



Summary of Accounts for First Two Quarters of Fiscal Year Ending December 2021 (Japanese GAAP) (Consolidated)

July 29, 2021

Name of listed company: ES-CON JAPAN Ltd. Listing exchange: Tokyo Stock Exchange
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(Amounts are rounded down to the nearest million yen)

1. Consolidated results for first two quarters of fiscal year ending December 2021

(from January 1, 2021 to June 30, 2021)

(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. 2021	24,980	(54.6)	2,561	(75.8)	1,934	(80.8)	1,388	(80.1)
First two quarters of fiscal year ended Dec. 2020	54,968	81.8	10,595	56.1	10,070	62.5	6,990	62.8

Note: Comprehensive income
 First two quarters of fiscal year ending Dec. 2021: 1,361 million yen [-79.9%]
 First two quarters of fiscal year ended Dec. 2020: 6,774 million yen [55.6%]

	Basic earnings per share	Diluted earnings per share
	yen	yen
First two quarters of fiscal year ending Dec. 2021	17.07	17.02
First two quarters of fiscal year ended Dec. 2020	102.14	101.99

(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. 2021	183,587	57,824	31.6	610.12
Fiscal year ended Dec. 2020	149,423	38,627	25.8	563.07

Reference: Equity
 First two quarters of fiscal year ending Dec. 2021: 58,067 million yen
 Fiscal year ended Dec. 2020: 38,589 million yen

2. Dividends

	Annual dividend				
	End of first quarter	End of second quarter	End of third quarter	Year-end	Total
Fiscal year ended Dec. 2020	—	0.00	—	38.00	38.00
Fiscal year ending Dec. 2021	—	0.00	—	38.00	38.00
Fiscal year ending Dec. 2021 (Forecast)	—	0.00	—	38.00	38.00

(Note) Revisions from latest dividends forecast: None

3. Consolidated earnings forecast for fiscal year ending December 2021 (from January 1, 2021 to December 31, 2021)

(% 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	80,000	3.5	10,800	(11.5)	9,400	(15.8)	6,200	(19.1)	70.21

(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. 2021	98,580,887 shares	Fiscal year ended Dec. 2020	71,961,887 shares
2) Number of treasury shares at end of period	First two quarters of fiscal year ending Dec. 2021	3,407,100 shares	Fiscal year ended Dec. 2020	3,428,400 shares
3) Average number of shares during period (cumulative total of first two quarters)	First two quarters of fiscal year ending Dec. 2021	81,333,676 shares	First two quarters of fiscal year ended Dec. 2020	68,439,758 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 2021: 851,000 shares in the share-based payment benefits trust for directors and 225,800 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 2021: 1,080,846 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 9.

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Attachment

1. Qualitative Information on Quarterly Results

(1) Business Risks

There are no business risks that newly arose in the second quarter.

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

(2) Explanation of Operating Results

In the first two quarters, the Japanese economy is still in a harsh situation as the spread of COVID-19 infection cannot be contained. The outlook is unforeseeable, although the economy is expected to recover due to the effects of various policies and improvement in overseas economies if COVID-19 vaccination progresses smoothly.

In the real estate industry in which the ES-CON JAPAN Group operates, the real estate market showed relatively stable performance with no substantial deterioration as the policies and measures related to tackling COVID-19 and monetary easing measures continued. However, it is extremely difficult to predict how COVID-19 developments will impact the Japanese economy and overseas economies as well as the real estate market amid resumption of social and economic activities in phases while preventive measures against the spread of COVID-19 are taken across the country and vaccination is promoted.

Despite the difficult business environment described above, we made strategic moves towards expansion of new business fields and sustainable growth by taking the current situation as an opportunity to develop our business.

As a measure to increase capital for proactive business development, we procured funds amounting to 20.4 billion yen by implementing capital increase through third-party allotment (hereinafter the "capital increase through third-party allotment") with Chubu Electric Power Co., Inc. (hereinafter "Chubu Electric Power") as the allottee on April 5, 2021. With the capital increase through third-party allotment resulting in Chubu Electric Power owning 51.54% of the voting rights, ES-CON JAPAN is now a consolidated subsidiary of Chubu Electric Power.

We assessed that becoming a consolidated subsidiary of Chubu Electric Power, which boasts strong corporate credit standing, through the capital increase through third-party allotment will allow diversification of fundraising methods and reduce fundraising costs by improving our creditworthiness. The move will also enable participation in large-scale urban-development projects through further business partnerships with the Chubu Electric Power Group. This will make it possible for us to increase our corporate value still further by stabilizing and expanding our earnings base, enhancing management stability, and so forth.

In conjunction, we formulated "IDEAL to REAL 2023," the fourth medium-term management plan, for the three-year period from the fiscal year ending December 2021 through the fiscal year ending December 2023. The new medium-term management plan sets "Establishing business foundations able to withstand unexpected changes in economic conditions" and "Simultaneously changing the revenue structure and expanding business domains" as management strategies. The detailed plans are as follows.

1) Overview of Fourth Medium-Term Management Plan

1. Basic Management Strategy Policies

(1) Establishing business foundations able to withstand unexpected changes in economic conditions

Establishing business and financial standings that would be sound and enable us to maintain our fund-raising abilities under any economic conditions

(2) Simultaneously changing the revenue structure and expanding business domains

Transforming the revenue structure from one based on flows to one based on stock by strengthening the real estate leasing business while at the same time realizing business diversification and expanding business territories

2. Basic Policy: Transformation and Rapid Progress

Transformation

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

Rapid Progress

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

3. Management Strategies

- (1) Transformation to a structure of sustained and stable revenues
- (2) Stable growth in existing core businesses through business diversification and area strategies
- (3) Growing new businesses into core businesses through business diversification and area strategies
- (4) Taking on the challenges of new business domains
- (5) Enhancing synergies within the ES-CON JAPAN Group
- (6) Expanding bases, primarily in the five largest urban areas
- (7) Enhancing synergies within the Chubu Electric Power Group
- (8) Promoting ESG initiatives

4. Performance Plan

(Unit: million yen)

	Fiscal year ended Dec. 2020	Fiscal year ending Dec. 2021		Fiscal year ending Dec. 2022	Fiscal year ending Dec. 2023
	Actual	Second quarter Actual	Full fiscal year Plan	Plan	Plan
Net sales	77,308	24,980	80,000	98,000	110,000
Operating income	12,202	2,561	10,800	14,000	16,000

5. Management Targets

	Fiscal year ended Dec. 2020 Actual	Fiscal year ending Dec. 2021 Plan	Fiscal year ending Dec. 2022 Plan	Fiscal year ending Dec. 2023 Plan
Share of profits from leasing ^{*1}	14.2%	23.0%	24.0%	26.0%
Return on equity (ROE)	21.2%	12.0%	13.0%	13.0%
Return on invested capital (ROIC) ^{*2}	6.6%	4.0%	4.0%	4.0%
Equity ratio	25.8%	29.0%	26.0%	23.0%
Share of long-term earnings from real estate ^{*3}	9.5%	12.0%	14.0%	18.0%
Net assets	38.6 billion yen	61.0 billion yen	66.0 billion yen	72.0 billion yen

(Note 1) Share of profits from leasing:

Leasing segment profits ÷ Segment total profits (not including adjustments)

(Note 2) Return on invested capital (ROIC):

After-tax operating income ÷ (Shareholders' equity + Interest-bearing liabilities)

(Note 3) Share of long-term earnings from real estate:

Real estate generating leasing revenues recorded as non-current assets ÷ Net assets

6. Investment Plan

(Unit: million yen)

	Fiscal year ending Dec. 2021 Plan	Fiscal year ending Dec. 2022 Plan	Fiscal year ending Dec. 2023 Plan	3-year cumulative total Plan
Investment in revenue- generating real estate	30,000	40,000	60,000	130,000
Investment in other development	25,000	30,000	35,000	90,000
Gross investment	55,000	70,000	95,000	220,000

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

Since the conclusion of a capital and business partnership agreement with Chubu Electric Power in August 2018, we have positioned 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, we have already acquired land for nine new projects in the Chubu Region.

Furthermore, as joint projects with Chuden Real Estate Co., Inc., we launched condominium/commercial development projects in Shirakabe, Higashi Ward, Nagoya City; Ichinomiya City, Aichi Prefecture; Kakegawa City, Shizuoka Prefecture; and Suita City, Osaka Prefecture.

In May 2021, we entered into an investor agreement regarding the establishment of TSUNAGU Community Farm LLC (hereinafter the “new company”), which will construct and operate vertical farms, with Chubu Electric Power and Spread Co., Ltd. (hereinafter “Spread”). Based on this investor agreement, ES-CON JAPAN, Chubu Electric Power and Spread will establish the new company in July 2021 and promote initiatives for constructing and operating vertical farms. More specifically, the aim is to start construction of Techno Farm Fukuroi at the project site in Fukuroi City, Shizuoka Prefecture (ES-CON JAPAN already acquired it in March 2021), which will be the world’s largest vertical farm utilizing fully artificial light and capable of producing 10 tons of lettuce per day, in October 2021. The farm will be set to launch production in January 2024. With the integration of Chubu Electric Power’s capital and knowledge on energy management and ES-CON JAPAN’s development know-how, we intend to make efforts for decarbonization and reduce costs, and contribute to the production of cheaper vegetables at plants as well as realize efficient and stable production of “safe and clean” lettuce in collaboration with Spread that has a track record in cultivation and logistics.

In June 2021, a consortium of businesses led by Chubu Electric Power of which ES-CON JAPAN is a member was selected as the preferred candidate contractor in bidding organized by Aichi Prefecture and the city of Nagoya. The winning bidder will operate the site of 20th Asian Games Aichi-Nagoya 2026 Athletes’ Village after the games. In the said business, the vision targets a next-generation approach to community development whereby diverse people connect with and help each other to promote happiness and find solutions to various issues facing society. Plans call for ES-CON JAPAN to develop retail complexes as part of this community development project.

Now a consolidated subsidiary of Chubu Electric Power, we intend to proactively work on large-scale urban development and realization of a “new form of community” not only in the Chubu region but expanding to across Japan by continuously strengthening the partnership with the Chubu Electric Power Group.

3) Progress of Projects under Hokkaido Ballpark Concept

With regard to the naming rights for “ES CON FIELD HOKKAIDO,” the new ballpark of the Hokkaido Nippon-Ham Fighters planned to be established and opened in 2023 in Kitahiroshima City, Hokkaido, we concluded a ballpark naming rights agreement with Hokkaido Nippon-Ham Fighters Baseball Club Co., Ltd. and Fighters Sports & Entertainment Co., Ltd. in January 2020.

The area surrounding the new ballpark is a large-scale development area for HOKKAIDO BALLPARK F VILLAGE (total development area: approx. 36.7 ha, hereinafter “F VILLAGE”) with construction of a new station also planned. We are participating in Japan’s first ballpark development, engaging 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.

In June 2021, we acquired land for a sales project located in F VILLAGE centering on the new ballpark “ES CON FIELD HOKKAIDO.”

In addition, we concluded a partnership agreement for the JR Kitahiroshima Station “Train Station West Exit Area Revitalization Project” in Kitahiroshima City, Hokkaido, with the City of Kitahiroshima on March 30, 2021. Expectations are increasingly building for JR Kitahiroshima Station as a key access point to the ballpark being situated between JR Sapporo Station and New Chitose Airport Station in a highly convenient location approximately 20 minutes from the airport and approximately 16 minutes from Sapporo by train. Leveraging such location and our development expertise such as from the for-sale condominium and commercial facility development conducted in the station vicinity to date, we will engage in not only development of the ballpark area but also development of the area surrounding Kitahiroshima Station, the gateway to such, and thereby promote community-based urban development that would create bustle throughout Kitahiroshima City.

Continuing to also support sports, cultural promotion, etc., we will contribute to revitalization and development of the entire Hokkaido region for the happiness of its residents.

4) Initiatives for Formation of Private REIT

We intend to form and commence operation of a private real estate investment corporation (private REIT) with ES-CON Asset Management Ltd., which is a consolidated subsidiary, as the company entrusted with asset management in fiscal 2021. To that end, we formed private funds operating rental apartments in Higashiyamato City, Tokyo, Fujisawa City, Kanagawa Prefecture, and Inagi City, Tokyo, in 2020 in cooperation with NISSHIN FUDOSAN Company, Limited. We then formed the fourth, operating in Isehara City, Kanagawa Prefecture, in January 2021 and the eighth, operating in Kawasaki Ward, Kawasaki City, in April 2021 and Toshima Ward, Tokyo, and Hino City, Tokyo, and Ebina City, Kanagawa Prefecture, in June 2021.

5) Launch of Sale of Permanent Use Rights and Management of Columbarium

We acquired Ryomon Co., Ltd., which is a company engaged in management of urban columbarium in Minato Ward, Tokyo, in October 2020 to solve issues in modern society, such as a shortage of burial grounds due to a large number of deaths resulting from aging population, the situation in which there will be nobody to look after graves due to small families with fewer children, and particularly the situation in which having a grave in central Tokyo is extremely difficult. We launched sale of permanent use rights of the columbarium in March 2021.

6) Status of ESG Initiatives

We have set “Address social issues through promotion of ESG initiatives” as one of our key management strategies.

1. Environment (E)

• EcoAction 21 Certification

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.

• Green Building

In July 2020, “tonarie Yamato-Takada” and “tonarie Toga-Mikita,” which are commercial facilities owned by ESCON JAPAN REIT Investment Corporation (hereinafter “EJR”), obtained DBJ Green Building Certification (a certification system created by Development Bank of Japan Inc. (hereinafter “DBJ”) in April 2011 to support real estate properties with environmental and social awareness (“Green Buildings”)) from DBJ. These were followed also by “tonarie Minamisenri” and “tonarie Seiwadai” in February 2021 and commercial facility “Asumigaoka Brand New Mall” in July 2021. There are currently five properties that have acquired the certification.

• “Rank S” Certification for CASBEE for Real Estate

In July 2020, “tonarie Fujimino,” a commercial facility owned by ES-CON JAPAN, obtained “Rank S,” the highest rank of the Certification for CASBEE^(*) for Real Estate from a CASBEE accreditation body authorized by the Institute for Building Environment and Energy Conservation.

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

• ZEH Builder

In November 2020, ES-CON Home Co., Ltd. and ES-CON Craft Co., Ltd., which are consolidated subsidiaries of ES-CON JAPAN, were registered for ZEH^(*) Builder Certification.

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

- Received Award for Excellence in the Environmental Human Resource Development Corporate Awards

In March 2021, we received the Award for Excellence in the Environmental Human Resource Development Corporate Awards 2020 (recognizing companies leading the way in developing environment-related human resources) hosted by the Ministry of the Environment and the Environmental Consortium for Leadership Development (EcoLeaD). The Awards were created in a fiscal 2014 project by the Ministry of the Environment with an aim to encourage Japanese companies to engage in and train human resources for environmentally friendly business management and increase the number of companies contributing to comprehensive improvement of the environment, economy and society, considering the situation where efforts toward a sustainable society have become essential.

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

As mentioned above, we plan to start construction of Techno Farm Fukuroi, which will be the world’s largest vertical farm utilizing fully artificial light and capable of producing 10 tons of lettuce per day. We will make efforts to realize efficient and stable production of “safe and clean” lettuce in collaboration with Chubu Electric Power and Spread. The three companies will solve issues in food and agricultural fields through the plant factory business as well as contribute to the realization of a sustainable and livable society and the achievement of SDGs by making efforts towards decarbonization such as the proactive use of green energy and effective use of CO₂ in the process of cultivation.

2. Social (S)

- Contributing to Healthcare

We have been providing monetary donations since 2020 to Kyoto University’s “iPS Cell Research Fund” to support activities realizing provision of early and inexpensive treatment using iPS cells for people suffering from diseases and accidents.

We have also been providing monetary donations since 2019 to Osaka University’s Graduate School of Medicine as support for clinical trials of cancer vaccines showing promise for the treatment of cancer.

- Contribution to sports promotion

In April 2021, we invested in Ryukyu Football Club Co., Ltd. (hereinafter “Ryukyu FC”) which operates FC Ryukyu, a professional soccer team. With this investment, we will contribute to the local community through sports promotion by securing a foothold for the creation of business opportunities in Okinawa as well as supporting Ryukyu FC’s regional revitalization activities in Okinawa Prefecture.

3. Governance (G)

- Establishment of Voluntary Committee on Nomination and Remuneration of Directors

In January 2020, we established the “Nomination and Remuneration Advisory Committee” 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 and other matters.

- Nurturing Successors

We also launched initiatives for a succession plan called the candidate successor system. In January 2021, we newly appointed seven employed executive officers.

- Diversity of the Board of Directors

In order to secure diversity of the board of directors, two independent directors were appointed at the 26th Regular General Meeting of Shareholders held on March 26, 2021, and the number of independent directors increased to four. In addition to the traditional certified public accountant, tax accountant and lawyer, a director experienced in corporate management and a female independent director who is also a securities analyst have been newly added for a diverse board composition.

In addition, the skills matrix for directors is disclosed in the corporate governance report.

4. Other

In March 2020 and December 2020, we procured funds through “ESG/SDG assessment-based loans” provided by Sumitomo Mitsui Banking Corporation. Deemed to be “implementing good ESG and SDG initiatives and information disclosure,” each earned an overall ranking that is the third-best ranking out of seven. Combined, 6.5 billion yen was procured for two projects.

We have been participating in GRESB, which is an annual benchmark assessment measuring ESG consideration in the real estate sector, every year since 2018 with an aim to continuously improve the assessment results. As a result, in November 2020, our rating improved to “3 Stars” from “2 Stars” in 2019 for the first time in GRESB Rating, which is a five-grade evaluation system that reflects the applicant’s relative evaluation based on total GRESB Score, for efforts on environmental consideration and sustainability in the “Development Benchmark.” In addition, we acquired “Green Star^(*)” rating by receiving high marks in both “Management Component” and “Development Component” for two consecutive years.

*3 “Green Star” in the “Development Benchmark” is given to participants whose score is 50% or more in the absolute assessment based on the two main points which are “Management Component” and “Development Component.”

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 condominium sales business, we commenced selling new sales projects, including “Le JADE Ibaraki Higashichujyo” (Ibaraki City, Osaka Prefecture; 40 units in total), “Le JADE Urawa” (Urawa Ward, Saitama City; 44 units in total), “Le JADE Kakegawa Ekimae” (Kakegawa City, Shizuoka Prefecture; 83 units in total), “Le JADE Gifu Koganekoen” (Gifu City, Gifu Prefecture; 38 units in total) and “Le JADE Kyoto Horikawa” (Shimogyo Ward, Kyoto City; 60 units in total). “Le JADE Nagaikoendori” (Sumiyoshi Ward, Osaka City; 108 units in total) and “Le JADE Hirano” (Hirano Ward, Osaka City; 58 units in total) are contracted to sell out.

In the Kyushu area and Hokkaido area as well, we acquired land for a new sales project (Minami Ward, Fukuoka City and Higashi Ward, Sapporo City), our first in such areas, and “Suroy Mall Nagamine” (a commercial facility in Higashi Ward, Kumamoto City).

Furthermore, we acquired “Chiba Research Park (Wakaba Ward, Chiba City),” a site for logistics facilities, with the intention of proactively developing logistics.

In the real estate leasing business, efforts are being made to secure stable rental income from commercial facilities owned by ES-CON JAPAN and to enhance their asset value. Such efforts included newly acquiring “tonarie Yokkaichi” (a community-based shopping center in Yokkaichi City, Mie Prefecture) and “Fuji Grand Natalie” (a commercial facility in Hatsukaichi City, Hiroshima Prefecture) and opening “tonarie CREO” at “tonarie Tsukuba Square (Tsukuba City, Ibaraki Prefecture),” a redevelopment project in front of Tsukuba Station in Ibaraki Prefecture.

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 24,980 million yen (down 54.6%), operating income of 2,561 million yen (down 75.8%), ordinary income of 1,934 million yen (down 80.8%) and profit attributable to owners of parent of 1,388 million yen (down 80.1%) for the first two quarters, all compared with the same period of the previous year.

Moreover, the initial plan for the first two quarters has been revised due to the following primary factors.

- 1) Real estate sales business
 - The primary factor for the reduction in net sales is the delay of delivery date of condominiums/houses to the second half of the fiscal year, amounting to approximately 3.0 billion yen. However, progress has been made as forecast on a contract basis.
- 2) Real estate leasing business
 - Reduction in rental income due to delays in leasing of retail facilities during the COVID-19 pandemic caused by the extension of the state of emergency, etc.
 - Reduction in income due to prior investment in repairs, etc. for improving customer-attracting effect of retail facilities
- 3) Real estate planning agency and consulting business
 - Reduction in net sales of 0.6 billion yen due to delay in sales in the columbarium sales business of Ryomon Co., Ltd.

- Reduction in income due to prior expenditure of advertising expenses for commercials, etc. to promote sales in the columbarium sales business

Due to these primary factors listed above, the initial plan was revised with a 4,420 million yen decrease in net sales and a 1,339 million yen decrease in operating income.

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, but resulted in net sales of 21,256 million yen (down 59.3%) and segment income of 3,824 million yen (down 67.8%).

2) Real estate leasing business

In the real estate leasing business, focus was placed on leasing activities and the property management business in view of enhancement of asset value, including increase in rental income of owned revenue-generating real estate, resulting in net sales of 3,427 million yen (up 34.9%) and segment income of 1,504 million yen (up 47.3%).

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 abilities, but resulted in net sales of 296 million yen (up 95.9%) and segment loss of 309 million yen (segment income of 85 million yen in the same period of the previous year) due to delay in sales in the columbarium sales business and prior expenditure of advertising expenses.

(3) Explanation of Financial Position

1) Financial position

Assets at the end of the first two quarters increased by 34,164 million yen compared with the end of the previous fiscal year to 183,587 million yen. This was mainly attributable to cash and deposits, property, plant and equipment and inventories increasing by 13,471 million yen, 2,046 million yen and 14,732 million yen, respectively.

Liabilities increased by 14,967 million yen compared with the end of the previous fiscal year to 125,762 million yen. This was mainly attributable to long-term loans payable, short-term loans payable and bonds payable increasing by 12,830 million yen.

Net assets increased by 19,196 million yen compared with the end of the previous fiscal year to 57,824 million yen. This was attributable to cash dividends paid of 2,645 million yen, while recording profit attributable to owners of parent of 1,388 million yen as well as the increase in capital and capital reserve by 10,235 million yen each with the capital increase through third-party allotment. As a result, the equity ratio was 31.6% (25.8% 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 13,422 million yen compared with the beginning of the fiscal year to 37,220 million yen (24,499 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 decreased by 15,119 million yen (net cash used in operating activities increased by 9,275 million yen in the same period of the previous fiscal year). This was mainly attributable to profit before income taxes of 1,933 million yen, increase in inventories of 14,918 million yen and income taxes paid of 1,383 million yen.

(Cash flows from investing activities)

Cash flows from investing activities decreased by 2,008 million yen (net cash used in investing activities decreased by 3,815 million yen in the same period of the previous fiscal year). This was mainly attributable to purchase of non-current assets of 2,290 million yen.

(Cash flows from financing activities)

Cash flows from financing activities increased by 30,549 million yen (net cash used in financing activities decreased by 3,374 million yen in the same period of the previous fiscal year). This was mainly attributable to expenditure from and repayments of long-term loans payable and short-term loans payable amounting to net proceeds of 13,044 million yen, proceeds from issuance of common shares amounting to 20,361 million yen and payment of cash dividends of 2,643 million yen.

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

As described in (2) Explanation of Operating Results, the initial plan for the first two quarters has been revised. However, because most of these factors are delays to the second half of the fiscal year and involve prior investment that will lead to improvement of income in the second half onwards and is believed to be recoverable in the second half, there is no change to the current full-year consolidated earnings forecast for the fiscal year ending December 2021 and dividend forecast (dividend per share: 38 yen).

The key strategies for the second half of the fiscal year are as follows.

1) Real estate sales business

ES-CON JAPAN will steadily move the contracts which have accumulated in the first half of the fiscal year to the delivery phase and carefully communicate the features and positive aspects of each property in order to provide services that apprehend customer needs in an effort to promote sales.

As for the current state of sales, there are 844 contracted units (as of June 28, 2021) which is 79% of the 1,062 units forecast at the beginning of the period (full-year forecast for the fiscal year ending December 2021).

2) Real estate leasing business

As vaccination is accelerating alongside the lifting of the state of emergency, ES-CON JAPAN will endeavor to improve added value of retail facilities and enhance leasing.

3) Real estate planning agency and consulting business

With advertising such as commercials for the columbarium starting to show results, ES-CON JAPAN will accelerate sales alongside the coming increase in visitors resulting from the lifting of the state of emergency, etc.

In addition, as described in "Notice on Transfer of Real Estate for Sale to ESCON JAPAN REIT Investment Corporation" announced on July 9, 2021, we have concluded a sale and purchase agreement to transfer the following real estate for sale owned by ES-CON JAPAN to EJR on the same day. The transfer date is scheduled to be August 3, 2021.

Moreover, the impact of the transfer of the said real estate for sale on the earnings forecast has already been incorporated into the full-year consolidated earnings forecast for the fiscal year ending December 2021.

Details of Assets to Be Transferred

The total transfer price will be 11,947 million yen as described below, and the total gain from transfer is scheduled to be 2,470 million yen.

Location	Type	Site area (total floor area)	Transfer price (million yen)
(1) Kumamoto-shi, Kumamoto Prefecture (Suroy Mall Nagamine)	Commercial facility (land, building)	28,546.00 m ² (13,130.23 m ²)	4,600
(2) Hatsukaichi-shi, Hiroshima Prefecture (Fuji Grand Natalie)	Commercial facility (land, building)	21,083.66 m ² (28,543.96 m ²)	3,950
(3) Sapporo-shi, Hokkaido	Commercial facility (land)	8,154.00 m ²	1,300
(4) Neyagawa-shi, Osaka Prefecture	Commercial facility (land)	2,743.65 m ²	702
(5) Amagasaki-shi, Hyogo Prefecture	Commercial facility (land)	1,491.47 m ²	565
(6) Kobe-shi, Hyogo Prefecture	Commercial facility (land)	2,634.83 m ²	530
(7) Hikone-shi, Shiga Prefecture	Commercial facility (land)	2,012.30 m ²	300
Total			11,947

The status of the portfolio owned by EJR after the transfer is as follows.

Type	Asset (million yen)	Percentage
Land lot	31,166	44.8%
Land, building	38,437	55.2%
Total	69,604	100.0%

A press release concerning the acquisition of the above properties, issuance of new investment units and secondary offering of investment units has been announced on July 9, 2021, at EJR.

2. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheet

(Unit: million yen)

	Fiscal year ended Dec. 2020 (as of Dec. 31, 2020)	Second quarter of fiscal year ending Dec. 2021 (as of Jun. 30, 2021)
Assets		
Current assets		
Cash and deposits	23,870	37,342
Notes and accounts receivable - trade	927	1,055
Real estate for sale	6,262	19,164
Real estate for sale in process	82,316	84,146
Other	8,739	11,604
Allowance for doubtful accounts	(0)	(0)
Total current assets	122,117	153,313
Non-current assets		
Property, plant and equipment		
Buildings and structures	4,359	5,524
Accumulated depreciation	(889)	(1,093)
Buildings and structures, net	3,470	4,431
Land	11,262	12,327
Other	335	380
Accumulated depreciation	(191)	(216)
Other, net	143	164
Total property, plant and equipment	14,876	16,922
Intangible assets		
Goodwill	339	291
Other	63	58
Total intangible assets	403	349
Investments and other assets		
Other	12,064	12,941
Allowance for doubtful accounts	(37)	(37)
Total investments and other assets	12,026	12,903
Total non-current assets	27,306	30,174
Deferred assets		
Share issuance cost	—	99
Total deferred assets	—	99
Total assets	149,423	183,587

(Unit: million yen)

	Fiscal year ended Dec. 2020 (as of Dec. 31, 2020)	Second quarter of fiscal year ending Dec. 2021 (as of Jun. 30, 2021)
Liabilities		
Current liabilities		
Short-term loans payable	2,907	4,304
Current portion of long-term loans payable	26,093	32,904
Current portion of bonds	230	10
Income taxes payable	1,460	855
Other	9,121	11,495
Total current liabilities	39,813	49,569
Non-current liabilities		
Long-term loans payable	69,274	74,116
Provision for directors' share-based benefits	135	135
Provision for share-based benefits	46	50
Asset retirement obligations	260	269
Other	1,265	1,620
Total non-current liabilities	70,982	76,193
Total liabilities	110,795	125,762
Net assets		
Shareholders' equity		
Capital stock	6,284	16,519
Capital surplus	2,088	12,326
Retained earnings	31,429	30,172
Treasury shares	(1,348)	(1,340)
Total shareholders' equity	38,454	57,677
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	153	368
Foreign currency translation adjustment	(18)	21
Total accumulated other comprehensive income	134	389
Subscription rights to shares	1	1
Non-controlling interests	37	(243)
Total net assets	38,627	57,824
Total liabilities and net assets	149,423	183,587

(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. 2020 (from Jan. 1, 2020 to Jun. 30, 2020)	First two quarters of fiscal year ending Dec. 2021 (from Jan. 1, 2021 to Jun. 30, 2021)
Net sales	54,968	24,980
Cost of sales	40,141	17,860
Gross profit	14,827	7,119
Selling, general and administrative expenses	4,231	4,557
Operating income	10,595	2,561
Non-operating income		
Interest income	8	7
Dividend income	46	52
Penalty income	22	13
Foreign exchange gains	—	29
Other	3	7
Total non-operating income	81	110
Non-operating expenses		
Interest expenses	523	641
Share of loss of entities accounted for using equity method	61	45
Amortization of share issuance cost	—	9
Other	21	41
Total non-operating expenses	606	738
Ordinary income	10,070	1,934
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	0
Total extraordinary losses	0	0
Profit before income taxes	10,070	1,933
Income taxes - current	2,947	746
Income taxes - deferred	132	79
Total income taxes	3,080	826
Profit	6,990	1,106
Loss attributable to non-controlling interests	—	(281)
Profit attributable to owners of parent	6,990	1,388

(Quarterly Consolidated Statement of Comprehensive Income)

(Unit: million yen)

	First two quarters of fiscal year ended Dec. 2020 (from Jan. 1, 2020 to Jun. 30, 2020)	First two quarters of fiscal year ending Dec. 2021 (from Jan. 1, 2021 to Jun. 30, 2021)
Profit	6,990	1,106
Other comprehensive income		
Valuation difference on available-for-sale securities	(184)	215
Foreign currency translation adjustment	(13)	13
Share of other comprehensive income of entities accounted for using equity method	(17)	26
Total other comprehensive income	(215)	254
Comprehensive income	6,774	1,361
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	6,774	1,643
Comprehensive income attributable to non-controlling interests	—	(281)

(3) Quarterly Consolidated Statement of Cash Flows

(Unit: million yen)

	First two quarters of fiscal year ended Dec. 2020 (from Jan. 1, 2020 to Jun. 30, 2020)	First two quarters of fiscal year ending Dec. 2021 (from Jan. 1, 2021 to Jun. 30, 2021)
Cash flows from operating activities		
Profit before income taxes	10,070	1,933
Depreciation	192	238
Amortization of goodwill	48	48
Amortization of long-term prepaid expenses	—	18
Amortization of share issuance cost	—	9
Increase (decrease) in allowance for doubtful accounts	—	0
Increase (decrease) in provision for directors' share-based benefits	21	—
Increase (decrease) in provision for share-based benefits	5	3
Interest and dividend income	(54)	(60)
Interest expenses	523	641
Foreign exchange losses (gains)	17	(29)
Share of loss (profit) of entities accounted for using equity method	61	45
Loss (gain) on sales of non-current assets	(0)	—
Loss on retirement of non-current assets	0	0
Decrease (increase) in notes and accounts receivable - trade	(20)	(127)
Decrease (increase) in inventories	1,987	(14,918)
Decrease (increase) in prepaid expenses	374	(697)
Increase (decrease) in accounts payable - other	484	766
Decrease/increase in consumption taxes receivable/payable	588	(311)
Increase (decrease) in advances received	(1,263)	1,811
Increase (decrease) in deposits received	194	(328)
Decrease (increase) in other assets	(147)	(2,267)
Increase (decrease) in other liabilities	(39)	88
Subtotal	13,044	(13,133)
Interest and dividend income received	47	52
Interest expenses paid	(571)	(656)
Income taxes (paid) refund	(3,245)	(1,383)
Net cash provided by (used in) operating activities	9,275	(15,119)
Cash flows from investing activities		
Payments into time deposits	(9)	(9)
Proceeds from withdrawal of time deposits	1	—
Purchase of investment securities	(1,614)	(776)
Proceeds from withdrawal of investment securities	5	0
Purchase of non-current assets	(2,283)	(2,290)
Proceeds from sales of non-current assets	75	107
Payments of loans receivable	(530)	—
Collection of loans receivable	500	0
Proceeds from guarantee deposits received	882	1,050
Repayments of guarantee deposits received	(841)	(90)
Payments of contribution	—	(0)
Net cash provided by (used in) investing activities	(3,815)	(2,008)
Cash flows from financing activities		
Increase in short-term loans payable	7,070	3,872
Decrease in short-term loans payable	(6,400)	(2,475)
Proceeds from long-term loans payable	24,433	24,385
Repayments of long-term loans payable	(25,925)	(12,738)
Redemption of bonds	(20)	(220)
Repayments of lease obligations	(0)	(0)
Repayments of installment payables	(17)	—
Proceeds from issuance of common shares	—	20,361
Purchase of treasury shares	(233)	—
Proceeds from disposal of treasury shares	207	8
Cash dividends paid	(2,487)	(2,643)
Net cash provided by (used in) financing activities	(3,374)	30,549
Effect of exchange rate change on cash and cash equivalents	(0)	0
Net increase (decrease) in cash and cash equivalents	2,085	13,422
Cash and cash equivalents at beginning of period	22,413	23,798
Cash and cash equivalents at end of period	24,498	37,220

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable.

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

ES-CON JAPAN received payment of the capital increase through third-party allotment from Chubu Electric Power on April 5, 2021. As a result, capital and capital reserve increased by 10,235 million yen in the first two quarters, and capital and capital surplus were 16,519 million yen and 12,326 million yen, respectively at the end of the second quarter of the fiscal year under review.

(Additional Information)

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

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

However, there are many factors of uncertainty concerning the impact of the COVID-19 pandemic, and thus if the real estate market deteriorates further, the operating results, financial position, and status of cash flow of 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) We passed a resolution to introduce a 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 directors (excluding auditor directors, external directors, and non-executive directors) and (authorized) executive managing officers (the "Directors"; hereinafter referred to as the same unless otherwise specified) of ES-CON JAPAN and the relationship between ES-CON JAPAN's operating results 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 operating results and enhancement of corporate value. Furthermore, we passed a resolution for continuation and partial revision of performance-based stock rewards for the Directors at the Regular General Meeting of Shareholders held on March 26, 2020, and the Regular General Meeting of Shareholders held on March 26, 2021.

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

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

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

- 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 ended December 2020 to the fiscal year ending December 2022 and each subsequent period of three fiscal years): 330 million yen

- Resolution passed at the Regular General Meeting of Shareholders held on March 26, 2021
Upper limit of funds for acquisition of shares (for the three fiscal years from the fiscal year ended December 2021 to the fiscal year ending December 2023 and each subsequent period of three fiscal years): 330 million yen

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

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

Residual shares of ES-CON JAPAN in the trust are recorded as treasury shares under net assets using the book value in the trust (excluding the amount of incidental expenses). The book value of the treasury shares and the number of shares is 347 million yen and 851,000 shares for the 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 board of directors' meeting held on March 20, 2015, with an aim to further enhance the benefit program for its employees and raise their motivation and morale for improving the share price and operating results.

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 233,000 shares for the previous fiscal year, and 57 million yen and 225,800 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 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.

II. First Two Quarters of Fiscal Year Ending December 2021 (from January 1, 2021 to June 30, 2021)

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	21,256	3,427	296	24,980	—	24,980
Intersegment net sales or transfers	—	—	—	—	—	—
Total	21,256	3,427	296	24,980	—	24,980
Segment income (loss)	3,824	1,504	(309)	5,019	(2,457)	2,561

(Note 1) The reconciliation of segment income of -2,457 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. 2021 (from Apr. 1, 2021 to Jun. 30, 2021)			
	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.	420	20,988	829	42,456
Other	—	801	—	1,433
Total	420	21,790	829	43,890

(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. 2021 (from Jan. 1, 2021 to Jun. 30, 2021)		
	Property name	Number of units (units)	Amount (million yen)
Real estate sales business	Condominiums	445	18,098
	Genboen, Koga-shi	—	1,874
	3-chome, Aoyamadai, Suita-shi	—	226
	Matsukazecho, Hiratsuka-shi	—	107
	Other	—	949
	Subtotal	445	21,256
Real estate leasing business			3,427
Real estate planning agency and consulting business			296
	Total		24,980

(Note 1) There are no transactions between segments.

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