



Summary of Accounts for First Two Quarters of Fiscal Year Ending December 2020 (Japanese GAAP) (Consolidated)

July 30, 2020

Name of listed company: ES-CON JAPAN Ltd. Listing exchange: Tokyo Stock Exchange
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 Accounts briefing meeting held? Yes/No: Yes (for analysts)

(Amounts are rounded down to the nearest million yen)

1. Consolidated results for first two quarters of fiscal year ending December 2020 (from January 1, 2020 to June 30, 2020)

(1) Consolidated operating results

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

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
First two quarters of fiscal year ending Dec. 2020	54,968	81.8	10,595	56.1	10,070	62.5	6,990	62.8
First two quarters of fiscal year ended Dec. 2019	30,228	22.7	6,788	84.2	6,197	95.0	4,293	99.9

Note: Comprehensive income
 First two quarters of fiscal year ending Dec. 2020: 6,774 million yen [55.6%] First two quarters of fiscal year ended Dec. 2019: 4,355 million yen [103.5%]

	Basic earnings per share	Diluted earnings per share
	yen	yen
First two quarters of fiscal year ending Dec. 2020	102.14	101.99
First two quarters of fiscal year ended Dec. 2019	62.75	62.61

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Book value per share
	million yen	million yen	%	yen
First two quarters of fiscal year ending Dec. 2020	135,744	37,804	27.8	552.56
Fiscal year ended Dec. 2019	132,696	33,546	25.3	490.08

Reference: Equity
 First two quarters of fiscal year ending Dec. 2020: 37,802 million yen Fiscal year ended Dec. 2019: 33,544 million yen

2. Dividends

	Annual dividend				
	End of first quarter	End of second quarter	End of third quarter	Year-end	Total
	yen	yen	yen	yen	yen
Fiscal year ended Dec. 2019	—	0.00	—	36.00	36.00
Fiscal year ending Dec. 2020	—	0.00			
Fiscal year ending Dec. 2020 (Forecast)			—	38.00	38.00

(Note) Revisions from latest dividends forecast: None

3. Consolidated earnings forecast for fiscal year ending December 2020 (from January 1, 2020 to December 31, 2020)

(% figures for the full fiscal year show the rate of increase (decrease) compared with the previous period.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Basic earnings per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Full fiscal year	86,000	19.3	13,300	3.0	12,300	4.1	8,500	4.2	124.22

(Note) Revisions from latest earnings forecast: None

* Explanatory notes

(1) Changes in significant subsidiaries during the first two quarters

(Changes in specified subsidiaries resulting in change in scope of consolidation): None

Newly included: — companies (Company name) —

Excluded: — companies (Company name) —

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

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

1) Changes in accounting policies due to amendment of accounting standards, etc.: None

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

3) Changes in accounting estimates: None

4) Restatement: None

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

1) Number of shares issued and outstanding (including treasury shares) at end of period	First two quarters of fiscal year ending Dec. 2020	71,841,887 shares	Fiscal year ended Dec. 2019	71,841,887 shares
2) Number of treasury shares at end of period	First two quarters of fiscal year ending Dec. 2020	3,428,500 shares	Fiscal year ended Dec. 2019	3,394,700 shares
3) Average number of shares during period (cumulative total of first two quarters)	First two quarters of fiscal year ending Dec. 2020	68,439,758 shares	First two quarters of fiscal year ended Dec. 2019	68,435,343 shares

Note: The number of treasury shares at end of period includes shares of ES-CON JAPAN held in a share-based payment benefits trust for directors and a share-based payment benefits-type ESOP trust (first two quarters of fiscal year ending December 2020: 851,000 shares in the share-based payment benefits trust for directors and 233,100 shares in the share-based payment benefits-type ESOP trust). In the calculation of the average number of shares during period (cumulative total of first two quarters), the treasury shares to be subtracted in that calculation includes shares of ES-CON JAPAN held in the share-based payment benefits trust for directors and the share-based payment benefits-type ESOP trust (first two quarters of fiscal year ending December 2020: 814,762 shares).

* This quarterly summary of accounts is not subject to quarterly review of certified public accountant or Audit Corporation.

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

The earnings outlook and other forward-looking statements contained in this document are based on information currently available to and certain assumptions that are thought to be reasonable by ES-CON JAPAN. Accordingly, actual business performance and other results may differ materially due to various reasons. For the conditions forming the assumptions on which earnings forecasts are based and explanatory notes for use of earnings forecasts, etc., please see "Attachment; 1. Qualitative Information on Quarterly Results; (4) Explanation of Consolidated Earnings Forecast and Other Forward-Looking Information" on page 6.

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Attachment

1. Qualitative Information on Quarterly Results

(1) Business Risks

The following is the business risks that newly arose in the first two quarters. The statements concerning future matters are the judgement of ES-CON JAPAN Group (ES-CON JAPAN and its consolidated subsidiaries) as of the end of the first two quarters of the fiscal year ending December 2020.

The impact of the novel coronavirus (COVID-19) pandemic is extremely difficult to predict as there are many factors of uncertainty. However, if the pandemic continues over a long term, the economy is likely to further deteriorate. In such a case, the operating results, financial position, and status of cash flow of ES-CON JAPAN Group may be materially impacted due to posting of appraisal loss of inventories and impairment loss, etc.

Possible risks in business segments are as follows.

1) Condominium sales

In the condominium sales business, while we did not completely close showrooms, we switched from face-to-face sales activities and having customers visit showrooms to online sales activities at an early stage, and have achieved certain results. Although the number of visitors fell by around 70% during the state of emergency and led to a slowdown of sales, the figure has picked up after the state of emergency was lifted, leading to a gradual increase in the number of contracted cases. However, with concerns over possible second and third waves, it is difficult to project the impact on properties currently being sold as well as the future sales forecast and construction schedule. Therefore, it is possible that review of construction starts of new condominiums may become necessary going forward.

2) Real estate (other) sales business

There is a risk of possible decrease in real estate prices due to a reduced appetite for investment among investors, the worsening of the financing environment resulting from financial contraction, and other factors.

3) Retail properties

ES-CON JAPAN Group owns and manages retail properties centering on community-based shopping centers with supermarkets as the core tenant. Supermarkets, drug stores, etc. selling daily essentials continued operations during the state of emergency and have posted sales exceeding 100% year on year. However, other tenants, such as restaurants, apparel shops and sports clubs, have been forced to refrain from operating. As such, there is a risk of possible decrease in planned real estate leasing income due to rent reduction requests from severely affected tenants, uncollected rents of bankrupted tenants, difficulty in soliciting new tenants, etc.

4) Hotels

ES-CON JAPAN has been promoting hotel development projects in recent years, and has completed sales for 15 out of its 17 projects. As to the 2 projects underway (Fukuoka City Project opened in March 2020 and Osaka City Project to open in January 2021), there is a risk of possible delay in the sales period or decrease in sales prices due to the sluggish occupancy rate and difficulty in predicting the time needed for recovery.

ES-CON JAPAN Group has adopted telework and off-peak commuting as measures to prevent the spread of COVID-19 while also taking measures such as refraining from business trips and gatherings, wearing masks, and implementing thorough hand-washing and gargling.

(2) Explanation of Operating Results

In the first two quarters, the Japanese economy faced an extremely harsh situation due to the COVID-19 pandemic. While the economy is anticipated to recover upon the gradual restart of socioeconomic activities with measures in place to prevent the spread of infection, possible second and third waves have also been of concern. The outlook is extremely clouded as it is necessary to keep a close watch on the trend of the pandemic in Japan and abroad as well as impacts such as fluctuation in the financial and capital markets.

In the real estate industry in which the ES-CON JAPAN Group operates, the future impact of COVID-19 on the real estate market is extremely difficult to predict.

Given the business environment described above, we have decided to review the third medium-term management plan “IDEAL TO REAL 2022” with a period of three years from the fiscal year ending December 2020 to the fiscal year ending December 2022. Despite being in an environment with an unforeseeable future, we will assuredly make strategic moves towards expansion of new business fields and sustainable growth by taking the current situation as an opportunity to develop our business.

1) Status of Implementation of Growth Strategy of ESCON JAPAN REIT Investment Corporation

As one of the growth strategies of ESCON JAPAN REIT Investment Corporation (hereinafter the “EJR”), of which asset management is entrusted to ES-CON Asset Management Ltd. (hereinafter the “EAM”), a consolidated subsidiary of ES-CON JAPAN, a support agreement was concluded among three companies, namely Chuden Real Estate Co., Inc. (hereinafter “Chuden Real Estate”), EJR and EAM, in September 2019. ES-CON JAPAN transferred real estate for sale (tonarie Yamatotakada (50% interest), tonarie Toga-Mikita (50% interest), commercial leasehold land in Omihachiman City, Shiga, commercial leasehold land in Muko City, Kyoto, and commercial leasehold land in Ikoma-gun, Nara) to Chuden Real Estate in February 2020, utilizing temporary warehousing functions, under a precondition to transfer the real estate to EJR based on the support agreement.

In addition, real estate for sale (tonarie Yamatotakada (50% interest), tonarie Toga-Mikita (50% interest) and commercial leasehold land in Sakai City, Osaka) owned by ES-CON JAPAN, a sponsor support company, were transferred to EJR.

In February 2020, EJR conducted its first public offering after listing, and its asset size increased from 41.6 billion yen upon listing to 51.9 billion yen after the public offering.

ES-CON JAPAN Group fully supports enhancement of earnings and stable growth of EJR as its sponsor and aims for further growth.

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

ES-CON JAPAN concluded a capital and business partnership agreement with Chubu Electric Power Co., Inc. in August 2018 to position the Chubu region as a core business area comparable to the Tokyo metropolitan area and the Kansai region, and established a Nagoya branch in March 2019. Following the establishment, ES-CON JAPAN has acquired new land for business use for four projects in the Chubu Region. As a joint project with Chuden Real Estate, ES-CON JAPAN acquired a site for a condominium in Higashi Ward, Nagoya City, in June 2019, the first such case in the Chubu region, and also a site of its second condominium in Higashi Ward, Nagoya City, in September 2019. ES-CON JAPAN is steadily implementing business development in the Chubu region together with its first and second projects.

In addition, as for the land for business use which it acquired in Suita City, Osaka, in March 2020, ES-CON JAPAN launched a joint project with Chuden Real Estate with regard to condominium development and commercial development, which will be the third project.

ES-CON JAPAN intends to develop businesses that can satisfy local residents by demonstrating synergy while continuing to strengthen its partnership with each group company of Chubu Electric Power.

3) Participation in Hokkaido Ballpark Project and Acquisition of Naming Rights for New Ballpark

With regard to the naming rights for the new ballpark of the Hokkaido Nippon-Ham Fighters planned to be established and opened in 2023 in Kitahiroshima City, Hokkaido, ES-CON JAPAN concluded a ballpark naming rights agreement with Hokkaido Nippon-Ham Fighters Baseball Club Co., Ltd. and Fighters Sports & Entertainment Co., Ltd., which manages the entire HOKKAIDO BALLPARK F VILLAGE and owns/operates the ballpark, in January 2020.

The name of the new ballpark will be “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. ES-CON JAPAN is scheduled to participate in the development of various real estate in the area such as a hotel on the land of approximately 9,400 m² adjoining the ballpark as well as urban development. ES-CON JAPAN will seize this opportunity to also start supporting sports, cultural promotion, etc. for the happiness of the residents of Hokkaido and contribute to revitalization and development of the entire community.

Although ES-CON JAPAN had planned to open its Hokkaido branch in July 2020, it has decided to postpone the start of operations to the fall of 2020 in light of the spread of COVID-19.

4) Status of Initiatives for New Businesses

Under the circumstances in which the Amended Immigration Control Act, which newly accepts the status of residence in some business types, was enforced in April 2019 and improvement in the working environment for foreign workers has progressed against the backdrop of a serious labor shortage, ES-CON JAPAN established, as part of its ESG management, “ES-CON Global Works Ltd.,” a consolidated subsidiary engaged in the employment placement business, to help solve such social issues and launched employment placement services for foreigners specializing in the restaurant industry, accommodation industry, and building-cleaning as well as an overseas expansion consulting business in March 2020.

In addition, in April 2020, ES-CON JAPAN invested in SQUEEZE Inc., which develops systems for hotel operation and conducts a hotel operation business. ES-CON JAPAN aims to strengthen its real estate operation business while diversifying its other businesses by participating in the hotel operation business.

ES-CON JAPAN will continue to challenge new business fields, and aim for sustainable growth of the entire group.

5) Overseas Investment Business

In March 2019, ES-CON JAPAN made a commitment to invest in a Hawaii-focused, closed-end real estate investment fund as its new overseas business. In July 2019, ES-CON JAPAN established its subsidiary ESCON JAPAN (Thailand) CO., LTD. in Thailand, and participated in a condominium joint development project in Bangkok. ESCON JAPAN is steadily developing its overseas business through efforts such as committing to new investment in a California-focused, closed-end real estate investment fund in March 2020.

6) Status of ESG Initiatives

ES-CON JAPAN has set “Address social issues through promotion of ESG initiatives” as one of its corporate strategies. As part of such activities, ES-CON JAPAN is providing a monetary donation to Kyoto University’s “iPS Cell Research Fund” to support activities realizing early and inexpensive treatment using iPS cells for those suffering from diseases and accidents, in addition to initiatives in new businesses which will contribute to regional revitalization and help solve social issues.

In addition, in March 2020, ES-CON JAPAN realized fund procurement through an “ESG/SDGs assessment-based loan” provided by Sumitomo Mitsui Banking Corporation. Of the project funds of the syndicate loan arranged by Sumitomo Mitsui Banking Corporation to fund the Fujishirodai 5-Chome project (joint project with Chuden Real Estate) whose site was acquired in March 2020, three billion yen was procured through the “ESG/SDGs assessment-based loan” upon earning a rank of A*, the third-best ranking among the seven rankings, indicating that “good ESG/SDG initiatives and information disclosure have been conducted.”

In May 2020, ES-CON JAPAN acquired EcoAction 21 Certification, a Japanese environmental management system (EMS) established by the Ministry of the Environment. EcoAction 21 is an EMS for proactive, effective environmental management including reduction of CO₂ emissions, and EMS activities aim for continuous efforts based on the PDCA cycle. By continuing to conduct environmentally friendly management through EcoAction 21 initiatives, companies are expected to fulfill their social responsibility to reduce environmental burden while such activities also bring benefits to management, such as cost reduction and improved productivity, and contribute to the enhancement of corporate value.

Furthermore, in terms of governance, ES-CON JAPAN established the “Nomination and Remuneration Advisory Committee” in January 2020 with an aim to strengthen the independence and objectivity of functions as well as the accountability of the board of directors with regard to nomination and remuneration of directors. ES-CON JAPAN also launched initiatives for a succession plan called the candidate successor system.

ES-CON JAPAN will continue with steady implementation of ESG management as an important management strategy, and make proactive efforts with an aim to achieve sustainable growth of ES-CON JAPAN Group.

7) Business Development by Segment

In the real estate sales business, our core business, we conducted revenue-generating real estate sales, etc., in addition to achieving progress in condominium sales.

In the real estate sales business, sales of new projects “Le JADE Okurayama (Kohoku Ward, Yokohama City; 25 units in total),” “Le JADE Morinomiya (Higashinari Ward, Osaka City; 45 units in total),” “Le JADE Yamatotakada Ekimae (Yamatotakada City, Nara Prefecture; 205 units in total),” “Le JADE Suma Myohoji Ekimae (Suma Ward, Kobe City; 40 units in total),” etc. commenced, while “Le JADE Kuzuha (Hirakata City, Osaka Prefecture; 78 units in total),” “Le JADE Kotoen (Nishinomiya City, Hyogo Prefecture; 49 units in total)” and “Le JADE Higashisumiyoshi Imagawa Ryokudo (Higashisumiyoshi Ward, Osaka City; 41 units in total)” sold out upon completion.

Furthermore, “LOGITRES Tojo (Kato City, Hyogo Prefecture),” a logistics development project, sales of revenue-generating real estate in Honjo, Kita Ward, Osaka City, and Matsubara, Setagaya Ward, and transfer of commercial facilities and commercial leasehold lands to EJR and Chuden Real Estate have been completed.

In the real estate leasing business, efforts are being made to secure stable rental income from and enhance asset value of retail properties held by ES-CON JAPAN.

In the real estate planning agency and consulting business, focus is being placed on the segment as a business achieving high profit margins through subcontracting, planning agency and consulting, and other non-asset businesses by leveraging the planning and other strengths of ES-CON JAPAN.

As a result, ES-CON JAPAN achieved net sales of 54,968 million yen (up 81.8%), operating income of 10,595 million yen (up 56.1%), ordinary income of 10,070 million yen (up 62.5%) and profit attributable to owners of parent of 6,990 million yen (up 62.8%) for the first two quarters, all compared with the same period of the previous year.

The following describes the operating results by segment, with figures compared with the same period of the previous year.

1) Real estate sales business

In the real estate sales business, activities included selling condominiums and revenue-generating real estate, and resulted in net sales of 52,275 million yen (up 88.3%) and segment income of 11,880 million yen (up 69.9%), despite the ongoing spread of COVID-19.

2) Real estate leasing business

In the real estate leasing business, although focus was placed on leasing activities and the property management business in view of enhancement of asset value, including increase in rental income of owned revenue-generating real estate, such efforts resulted in net sales of 2,541 million yen (up 6.2%) and segment income of 1,021 million yen (down 33.5%).

3) Real estate planning agency and consulting business

In the real estate planning agency and consulting business, proactive efforts were made in such aspects as entrustment with planning, consulting and other services by making the best use of planning and multifaceted business-building capabilities, resulting in net sales of 151 million yen (up 109.8%) and segment income of 85 million yen (up 41.4%).

(3) Explanation of Financial Position

1) Financial position

Assets at the end of the first two quarters increased by 3,047 million yen compared with the end of the previous fiscal year to 135,744 million yen. This was mainly attributable to cash and deposits and property, plant and equipment increasing by 2,069 million yen and 1,491 million yen, respectively, and inventories decreasing by 1,381 million yen.

Liabilities decreased by 1,210 million yen compared with the end of the previous fiscal year to 97,939 million yen. This was mainly attributable to long-term loans payable, short-term loans payable and bonds payable decreasing by 863 million yen.

Net assets increased by 4,257 million yen compared with the end of the previous fiscal year to 37,804 million yen. This was attributable to cash dividends paid of 2,490 million yen, while recording profit attributable to owners of parent of 6,990 million yen. As a result, the equity ratio was 27.8% (25.3% at the end of the previous fiscal year).

2) Cash flows

Cash and cash equivalents (“net cash”) at the end of the first two quarters increased by 2,085 million yen compared with the beginning of the fiscal year to 24,499 million yen (18,156 million yen at the end of the same period of the previous fiscal year).

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

(Cash flows from operating activities)

Cash flows from operating activities increased by 9,275 million yen (net cash used in operating activities decreased by 3,650 million yen in the same period of the previous fiscal year). This was mainly attributable to profit before income taxes of 10,070 million yen, decrease in inventories of 1,987 million yen and income taxes paid of 3,245 million yen.

(Cash flows from investing activities)

Cash flows from investing activities decreased by 3,815 million yen (net cash used in investing activities decreased by 839 million yen in the same period of the previous fiscal year). This was mainly attributable to purchase of non-current assets of 2,283 million yen and purchase of investment securities of 1,614 million yen.

(Cash flows from financing activities)

Cash flows from financing activities decreased by 3,374 million yen (net cash used in financing activities increased by 6,083 million yen in the same period of the previous fiscal year). This was mainly attributable to expenditure from and repayments of long-term loans payable and short-term loans payable amounting to net expenditure of 822 million yen and payment of cash dividends of 2,487 million yen.

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

The consolidated earnings forecast remains unchanged from the forecast announced on January 30, 2020.

However, the impact of COVID-19 on the real estate market in the future is extremely difficult to predict. While progress mostly in line with the forecast was seen for the first two quarters, we will be discussing the forecast alongside carefully watching the business environment, business progress, and such going forward. When revision of the forecast becomes necessary as a result, we will promptly make an announcement.

As mentioned above, we will review the current third medium-term management plan “IDEAL to REAL 2022” since there is a significant difference between the initial assumptions and the current economic conditions. The revised plan will be announced promptly once resetting of the assumptions becomes possible.

In addition, under the circumstances where making predictions for the future is extremely difficult, we have decided to review the progressive dividend policy in order to prioritize accumulation of internal reserve.

2. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheet

(Unit: million yen)

	Fiscal year ended Dec. 2019 (as of Dec. 31, 2019)	Second quarter of fiscal year ending Dec. 2020 (as of Jun. 30, 2020)
Assets		
Current assets		
Cash and deposits	22,511	24,580
Notes and accounts receivable - trade	598	618
Real estate for sale	24,234	9,399
Real estate for sale in process	59,619	73,073
Other	7,173	6,284
Total current assets	114,137	113,958
Non-current assets		
Property, plant and equipment		
Buildings and structures	3,216	4,218
Accumulated depreciation	(566)	(723)
Buildings and structures, net	2,649	3,495
Land	10,621	11,262
Other	295	328
Accumulated depreciation	(132)	(160)
Other, net	163	168
Total property, plant and equipment	13,433	14,925
Intangible assets		
Goodwill	436	388
Other	56	73
Total intangible assets	492	461
Investments and other assets		
Other	4,670	6,437
Allowance for doubtful accounts	(37)	(37)
Total investments and other assets	4,632	6,399
Total non-current assets	18,558	21,786
Total assets	132,696	135,744

(Unit: million yen)

	Fiscal year ended Dec. 2019 (as of Dec. 31, 2019)	Second quarter of fiscal year ending Dec. 2020 (as of Jun. 30, 2020)
Liabilities		
Current liabilities		
Short-term loans payable	4,580	5,249
Current portion of long-term loans payable	32,415	25,129
Current portion of bonds	40	240
Income taxes payable	3,396	3,086
Other	9,768	9,060
Total current liabilities	50,199	42,766
Non-current liabilities		
Bonds payable	230	10
Long-term loans payable	47,720	53,491
Provision for directors' share-based benefits	114	135
Provision for share-based benefits	35	41
Asset retirement obligations	249	249
Other	600	1,243
Total non-current liabilities	48,950	55,172
Total liabilities	99,149	97,939
Net assets		
Shareholders' equity		
Capital stock	6,275	6,275
Capital surplus	2,004	2,078
Retained earnings	26,256	30,756
Treasury shares	(1,247)	(1,348)
Total shareholders' equity	33,288	37,762
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	256	72
Foreign currency translation adjustment	(0)	(31)
Total accumulated other comprehensive income	256	40
Subscription rights to shares	1	1
Non-controlling interests	0	0
Total net assets	33,546	37,804
Total liabilities and net assets	132,696	135,744

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

(Unit: million yen)

	First two quarters of fiscal year ended Dec. 2019 (from Jan. 1, 2019 to Jun. 30, 2019)	First two quarters of fiscal year ending Dec. 2020 (from Jan. 1, 2020 to Jun. 30, 2020)
Net sales	30,228	54,968
Cost of sales	20,896	40,141
Gross profit	9,331	14,827
Selling, general and administrative expenses	2,543	4,231
Operating income	6,788	10,595
Non-operating income		
Interest income	0	8
Dividend income	2	46
Penalty income	6	22
Other	0	3
Total non-operating income	9	81
Non-operating expenses		
Interest expenses	596	523
Share of loss of entities accounted for using equity method	—	61
Other	3	21
Total non-operating expenses	600	606
Ordinary income	6,197	10,070
Extraordinary income		
Gain on sales of non-current assets	—	0
Gain on reversal of subscription rights to shares	0	0
Total extraordinary income	0	0
Extraordinary losses		
Loss on retirement of non-current assets	—	0
Total extraordinary losses	—	0
Profit before income taxes	6,197	10,070
Income taxes - current	1,912	2,947
Income taxes - deferred	(8)	132
Total income taxes	1,903	3,080
Profit	4,293	6,990
Profit attributable to owners of parent	4,293	6,990

(Quarterly Consolidated Statement of Comprehensive Income)

(Unit: million yen)

	First two quarters of fiscal year ended Dec. 2019 (from Jan. 1, 2019 to Jun. 30, 2019)	First two quarters of fiscal year ending Dec. 2020 (from Jan. 1, 2020 to Jun. 30, 2020)
Profit	4,293	6,990
Other comprehensive income		
Valuation difference on available-for-sale securities	40	(184)
Foreign currency translation adjustment	—	(13)
Share of other comprehensive income of entities accounted for using equity method	20	(17)
Total other comprehensive income	61	(215)
Comprehensive income	4,355	6,774
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	4,355	6,774
Comprehensive income attributable to non-controlling interests	—	—

(3) Quarterly Consolidated Statement of Cash Flows

(Unit: million yen)

	First two quarters of fiscal year ended Dec. 2019 (from Jan. 1, 2019 to Jun. 30, 2019)	First two quarters of fiscal year ending Dec. 2020 (from Jan. 1, 2020 to Jun. 30, 2020)
Cash flows from operating activities		
Profit before income taxes	6,197	10,070
Depreciation	43	192
Amortization of goodwill	—	48
Increase (decrease) in provision for directors' share-based benefits	11	21
Increase (decrease) in provision for share-based benefits	—	5
Interest and dividend income	(2)	(54)
Interest expenses	596	523
Foreign exchange losses (gains)	—	17
Share of loss (profit) of entities accounted for using equity method	—	61
Loss (gain) on sales of non-current assets	—	(0)
Loss on retirement of non-current assets	—	0
Decrease (increase) in notes and accounts receivable - trade	(33)	(20)
Decrease (increase) in inventories	(8,229)	1,987
Decrease (increase) in prepaid expenses	(616)	374
Increase (decrease) in accounts payable - other	(418)	484
Decrease/increase in consumption taxes receivable/payable	(182)	588
Increase (decrease) in advances received	229	(1,263)
Increase (decrease) in deposits received	(2)	194
Decrease (increase) in other assets	656	(147)
Increase (decrease) in other liabilities	59	(39)
Subtotal	(1,690)	13,044
Interest and dividend income received	2	47
Interest expenses paid	(583)	(571)
Income taxes (paid) refund	(1,379)	(3,245)
Net cash provided by (used in) operating activities	(3,650)	9,275
Cash flows from investing activities		
Payments into time deposits	(9)	(9)
Proceeds from withdrawal of time deposits	—	1
Purchase of investment securities	(1,073)	(1,614)
Proceeds from withdrawal of investment securities	513	5
Purchase of non-current assets	(75)	(2,283)
Proceeds from sales of non-current assets	17	75
Payments of loans receivable	—	(530)
Collection of loans receivable	0	500
Proceeds from guarantee deposits received	617	882
Repayments of guarantee deposits received	(830)	(841)
Net cash provided by (used in) investing activities	(839)	(3,815)
Cash flows from financing activities		
Increase in short-term loans payable	3,270	7,070
Decrease in short-term loans payable	(2,981)	(6,400)
Proceeds from long-term loans payable	24,879	24,433
Repayments of long-term loans payable	(16,866)	(25,925)
Redemption of bonds	(20)	(20)
Repayments of lease obligations	(0)	(0)
Repayments of installment payables	(16)	(17)
Proceeds from issuance of common shares	24	—
Purchase of treasury shares	—	(233)
Proceeds from disposal of treasury shares	—	207
Cash dividends paid	(2,205)	(2,487)
Net cash provided by (used in) financing activities	6,083	(3,374)
Effect of exchange rate change on cash and cash equivalents	—	(0)
Net increase (decrease) in cash and cash equivalents	1,593	2,085
Cash and cash equivalents at beginning of period	16,563	22,413
Cash and cash equivalents at end of period	18,156	24,499

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable.

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

Not applicable.

(Additional Information)

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

Although it is difficult to accurately predict the future spread or end of the impact of COVID-19, accounting estimates are made assuming the impact on ES-CON JAPAN Group's businesses is minimal since the impact on ES-CON JAPAN Group's businesses at this point in time is limited.

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

(Board Benefit Trust for Executives)

(1) Overview of the Transaction

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

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

Under the System, for a set period of three fiscal years from the fiscal year ending December 2020 to the fiscal year ending December 2022, which is the target period of ES-CON JAPAN's third medium-term management plan "IDEAL to REAL 2022," as well as each subsequent period of three fiscal years, ES-CON JAPAN will contribute money up to 330 million yen (110 million yen per fiscal year multiplied by the number of target fiscal years) to the trust.

- 2) Total number of shares to be granted to the Directors

- Resolution passed at the Regular General Meeting of Shareholders held on March 20, 2015
Upper limit of funds for acquisition of shares (for the five fiscal years from the fiscal year ended December 2015 to the fiscal year ended December 2019): 240 million yen
- Resolution passed at the Regular General Meeting of Shareholders held on March 26, 2020
Upper limit of funds for acquisition of shares (for the three fiscal years from the fiscal year ending December 2020 to the fiscal year ending December 2022, and each subsequent period of three fiscal years): 330 million yen

- 3) Scope of persons who are eligible to receive beneficiary rights and other rights under the System

The Directors of ES-CON JAPAN who have acquired the right to receive shares based on the officer stock ownership regulations.

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

Residual shares of ES-CON JAPAN in the trust are recorded as treasury shares under net assets using the book value in the trust (excluding the amount of incidental expenses). The book value of the treasury shares and the number of shares is 114 million yen and 487,200 shares for the previous fiscal year, and 347 million yen and 851,000 shares for the second quarter of the fiscal year under review.

(Share-Based Payment Benefits Type ESOP Trust)

(1) Overview of the transaction

ES-CON JAPAN passed a resolution to introduce a share-based payment benefits-type ESOP trust (the "System"; The trust established based on the trust agreement concluded with Resona Bank, Limited for the System is referred to as "Share-Based Payment ESOP") at the Regular General Meeting of Shareholders held on March 20, 2015, with an aim to further enhance the benefit program for its employees and raise their motivation and morale for improving the share price and performance.

The System is a system by which ES-CON JAPAN contributes money to a trust with the trust acquiring shares of ES-CON JAPAN with the said money as capital, and shares of ES-CON JAPAN are granted to ES-CON JAPAN Group's employees who have satisfied certain requirements through the trust, pursuant to the stock ownership regulations set by ES-CON JAPAN.

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

Residual shares of ES-CON JAPAN in the trust are recorded as treasury shares under net assets using the book value in the trust (excluding the amount of incidental expenses). The book value of the treasury shares and the number of shares is 59 million yen and 233,100 shares for the previous fiscal year, and 59 million yen and 233,100 shares for the second quarter of the fiscal year under review.

(Segment Information, etc.)

[Segment Information]

I. First Two Quarters of Fiscal Year Ended December 2019 (from January 1, 2019 to June 30, 2019)

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

(Unit: million yen)

	Reporting segment			Total	Reconciliation (Note 1)	Amount on quarterly consolidated statement of income (Note 2)
	Real estate sales business	Real estate leasing business	Real estate planning agency and consulting business			
Net sales						
Net sales to external customers	27,763	2,392	72	30,228	—	30,228
Intersegment net sales or transfers	—	—	—	—	—	—
Total	27,763	2,392	72	30,228	—	30,228
Segment income	6,992	1,536	60	8,589	(1,801)	6,788

(Note 1) The reconciliation of segment income of -1,801 million yen is corporate expenses not attributable to any reporting segment. Corporate expenses are general and administrative expenses not attributable to reporting segments.

(Note 2) Segment income is reconciled with operating income on the quarterly consolidated statement of income.

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

Not applicable.

II. First Two Quarters of Fiscal Year Ending December 2020 (from January 1, 2020 to June 30, 2020)

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

(Unit: million yen)

	Reporting segment			Total	Reconciliation (Note 1)	Amount on quarterly consolidated statement of income (Note 2)
	Real estate sales business	Real estate leasing business	Real estate planning agency and consulting business			
Net sales						
Net sales to external customers	52,275	2,541	151	54,968	—	54,968
Intersegment net sales or transfers	—	—	—	—	—	—
Total	52,275	2,541	151	54,968	—	54,968
Segment income	11,880	1,021	85	12,987	(2,391)	10,595

(Note 1) The reconciliation of segment income of -2,391 million yen is corporate expenses not attributable to any reporting segment. Corporate expenses are general and administrative expenses not attributable to reporting segments.

(Note 2) Segment income is reconciled with operating income on the quarterly consolidated statement of income.

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

Not applicable.

(Significant Subsequent Events)

Not applicable.

3. Other

Status of Contracts and Sales

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

Classification	Second quarter of fiscal year ending Dec. 2020 (from Apr. 1, 2020 to Jun. 30, 2020)			
	Contract amount during the period		Balance of contracts at the end of the period	
	Number of units (units)	Amount (million yen)	Number of units (units)	Amount (million yen)
Mid- to high-rise housing, etc.	163	7,324	256	11,653
Other	—	1,463	—	6,629
Total	163	8,788	256	18,282

(Note) The above amounts do not include consumption tax, etc.

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

Name of segment	First two quarters of fiscal year ending Dec. 2020 (from Jan. 1, 2020 to Jun. 30, 2020)		
	Property name	Number of units (units)	Amount (million yen)
Real estate sales business	Condominiums	437	18,682
	tonarie Yamatotakada	—	8,175
	LOGITRES Tojo	—	8,120
	tonarie Toga-Mikita	—	6,875
	Commercial leasehold land in Sakai-shi	—	2,733
	Matsubara, Setagaya-ku	—	2,167
	Honjo-Nishi, Kita-ku	—	1,967
	Commercial leasehold land in Omihachiman-shi	—	970
	Commercial leasehold land in Ikoma-gun	—	765
	Commercial leasehold land in Muko-shi	—	445
	Genboen, Koga-shi	—	393
	Other	—	980
	Subtotal	437	52,275
Real estate leasing business			2,541
Real estate planning agency and consulting business			151
	Total		54,968

(Note 1) There are no transactions between segments.

(Note 2) The above amounts do not include consumption tax, etc.