term Management Plan titled “IDEAL to REAL 2022” despite the difficulty in acquiring properties?

The high prices of the current market make it difficult to acquire properties, but it does not make sense to acquire properties at prices that would not be profitable for us. Therefore we will continue to prudently select the properties we acquire. With that in mind, as for the Third Medium-Term Management Plan, we formulated it to put us on track to achieve business stability and sustainable growth. The prospects for 2020 and 2021 acquisitions are bright. We are presently in the market working to acquire properties to be sold in 2022 - we need to scrutinize opportunities and not miss them. Our company is presently devoted to ensuring that our objectives under the Third Medium-Term Management Plan are met.

Q What is ES-CON JAPAN’s position on the environment, society and governance (ESG) and its observance within the company?

As a corporate citizen we must not only generate profits but also contribute to local society through our business activities. This has taken the form of considering the environment, supporting the local community and building a transparent management structure. We will be delivering a new condominium, Le Jade Okurayama, our first to be adopted as one of the Ministry of the Environment’s FY2019 High-Rise ZEH-M Support Projects, to market this year in Yokohama City, Kanagawa Prefecture, and we intend to focus on developing more eco-friendly multi-family housing projects hereafter at a pace of one ZEH-M per year. Furthermore, through the synergy of our capital and business partnership with Chubu Electric Power, we will conduct joint research into next-generation smart houses, connected homes and more, doing next-generation urban development through use of living environment energy, AI, etc.



Perspective drawing of the new ballpark (exterior view)

Q You announced that ES-CON JAPAN had secured the naming rights for the new ballpark being built by the Nippon-Ham Fighters in Hokkaido that will be named “ES CON FIELD HOKKAIDO.” What are the benefits of securing these rights and did you find it difficult to gain understanding within the company?

When I heard about the concept for this ballpark, I was impressed by the grand concept to not only build a ballpark but also a town around it. I am elated that we were able to secure the opportunity to participate in the surrounding town development as a developer. Honestly, the naming rights were not our first priority. In fact, the Nippon-Ham Fighters made the proposal for the naming rights at the time our other discussions were bearing fruit. Thus our goal was not just to raise the awareness of ES-CON JAPAN as a developer through the naming rights, but also to raise people’s recognition of ES-CON JAPAN in the market by participating in this globally unique ballpark development. We, as a company, believe it was and is an excellent opportunity.

When it was explained to our Board of Directors, I found that they deeply shared the same conviction as I that this was a great opportunity in tandem with



the town development. They also understood that it was much more than simple naming rights. We have decided to establish a base in Hokkaido in July 2020 that will help us heighten the synergy by reinforcing development of real estate in Hokkaido along with the ballpark concept. Thus we plan to make our company even stronger by leveraging this opportunity presented by working with a baseball team that is loved by the people of Hokkaido.

Q Several years ago you talked about the importance of the stock business and using the rents generated to cover general and administrative expenses, and ease operations during economic downturns. Do you still believe in this approach?

We believe that as the company grows, it is important to increase the ratio of real estate leasing business revenues (stock-based revenues). Profits from “flow” business alone, especially the condominium development business, are always subject to significant volatility. Therefore, we want to stabilize our financial foundation with stock-based revenues and accumulate capital with our “fee-based” business.

Q Until this past year, you were developing and selling many hotels, but it appears this has tapered off. What are you positioning as new businesses?

As for hotels, I think there is a bit of over-supply right now. With a five to ten year perspective it is irrefutable that the number of inbound travelers will increase. I believe the oversupply can be covered with future demand, but we started slowing down our hotel development from about eighteen months ago because of other issues such as a lack of labor, lack of good operators and the fact that good operators had opened enough hotels for their capacity. Furthermore, land acquisition prices rose significantly within the hotel boom and we remain committed to our model of not going out of our way to buy expensive land. Therefore, sales from hotels will inevitably drop compared to the last two years.

As for the business sectors that we see that can replace this, we continue to be good at developing neighborhood shopping centers and redeveloping existing retail properties. Therefore development in this area is growing. Furthermore, we have launched a new logistics property brand “LOGITRES” and completed the first property “LOGITRES Tojo” in Kato City, Hyogo Prefecture, in September 2019. Our actions in the new business have enabled us to properly ascertain the needs of logistics properties including those of the cargo owners, and this has helped mold our strategy. We have also launched a land readjustment project to develop a logistics park in Koga City, Fukuoka Prefecture, for which construction was completed in December of last year. We will strengthen our logistics business as a potential core business.

In addition, since hotel demand has settled down, we will work to develop and supply office buildings on the scale that we previously did with hotels. We will primarily be involved in developing office buildings to ensure steady growth and as a new focus.

We have positioned the formation of a foundation for further growth as the key component of the new Third Medium-Term Management Plan. This includes tackling new businesses to achieve steady growth, reinforcing the organization, spreading a greater awareness of the importance of compliance and further creating a base to ensure greater growth. These three years are also positioned as a preparatory time for achieving greater growth from 2023 onwards. We intend to maximize our corporate value for continued growth, so I would like to again ask for the support of our shareholders.

Q What can you tell us about ES-CON JAPAN’s strategies for overseas?

We started initiatives to invest overseas last year. However, unlike major corporations, we do not specify the area or target and strategically invest in those areas. Instead, we utilize our network of relationships and make decisions based on each piece of information and opportunity we obtain. Thus we have started a wide variety of projects. This is really our seed planting time for the overseas business. These three years are when we build trust with the leaders of local overseas corporations so we can utilize relationships in those areas.

We are now planning to embark overseas in 2023 and after with the companies we have built relationships of trust with over the next three years. Of course, we can make some successful investments within the current Third Medium-Term Management Plan that ends in 2022, but I believe the large growth in our overseas business will happen in earnest from 2023.

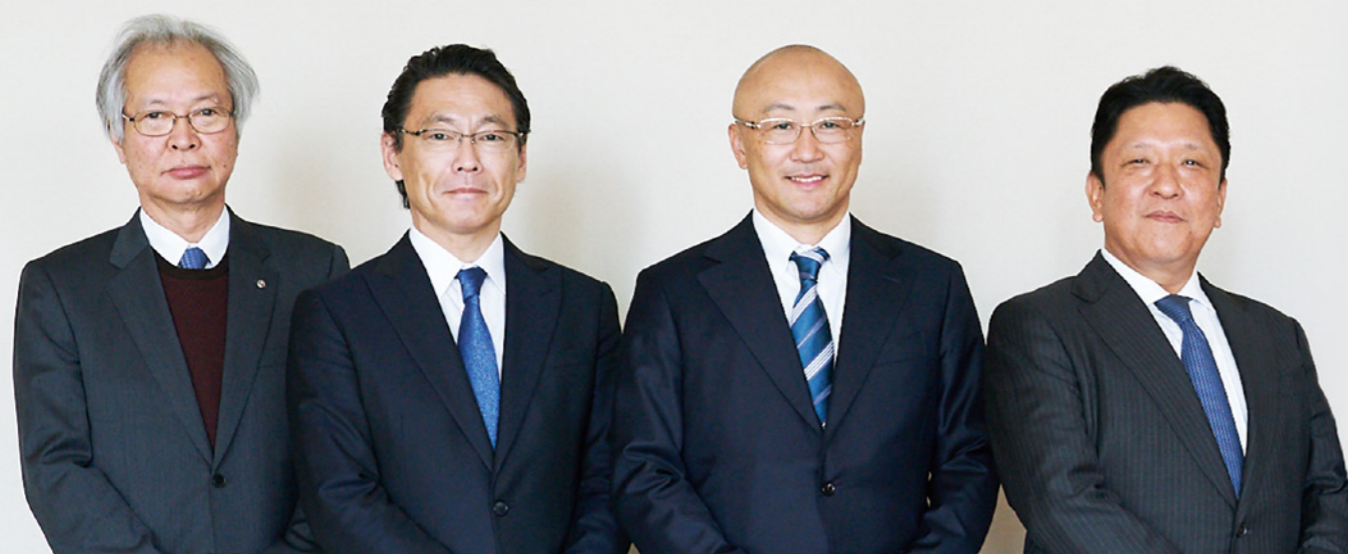
Q In closing, you have conducted a number of M&As including a company that builds homes in Saitama Prefecture. How do you assess your M&As to date?

The home builder was our first M&A. We invested funds and acquired its shares to make it a subsidiary and I believe over the past year we have been able to share our corporate vision and philosophy and to align our vectors so that its business is more focused on the customer, and not only the subsidiary but ES-CON JAPAN can further contribute to local communities.

Our new subsidiaries ES-CON Home and ES-CON Craft are located in an area where we have no knowledge and specialize in homes, an area where customer needs are distinctly different from those of our customers. However, we are convinced they have a solid grasp of the needs of their clients. I believe we have been able to build up the foundation of the companies in the past six months so that they can contribute to the profitability of our group. It is my intent to gradually consider other M&A opportunities after verifying their fit with our group, their corporate culture and their vision.

We look forward to and sincerely request your continued support.

Management: Directors and Auditors



Tadashi Fukuda

Junya Kikuchi

Tomohiko Egashira

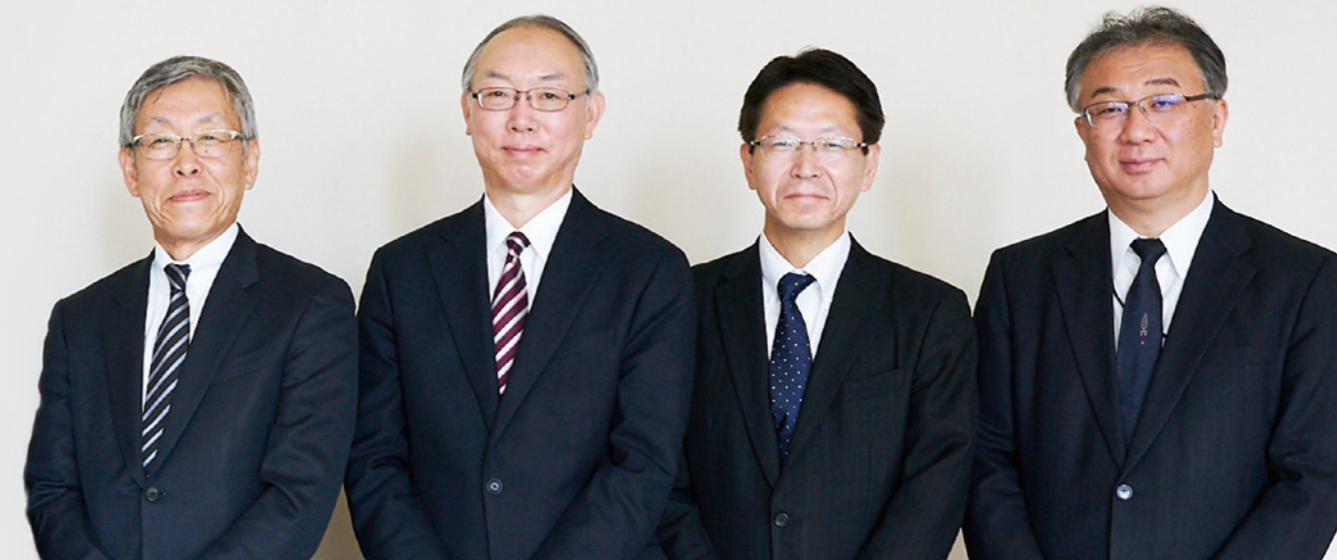
Takatoshi Ito

Takatoshi Ito President & Representative Director

September	2001	Joined ES-CON JAPAN
February	2006	Appointed Operating Officer
March	2007	Appointed Managing Director
March	2011	Appointed President and Representative Director (present post)
May	2013	Appointed President and Representative Director at ES-CON Property
July	2014	Appointed Director at ES-CON Asset Management (present post)
November	2014	Appointed Executive Operating Officer at ES-CON JAPAN (present post)
September	2016	Appointed Director at ES-CON Living Service (present post)
July	2018	Appointed Director at ES-CON Property (present post)
July	2019	Appointed Director at One's Own House Co., Ltd. (currently ES-CON Home) (present post) Appointed Director at Rise Home Co., Ltd. (currently ES-CON Craft) (present post)
December	2019	Appointed Director at ES-CON Global Works (present post)
January	2020	Appointed member of Nomination and Remuneration Advisory Committee at ES-CON JAPAN (present post)

Minoru Nakanishi Senior Managing Director

August	2011	Joined ES-CON JAPAN
June	2012	Appointed Executive Officer (Head of Finance and Accounting Department)
March	2013	Appointed Director
May	2013	Appointed Director at ES-CON Property (present post)
August	2013	Appointed Head of Management Division at ES-CON JAPAN (present post)
July	2014	Appointed Director at ES-CON Asset Management (present post)
November	2014	Appointed Operating Officer at ES-CON JAPAN
March	2015	Appointed Managing Executive Officer at ES-CON JAPAN Appointed Managing Operating Officer at ES-CON JAPAN
September	2016	Appointed Director at ES-CON Living Service (present post)
March	2017	Appointed Senior Managing Director at ES-CON JAPAN (present post) Appointed Senior Operating Officer at ES-CON JAPAN (present post)
December	2019	Appointed Director at ES-CON Global Works (present post)



Minoru Nakanishi

Kenji Fujita

Masayoshi Nishitake

Hiroto Mizobata

Tomohiko Egashira Managing Director

April	2002	Joined ES-CON JAPAN
January	2012	Appointed Head of Corporate Officer Division
July	2012	Appointed Head of Corporate Officer Tokyo Division
February	2013	Appointed Head of Corporate Officer Development Division
March	2015	Appointed Director
January	2016	Appointed Operating Officer Appointed Operating Officer and Head of Development Division (present post)
March	2017	Appointed Managing Director (present post) Appointed Managing Operating Officer and Head of Development Division (present post)
November	2017	Appointed Head of Fukuoka Branch Office
July	2018	Appointed Director at ES-CON Property (present post)

Kenji Fujita Director

March	2019	Appointed Director at ES-CON JAPAN (present post) Appointed Operating Officer (present post) Appointed Head of General Affairs Department
January	2020	Appointed Head of President's Office at ES-CON JAPAN (present post)

Junya Kikuchi Director

March	2010	Appointed Director at ES-CON JAPAN (present post)
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Masayoshi Nishitake Full-Time Auditor [Director]

March	2020	Appointed Director (Full-Time Auditor Director) at ES-CON JAPAN (present post) Appointed member of Nomination and Remuneration Advisory Committee at ES-CON JAPAN (present post)
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Hiroto Mizobata Auditor [Director]

March	2015	Appointed Auditor at ES-CON JAPAN
March	2016	Appointed Director at ES-CON JAPAN (Auditor Director) (present post)
January	2020	Appointed member of Nomination and Remuneration Advisory Committee at ES-CON JAPAN (present post)

Tadashi Fukuda Auditor [Director]

March	2020	Appointed Director (Auditor Director) at ES-CON JAPAN (present post) Appointed member of Nomination and Remuneration Advisory Committee at ES-CON JAPAN (present post)
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Management Policy

1. ES-CON JAPAN is committed to realizing the unlimited potential of real estate through its information sourcing, planning and product development ability to create new value that sincerely satisfies customers.
2. ES-CON JAPAN is committed to achieving management that is a step more proactive than the competition by implementing work management that has a robust defense based on ROA, cash flow and thorough risk management.
3. ES-CON JAPAN is committed to becoming a limited-scale team of professionals that can maintain the ability to respond quickly and maintain flexibility within a rapidly changing society.
4. ES-CON JAPAN will maintain and build robust relationships of cooperation by respecting and appreciating competitors at all times whether inside or outside the company.
5. ES-CON JAPAN is committed to building a “well-ventilated” bottom-up organization while also building an enhanced internal audit system consciously aware of compliance and governance.

Direction, Corporate Governance and CSR

Corporate Philosophy

We ask our employees to think daily about how they should live their lives, how they should participate in society, what kind of fruit they will bear society by contributing and, as a result, how the happiness desired by each and every one of us will be attained through these efforts.

Our employees assist and encourage each other to achieve the above goal. ES-CON JAPAN pursues a management that continues to provide fields as steps to self-realization of the unique characteristics pursued by each of our employees.

Corporate Vision “Life Developer”

ES-CON JAPAN seeks to be a life developer; that is, a company that develops not only the hardware of the condominium itself but also conceptualizes and develops the lives of residents.

This is our goal at ES-CON JAPAN. We are creating “new wealth” that traditional real estate firms cannot achieve with solutions provided by our small cross-organizational teams that overcome the boundaries of divisions. ES-CON JAPAN teams connect people, communities and the future.

Corporate Mission

Development of the “New Norm Neighborhood”

Our teams create, connect and expand values built into local areas. We do not perceive the term “Local” as an antonym to “Urban” but rather as a location where residents are proud of the area where they live.

System of Corporate Governance

ES-CON JAPAN boasts a Board of Auditors and a structure whereby the implementation, management, supervision and auditing of work are overseen by the Board of Directors and Board of Auditors.

(1) The Board of Directors is comprised of eight people: four directors in charge of various operations, one director with a non-operational focus, and three auditors who are also directors. Of these, one shall be a woman, three shall be outside directors, two shall be independent outside directors and the president of the Board shall be the President.

- In principle, the Board holds meetings at least once a month where the management and auditing functions are heightened by vetting and discussing important items on the agenda.
- Speed and flexibility of operations is secured by entrusting directors responsible for operations with related decisions in line with our Articles of Incorporation. The scope to which operations are entrusted to individual directors is strictly managed in line with monetary and other criteria stipulated by the Board of Directors. Furthermore, the status of vital operations that have been entrusted to the Board shall be reported to the Board of Directors without delay.

(2) Board of Auditors

The Board of Auditors is entirely comprised of outside directors so that the three members can all heighten their management supervisory function and the independence of such. There are two independent outside directors and one full-time auditor.

- In principle, the Board shall meet once a month and the accounting auditor, party in charge of corporate governance, directors in charge of operations and other executives can be instructed to attend the Board meeting by an auditor as needed. The Board shall report its findings in a timely and appropriate manner.
- Auditors shall take steps to ensure they grasp the present status of operations for each division and the issues they face. These steps include regular exchanges of opinion with the President & Representative Director and the interviewing of corporate executives such as directors in charge of operations when necessary.
- The full-time auditor shall participate in divisional meetings attended by directors in charge of operations and executions of each division along with regularly-held management meetings where members are comprised primarily of directors in charge of operations. The participation of the full-time auditor ensures that management conditions and the progress on business plans can be shared.
- The Board shall check important documents like ringi circulation documents and other decision-confirmation documents and coordinate with the internal audit division to verify that the implementation of operations by directors is legal and appropriate. The full-time auditor is also nominated to be the lead auditor so that governance is further strengthened.

(3) Nomination and Remuneration Advisory Committee

The Nomination and Remuneration Advisory Committee deliberates and determines the nomination and remuneration of directors as an advisory body of the board of directors.

The committee shall be composed of members, of which at least more than half shall be outside directors, and thus strengthen the independence and transparency concerning nominations and remuneration.

Corporate Governance

ES-CON JAPAN believes the present system and organization of corporate governance is appropriate because it contributes to the sustainable improvement of corporate value.

1. Directors who are Members of the Board of Auditors reinforce the auditing functions and execution ability of the Board of Directors by being able to vote on agenda items at Board of Directors’ meetings.
2. The entrusting of vital operations to directors in charge of operations secures speed, dynamism and flexibility of operations and prevents loss of business opportunities.
3. Directors who are also auditors are able to state opinions concerning the nomination and compensation of directors who are not auditors, thus reinforcing the transparency of the process.

Basic Philosophy of Corporate Governance

The corporate activities of ES-CON JAPAN are made possible by the support of our customers, shareholders, business partners, local communities, and other stakeholders. In order to maintain the trust of these stakeholders, we recognize the importance of robust corporate governance. In addition to the legally-mandated functions of the board of directors and auditing committee, we use internal and external audits to improve management efficiency and transparency to fulfill our responsibility to society.

Thorough Implementation of Compliance

Based on our Corporate Ethics and Conduct Charter, which declares our implementation of corporate ethics and social responsibility, we have set out a Compliance Code of Conduct and a Compliance Manual so that officers and employees behave in a way that conforms to laws, regulations, our Articles of Incorporation, and social norms, and have established a thorough enforcement structure in our Compliance Regulations. Full implementation of these is achieved through the instructions of the compliance officer and cooperation of the compliance department and each other department.

CSR Initiatives

With the environmental burden produced by business activities constantly in mind, we prioritize environmentally-friendly development and design. Whether it is installing garbage disposals that reduce food waste, toilets that use 50% less water, or highly-insulated thermal baths, we take measures to consider the environment in all of our properties. We are assertively promoting resource-saving housing that reduces the environmental burden in order to build a better future.

Furthermore, we are actively supporting the government's regional revitalization projects, undertaken to address population decline and the super-aging society.

- Osaka Prefecture's regional revitalization projects
- Midosuji illumination project
- Urban space project to enjoy the Port of Osaka and entire Kansai region by bicycle
- Project to improve inflow by public transportation
- New child-raising subsidy project
- Fukuoka Prefecture's regional revitalization projects
- Sacred Island of Okinoshima and Associated Sites in the Munakata Region revitalization project
- Junior athlete training project
- Supporting member of architect Tadao Ando's Nakanoshima Forest of Children's Books Fund

Company Overview: ES-CON JAPAN Ltd.



Tokyo Head Office

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FAX: +81-3-6230-9304



Osaka Head Office

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TEL: +81-6-6223-8050
FAX: +81-6-6223-8051



Nagoya Office

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FAX: +81-52-218-4821



Fukuoka Office

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13-15 Kamikawabatamachi, Hakata-ku, Fukuoka, 812-0026 Japan
TEL: +81-92-283-1531
FAX: +81-92-283-1532

Established: April 18, 1995

Capital: 6,275,000,000 yen (as of end of 2019)

Revenue: 72,106,000,000 yen (consolidated; fiscal year ended December 2019)

Number of Employees: 234 (consolidated; as of end of 2019)
159 (non-consolidated; as of end of 2019)

Businesses: Real estate sale
Real estate leasing
Real estate planning, brokerage and consultation

Property Descriptions

Grand Le JADE Takatsuki Tenjin [Condominium]

- This condominium is near Takatsuki Station on the JR Kyoto Line and Takatsuki-shi Station on the Hankyu Kyoto Line, offering transfer-less access to central Kyoto and Osaka.
- JR Takatsuki Station is surrounded by diverse facilities for everyday life, public services and large-scale shopping centers, and the completion of the JR Takatsuki Station Northeast District Land Readjustment Project in 2016 made the location convenient and cutting-edge with a hospital, plaza and more.
- With an entrance adorned with trees and flowers reminiscent of the nearby Jogu Tenmangu Shrine, all residences facing south and only two residences per floor to maintain a sense of independence and openness, it is an elegant building with both nature and local history in spite of its urban setting.

tonarie Yamato-Takada [Good Design Award 2019] [Retail property]

- This property is directly connected to Yamato-Takada Station on the Kintetsu Osaka Line by a pedestrian deck. It is situated in a convenient location within 30 minutes from Osaka-Namba Station and faces Prefectural Road 5. It is also close from major roads, and offers easy access by car.
- It is a retail property occupied by a large supermarket as its core tenant as well as by a fresh food store, bakery, fitness club and clinic, which can be used by everyone in the local community on a daily basis, and forming a community.



Grand Le JADE Todoroki [Condominium]

- This property enables direct access to popular areas such as Jiyugaoka and Futakotamagawa from Todoroki and Oyamadai Stations on the Tokyu Oimachi Line. It also offers smooth access to major stations in central Tokyo including Shibuya, Roppongi and Shinagawa Stations, and is also convenient in terms of commuting and shopping on weekends and holidays.
- It is located in a quiet category I exclusive low-rise residential district on a gentle hill, and historical and cultural spots such as Todoroki Valley, which is the only valley in the 23 wards of Tokyo and designated as a place of scenic beauty in Tokyo, and Todoroki Fudosen, which is also famous as a sacred spot, are located in the surrounding area. Also, a supermarket, library, elementary school and junior high school are located within a 10-minute waking distance, and the location is attractive with high convenience and excellent quality.
- It has a stately exterior design suitable for the Todoroki area with a long history, and abundant plants within the site, creating a space with full of greenery. The four seasons at the courtyard can be enjoyed from the entrance and lounge that have large glass windows, and the property offers a comfortable and beautiful living space to residents such as having a private garden where people can relax like a detached house and a flat underground self-propelled parking lot at some units.



Le JADE Sumakaihin Koen [Condominium]

- This condominium is a three-minute walk from Sumakaihinkoen Station on the JR Kobe Line and a 10-minute walk from Tsukimiyama Station, an express stop on the Sanyo Electric Railway Main Line, offering smooth access to Sannomiya, Osaka and other downtown areas.
- An excellent living environment with educational facilities, stores and medical facilities within walking distance, this location is also near the beach – a mere three-minute walk to Suma Seaside Park and five-minute walk to Suma Beach.
- The exterior and entrance design incorporate local Suma motifs such as the beach, pine trees and waves, while options for personal yards, parking spots and two-story apartments create an extensive menu of plan variations for individual tastes.

Le JADE Shinkanaoka Park Fields [Condominium]

- This condominium is a four-minute walk from Shinkanaoka Station on the Osaka Metro Midosuji Line, offering transfer-less access to Shin-Osaka Station, from which Tennoji Station, Umeda Station and other parts of central Osaka as well as the Tokaido Shinkansen are accessible, making for easy commuting and travel.
- With large retail facilities, financial institutions, government facilities and various educational facilities around Shinkanaoka Station, Shinkanaoka Park in front of the condominium and the sports facilities of Kanaoka Park and 320,000 trees of 200 different species at Oizumi Ryokuchi Park a 15-minute walk away, the area is appealing both for its convenience and nature.
- With over 80% of the 204 residences facing southwest overlooking the park, providing a great view and natural light, and extensive common facilities such as the beautiful Fields Garden for residents to relax and interact and a library with books selected by the Junkudo bookstore and a room for parties, this is a comfortable living space for all ages.





Le JADE Nakano (Good Design Award 2019)
[Condominium]

- This condominium is a three-minute walk from three stations on four lines, including Nakano Station on the JR Chuo, Sobu, and Tokyo Metro Tozai Lines and Higashi-Nakano Station on the Toei Oedo Line, offering smooth access to major stations in central Tokyo like Shinjuku, Tokyo, Shibuya and Otemachi Stations.
- Despite being in a quiet, Type I low-rise residential zone where there are strict regulations on building height and usage, it is also an appealing location due to legacy shopping streets like Nakano Broadway and Nakano Sun Mall as well as a major redevelopment on the south side of Nakano Station.
- A green lane along a private road south of the building ensures privacy, and all of the residences face south. In some, windows near the ceiling brighten the interior and enhance the feeling of openness. With terraces and personal gardens making the apartments feel like detached houses, this is a bright, open, high-quality living space.



Le JADE Tsujido Higashi Kaigan
[Condominium]

- This condominium is near Tsujido Station on the JR Tokaido Main Line and Kugenuma-Kaigan Station on the Odakyu Enoshima Line, offering direct access to major stations in central Tokyo like Yokohama, Shinagawa and Tokyo Stations as well as popular tourist spots like Kamakura and Enoshima.
- Located near Shonan's rich nature and a mere four-minute walk to the beach, the buildings are in a Type I low-rise residential zone where there are strict regulations on building height and usage and a quiet residential neighborhood with even stricter regulations on scenery preservation, but strikes an appealing balance with ample parks, medical facilities, educational facilities and shops nearby.
- With all residences facing south, an owner's garden between the two low-rise buildings, one facing the sea and one facing the garden, and over 470 Washington palms and other iconic trees on the premises, the design feels like a resort matching the beautiful surrounding neighborhood.

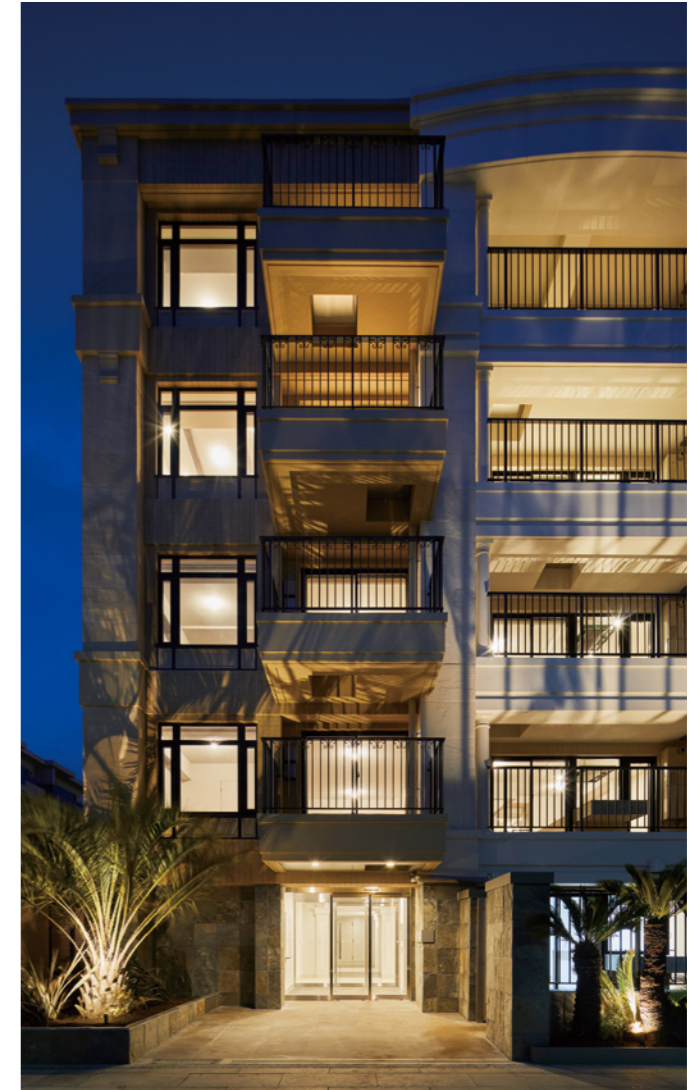
Grand Le JADE Shonan Enoshima
[Condominium]

- This property is located along National Route 134, which is the symbol of Shonan, and is a 9-minute walk from Katase-Enoshima Station on the Odakyu Enoshima Line and Shonan-Kaigan-Koen Station on the Enoshima Electric Railway Line. It is situated in a favorable location offering smooth access to major stations in central Tokyo including Tokyo, Shinjuku and Shibuya Stations and situated also near the beach (approx. 120m).
- Its surrounding is a location where a park overlooking the beach of Shonan and leisure facilities including "Enoshima Aquarium" are located and where various retail properties, cafes and other restaurants, educational facilities and medical facilities concentrate.
- It consists mainly of residential units facing the southwest direction with an ocean view overlooking the shoreline and Mt. Fuji. It adopts a design enabling residents to enjoy the life of Shonan such as having a sky deck on the rooftop and a shower room with lockers and a place to store surfboards inside the building, and offers a unique living space like a resort.



tonarie Utsunomiya
[Retail property]

- In the area surrounding JR Utsunomiya Station, light rail transit (LRT) is scheduled to open in 2022, and development of new city bases such as convention facilities, hotels and retail properties are currently in progress and further revitalization is expected. "tonarie Utsunomiya," the first facility under ES-CON JAPAN's brand "tonarie" in the Kanto district, opened at a location which is a 1-minute walk from the west exit of JR Utsunomiya Station with such local environment.
- It is a retail property with a household appliance store as well as handling various products and services including general clothing, books and cooking studios, and used by everyone in the local community on a daily basis.



LOGITRES Tojo
[Logistics property]

- This property is close to "Hyogo Tojo Interchange" on the Chugoku Expressway, and is situated in a location with excellent traffic convenience offering easy access to the Kansai and Chugoku regions.
- It acquired a certification of Rank A in Comprehensive Assessment System for Built Environment Efficiency (CASBEE). In addition, this property is an environmentally friendly logistics property adopting ES-CON JAPAN's first solar power generation business.



Financial Section

The Management Discussion and Analysis, Financial Statements and Notes to Financial Statements contained in this report are outside the scope of the auditing procedures under the Financial Instruments and Exchange Act of Japan, and have not been audited. However, the original financial data and descriptions in Japanese used as the base for the translation of this English version have been audited.

Management Discussion and Analysis

Overview

In the consolidated fiscal year under review (fiscal year ended December 2019, or Fiscal 2019), the Japanese economy remained in a situation that calls for attention to the impact of the U.S.-China trade friction on the world economy as well as uncertainties in overseas economies, including the downside risk in the Chinese economy and the issue of Brexit, in addition to the effects of fluctuation in the financial and capital markets. These and other factors have kept the outlook of the economy clouded.

The real estate industry in which the ES-CON JAPAN Group operates held firm due in part to low interest rates from monetary easing policies, yet the situation warrants no optimism because of such factors as a rise in land prices, intensified competition in acquiring land and construction costs remaining high.

Given such circumstances, we have proactively developed multifaceted businesses in Fiscal 2019 as the final fiscal year of “IDEAL to REAL 2019,” the second medium-term management plan set for the period of three years from Fiscal 2017 to Fiscal 2019. Our efforts resulted in performance that accompanied figures substantially higher than the initially planned targets and management goals that are generally in line with the plans.

In the real estate sales business, which is our core business, we conducted income-generating real estate sales, etc., and made steady progress in condominium sales with many projects sold out upon completion or contracted to sell out before completion. For the hotel development projects incorporating inbound tourism needs, sales of 3 projects developed in Osaka have completed. We also acquired several new retail properties in regional cities while working on value enhancement of retail properties under operation and redevelopment projects, and worked to promote diversification of the office development business with an eye on the next era and globalization.

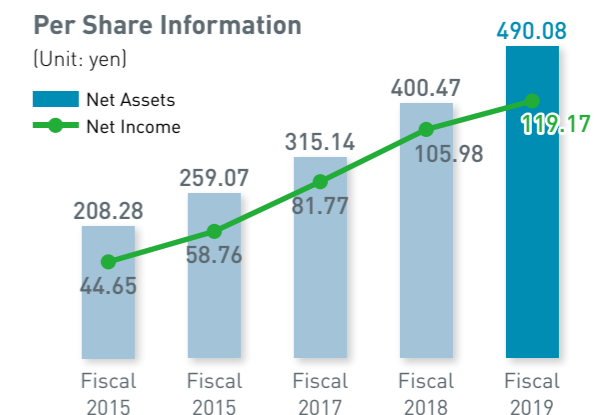
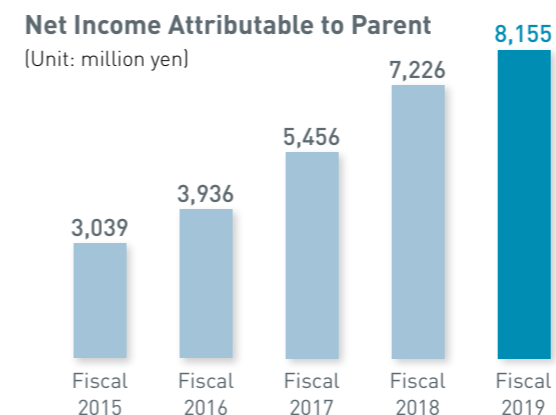
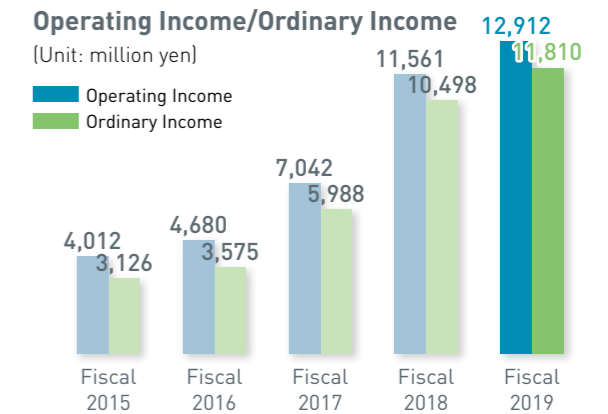
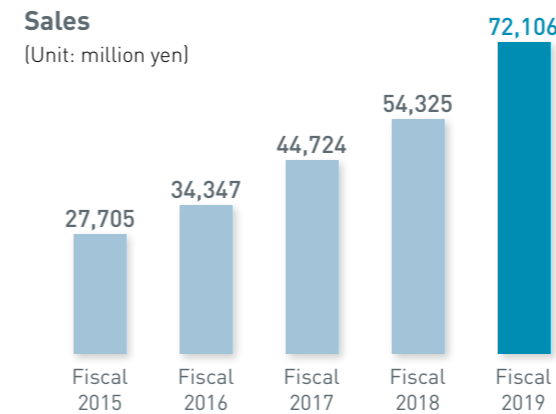
In the real estate leasing business, efforts are being made to secure stable rental income from retail properties held by the Company and to enhance their asset value. In the real estate planning agency and consulting business, focus is placed on being a business achieving high profit margins through subcontracting, planning agency and consulting and other non-assets by leveraging the planning and other strengths of ES-CON JAPAN.

With ESCON JAPAN REIT Investment Corporation (“ESCON REIT”) listed on the Tokyo Stock Exchange Real Estate Investment Trust Securities Market in February 2019, the ES-CON JAPAN Group fully supports enhancement of earnings and stable growth of ESCON REIT as a sponsor and aims for further growth. As part of the endeavors, a support agreement was concluded with Chuden Real Estate Co., Inc. to cover a wide range of support including warehousing function. A sale and purchase agreement was concluded in November 2019 for the transfer of certain retail properties owned by ES-CON JAPAN to Chuden Real Estate utilizing temporary warehousing function with a precondition to transfer the real estate to ESCON REIT, based on the support agreement.

In July 2019, ES-CON JAPAN acquired shares of One’s Own House Co., Ltd. (currently ES-CON Home Ltd.) and Rise Home Co., Ltd., (currently ES-CON Craft Ltd.) both specializing in detached houses, and made them fully-owned subsidiaries. The Company has also embarked on development of its overseas business, investing in a Hawaii-focused real estate investment fund and establishing a subsidiary in Thailand to participate in a joint development project for a condominium near central Bangkok.

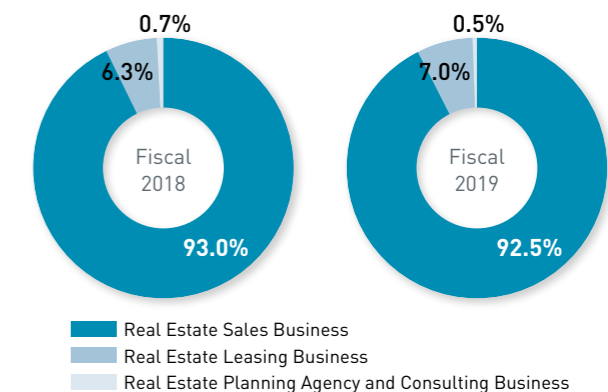
Operating Results

As a result of these endeavors, business performance for Fiscal 2019 was net sales of 72,106 million yen (up 32.7%), operating income of 12,912 million yen (up 11.7%), ordinary income of 11,810 million yen (up 12.5%) and profit



attributable to owners of parent of 8,155 million yen (up 12.9%), all on a year-on-year basis.

Sales Distribution Ratio by Segment



Results by Segment

Real estate sales business

In the real estate sales business, activities including sales of condominiums and income-generating real estate resulted in net sales of 66,710 million yen (up 32.1% year-on-year) and segment income of 13,802 million yen (up 11.8% year-on-year).

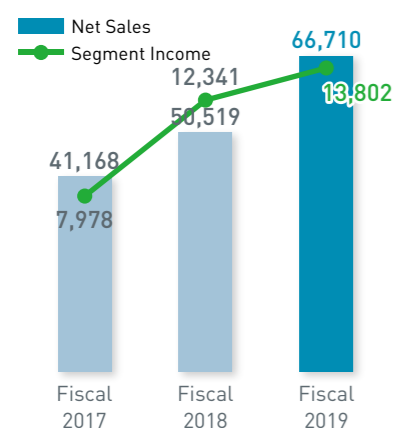
Real estate leasing business

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 income-generating real estate, resulting in net sales of 5,022 million yen (up 47.7% year-on-year) and segment income of 3,001 million yen (up 41.0% year-on-year).

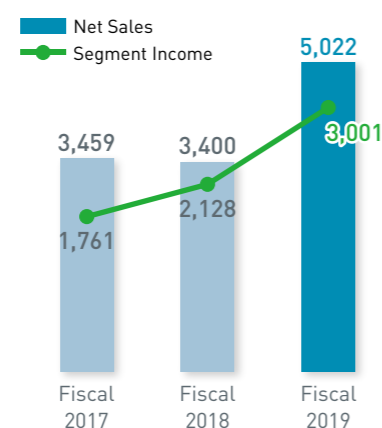
Real estate planning agency and consulting business

Real Estate Sales Business

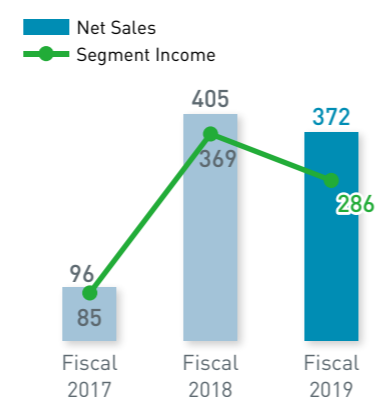
(Unit: million yen)

**Real Estate Leasing Business**

(Unit: million yen)

**Real Estate Planning Agency and Consulting Business**

(Unit: million yen)



In the real estate planning agency and consulting business, proactive efforts were made in receiving orders for planning, consultation and other consigned services by making the best use of our planning and multifaceted business building abilities. Net sales stood at 372 million yen (down 8.2% year-on-year) and segment income was 286 million yen (down 22.2% year-on-year).

Analysis of Financial Position**Assets, Liabilities and Net Assets**

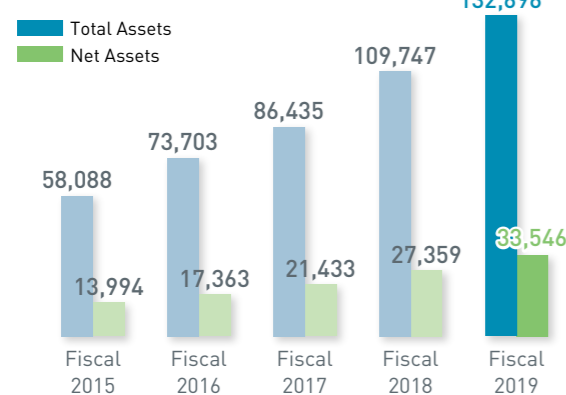
Assets at the end of Fiscal 2019 increased by 22,949 million yen compared with the end of Fiscal 2018 to 132,696 million yen. This was mainly attributable to cash and deposits increasing by 5,912 million yen, inventories increasing by 11,066 million yen and land increasing by 2,092 million yen while part of real estate for sale in process (8,410 million yen) was transferred to buildings and structures (504 million yen) and land (7,905 million yen) due to a change in the purpose of holding the real estate.

Liabilities increased by 16,762 million yen in comparison with the end of Fiscal 2018 to 99,149 million yen. This was mainly attributable to long-term loans payable, short-term loans payable and bonds increasing by 14,392 million yen in total.

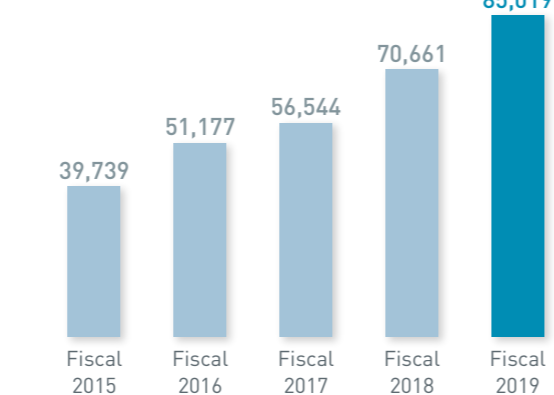
Net assets increased by 6,187 million yen in comparison with the end of Fiscal 2018 to 33,546 million yen. This was due to recording of 8,155 million yen as profit attributable to owners of parent against payment of 2,209 million yen in dividends of surplus and 40 million yen in the purchase of treasury shares. As a result, the equity ratio came to 25.3% (24.9% at the end of Fiscal 2018).

Total Assets/Net Assets

(Unit: million yen)

**Interest-bearing Liabilities**

(Unit: million yen)

**Overview of Consolidated Balance Sheet**

(Unit: million yen)

AssetsFiscal 2018 Total assets: **109,747**

Non-current assets: 5,104		Current assets: 104,642	
Property, plant and equipment:	1,658	Cash and deposits:	16,598
Intangible assets:	30	Real estate for sale:	15,308
Investments and other assets:	3,415	Real estate for sale in process:	65,890

Fiscal 2019 Total assets: **132,696**

Non-current assets: 18,553		Current assets: 114,137	
Property, plant and equipment:	13,433	Cash and deposits:	22,511
Intangible assets:	492	Real estate for sale:	24,234
Investments and other assets:	4,632	Real estate for sale in process:	59,619

Liabilities and Net AssetsFiscal 2018 Liabilities and net assets: **109,747**

Net assets: 27,359		Non-current liabilities: 45,176		Current liabilities: 37,210	
Shareholders' equity:	27,352	Long-term loans payable:	44,568	Short-term loans payable:	1,720
				Current portion of long-term loans payable:	23,993
				Current portion of bonds:	40

Fiscal 2019 Liabilities and net assets: **132,696**

Net assets: 33,546		Non-current liabilities: 48,950		Current liabilities: 50,199	
Shareholders' equity:	33,288	Long-term loans payable:	47,720	Short-term loans payable:	4,580
				Current portion of long-term loans payable:	32,415
				Current portion of bonds:	40

Status of Cash Flows

Cash and cash equivalents ("net cash") in Fiscal 2019 increased by 5,849 million yen compared with the end of Fiscal 2018 to 22,413 million yen (16,563 million yen at the end of Fiscal 2018). The following outlines the cash flows and the factors of changes in cash flows in fiscal year ended December 2019.

Cash flows from operating activities

Cash flows from operating activities in Fiscal 2019 amounted to net cash provided by operating activities of 122 million yen (net cash used in operating activities of 7,123 million yen in Fiscal 2018). This was mainly attributable to recording profit before income taxes of 11,803 million yen and increase in inventories of 10,179 million yen.

Cash flows from investing activities

Cash flows from investing activities in Fiscal 2019 amounted to net cash used in investing activities of 4,770 million yen (net cash provided by investing activities of 223 million yen in Fiscal 2018). This was mainly attributable to purchase of investment securities of 1,641 million yen and purchase of non-current assets of 3,295 million yen.

Cash flows from financing activities

Cash flows from financing activities in Fiscal 2019 amounted to net cash provided by financing activities of 10,501 million yen (net cash provided by financing activities of 12,818 million yen in Fiscal 2018). This was mainly attributable to proceeds from and repayments of long-term loans payable and short-term loans payable amounting to net proceeds of 12,793 million yen, cash dividends paid of 2,207 million yen and payments due to purchase of treasury shares of 40 million yen.

Consolidated Balance Sheet

(Unit: million yen)

	Fiscal 2018 (as of December 31, 2018)	Fiscal 2019 (as of December 31, 2019)
Assets		
Current assets		
Cash and deposits	16,598	22,511
Notes and accounts receivable - trade	491	598
Real estate for sale	15,308	24,234
Deferred tax assets	65,890	59,619
Other	6,353	7,173
Total current assets	104,642	114,137
Non-current assets		
Property, plant and equipment		
Buildings and structures	1,459	3,216
Accumulated depreciation	[462]	[566]
Buildings and structures, net	997	2,649
Vehicles	—	7
Accumulated depreciation	—	[6]
Vehicles, net	—	1
Land	623	10,621
Leased assets	9	4
Accumulated depreciation	[6]	[3]
Leased assets, net	2	1
Construction in progress	—	0
Other	142	281
Accumulated depreciation	[107]	[122]
Other, net	35	159
Total property, plant and equipment	1,658	13,433
Intangible assets		
Goodwill	—	436
Other	30	56
Total intangible assets	30	492
Investments and other assets		
Investment securities	2,077	2,711
Deferred tax assets	359	662
Other	1,016	1,296
Allowance for doubtful accounts	[37]	[37]
Total investments and other assets	3,415	4,632
Total non-current assets	5,104	18,558
Total assets	109,747	132,696

(Unit: million yen)

	Fiscal 2018 (as of December 31, 2018)	Fiscal 2019 (as of December 31, 2019)
Liabilities		
Current liabilities		
Short-term loans payable	1,720	4,580
Current portion of long-term loans payable	23,993	32,415
Current portion of bonds	40	40
Lease obligations	0	1
Accounts payable - other	1,731	2,097
Income taxes payable	1,448	3,396
Advances received	3,051	2,809
Deposits received	4,933	4,733
Asset retirement obligations	33	—
Other	255	126
Total current liabilities	37,210	50,199
Non-current liabilities		
Bonds payable	270	230
Long-term loans payable	44,568	47,720
Lease obligations	1	0
Deferred tax liabilities	—	2
Provision for directors' share-based benefits	97	114
Provision for share-based benefits	30	35
Asset retirement obligations	77	249
Other	130	597
Total non-current liabilities	45,176	48,950
Total liabilities	82,387	99,149
Net assets		
Shareholders' equity		
Capital stock	6,259	6,275
Capital surplus	1,988	2,004
Retained earnings	20,310	26,256
Treasury shares	[1,207]	[1,247]
Total shareholders' equity	27,352	33,288
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	6	256
Foreign currency translation adjustment	—	[0]
Total accumulated other comprehensive income	6	256
Subscription rights to shares	1	1
Non-controlling interests	—	0
Total net assets	27,359	33,546
Total liabilities and net assets	109,747	132,696

Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Consolidated Statement of Income

(Unit: million yen)

	Fiscal 2018 (from January 1, 2018 to December 31, 2018)	Fiscal 2019 (from January 1, 2019 to December 31, 2019)
Net sales	54,325	72,106
Cost of sales	37,397	52,339
Gross profit	16,927	19,767
Selling, general and administrative expenses		
Advertising expenses	1,965	2,218
Sales commission	459	726
Directors' compensations	190	210
Salaries and allowances	1,126	1,375
Provision for directors' share-based benefits	28	16
Provision for share-based benefits	12	5
Commission fee	373	388
Taxes and dues	328	639
Other	881	1,273
Total selling, general and administrative expenses	5,366	6,854
Operating income	11,561	12,912
Non-operating income		
Interest income	0	5
Dividend income	2	35
Cancellation income	12	30
Reversal of allowance for doubtful accounts	—	8
Other	2	4
Total non-operating income	17	84
Non-operating expenses		
Interest expenses	1,020	1,143
Share of loss of entities accounted for using equity method	—	33
Other	60	9
Total non-operating expenses	1,080	1,186
Ordinary income	10,498	11,810
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	5	7
Impairment loss	47	—
Total extraordinary losses	52	7
Profit before income taxes	10,445	11,803
Income taxes - current	1,604	4,057
Income taxes - deferred	1,615	(409)
Total income taxes	3,219	3,648
Profit	7,226	8,155
Profit attributable to owners of parent	7,226	8,155

Consolidated Statement of Comprehensive Income

(Unit: million yen)

	Fiscal 2018 (from January 1, 2018 to December 31, 2018)	Fiscal 2019 (from January 1, 2019 to December 31, 2019)
Profit	7,226	8,155
Other comprehensive income		
Valuation difference on available-for-sale securities	(14)	250
Foreign currency translation adjustment	—	(0)
Total other comprehensive income	(14)	250
Comprehensive income	7,211	8,405
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	7,211	8,405
Comprehensive income attributable to non-controlling interests	—	—

Consolidated Statement of Changes in Equity

Fiscal year ended December 2018 (from January 1, 2018 to December 31, 2018)

(Unit: million yen)

	Shareholders' equity				Accumulated other comprehensive income			Sub- scription rights to share	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total share- holders' equity	Valuation difference on available-for- sale securities	Total accumulated other compre- hensive income		
Balance at beginning of current period	6,224	1,953	14,322	(1,089)	21,411	20	20	1	21,433
Changes of items during period									
Issuance of new shares	35	35			70				70
Dividends of surplus			(1,238)		(1,238)				(1,238)
Profit attributable to owners of parent			7,226		7,226				7,226
Purchase of treasury shares				(131)	(131)				(131)
Disposal of treasury shares				13	13				13
Net changes of items other than shareholders' equity						(14)	(14)	0	(14)
Total changes of items during period	35	35	5,987	(117)	5,940	(14)	(14)	0	5,926
Balance at end of current period	6,259	1,988	20,310	(1,207)	27,352	6	6	1	27,359

Fiscal year ended December 2019 (from January 1, 2019 to December 31, 2019)

(Unit: million yen)

	Shareholders' equity				Accumulated other comprehensive income				Sub- scription rights to share	Non- controlling interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Trea- sury shares	Total share- holders' equity	Valuation difference on avail- able-for- sale securities	Foreign currency transla- tion adjust- ment	Total accumu- lated other compre- hensive income			
Balance at beginning of current period	6,259	1,988	20,310	(1,207)	27,352	6	—	6	1	—	27,359
Changes of items during period											
Issuance of new shares	15	15			30						30
Dividends of surplus			(2,209)		(2,209)						(2,209)
Profit attributable to owners of parent			8,155		8,155						8,155
Purchase of treasury shares				(40)	(40)						(40)
Disposal of treasury shares				0	0						0
Net changes of items other than shareholders' equity						250	(0)	250	(0)	0	250
Total changes of items during period	15	15	5,945	(40)	5,936	250	(0)	250	(0)	0	6,187
Balance at end of current period	6,275	2,004	26,256	(1,247)	33,288	256	(0)	256	1	0	33,546

Consolidated Statement of Cash Flows

(Unit: million yen)

	Fiscal 2018 (from January 1, 2018 to December 31, 2018)	Fiscal 2019 (from January 1, 2019 to December 31, 2019)
Cash flows from operating activities		
Profit before income taxes	10,445	11,803
Depreciation	80	176
Impairment loss	47	—
Amortization of goodwill	—	48
Increase (decrease) in allowance for doubtful accounts	33	—
Increase (decrease) in provision for directors' share-based benefits	15	16
Increase (decrease) in provision for share-based benefits	12	5
Interest and dividend income	(2)	(40)
Interest expenses	1,020	1,143
Foreign exchange losses (gains)	—	(8)
Share of loss (profit) of entities accounted for using equity method	—	33
Loss on retirement of non-current assets	5	7
Decrease (increase) in notes and accounts receivable - trade	5	(84)
Decrease (increase) in inventories	(16,489)	(10,179)
Decrease (increase) in prepaid expenses	(475)	55
Increase (decrease) in accounts payable - other	111	135
Decrease/increase in consumption taxes receivable/payable	(45)	(239)
Increase (decrease) in advances received	1,584	(246)
Increase (decrease) in deposits received	(220)	95
Decrease (increase) in other assets	(1,548)	638
Increase (decrease) in other liabilities	(1)	75
Subtotal	(5,421)	3,436
Interest and dividend income received	2	40
Interest expenses paid	(1,085)	(1,109)
Income taxes (paid) refund	(619)	(2,245)
Net cash provided by (used in) operating activities	(7,123)	122
Cash flows from investing activities		
Payments into time deposits	(18)	(18)
Proceeds from withdrawal of time deposits	18	18
Purchase of investment securities	(180)	(1,641)
Proceeds from withdrawal of investment securities	21	516
Purchase of non-current assets	(443)	(3,295)
Proceeds from sales of non-current assets	83	61
Payments for asset retirement obligations	—	(3)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(310)
Payments of loans receivable	(37)	(300)
Collection of loans receivable	0	0
Proceeds from guarantee deposits received	1,578	1,130
Repayments of guarantee deposits received	(782)	(927)
Payments for investments in capital	(17)	—
Net cash provided by (used in) investing activities	223	(4,770)
Cash flows from financing activities		
Increase in short-term loans payable	7,581	6,714
Decrease in short-term loans payable	(7,814)	(5,220)
Proceeds from long-term loans payable	38,884	44,231
Repayments of long-term loans payable	(24,659)	(32,930)
Proceeds from issuance of bonds	200	—
Redemption of bonds	(40)	(40)
Repayments of lease obligations	(1)	(0)
Repayments of installment payables	(33)	(34)
Proceeds from issuance of common shares	70	30
Proceeds from share issuance to non-controlling shareholders	—	0
Purchase of treasury shares	(131)	(40)
Cash dividends paid	(1,237)	(2,207)
Net cash provided by (used in) financing activities	12,818	10,501
Translation differences on cash and cash equivalents	—	(3)
Net increase (decrease) in cash and cash equivalents	5,918	5,849
Cash and cash equivalents at beginning of period	10,644	16,563
Cash and cash equivalents at end of period	16,563	22,413

Notes to Financial Statements

1. Organization

ES-CON JAPAN Ltd. (“ES-CON JAPAN” or “the Company”) is a Japanese real estate company established in 1995. It conducts planning, development and sales of for-sale condominiums, retail properties and other properties; leasing of owned properties; property management services; for-sale condominium management services; consignment, planning, brokerage and consulting services for real estate-related matters; and real estate investment advisory services. ES-CON JAPAN was listed on the second tier of the Tokyo Stock Exchange in 2015, and successfully rose to the first tier in June 2016.

2. Basis of Presentation

The accompanying consolidated financial statements of ES-CON JAPAN and its consolidated subsidiaries (the “Group”) are a translation of the financial statements that have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Act of Japan and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

The Company’s accounting period is a twelve-month period, which ends at the end of December each year. Unless otherwise specified, amounts have been rounded down to the nearest million yen in the accompanying financial statements and the notes thereto. As a result, the total shown in the financial statements and notes thereto do not necessarily agree with the sum of the individual account balances.

3. Summary of Significant Accounting Policies

(1) Consolidation

The Company has seven consolidated subsidiaries as of December 31, 2019, as follows:

ES-CON Property Ltd.
ES-CON Asset Management Ltd.
ES-CON Living Service Ltd.
One’s Own House Co., Ltd.
Rise Home Co., Ltd.
ESCON JAPAN (Thailand) CO., LTD.

ESCON JAPAN (Thailand) CO., LTD., which was newly established in the fiscal year ended December 2019, and One’s Own House Co., Ltd. and Rise Home Co., Ltd., both of which the Company made its subsidiaries by acquiring their entire shares, were included in the scope of consolidation.

Of these consolidated subsidiaries, the accounting period of ESCON JAPAN (Thailand) CO., LTD. ends on November 30. In preparing the accompanying financial statements, its financial statements as of the date are used, while making necessary adjustments for material transactions that took place between December 1 and December 31, the day for settlement of consolidated accounts.

Furthermore, ESCON USA LLC is not included in the scope of consolidation as it is a small company and its total assets, net sales, net loss (equivalent to the Company’s equity interest) and surplus, etc. do not pose any material impact on the consolidated financial statements.

(2) Equity-method affiliates	<p>The Company has two equity-method affiliates, as follows: ORIGIN KNIGHTSBRIDGE THEPHARAK CO., LTD. GCB Mezzanine GK</p> <p>ORIGIN KNIGHTSBRIDGE THEPHARAK CO., LTD., of which the Company acquired equity interest in the fiscal year ended December 2019, and GCB Mezzanine GK, in which the Company made silent partnership investment, were included in the scope of equity-method accounting.</p> <p>NBNS Investment Limited Liability Partnership, which was an equity-method affiliate in the fiscal year ended December 2018, was excluded from the scope of equity-method accounting as its liquidation was completed.</p> <p>Furthermore, ESCON USA LLC is not included in the scope of equity-method accounting as it is a small company and its total assets, net sales, net loss (equivalent to the Company's equity interest) and surplus, etc. do not pose any material impact on the consolidated financial statements.</p>
(3) Valuation standard and method for significant assets	<p>1) Securities Other securities Securities with fair value are stated using the market price method based on the market price, etc. at the end of the fiscal year (valuation difference is directly charged to shareholders' equity, and selling costs are calculated by using the moving-average method). Securities without fair value are stated by the cost method using the moving-average method.</p> <p>However, silent partnership and limited liability partnership equity interests, etc. are stated at their net asset value. As for income and losses from silent partnership and limited liability partnership equity interests, etc., the net amount of income or losses equivalent to the equity interests are recorded as net sales or cost of sales, respectively, with the relevant investment securities set as corresponding accounts.</p> <p>2) Inventories Real estate for sale is stated using the cost method (the value on the balance sheet is calculated using the method of reducing book value due to a decline in profitability). Real estate for sale in process is stated using the cost method at net asset value (the value on the balance sheet is calculated by using the method of reducing book value due to a decline in profitability).</p>
(4) Depreciation method for significant depreciable assets	<p>1) Property, plant and equipment (excluding leased assets) The declining-balance method is applied. However, the straight-line method is applied to buildings (excluding facilities attached to buildings) acquired on or after April 1, 1998 and facilities attached to buildings and structures acquired on or after April 1, 2016.</p> <p>2) Intangible assets (excluding leased assets) Software for internal use is amortized using the straight-line method over the useful lives (5 years) estimated by the Company. Trademarks are amortized using the straight-line method over 10 years.</p>

3) Leased assets

For finance leases without any transfer of ownership of leased assets, the straight-line method is adopted with a residual value of zero, deeming the lease period to be equal to the useful lives of the assets.

(5) Standards for recording significant allowances	<p>1) Allowance for doubtful accounts To prepare for expected losses from bad debts, such as notes and accounts receivable – trade and loans receivable, the Company records estimated uncollectible amounts based on the historical loan loss ratio for general accounts receivable, and by considering individual collectibility for certain specific receivables such as doubtful accounts receivables.</p> <p>2) Provision for directors' share-based benefits To prepare for granting the Company's shares to its directors based on its share-based benefit rules for directors, the Company records estimated amount of share-based benefit obligations as of the end of the consolidated fiscal year as a provision.</p> <p>3) Provision for share-based benefits To prepare for granting the Company's shares to its employees based on its share-based benefit rules, the Company records estimated amount of share-based benefit obligations as of the end of the consolidated fiscal year as a provision.</p>
(6) Standards for conversion of significant assets or liabilities denominated in foreign currencies into Japanese yen	<p>Monetary claims and monetary liabilities denominated in foreign currencies are translated into Japanese yen at the spot exchange rate on the date of closing of accounts, with translation differences included in the statements of income. As for the consolidated overseas subsidiaries, etc., assets and liabilities are translated into Japanese yen at the spot exchange rate on the date of their closing of accounts, while revenues and expenses are translated into Japanese yen at the average period-average exchange rate. The translation differences are included in foreign currency translation adjustment and non-controlling interests under net assets on the balance sheet.</p>
(7) Method and period of amortization of goodwill	<p>Goodwill is amortized regularly for over a reasonable period of up to 20 years, with the useful life estimated individually.</p>
(8) Scope of funds in the consolidated statement of cash flows	<p>The funds (cash and cash equivalents) in the consolidated statement of cash flows consist of cash on hand, deposits that can be withdrawn at any time, and short-term investments with a maturity of 3 months or less from the date of acquisition, which are readily convertible to cash and bear only an insignificant risk of changes in value.</p>
(9) Other significant items fundamental to preparing the financial statements	<p>Accounting for consumption taxes Consumption taxes are excluded from the transaction amounts. Non-deductible consumption taxes are recorded as expenses for the relevant consolidated fiscal year.</p>

(Changes in Accounting Policies)

Not applicable

[Unapplied Accounting Standard and Implementation Guidance]

1. Accounting Standard for Revenue Recognition, etc.

- Accounting Standard for Revenue Recognition (ASBJ Corporate Accounting Standards No. 29; March 30, 2018)
- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Implementation Guidance of Corporate Accounting Standards No. 30; March 30, 2018)

(1) Overview

The International Accounting Standard Board (“IASB”) and the Financial Accounting Standards Board (“FASB”) have jointly developed the comprehensive accounting standard for revenue recognition, and have published “Revenue from Contracts with Customers” (IFRS No. 15 issued by IASB and Topic 606 issued by FASB) in May 2014. As IFRS No. 15 is effective for annual periods beginning on or after January 1, 2018 and Topic 606 is effective for annual periods beginning after December 15, 2017, ASBJ has developed the comprehensive accounting standard for revenue recognition, and announced it along with the implementation guidance.

As a basic policy to develop the accounting standards for revenue recognition, ASBJ decided to incorporate the basic principles from IFRS No. 15 in order to ensure the comparability among Financial Statements based on IFRS, U.S. GAAP and Japanese GAAP. The comparability between the financial statements is one of the benefits of the consistency with IFRS No. 15. In addition, in the case there is an item where consideration should be given to special treatment in Japan, the alternative treatment is accepted to the extent consistency is maintained.

(2) Scheduled date of the application

The Company will adopt the Accounting Standard and Implementation Guidance from the beginning of the fiscal year ending December 2022.

(3) Impact of the application of the respective Accounting Standard and Implementation Guidance

The impact on the consolidated financial statements from adoption of the Accounting Standard and Implementation Guidance for Revenue Recognition is currently being assessed.

2. Accounting Standard for Fair Value Measurement, etc.

- Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30; July 4, 2019)
- Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31; July 4, 2019)
- Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9; July 4, 2019)
- Accounting Standard for Financial Instruments (ASBJ Statement No. 10; July 4, 2019)

(1) Overview

In order to improve the comparability between the provisions in international accounting standards and those in the Japanese accounting standard, ASBJ developed the Accounting Standard for Fair Value Measurement and the Implementation Guidance on Accounting Standard for Fair Value Measurement (the “Fair Value Measurement Accounting Standard, Etc.”) to determine the guidance, etc. regarding the measurement method of fair value. The Fair Value Measurement Accounting Standard, Etc. shall be applied to the fair value of the following items:

- Financial instruments under the Accounting Standard for Financial Instruments
- Inventories held for the purpose of trading under the Accounting Standard for Measurement of Inventories

(2) Scheduled date of adoption

The Company will adopt the Fair Value Measurement Accounting Standard, Etc. from the beginning of the fiscal year ending December 31, 2022.

(3) Impact of the application of the accounting standard, etc.

The impact on the consolidated financial statements from adoption of the Accounting Standard Fair Value Measurement, etc. is currently being assessed.

[Changes in Presentation]

Changes associated with the adoption of “Partial Amendments to ‘Accounting Standard for Tax Effect Accounting’”

The Company applied the “Partial Amendments to ‘Accounting Standard for Tax Effect Accounting’” (ASBJ Statement No. 28; February 16, 2018) from the beginning of the fiscal year ended December 31, 2019. Accordingly, the indication method has been changed to indicate deferred tax assets under investments and other assets and deferred tax liabilities under non-current liabilities.

As a result, deferred tax assets (247 million yen) indicated under current assets in the balance sheet of the previous consolidated fiscal year is included in deferred tax assets (359 million yen) under investments and other assets.

[Additional Information]

Change in the purpose of holding

By changing the purpose of holding, part of the real estate for sale in process (8,410 million yen) has been transferred to buildings and structures (504 million yen) and land (7,905 million yen) for the fiscal year ended December 31, 2019.

4. Notes to Consolidated Balance Sheet

(1) Unconsolidated subsidiaries and affiliates

(Unit: million yen)

	Fiscal 2018 (as of December 31, 2018)	Fiscal 2019 (as of December 31, 2019)
Investment securities (equity capital)	1,039	31
Investment securities (shares)	—	407

(2) Pledged assets and secured debts

Assets provided as collateral are as follows:

(Unit: million yen)

	Fiscal 2018 (as of December 31, 2018)	Fiscal 2019 (as of December 31, 2019)
Cash and deposits	—	20
Real estate for sale	13,556	23,025
Real estate for sale in process	62,372	56,177
Buildings and structures	903	2,033
Land	623	10,621
Total	77,456	91,877

Debts secured by the above assets provided as collateral are as follows: (Unit: million yen)

	Fiscal 2018 (as of December 31, 2018)	Fiscal 2019 (as of December 31, 2019)
Short-term loans payable	1,550	4,042
Current portion of long-term loans payable	23,476	31,642
Long-term loans payable	43,905	46,340
Total	68,933	82,025

(3) Contingent liabilities

The Company, together with the business partners in proportion to the respective equity investment ratios, is contingently liable to invest in the following company for its borrowings from financial institutions. The balance of borrowings of the relevant company is as follows. The figure in parenthesis indicates the balance of the Company's unexecuted equity investment under its silent partnership agreement. (Unit: million yen)

	Fiscal 2018 (as of December 31, 2018)	Fiscal 2019 (as of December 31, 2019)
MERCURIA SPV3 CO., LTD.	—	308
	(—)	(490)

5. Notes to Consolidated Statement of Income

(1) Book value reduction due to lowered profitability of inventories held for the purpose of ordinary sales is as follows: (Unit: million yen)

	Fiscal 2018 (from January 1, 2018 to December 31, 2018)	Fiscal 2019 (from January 1, 2019 to December 31, 2019)
Cost of sales	171	921

(2) Breakdown of loss on retirement of non-current assets is as follows: (Unit: million yen)

	Fiscal 2018 (from January 1, 2018 to December 31, 2018)	Fiscal 2019 (from January 1, 2019 to December 31, 2019)
Buildings and structures	5	2
Property, plant and equipment (Other)	0	1
Intangible assets (Other)	—	4
Total	5	7

(3) Impairment loss

In the fiscal year ended December 31, 2018, the ES-CON JAPAN Group realized impairment loss on the following asset groups. (Unit: million yen)

Location	Use	Type	Impairment loss
Former headquarters (Chiyoda Ward, Tokyo)	Office	Facilities attached to buildings	47

(Note) The ES-CON JAPAN Group classifies its individual properties into asset groups as minimum units for generating cash flows.

In the fiscal year ended December 2018, the Company made a decision to relocate its headquarters functions. Of the office facilities, the Company reduced the book value of the non-current assets that have no prospect of use in the future to the net realizable value and recorded the reduced amount (47 million yen) as impairment loss.

Breakdown of the impairment loss consists of 39 million yen for facilities attached to buildings and 7 million yen for others.

Furthermore, the net realizable value is measured by using the net sale value, which is set as zero because no possibility of sale is anticipated.

In the fiscal year ended December 31, 2019, the ES-CON JAPAN Group realized no impairment loss.

6. Notes to Consolidated Statement of Comprehensive Income

(1) Reclassification adjustments and tax effects to each component of other comprehensive income

(Unit: million yen)

	Fiscal 2018 (from January 1, 2018 to December 31, 2018)	Fiscal 2019 (from January 1, 2019 to December 31, 2019)
Valuation difference on available-for-sale securities:		
Amounts arising during the fiscal year	(14)	361
Reclassification adjustments	—	—
Subtotal before tax effect adjustments	(14)	361
Tax effect	—	(110)
Valuation difference on available-for-sale securities	(14)	250
Foreign currency translation adjustment:		
Amounts arising during the fiscal year	—	(0)
Share of other comprehensive income/(loss) of equity-method affiliate:		
Amounts arising during the fiscal year	—	(0)
Total other comprehensive income	(14)	250

7. Notes to Consolidated Statement of Changes in Equity

Fiscal 2018 (from January 1, 2018 to December 31, 2018)

(1) Type and Number of Shares Issued and Outstanding and Type and Number of Treasury Shares

	Number of shares at beginning of Fiscal 2018	Increase in number of shares during the fiscal year	Decrease in number of shares during the fiscal year	Number of shares at end of Fiscal 2018
Issued shares				
Common shares (Note 1)	71,203,387	446,000	—	71,649,387
Total	71,203,387	446,000	—	71,649,387
Treasury shares				
Common shares (Note 2)(Note 3)	3,195,300	196,500	56,900	3,334,900
Total	3,195,300	196,500	56,900	3,334,900

- (Notes) 1. The increase in the number of common shares issued and outstanding (446,000 shares) is due to exercise of the fifth offer of subscription rights to shares.
2. The increase in the number of treasury shares in common shares (196,500 shares) is due to acquisition of treasury shares based on the resolution by the Board of Directors.
3. The decrease in the number of treasury shares in common shares (56,900 shares) is due to provision of shares to the qualifying directors by the share-based payment benefits trust (56,000 shares) and provision of shares to the qualifying employees by the share-based payment benefits type ESOP trust (900 shares).
4. The number of treasury shares in common shares includes the Company's shares owned by the share-based payment benefits trust for directors and the share-based payment benefits type ESOP trust (the share-based payment benefits trust for directors: 543,200 shares at the beginning of Fiscal 2018 and 487,200 shares at the end of Fiscal 2018; the share-based payment benefits type ESOP trust: 235,200 shares at the beginning of Fiscal 2018 and 234,300 shares at the end of Fiscal 2018).

(2) Subscription Rights to Shares and Subscription Rights to Treasury Shares

Category	Breakdown of subscription rights to shares	Type of shares subject to subscription rights to shares	Number of shares subject to subscription rights to shares (shares)			End of Fiscal 2018	Balance at end of Fiscal 2018 (million yen)
			Beginning of Fiscal 2018	Increase during the fiscal year	Decrease during the fiscal year		
Reporting company (parent company)	Fifth offer of subscription rights to shares (Note 1)	Common shares	758,500	—	446,000	312,500	0
	Sixth offer of subscription rights to shares (Note 2)	Common shares	1,400,000	—	101,000	1,299,000	1
Total	—	—	2,158,500	—	547,000	1,611,500	1

- (Notes) 1. The decrease in the number of common shares issued and outstanding (446,000 shares) is due to exercise of the fifth offer of subscription rights to shares.
2. The decrease in the number of treasury shares in common shares (101,000 shares) is due to expiration of subscription rights to shares and exercise of the sixth offer of subscription rights to shares.
3. For the sixth offer of subscription rights to shares, the first day of the exercise period has not yet arrived.

(3) Dividends

1) Dividends paid

(Resolution)	Type of shares	Total dividends (million yen)	Dividend per share (yen)	Record date	Effective date
March 23, 2018 Annual General Meeting of Shareholder	Common shares	1,238	18.00	December 31, 2017	March 26, 2018

(Note) The total amount of dividends includes 9 million yen of dividends to the Company's shares owned by the share-based payment benefits trust for directors and 4 million yen of dividends to the Company's shares owned by the share-based payment benefits type ESOP trust.

2) Dividends for which the record date was within the fiscal year but the effective date for the dividends was in the following fiscal year

(Resolution)	Type of shares	Total dividends (million yen)	Source of dividends	Dividend per share (yen)	Record date	Effective date
March 26, 2019 Annual General Meeting of Shareholders	Common shares	2,209	Retained earnings	32.00	December 31, 2018	March 27, 2019

(Note) The total amount of dividends includes 15 million yen of dividends to the Company's shares owned by the share-based payment benefits trust for directors and 7 million yen of dividends to the Company's shares owned by the share-based payment benefits type ESOP trust.

Fiscal 2019 (from January 1, 2019 to December 31, 2019)

(1) Type and Number of Shares Issued and Outstanding and Type and Number of Treasury Shares

	Number of shares at beginning of Fiscal 2019	Increase in number of shares during the fiscal year	Decrease in number of shares during the fiscal year	Number of shares at end of Fiscal 2019
Issued shares				
Common shares (Note 1)	71,649,387	192,500	—	71,841,887
Total	71,649,387	192,500	—	71,841,887
Treasury shares				
Common shares (Note 2)(Note 3)	3,334,900	61,000	1,200	3,394,700
Total	3,334,900	61,000	1,200	3,394,700

- (Notes) 1. The increase in the number of common shares issued and outstanding (192,500 shares) is due to exercise of the fifth offer of subscription rights to shares.
2. The increase in the number of treasury shares in common shares (61,000 shares) is due to acquisition of treasury shares based on the resolution by the Board of Directors.
3. The decrease in the number of treasury shares in common shares (1,200 shares) is due to provision of shares to the qualifying employees by the share-based payment benefits type ESOP trust.
4. The number of treasury shares in common shares includes the Company's shares owned by the share-based payment benefits trust for directors and the share-based payment benefits type ESOP trust (the share-based payment benefits trust for directors: 487,200 shares at the beginning of Fiscal 2019 and 487,200 shares at the end of Fiscal 2019; the share-based payment benefits type ESOP trust: 234,300 shares at the beginning of Fiscal 2019 and 233,100 shares at the end of Fiscal 2019).

(2) Subscription Rights to Shares and Subscription Rights to Treasury Shares

Category	Breakdown of subscription rights to shares	Type of shares subject to subscription rights to shares	Number of shares subject to subscription rights to shares (shares)			End of Fiscal 2019	Balance at end of Fiscal 2019 (million yen)
			Beginning of Fiscal 2019	Increase during the fiscal year	Decrease during the fiscal year		
Reporting company (parent company)	Fifth offer of subscription rights to shares (Note 1)	Common shares	312,500	—	192,500	120,000	0
	Sixth offer of subscription rights to shares (Note 2)	Common shares	1,299,000	—	37,500	1,261,500	1
Total	—	—	1,611,500	—	230,000	1,381,500	1

- (Notes) 1. The decrease in the number of common shares issued and outstanding (192,500 shares) is due to exercise of the fifth offer of subscription rights to shares.
2. The decrease in the number of treasury shares in common shares (37,500 shares) is due to expiration of the sixth offer of subscription rights to shares.
3. For the sixth offer of subscription rights to shares, the first day of the exercise period has not yet arrived.

(3) Dividends

1) Dividends paid

[Resolution]	Type of shares	Total dividends (million yen)	Dividend per share (yen)	Record date	Effective date
March 26, 2019 Annual General Meeting of Shareholders	Common shares	2,209	32.00	December 31, 2018	March 27, 2019

(Note) The total amount of dividends includes 15 million yen of dividends to the Company's shares owned by the share-based payment benefits trust for directors and 7 million yen of dividends to the Company's shares owned by the share-based payment benefits type ESOP trust.

2) Dividends for which the record date was within the fiscal year but the effective date for the dividends was in the following fiscal year

[Resolution]	Type of shares	Total dividends (million yen)	Source of dividends	Dividend per share (yen)	Record date	Effective date
March 26, 2020 Annual General Meeting of Shareholders	Common shares	2,490	Retained earnings	36.00	December 31, 2019	March 27, 2020

(Note) The total amount of dividends includes 17 million yen of dividends to the Company's shares owned by the share-based payment benefits trust for directors and 8 million yen of dividends to the Company's shares owned by the share-based payment benefits type ESOP trust.

8. Notes to Consolidated Statement of Cash Flows**(1) Relationship between the year-end balance of cash and cash equivalents and the amounts of accounts on the consolidated balance sheet**

(Unit: million yen)

	Fiscal 2018 (from January 1, 2018 to December 31, 2018)	Fiscal 2019 (from January 1, 2019 to December 31, 2019)
Cash and deposits	16,598	22,511
Time deposits with maturities of more than 3 months	(3)	(44)
Deposits of share-based payment benefits trust	(32)	(53)
Cash and cash equivalents	16,563	22,413

(2) Major breakdown of assets and liabilities of the companies that were newly consolidated in the fiscal year ended March 31, 2019 through acquisition of their shares

In association with the new consolidation of One's Own House Co., Ltd. and Rise Home Co., Ltd. through acquisition of their shares, the following table indicates the breakdown of the assets and liabilities and the relationship between the acquisition price and expenditures for acquisition (net) at the beginning of consolidation. (Unit: million yen)

Current assets	2,462
Non-current assets	37
Goodwill	485
Current liabilities	(1,640)
Non-current liabilities	(190)
Acquisition price of newly consolidated subsidiaries	1,154
Cash and cash equivalents of newly consolidated subsidiaries	(843)
Difference: expenditures for acquisition of shares of the subsidiaries accompanying changes in the scope of consolidation	310

9. Lease Transactions**(Lessee)****(1) Finance Lease Transactions**

Finance lease transactions without any transfer of ownership of leased assets

1) Leased assets

Property, plant and equipment

Consists of vehicles, etc.

2) Depreciation method for leased assets

As described in 3. Summary of Significant Accounting Policies, (4) Depreciation method for significant depreciable assets

(2) Operating Lease Transactions

Unearned lease payments for non-cancellable operating lease transactions (Unit: million yen)

	Fiscal 2018 (as of December 31, 2018)	Fiscal 2019 (as of December 31, 2019)
Due within one year	55	298
Due after one year	9	434
Total	64	732

(Lessor)**(1) Operating Lease Transactions**

Unearned lease payments for non-cancellable operating lease transactions (Unit: million yen)

	Fiscal 2018 (as of December 31, 2018)	Fiscal 2019 (as of December 31, 2019)
Due within one year	644	486
Due after one year	3,906	2,276
Total	4,550	2,763

10. Financial Instruments**(1) Conditions of Financial Instruments**

1) Policy for financial instruments

The ES-CON JAPAN Group manages funds only through short-term deposits, etc., and procures funds mainly through borrowing from banks and other financial institutions.

2) Description of financial instruments and associated risks, and risk management structure

Among operating receivables, notes and accounts receivable – trade are exposed to customer credit risks. The Company averts such risks by receiving guarantee deposits for part of them. Moreover, in terms of these risks, it conducts credit control and account balance management for respective customers in accordance with the internal rules of the ES-CON JAPAN Group, and works to identify and mitigate concerns about accounts becoming uncollectible due to such factors as

worsening of financial conditions at its business customers at an early stage.

Investment securities mainly consist of shares owned over a medium to long term in order to strengthen relationships with business partners and silent partnership, etc. Listed shares, etc. are exposed to market price fluctuation risks, but the Company periodically checks their fair value. Non-listed shares and silent partnership, etc. have the risks from worsening financial conditions, etc. of the issuer companies and silent partnership, etc., but the Company periodically checks their financial conditions and other factors through financial statements and other materials.

Among operating payables, accounts payable – other are to be fully paid within one year.

Deposits received mainly consist of guarantee deposits received from tenants of income-generating real estate, and funds deposited by joint venture partners of certain real estate development projects.

Among loans payable and bonds payable, short-term loans payable and bonds payable are procured mainly for working capital, and long-term loans payable are procured mainly for real estate development projects. In addition, while loans payable are exposed to liquidity risks related to fund procurement, the ES-CON JAPAN Group manages the risks through such measures as preparing capital plans on a monthly basis.

3) Supplementary explanation on fair value, etc. of financial instruments

The fair value of financial instruments, aside from values based on market price, includes values based on reasonable calculations when there is no market price. Certain variable factors are adopted in calculating those values, and there may be cases where the values will vary when different assumptions, etc. are adopted.

(2) Fair Value, Etc. of Financial Instruments

The following table shows the book values on the consolidated balance sheet, fair value and the difference between them. The following table does not include items for which determining the fair value is recognized to be extremely difficult (See Note 2 below).

Fiscal 2018 (as of December 31, 2018) (Unit: million yen)

	Book value recorded on the balance sheet	Fair value	Difference
(1) Cash and deposits	16,598	16,598	—
(2) Notes and accounts receivable - trade	491	491	—
(3) Investment securities Other securities	33	33	—
Total of assets	17,124	17,124	—
(1) Accounts payable - other	1,731	1,731	—
(2) Deposits received	4,933	4,933	—
(3) Short-term loans payable	1,720	1,720	—
(4) Long-term loans payable*1	68,562	68,640	78
(5) Bonds payable*2	310	310	0
Total of liabilities	77,258	77,336	78

*1 Long-term loans payable includes current portion of long-term loans payable.

*2 Bonds payable includes current portion of bonds payable.

Fiscal 2019 (as of December 31, 2019) (Unit: million yen)

	Book value recorded on the balance sheet	Fair value	Difference
(1) Cash and deposits	22,511	22,511	—
(2) Notes and accounts receivable - trade	598	598	—
(3) Investment securities Other securities	1,543	1,543	—
Total of assets	24,654	24,654	—
(1) Accounts payable - other	2,097	2,097	—
(2) Deposits received	4,733	4,733	—
(3) Short-term loans payable	4,580	4,580	—
(4) Long-term loans payable*1	80,135	80,164	29
(5) Bonds payable*2	270	270	0
Total of liabilities	91,816	91,845	29

*1 Long-term loans payable includes current portion of long-term loans payable.

*2 Bonds payable includes current portion of bonds payable.

(Notes) 1. Calculation method for fair value of financial instruments and matters related to derivative transactions.

Assets

(1) Cash and deposits and (2) Notes and accounts receivable - trade

As these are settled within a short period of time, the fair value is approximately the same as the book value and is thus stated at that book value.

(3) Investment securities

With regard to investment securities, the fair value of stocks is determined by their price on stock exchanges.

Liabilities

(1) Accounts payable – other, (2) Deposits received and (3) Short-term loans payable

As these are settled within a short period of time, the fair value is approximately the same as the book value and is thus stated at that book value.

(4) Long-term loans payable and (5) Bonds payable

The fair value of these financial instruments is based on the method of calculating by discounting the sum of their principal by a rate assumed as being applicable to a new similar borrowing to be made or bonds payable to be issued by the Company.

2. Financial instruments for which discerning fair value is recognized to be extremely difficult.

(Unit: million yen)

Category	Fiscal 2018 (as of December 31, 2018)	Fiscal 2019 (as of December 31, 2019)
1) Non-listed shares	10	417
2) Investment limited liability partnership equity investment	1,039	—
3) Silent partnership equity investment, etc.	993	749
Total	2,043	1,167

These are not subject to disclosure of fair value because discerning fair value is recognized to be extremely difficult as there is no market price and future cash flows cannot be estimated.

3. Scheduled redemption amount of monetary claims and securities with maturities after closing of accounts.

Fiscal 2018 (as of December 31, 2018) (Unit: million yen)

	Due within 1 year	Due in 1 to 5 years	Due in 5 to 10 years	Due in 10 years or more
Cash and deposits	16,598	—	—	—
Notes and accounts receivable - trade	491	—	—	—
Total	17,090	—	—	—

Fiscal 2019 (as of December 31, 2019) (Unit: million yen)

	Due within 1 year	Due in 1 to 5 years	Due in 5 to 10 years	Due in 10 years or more
Cash and deposits	22,511	—	—	—
Notes and accounts receivable - trade	598	—	—	—
Total	23,110	—	—	—

4. Scheduled repayment amount of bonds payable, long-term loans payable and other interest-bearing liabilities after closing of accounts.

Fiscal 2018 (as of December 31, 2018) (Unit: million yen)

	Due within 1 year	Due in 1 to 2 years	Due in 2 to 3 years	Due in 3 to 4 years	Due in 4 to 5 years	Due in 5 years or more
Short-term loans payable	1,720	—	—	—	—	—
Long-term loans payable	23,993	20,306	6,962	7,747	7,365	2,186
Bonds payable	40	40	230	—	—	—
Total	25,754	20,346	7,192	7,747	7,365	2,186

Fiscal 2019 (as of December 31, 2019) (Unit: million yen)

	Due within 1 year	Due in 1 to 2 years	Due in 2 to 3 years	Due in 3 to 4 years	Due in 4 to 5 years	Due in 5 years or more
Short-term loans payable	4,580	—	—	—	—	—
Long-term loans payable	32,415	16,608	12,409	8,868	4,246	5,587
Bonds payable	40	230	—	—	—	—
Total	37,035	16,838	12,409	8,868	4,246	5,587

11. Notes to Securities

(1) Other Securities

Fiscal 2018 (from January 1, 2018 to December 31, 2018) (Unit: million yen)

	Type	Book value recorded on the balance sheet	Acquisition cost	Difference
Securities with book values on the consolidated balance sheet exceeding acquisition cost	(1) Shares	33	27	6
Total		33	27	6

(Note) The table above does not include non-listed shares, investment limited liability partnership equity investment and silent partnership equity investment, etc. (book value recorded on the consolidated balance sheet: 2,043 million yen) as Other securities, because discerning fair value is recognized to be extremely difficult as there is no market price.

Fiscal 2019 (from January 1, 2019 to December 31, 2019) (Unit: million yen)

	Type	Book value recorded on the balance sheet	Acquisition cost	Difference
Securities with book values on the consolidated balance sheet exceeding acquisition cost	(1) Shares	34	27	6
	(2) Other	1,509	1,149	360
Total		1,543	1,176	367

(Note) The table above does not include non-listed shares and silent partnership equity investment, etc. (book value recorded on the consolidated balance sheet: 1,167 million yen) as Other securities, because discerning fair value is recognized to be extremely difficult as there is no market price.

12. Notes to Derivative Transactions

Not applicable

13. Notes to Retirement Benefits

Fiscal 2018 (from January 1, 2018 to December 31, 2018)

(1) Description of Retirement Benefit Plans Adopted by the Company

The Company and certain consolidated subsidiaries have adopted a defined contribution pension plan.

(2) Defined Contribution Pension Plan

The Company and certain consolidated subsidiaries paid 11 million yen for the defined contribution pension plan.

Fiscal 2019 (from January 1, 2019 to December 31, 2019)

(1) Description of Retirement Benefit Plans Adopted by the Company

The Company and certain consolidated subsidiaries have adopted a defined contribution pension plan.

(2) Defined Contribution Pension Plan

The Company and certain consolidated subsidiaries paid 13 million yen for the defined contribution pension plan.

14. Notes to Stock Options, Etc.

(Additional Information)

(Adoption of the Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions, etc.)

For transactions granting employees and others stock acquisition rights, which involve considerations, with vesting conditions conducted prior to the application date of the Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions (Practical Issues Task Force (PTIF) No. 36; January 12, 2018), the Company continues to conduct the accounting treatment that have been conventionally applied for such transactions.

1. Overview of the stock acquisition rights, which involve considerations, with vesting conditions

(1) Descriptions of the stock acquisition rights, which involve considerations, with vesting conditions

	5th subscription rights to shares	6th subscription rights to shares
Category and number of eligible persons	49 people comprising the Company's directors (in-house) and employees	146 people comprising the Company's directors and employees and the employees of its subsidiaries
Number of stock options by type of shares (Note 1)	Common shares: 3,500,000 shares	Common shares: 1,400,000 shares
Date of grant of options	November 29, 2013	December 27, 2017
Vesting conditions	(Note 2)	(Note 3)
Covered period of work	Not specified	Not specified
Exercise period	From April 1, 2015 to November 28, 2020	From April 1, 2021 to December 26, 2025

(Notes) 1. The figures have been converted to the number of shares.

2. The vesting conditions to exercise the subscription rights to shares are as follows:

(1) The persons eligible for the subscription rights to shares may not exercise their rights from the fiscal year ended December 2014 to the fiscal year ended December 2016 if the operating income (referring to the operating income in the consolidated statement of income described in the Company's securities report (or statement of income if no consolidated statement of income is prepared); the same shall apply hereinafter) falls below 1,790 million yen.

(2) When (1) above is satisfied, the persons eligible for the subscription rights to shares may exercise their rights for the number of shares equivalent to 10% of the subscription rights to shares allotted to them if the operating income for any of the fiscal years ended December 2014 through December 2016 exceeds 2,500 million yen. Furthermore, when the number of the subscription rights to shares they can exercise has a portion less than one share, the number shall be rounded down to one share.

(3) Even before (1) above is satisfied, the persons eligible for the subscription rights to shares may exercise the entire subscription rights to shares allotted to them if the cumulative operating income for the fiscal years ended December 2014 through December 2016 exceeds 7,000 million yen. Furthermore, they may exercise the entire subscription rights to shares allotted to them if the cumulative operating income for the fiscal years ended December 2014 through December 2015 exceeds 7,000 million yen.

(4) In determining the operating income for (1) through (3) above, if material changes are made to the concept of the operating income to be referred to due to changes in the applicable accounting standards, etc., the Company shall otherwise determine the appropriate indicators to be referred to at the Board of Directors to the extent reasonable.

- (5) The persons eligible for the subscription rights to shares must be directors, auditors or employees of the Company or its affiliates when they exercise their subscription rights to shares; however, this shall not apply for their retirement from office due to expiration of tenure, retirement at predetermined age or for other reasons deemed reasonable by the Board of Directors.
- (6) Successors of the persons eligible for the subscription rights to shares may not exercise the subscription rights to shares; however, this shall not apply if the persons eligible for the subscription rights to shares died of accidents during their work or if the Board of Directors approve that there is fair reason to allow the said successors to exercise the subscription rights to shares.
- (7) The subscription rights to shares may not be exercised if such an exercise cause the Company's number of shares issued and outstanding to exceed the authorized number of shares at that time.
- (8) The subscription rights to shares may not be exercised for less than one share each.
3. The vesting conditions to exercise the subscription rights to shares are as follows;
- (1) The persons eligible for the subscription rights to shares may exercise the subscription rights to shares allotted to them, starting on the first day of the month following the date when the securities report for the fiscal year ending December 2020 is submitted, if the Company's operating income for all the fiscal years ending December 2018 through December 2020 exceeds the respective amounts described in the following items. When the number of the subscription rights to shares they can exercise has a portion less than one share, the number shall be rounded down to one share.
- 1) If the operating income for the fiscal year ended December 2018 exceeded 8,500 million yen
- 2) If the operating income for the fiscal year ending December 2019 exceeds 9,500 million yen
- 3) If the operating income for the fiscal year ending December 2020 exceeds 10,000 million yen
- Furthermore, in determining the operating income stated above, the operating income in the consolidated statement of income described in the Company's securities report (or statement of income if no consolidated statement of income is prepared) shall be referred to. In addition, if material changes are made to the concept of the items to be referred to due to such reasons as application of the international financial reporting standards, the Company shall otherwise determine the appropriate indicators to be referred to at the Board of Directors to the extent reasonable (the same shall be applied hereinafter).
- (2) The persons eligible for the subscription rights to shares must be directors, auditors or employees of the Company or its affiliates when they exercise their subscription rights to shares; however, this shall not apply for their retirement from office due to expiration of tenure, retirement at predetermined age or for other reasons deemed reasonable by the Board of Directors.
- (3) Successors of the persons eligible for the subscription rights to shares may not exercise the stock acquisition rights; however, this shall not apply if the persons eligible for the subscription rights to shares died of accidents during their work or if the Board of Directors approve that there is fair reason to allow the said successors to exercise the subscription rights to shares.
- (4) The subscription rights to shares may not be exercised if such an exercise cause the Company's number of shares issued and outstanding to exceed the authorized number of shares at that time.
- (5) The subscription rights to shares may not be exercised for less than one share each.

(2) Size and changes of the stock acquisition rights, which involve considerations, with vesting conditions

The following table describes the stock option plan that existed in Fiscal 2019 ended December 31, 2019. The number of stock options indicates the number of shares when the stock options are exercised.

1) Number of stock options

	5th subscription rights to shares	6th subscription rights to shares
Before right allotment (shares)		
Balance of unexercised options at the end of the previous fiscal year	—	1,299,000
Granted	—	—
Expired	—	37,500
Right allotment	—	—
Balance of unexercised options	—	1,261,500
After right allotment (shares)		
Balance of unexercised options at the end of the previous fiscal year	312,500	—
Right allotment	—	—
Exercise of right	192,500	—
Expired	—	—
Balance of unexercised options	120,000	—

2) Unit price information

(Unit: yen)

Exercise price	157	627
Average share price upon exercise	821	—

2. Overview of the adopted accounting treatment

When issuing the subscription rights to shares, the Company records the paid-in amount corresponding to the issuance as Subscription rights to shares in Net assets of the balance sheet. When the subscription rights to shares are exercised and new shares are issued, the Company re-states the paid-in amount corresponding to the issuance of the said subscription rights to shares and the paid-in amount corresponding to the exercise of the subscription rights to shares as Capital stock and Capital surplus.

Furthermore, when the subscription rights to shares are expired, the Company records the amount corresponding to the expiration as profits for the fiscal year in which the expiration has been finalized.

15. Notes to Tax Effect Accounting

(1) Significant Components of Deferred Tax Assets and Deferred Tax Liabilities

(Unit: million yen)

	Fiscal 2018 (as of December 31, 2018)	Fiscal 2019 (as of December 31, 2019)
Deferred tax assets		
Net operating loss carried forward	16	1
Loss on valuation of inventories	314	592
Impairment loss	47	33
Loss on valuation of investment securities	20	23
Asset retirement obligations	34	76
Other	161	295
Subtotal of deferred tax assets	594	1,023
Valuation allowance	(227)	(192)
Total of deferred tax assets	366	831
Deferred tax liabilities		
Asset retirement expenses	(7)	(58)
Loss on valuation of other securities	—	(110)
Other	(0)	(3)
Total of deferred tax liabilities	(7)	(172)
Deferred tax assets, net	359	659

(2) Significant Components of Material Difference between the Effective Statutory Tax Rate and Income Tax Rate Applicable after Applying Tax Effect Accounting

	Fiscal 2018 (as of December 31, 2018)	Fiscal 2019 (as of December 31, 2019)
The note is omitted as the difference between the effective statutory tax rate and the income tax rate applicable after applying tax effect accounting is less than 5/100 of the effective statutory tax rate.		The note is omitted as the difference between the effective statutory tax rate and the income tax rate applicable after applying tax effect accounting is less than 5/100 of the effective statutory tax rate.

16. Notes to Business Combination, Etc.

(Business combination through acquisition)

The Company made a resolution at its Board of Directors' meeting held on June 26, 2019 to acquire the entire shares of One's Own House Co., Ltd. and Rise Home Co., Ltd. and make them its subsidiaries. The Company also concluded share transfer agreements as of the date, and acquired their entire shares as of July 1, 2019.

1. Overview of business combination

(1) Name and business description of the acquired companies

Name of the acquired company	One's Own House Co., Ltd.	Rise Home Co., Ltd.
Business description	Sale of detached houses and purchase and resale of used houses, etc.	Construction of detached houses, etc.

(2) Major reason of conducting business combination

One's Own House Co., Ltd. conducts sales of detached houses and Rise Home Co., Ltd. conducts construction of detached houses, both in Saitama Prefecture.

The Saitama area is a particularly attractive market in the Tokyo metropolitan area, with a prospect of stable development as a city for commuters to central Tokyo, and is also considered to help the Company to further expand its business in the Tokyo metropolitan area. Accordingly, the Company decided to acquire their shares (make them its subsidiaries) in order to reinforce its real estate development business centering on for-sale condominiums and for-sale detached houses in Saitama Prefecture.

(3) Date of business combination

July 1, 2019

(4) Legal format of business combination

Acquisition of shares with considerations paid by cash

(5) Company name after business combination

One's Own House Co., Ltd.

Rise Home Co., Ltd.

(Note) In March 2020, One's Own House Co., Ltd. and Rise Home Co., Ltd. were renamed to ES-CON Home Ltd. and ES-CON Craft Ltd., respectively.

(6) Ratio of acquired voting rights

100%

(7) Major grounds for deciding on the companies to be acquired

By acquiring the shares of the companies with considerations paid by cash

2. Period during which the performance of the acquired companies is included in the Company's Consolidated Financial Statements for the fiscal year ended December 31, 2019

From July 1, 2019 to December 31, 2019

3. Acquisition cost of the acquired companies (total of the above-mentioned two companies) and breakdown of considerations by type

Considerations of the acquisition:	Cash	1,154 million yen
Acquisition cost:		1,154 million yen

4. Item and amount of major acquisition-related expenses

Compensation and fees, etc. for advisory services	46 million yen
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5. Amount of generated goodwill, grounds for generation, amortization method and amortization period

(1) Amount of goodwill generated

485 million yen

(2) Grounds for generation

Reflects the excess earning power that is expected to arise through the business implementation in the future

(3) Amortization method and amortization period

To be amortized evenly over 5 years using the straight-line method

6. Amounts and major breakdown of assets acquired and liabilities assumed on the date of business combination

Current assets	2,462 million yen
Non-current assets	37 million yen
Total assets	2,500 million yen
Current liabilities	1,640 million yen
Non-current liabilities	189 million yen
Total liabilities	1,830 million yen

7. Estimate amount of the impact on the consolidated statement of income of the fiscal year ended December 2019 on the supposition that the business combination completed on the beginning day of the fiscal year, and its calculation method

Net sales	1,714 million yen
Operating income	74 million yen
Ordinary income	62 million yen
Profit before income taxes	69 million yen
Profit attributable to owners of parent	28 million yen
Profit per share	0.42 yen

(Calculation method of the estimate amount)

The estimate amount of the impact indicates the difference between net sales as well as income information calculated on the supposition that the business combination completed on the beginning day of the fiscal year and net income as well as income information on the consolidated statement of income of the fiscal year of the acquired companies.

In addition, the estimate amount of impact takes into account the amortization amount of goodwill, etc. deemed to have been generated on the beginning date of the fiscal period ended December 2019.

Furthermore, no audit certificate has been given to these notes.

17. Notes to Asset Retirement Obligations

(Asset retirement obligations that are recorded on the consolidated balance sheet)

(1) Description of the Relevant Asset Retirement Obligations

The Company is mainly obliged to restore its Tokyo Head Office, Osaka Head Office, Fukuoka Office and Nagoya Office to the original state in accordance with each of the real estate lease agreements.

(2) Calculation Method of the Amount of the Asset Retirement Obligations

The amount of the asset retirement obligations is calculated by using discount rates of 0.0% to 1.9%, with the expected period of use estimated to be 6 years to 18 years.

(3) Increase/Decrease of the Total Amount of the Asset Retirement Obligations (Unit: million yen)

	Fiscal 2018 (from January 1, 2018 to December 31, 2018)	Fiscal 2019 (from January 1, 2019 to December 31, 2019)
Balance at beginning of fiscal year	93	111
Increase due to acquisition of property, plant and equipment	14	172
Adjustments over passage of time	1	1
Decrease due to implementation of asset retirement obligations	—	(3)
Other	2	(33)
Balance at end of fiscal year	111	249

18. Notes to Rental Real Estate

The Company owns retail properties, medical facilities and other properties. Income or loss from leasing these rental properties during Fiscal 2018 totaled 96 million yen in income (with rental income recorded as net sales and rental expenses recorded as cost of sales). Income or loss from leasing these rental properties during Fiscal 2019 totaled 578 million yen in income (with rental income recorded as net sales and rental expenses recorded as cost of sales).

The book value for the rental real estate as stated in the consolidated balance sheet, the amount of increase/decrease during the fiscal year and fair value were as follows: (Unit: million yen)

	Fiscal 2018 (from January 1, 2018 to December 31, 2018)	Fiscal 2019 (from January 1, 2019 to December 31, 2019)
Book value recorded on the consolidated balance sheet		
Balance at beginning of fiscal year	1,562	1,526
Increase/decrease during fiscal year	(35)	11,130
Balance at end of fiscal year	1,526	12,657
Fair value at end of fiscal year	1,980	13,270

- (Notes) 1. The book value recorded on the consolidated balance sheet represents the amount obtained by deducting accumulated depreciation and accumulated impairment loss from acquisition cost.
2. Of the amount of increase/decrease during fiscal year, the amount of decrease during Fiscal 2018 is primarily attributable to depreciation (35 million yen). The amount of increase during Fiscal 2019 is primarily attributable to acquisition of rental real estate (2,823 million yen) and transfer from real estate for sale in process due to a change in the holding purpose (8,410 million yen), and the amount of decrease is primarily attributable to depreciation (104 million yen).
3. Fair value at end of fiscal year indicates the amount calculated on the basis of Japan's Real Estate Appraisal Standards, using appraisals by outside real estate appraisers as a reference.

19. Segment Information

(1) Overview of Reportable Segments

The reportable segments of the ES-CON JAPAN Group are, among the Group's business units, those for which separate financial information can be obtained and that are to be regularly reviewed by the Board of Directors and other meeting structures in order to decide the distribution of management resources and to assess business performance.

The ES-CON JAPAN Group integrates individual projects that have similar features in terms of products and services into three reportable segments of Real estate sales business, Real estate leasing business and Real estate planning agency and consulting business.

Each of the reportable segments mainly comprises the following operations.

Real estate sales business: Development and sale of for-sale condominiums and retail properties, sale of land, etc.

Real estate leasing business: Leasing of real estate, etc.

Real estate planning agency and consulting business: Consigned operations of real estate-related services, brokerage of transactions, sales agency, etc.

(2) Calculation Method of Net Sales, Income or Loss, Assets and Other Item Amounts by Reportable Segment

The accounting method for the reported business segments is the same as described in "Summary of significant accounting policies."

(3) Information on Net Sales, Income or Loss, Assets and Other Item Amounts by Reportable Segment

Fiscal 2018 (from January 1, 2018 to December 31, 2018) (Unit: million yen)

	Reportable segment			Total	Reconcilia- tion (Note 1)	Amount on consoli- dated financial statements (Note 2)
	Real estate sales business	Real estate leasing business	Real estate planning agency and consulting business			
Net sales						
Net sales to external customers	50,519	3,400	405	54,325	—	54,325
Intersegment net sales or transfers	—	—	—	—	—	—
Total	50,519	3,400	405	54,325	—	54,325
Segment income	12,341	2,128	369	14,839	(3,277)	11,561
Segment assets	85,641	6,265	17	91,924	17,822	109,747
Other items						
Depreciation	—	36	—	36	43	80
Investment in equity method affiliates	—	1,039	—	1,039	—	1,039
Increase in property, plant and equipment and intangible assets	—	5	—	5	43	49

(Notes) 1. Reconciliations are as follows:

- (1) The reconciliation of segment income of -3,277 million yen is from corporate expenses not attributable to any reportable segment. Corporate expenses are general and administrative expenses not attributable to reportable segments.
 - (2) The reconciliation of segment assets of 17,822 million yen is mainly from surplus operating funds (cash and deposits) and administrative assets, etc. not attributable to reportable segments.
 - (3) The reconciliation of depreciation of 43 million yen is from depreciation on corporate assets not attributable to reportable segments.
 - (4) The reconciliation of increase in property, plant and equipment and intangible assets of 43 million yen is from an increase in corporate assets not attributable to reportable segments.
2. Segment income is reconciled with operating income on the consolidated statement of income.

Fiscal 2019 (from January 1, 2019 to December 31, 2019)

(Unit: million yen)

	Reportable segment			Total	Reconciliation (Note 1)	Amount on consolidated financial statements (Note 2)
	Real estate sales business	Real estate leasing business	Real estate planning agency and consulting business			
Net sales						
Net sales to external customers	66,710	5,022	372	72,106	—	72,106
Intersegment net sales or transfers	—	—	—	—	—	—
Total	66,710	5,022	372	72,106	—	72,106
Segment income	13,802	3,001	286	17,091	(4,178)	12,912
Segment assets	90,633	17,216	2	107,852	24,843	132,696
Other items						
Depreciation	—	105	—	105	71	176
Amortization of goodwill	48	—	—	48	—	48
Investment in equity method affiliates	417	—	—	417	—	417
Increase in property, plant and equipment and intangible assets	485	2,824	—	3,309	577	3,886

[Notes] 1. Reconciliations are as follows:

(1) The reconciliation of segment income of -4,178 million yen is from corporate expenses not attributable to any reportable segment.

Corporate expenses are general and administrative expenses not attributable to reportable segments.

(2) The reconciliation of segment assets of 24,843 million yen is mainly from surplus operating funds (cash and deposits) and administrative assets, etc. not attributable to reportable segments.

(3) The reconciliation of depreciation of 71 million yen is from depreciation on corporate assets not attributable to reportable segments.

(4) The reconciliation of increase in property, plant and equipment and intangible assets of 577 million yen is from an increase in corporate assets not attributable to reportable segments.

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

20. Related Information

Fiscal 2018 (from January 1, 2018 to December 31, 2018)

(1) Information by Product and Service

Descriptions are omitted as identical information is disclosed in the segment information section.

(2) Information by Region

1) Net sales

Not applicable as the Company records no net sales to external customers outside Japan.

2) Property, plant and equipment

Not applicable as the Company has no property, plant and equipment outside Japan.

(3) Information by Major Customer

Customer's name	Sales (million yen)	Related segment
Ascendas Hospitality Honmachi TMK	10,290	Real estate sales business

Fiscal 2019 (from January 1, 2019 to December 31, 2019)

(1) Information by Product and Service

Descriptions are omitted as identical information is disclosed in the segment information section.

(2) Information by Region

1) Net sales

Not applicable as the Company records no net sales to external customers outside Japan.

2) Property, plant and equipment

Not applicable as the Company has no property, plant and equipment outside Japan.

(3) Information by Major Customer

Customer's name	Sales (million yen)	Related segment
ESCON JAPAN REIT Investment Corporation	14,137	Real estate sales business Real estate leasing business

21. Information on Impairment Loss on Non-current Assets by Reportable Segment

Fiscal 2018 (from January 1, 2018 to December 31, 2018)

(Unit: million yen)

	Real estate sales business	Real estate leasing business	Real estate planning agency and consulting business	Eliminations or corporate	Total
Impairment loss	—	—	—	47	47

Fiscal 2019 (from January 1, 2019 to December 31, 2019)

Not applicable

22. Information on Amortization of Goodwill and Unamortized Balance by Reportable Segment

Fiscal 2018 (from January 1, 2018 to December 31, 2018)

Not applicable

Fiscal 2019 (from January 1, 2019 to December 31, 2019)

(Unit: million yen)

	Real estate sales business	Real estate leasing business	Real estate planning agency and consulting business	Eliminations or corporate	Total
Amortization amount during the fiscal year	48	—	—	—	48
Balance at the end of the fiscal year	436	—	—	—	436

23. Information on Gain on Negative Goodwill by Reportable Segment

Not applicable

24. Information on Related Parties

Fiscal 2018 (from January 1, 2018 to December 31, 2018)

(1) Transactions with Related Parties

1) Transactions between the filing party of these consolidated financial statements and related parties

a. Officers of the filing party of these consolidated financial statements and major shareholders (individuals only), etc.

Type	Name	Location	Paid-in capital or equity investment (million yen)	Business description or occupation	The Company's share of voting rights, etc. [or ownership of such in the Company]	Description of relationship	Description of transaction	Transaction amount (million yen)	Category	Balance at end of fiscal year (million yen)
Officer	Keiko Akashi	—	—	Director of the Company	Ownership in the Company: 0.8%	—	Exercise of subscription rights to shares (Note 1)	21	—	—

(Notes) 1. The transaction indicates the exercise of subscription rights to shares, issued based on the resolution made at the Board of Directors' meeting held on October 31, 2013, conducted during the fiscal year ended December 31, 2018. The figure does not include consumption taxes.

2. Keiko Akashi does no longer fall into the category of related parties as she resigned the office of director as of October 30, 2018. Accordingly, the transaction amount covers the transactions for the period when she was a related party, and the ownership in the Company indicates the share as of the end of the fiscal year.

b. Non-consolidated subsidiaries of the filing party of these consolidated financial statements and affiliates

Not applicable

2) Transactions between the consolidated subsidiaries of the filing party of these consolidated financial statements and related parties

Not applicable.

(2) Notes to Parent Company or Important Affiliates

Not applicable.

Fiscal 2019 (from January 1, 2019 to December 31, 2019)

(1) Transactions with Related Parties

1) Transactions between the filing party of these consolidated financial statements and related parties

a. Subsidiaries, etc. of other affiliates of the filing party of these consolidated financial statements

Type	Name	Location	Paid-in capital or equity investment (million yen)	Business description or occupation	The Company's share of voting rights, etc. [or ownership of such in the Company]	Description of relationship	Description of transaction	Transaction amount (million yen)	Category	Balance at end of fiscal year (million yen)
Subsidiary of other affiliates	Chuden Real Estate Co., Inc.	Naka-ku, Nagoya-shi	100	Real estate business	—	Transfer of real estate	Transfer of real estate for sale (Note 2)	9,515	Advances received	475

(Notes) 1. The figure does not include consumption taxes.

2. The Company sold retail properties and lands for retail properties. The transaction amount has been reasonably determined in consideration of the real estate appraisal value. Payment terms require payment of the amount equivalent to 5% upon contracting and the rest upon implementation of the transaction. Furthermore, implementation of the transaction completed on February 4, 2020.

b. Officers of the filing party of these consolidated financial statements and major shareholders (individuals only), etc.

Not applicable

c. Consolidated subsidiaries of the filing party of these consolidated financial statements and affiliates

Not applicable.

2) Transactions between the consolidated subsidiaries of the filing party of these consolidated financial statements and related parties

Not applicable.

(2) Notes to Parent Company or Important Affiliates

Not applicable.

25. Per Share Information

(Unit: yen)

	Fiscal 2018 (from January 1, 2018 to December 31, 2018)	Fiscal 2019 (from January 1, 2019 to December 31, 2019)
Net assets per share	400.47	490.08
Basic earnings per share	105.98	119.17
Diluted earnings per share	105.48	118.93

(Notes) 1. In calculating net assets per share, the Company's shares owned by the share-based payment benefits trust for directors and share-based payment benefits type ESOP trust (the share-based payment benefits trust for directors: 487,200 shares for Fiscal 2018 and 487,200 shares for Fiscal 2019; the share-based payment benefits type ESOP trust: 234,300 shares for Fiscal 2018 and 233,100 shares for Fiscal 2019) are included in treasury shares, which are excluded from the number of shares issued and outstanding at end of the fiscal year.

2. In calculating basic earnings per share and diluted earnings per share, the Company's shares owned by the share-based payment benefits trust for directors and the share-based payment benefits type ESOP trust (768,063 shares for Fiscal 2018 and 721,142 shares for Fiscal 2019) are included in treasury shares, which are excluded when calculating the period-average number of shares.

3. The basis for the calculation of basic earnings per share and diluted earnings per share is as follows:

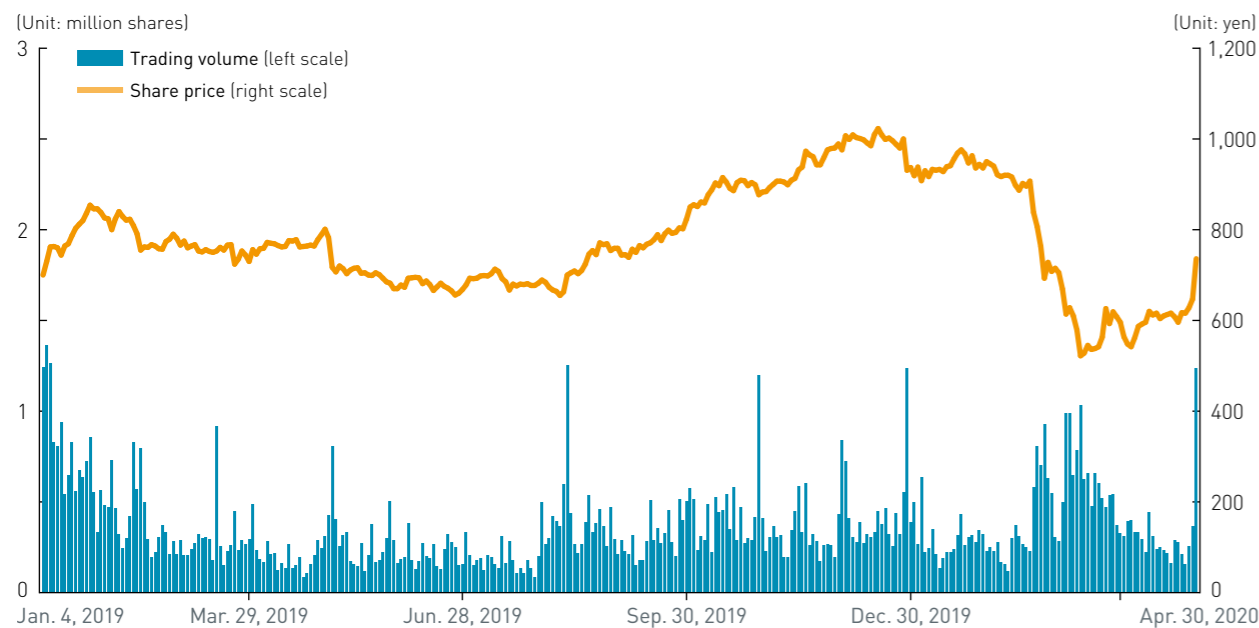
	Fiscal 2018 (from January 1, 2018 to December 31, 2018)	Fiscal 2019 (from January 1, 2019 to December 31, 2019)
Basic earnings per share		
Profit attributable to owners of parent (million yen)	7,226	8,155
Profit not attributable to common shareholders (million yen)	—	—
Profit attributable to owners of parent for common shares (million yen)	7,226	8,155
Period-average number of common shares (shares)	68,185,053	68,433,365
Diluted earnings per share		
Adjustments to profit attributable to owners of parent (million yen)	—	—
Increase in common shares (shares)	320,110	136,502
Description of dilutive shares without dilutive effect and not included in the calculation of diluted earnings per share	Sixth offer of subscription rights to shares based on resolution by the Board of Directors' meeting on December 1, 2017 Common shares: 1,299,000 shares	Sixth offer of subscription rights to shares based on resolution by the Board of Directors' meeting on December 1, 2017 Common shares: 1,261,500 shares

26. Significant Subsequent Events

Not applicable

Investor Information

Status of Share Price (from January 4, 2019 to April 30, 2020)



Major Shareholders (as of March 31, 2020)

	Name	No. of shares owned	Ownership ratio (%)
1	Chubu Electric Power Co., Inc.	22,980,000	31.98
2	Nissei Build Kogyo Co., Ltd.	6,500,000	9.04
3	Tenma Seiryu Co., Ltd.	3,610,000	5.02
4	ES-CON JAPAN Ltd.	2,674,400	3.72
5	Koryu Oh	2,100,000	2.92
6	Japan Trustee Services Bank, Ltd. (Trust account)	1,764,600	2.45
7	The Master Trust Bank of Japan, Ltd. (Trust account)	1,432,500	1.99
8	Takatoshi Ito	1,205,400	1.67
9	Japan Trustee Services Bank, Ltd. (Trust account 5)	726,100	1.01
10	NS Corporation Co., Ltd.	700,300	0.97

(Notes) 1. Treasury shares are excluded from the calculation of ownership ratios.
2. Ownership ratio is rounded down to the first decimal place.

Notes for Investors

Fiscal year: January 1 to December 31

Securities code: 8892

Standard date for regular general meeting of shareholders: End of March

Standard date for submission of periodic securities report: End of March

Standard date for start of end-of-year dividend: December 31

The names of shareholders to be paid interim dividends shall be finalized on June 30 in the event they are to be paid.

Listing exchange: First tier, Tokyo Stock Exchange

Total number of shares issued and outstanding: 71,841,887 shares (as of March 31, 2020)

Total number of shareholders: 10,259 shareholders (as of March 31, 2020)

Share units: 100 shares

Institution managing the Shareholder Register Manager's Extraordinary Account:

Sumitomo Mitsui Trust & Banking, 1-4-1 Marunouchi, Chiyoda-ku, Tokyo

Contact: Transfer Agent Department, Sumitomo Mitsui Trust & Banking, 2-8-4 Izumi, Suginami-ku, Tokyo 168-0063

Toll-free: 0120-782-031 (Japan only)

Agency services are available at the main branch and all branches of Sumitomo Mitsui Trust & Banking nationwide.

Notification of address change, etc.:

Please notify the securities firm that holds your investment account. Shareholders who have extraordinary accounts because they do not have an account at the securities firm should contact Sumitomo Mitsui Trust & Banking, the account manager for extraordinary accounts.

Payment of unpaid dividends: Please notify Sumitomo Mitsui Trust & Banking, the shareholder register manager.

Announcement method: Electronic announcements (<https://www.es-conjapan.co.jp/>) (Japanese)

However, the announcement shall be made via Nihon Keizai Shimbun when an accident or other development makes announcement via electronic announcement impossible.

Shareholders who have owned shares in ES-CON JAPAN for at least one year since June 30 of each year and who own more than 1,000 shares are eligible to receive shareholder benefits.

Disclaimer

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English terms for Japanese legal, accounting, tax and business concepts used herein may not be identical to the equivalent Japanese terms. If there are any discrepancies between the original Japanese documents and English translation, the Japanese documents will always govern the meaning and interpretation. Neither ES-CON JAPAN nor any of its directors, officers, employees, partners, shareholders, agents, affiliates or their advisors will be responsible or liable for the completeness, appropriateness or accuracy of English translations contained herein.