

July 12, 2022

Flash Report (Consolidated Basis)
Results for the first half ended May 31, 2022
(Based on Japanese GAAP)

Company name: **Samty Co., Ltd.**
Stock Listings: Tokyo Stock Exchange
Stock Code: 3244
URL: <https://www.samty.co.jp/en/>

Representative

Title: Representative Director and President

Name: Yasuhiro Ogawa

Contact Person

Title: Head of IR Office, Corporate Planning Department

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Quarterly report filing date (Planned): July 15, 2022
Start of dividend payments (Planned): August 18, 2022
Quarterly supplemental explanatory material prepared: Yes
Quarterly results briefing held: Yes (for institutional investors and analysts)

(Figures less than ¥1 million have been omitted.)

1. Consolidated Results for the First Half Ended May 31, 2022
(December 1, 2021 to May 31, 2022)

(1) Consolidated Operating Results

Six months ended May 31

Percentages indicate year-on-year increase/ (decrease).

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
2022	36,224	49.7	2,753	(23.5)	1,993	(29.0)	1,666	(72.6)
2021	24,193	(11.5)	3,599	(36.9)	2,808	(39.4)	6,076	91.6

(Note) Comprehensive Income: Six months ended May 31, 2022: ¥2,873 million, (60.5%)
Six months ended May 31, 2021: ¥7,283 million, 193.2%

	Net income per share	Net Income per share after adjustment for residual shares
	Yen	Yen
2022	35.85	32.83
2021	151.02	130.70

(2) Consolidated Financial Condition

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
May 31, 2022	396,295	105,813	23.9
November 30, 2021	349,194	103,028	27.0

(Reference) Total shareholders' equity: May 31, 2022: ¥94,722 million, November 30, 2021: ¥94,296 million

2. Dividends

Years ended/ending November 30

	Dividends per share				
	February 28	May 31	August 31	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
2021	—	39.00	—	51.00	90.00
2022	—	39.00			
2022 (Forecast)			—	51.00	90.00

(Note) Revision of dividends forecast for this period: None

3. Forecasts for Fiscal Year Ending November 30, 2022

(December 1, 2021 to November 30, 2022)

Percentages indicate year-on-year increase/ (decrease).

	Net sales		Operating profit		Ordinary profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year	140,000	54.8	18,000	90.2	15,000	85.1

	Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Yen
Fiscal year	10,200	1.9	219.50

(Note) Revision of results forecast for this period: None

Notes

(1) Significant changes in subsidiaries during the subject fiscal period: Yes

(Changes in specified subsidiaries related to a change in the scope of consolidation)

Additions: 2 (Ryozen Development LLC / Shangri-La Kyoto Nijojo SPC)

Deletions: (—)

(2) Application of special accounting practices in the preparation of the consolidated financial statements:

None

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

1) Changes in accounting policies due to revision of accounting standards: Yes

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

3) Changes in accounting estimates: None

4) Restatements: None

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

1) Number of shares issued and outstanding (including treasury stock)

Six months ended May 31, 2022	46,522,685 shares	Year ended November 30, 2021	46,468,085 shares
Six months ended May 31, 2022	402 shares	Year ended November 30, 2021	201 shares
Six months ended May 31, 2022	46,477,416 shares	Six months ended May 31, 2021	40,239,448 shares

2) Number of treasury stock

3) Average number of shares outstanding for each period (cumulative term)

* Quarterly financial statements are not subject to review by certified public accountants or audit firms.

* Explanation regarding the appropriate use of results forecasts, and other items of note

- Results forecasts and other forward-looking statements contained in this report are based on information available to the Company at the time of disclosure, and certain assumptions the Company considers reasonable. Actual results may vary considerably due to a variety of factors.
- The Company plans to hold an explanatory meeting for institutional investors and analysts on August 1, 2022.

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1. Qualitative Information on Consolidated Results for the First Half of Fiscal 2022

(1) Explanation of Business Results

During the subject second quarter cumulative period in the Japanese economy, socio-economic activity was normalizing due, for example, to quasi-emergency measures to prevent the spread of COVID infections having been lifted in March, and the announcement that the acceptance of foreign tourists would resume from June. In contrast, the outlook in terms of the global economy remained as uncertain as ever due to factors that included soaring energy resource prices, rising inflation rates, tension surrounding the situation in Ukraine, rising interest rates in Europe and the United States as well as the depreciation of the yen.

In the real estate industry, of which the Samty Group is a part, with regard to rental apartments, occupancy rates, rent levels, and property sales prices have remained favorable, because they are not easily affected by economic trends or the effects of the COVID-19 pandemic. In the hotel industry, it is anticipated that consumption on accommodation and tourism will increase going forward due to the increase in crowds brought about by having stabilized the COVID pandemic situation.

In such a business environment, the Company sold rental apartments during the subject second quarter cumulative period against the backdrop of the strong willingness to make investments on the part of domestic and foreign institutional investors. The occupancy rate of hotels owned and operated by the Group had declined due to the impact of the quasi-emergency measures to prevent the spread of COVID infections but is currently on a recovery trend. Also, in July, in partnership with marketing company Katana Inc., the Company will take over the management of Nesta Resort Kobe Co., Ltd., which operates a nature adventure theme park that comprises a hotel. The Group recognizes that the leading assets that are expected to grow in the post-COVID era are “tourism / leisure-related.” In addition to rental condominiums, office buildings and hotels, the Company will add facilities designed to attract customers (theme parks) as a new growth engine, gain opportunities to increase profits, while promoting regional revitalization.

As a result, for the subject second quarter cumulative period, net sales amounted to ¥36.2 billion (up 49.7% from the same period of the previous fiscal year), with operating profit of ¥2.7 billion (down 23.5%), ordinary profit of ¥1.9 billion (down 29.0%), and profit attributable to owners of parent of ¥1.6 billion (down 72.6%).

Due to the application of the Accounting Standard for Revenue Recognition, net sales in the subject second quarter cumulative period decreased by ¥0.5 billion compared with the previous accounting method.

Results by Business Segment

The classifications of the reportable segments have been changed from the previous fourth quarter, and comparisons with and analyses of the same period in the previous fiscal years are based on the changed classifications.

Results by Business Segment

a. Real Estate Development Business

The Real Estate Development Business engages in the planning, development, and sales of the Samty brand S-RESIDENCE series, etc. During the subject second quarter cumulative period, the Company sold 14 real estate for sale properties for approximately 14.2 billion yen.

As a result, net sales in the Real Estate Development Business segment amounted to ¥14.2 billion (down 3.7% from the same period of the previous fiscal year), with operating profit of ¥2.3 billion (down 57.1%).

b. Real Estate Solution Business

The Real Estate Solution Business engages in the acquisition, renovation, and sales of profitable real estate. In addition to selling office buildings, during the subject second quarter cumulative period the Company sold 16 rental condominium properties for approximately 14.6 billion yen.

As a result, net sales in the Real Estate Solution Business segment amounted to ¥14.6 billion (up 306.9% from the same period of the previous fiscal year), with operating profit of ¥2.5 billion (up 632.6%).

c. Overseas Business

The Overseas Business engages in overseas investment and for-sale housing businesses. With regard to the smart city, for-sale housing business project in Hanoi, Vietnam, which started sales in the previous consolidated fiscal year, sales are progressing steadily even amid the COVID pandemic. In addition, due to the effects of the yen's depreciation, foreign exchange gains are mainly being generated at overseas subsidiaries.

As a result, there were no net sales recorded for this business (¥0.0 billion in the same quarter of the previous year), and operating loss was ¥0.1 billion (operating loss of ¥0.0 billion in the same quarter of the previous year).

d. Real Estate Leasing Business

The Real Estate Leasing Business engages in the leasing of residential apartments, office buildings, and commercial facilities. Property acquisitions have been favorable during the subject second quarter cumulative period. In addition to acquiring 30 profitable properties, totaling approximately 18.9 billion yen, the Company completed the development of 24 properties for a total of approximately 27.9 billion yen.

As a result, net sales in the Real Estate Leasing Business segment amounted to ¥4.3 billion (up 17.3% from the same period of the previous fiscal year), with operating profit of ¥2.1 billion (up 26.0%).

e. Hotel Business

The Hotel Business engages in the leasing and operating of hotels. During the subject first quarter cumulative period, 18 hotels were owned and operated, including S-PERIA HOTEL Fukuoka Nakasu (Hakata-ku, Fukuoka) and Aloft Osaka Dojima (Kita-ku, Osaka).

During the subject second quarter cumulative period, Tochigi Prefecture and Nagasaki Prefecture requested to secure accommodation facilities at HOTEL SUNSHINE UTSUNOMIYA (Utsunomiya-shi, Tochigi) and S-PERIA HOTEL Nagasaki (Nagasaki-shi, Nagasaki). Accepting these requests from the perspectives of its corporate social responsibility and contributions to local communities, the Group is fully renting out both of these buildings. At other hotels owned and operated by the Group, restrictions on behavior are being relaxed, revitalization in the flow of people is gradually returning, and recovery in demand is expected.

As a result, net sales in the Hotel Business segment amounted to ¥1.3 billion (up 80.2% from the same period of the previous fiscal year), and operating loss of ¥1.5 billion (operating loss of ¥1.4 billion in the same period of the previous fiscal year).

f. Real Estate Management Business

The Real Estate Management Business engages in the managing of residential apartments, office buildings, and commercial facilities.

As a result, net sales in the Real Estate Management Business segment amounted to ¥1.7 billion (up 31.9% from the same period of the previous fiscal year), with operating profit of ¥0.3 billion (up 122.1%).

(2) Qualitative Information on the Consolidated Financial Position

1) Assets, Liabilities, and Net Assets

Assets

Total assets at the end of the subject second quarter cumulative period amounted to ¥396.2 billion, an increase of ¥47.1 billion compared with the end of the previous fiscal year. Intending to maximize income gain in accordance with the Samty Toughening Plan (Post-COVID Version) Medium-Term Management Plan announced in January 2021, the Group has a policy of holding completed properties for a certain period of time. As a result, real estate for sale, real estate for sale under construction, and net property and equipment (income properties, etc.) increased by ¥56.6 billion, and cash and deposits decreased by ¥6.7 billion.

Liabilities

Total liabilities at the end of the subject second quarter cumulative period amounted to ¥290.4 billion, an increase of ¥44.3 billion compared with the end of the previous fiscal year. The main contributory factor was an increase in borrowings of ¥39.9 billion accompanying the settlement of acquisition of more than 60 properties, including sites for development and income properties.

Net Assets

Total net assets at the end of the subject second quarter cumulative period amounted to ¥105.8 billion, an increase of ¥2.7 billion compared with the end of the previous fiscal year. The main contributory factor was a decrease in retained earnings of ¥2.3 billion due to the payment of dividends at the end of the previous consolidated fiscal year.

2) Cash Flows

Cash and cash equivalents (“cash”) at the end of the subject second quarter cumulative period amounted to ¥31.6 billion, a decrease of ¥8.9 billion compared with the end of the previous fiscal year. This was due mainly to ¥16.2 billion in cash used in operating activities; ¥32.2 billion in cash used in investing activities; and ¥39.0 billion in cash provided by financing activities.

The main factors affecting cash flows during the subject second quarter cumulative period are as follows.

Cash Flow from Operating Activities

Net cash used in operating activities amounted to ¥16.2 billion (compared with ¥37.9 billion in cash used in the same period of the previous fiscal year). This was due mainly to ¥1.9 billion in income before income taxes; ¥18.7 billion in increase in inventories; and ¥1.3 billion in income taxes paid.

Cash Flow from Investing Activities

Net cash used in investing activities amounted to ¥32.2 billion (compared with ¥24.1 billion in cash used in the same period of the previous fiscal year). This was due mainly to ¥27.8 billion in purchase of property, plant and equipment, and outflow of ¥1.7 billion for the acquisition of shares of a subsidiary in accordance with a change in the scope of consolidation.

Cash Flow from Financing Activities

Net cash provided by financing activities amounted to ¥39.0 billion (compared with ¥47.2 billion in cash provided in the same period of the previous fiscal year). This was due mainly to ¥13.3 billion in increase in short-term loans payable; ¥9.6 billion in decrease in short-term loans payable; ¥61.6 billion in proceeds from long-term loans; ¥26.9 billion in repayments of long-term loans; inflow of ¥4.1 billion from the issue of corporate bonds; and ¥2.3 billion in dividends paid.

(3) Explanation of Consolidated Results Forecasts and Other Future Predictions

The full-year consolidated earnings forecast has not changed from the earnings forecast in the “Flash Report (Consolidated Basis), Results for the year ended November 2021,” announced on January 14, 2022.

2. Consolidated Financial Statements and Main Explanatory Notes

(1) Consolidated Balance Sheets

	Millions of yen	
	November 30, 2021	May 31, 2022
ASSETS		
Current assets:		
Cash and deposits	41,646	34,910
Accounts receivable – trade	1,858	1,268
Real estate for sale	107,875	123,346
Real estate for sale in process	71,075	99,447
Merchandise	0	0
Supplies	23	22
Other	2,618	2,457
Allowance for doubtful accounts	(3)	(4)
Total current assets	225,094	261,449
Non-current assets:		
Property, plant and equipment:		
Buildings and structures, net	23,865	26,422
Buildings in trust, net	3,142	3,345
Land	54,925	54,519
Land in trust	2,314	11,634
Construction in progress	6,678	8,341
Other, net	379	429
Total property, plant and equipment	91,306	104,692
Intangible assets:		
Goodwill	9	9
Other	417	423
Total intangible assets	426	432
Investments and other assets:		
Investment securities	27,921	25,031
Deferred tax assets	545	191
Other	3,901	4,421
Allowance for doubtful accounts	(53)	(53)
Total investments and other assets	32,315	29,591
Total non-current assets	124,048	134,717
Deferred assets:		
Share issuance costs	42	34
Bond issuance costs	9	94
Total deferred assets	51	129
Total assets	349,194	396,295

	Millions of yen	
	November 30, 2021	May 31, 2022
LIABILITIES		
Current liabilities:		
Notes and accounts payable - trade	3,304	3,010
Short-term borrowings	12,325	15,948
Current portion of long-term borrowings	32,197	33,892
Income taxes payable	1,660	496
Other	5,131	6,640
Total current liabilities	54,618	59,987
Non-current liabilities:		
Bonds payable	9,000	12,930
Bonds with share acquisition rights	12,000	12,000
Long-term borrowings	165,709	200,317
Retirement benefit liability	251	270
Leasehold and guarantee deposits received	1,369	1,387
Construction assistance fund	372	344
Deferred tax liabilities	2,551	2,960
Other	292	284
Total non-current liabilities	191,547	230,495
Total liabilities	246,166	290,482
NET ASSETS		
Shareholders' equity:		
Share capital	20,595	20,657
Capital surplus	22,471	22,533
Retained earnings	50,269	49,525
Treasury shares	(0)	(0)
Total shareholders' equity	93,336	92,716
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	965	2,318
Foreign currency translation adjustment	(5)	(312)
Total accumulated other comprehensive income	959	2,005
Non-controlling interests	8,731	11,091
Total net assets	103,028	105,813
Total liabilities and net assets	349,194	396,295

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income
Consolidated Statements of Income

Six months ended May 31

	Millions of yen	
	2021	2022
Net sales	24,193	36,224
Cost of sales	16,444	28,617
Gross profit	7,749	7,606
Selling, general and administrative expenses	4,149	4,853
Operating profit	3,599	2,753
Non-operating income:		
Interest income	0	0
Dividend income	1	1
Foreign exchange gains	790	1,944
Gain on valuation of interest rate swaps	23	20
Other	89	48
Total non-operating income	906	2,016
Non-operating expenses:		
Interest expenses	1,104	1,568
Interest on bonds	69	96
Share of loss of entities accounted for using equity method	—	119
Commission expenses	507	958
Other	15	32
Total non-operating expenses	1,697	2,775
Ordinary profit	2,808	1,993
Extraordinary income:		
Gain on bargain purchase	4,307	—
Total extraordinary income	4,307	—
Extraordinary loss:		
Loss on retirement of non-current assets	2	7
Head office relocation expenses	129	—
Total extraordinary losses	132	7
Profit before income taxes	6,983	1,986
Income taxes-current	860	389
Income taxes-deferred	25	(83)
Total income taxes	886	305
Profit	6,097	1,680
Profit attributable to non-controlling interests	20	14
Profit attributable to owners of parent	6,076	1,666

Consolidated Statements of Comprehensive Income

Six months ended May 31

	Millions of yen	
	2021	2022
Profit	6,097	1,680
Other comprehensive income:		
Valuation difference on available-for-sale securities	959	1,353
Deferred gains or losses on hedges	268	—
Foreign currency translation adjustment	(42)	(160)
Total other comprehensive income	1,186	1,192
Comprehensive income	7,283	2,873
Comprehensive income attributable to:		
Comprehensive income attributable to owners of the parent	7,147	2,712
Comprehensive income attributable to non-controlling interests	136	161

(3) Consolidated Statements of Cash Flows

Six months ended May 31

	Millions of yen	
	2021	2022
Cash flows from operating activities:		
Profit before income taxes	6,983	1,986
Depreciation	485	622
Amortization of goodwill	0	0
Increase (decrease) in allowance for doubtful accounts	(16)	—
Increase (decrease) in retirement benefit liability	19	19
Interest and dividends income	(2)	(2)
Interest expenses	1,173	1,665
Commission expenses	507	958
Foreign exchange losses (gains)	(790)	(1,944)
Share of loss (profit) of entities accounted for using equity method	—	119
Gain on bargain purchase	(4,307)	—
Head office relocation expenses	129	—
Decrease (increase) in trade receivables	970	590
Decrease (increase) in inventories	(49,274)	(18,782)
Increase (decrease) in trade payables	322	(481)
Loss on retirement of non-current assets	2	7
Increase (decrease) in accrued consumption taxes	(327)	1,397
Increase (decrease) in leasehold and guarantee deposits received	219	18
Other-net	10,761	711
Subtotal	(33,141)	(13,112)
Interest and dividends received	2	3
Interest paid	(1,122)	(1,755)
Penalty received	—	13
Income taxes paid	(3,727)	(1,362)
Net cash provided by (used in) operating activities	(37,988)	(16,213)
Cash flows from investing activities:		
Payments into time deposits	(26)	(2,080)
Purchase of property, plant and equipment	(16,334)	(27,884)
Purchase of intangible assets	(7)	(33)
Purchase of investment securities	(675)	(359)
Proceeds from redemption of investment securities	0	101
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(6,926)	(1,794)
Payments for investments in capital	(8)	—
Payments of construction assistance fund receivables	(27)	(27)
Long-term loan advances	(93)	—
Other-net	(20)	(145)
Net cash provided by (used in) investing activities	(24,117)	(32,224)

(continued on page 11)

	Millions of yen	
	2021	2022
Cash flows from financing activities:		
Proceeds from short-term borrowings	12,544	13,355
Repayments of short-term borrowings	(17,079)	(9,648)
Proceeds from long-term borrowings	74,761	61,605
Repayments of long-term borrowings	(24,262)	(26,969)
Proceeds from issuance of bonds	4,000	4,100
Purchase of treasury shares	(383)	(0)
Dividends paid	(1,775)	(2,368)
Other-net	(515)	(1,072)
Net cash provided by (used in) financing activities	47,289	39,001
Effect of exchange rate change on cash and cash equivalents	(68)	505
Net increase (decrease) in cash and cash equivalents	(14,886)	(8,930)
Cash and cash equivalents at beginning of period	41,724	40,589
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	106	—
Cash and cash equivalents at end of period	26,945	31,658

(4) Notes Relating to Consolidated Financial Statements

(Note on Assumptions for Going Concern)

Not applicable.

(Notes in the Event of Major Changes in Shareholders' Equity)

Not applicable.

(Change in Accounting Policy)

Second quarter of FY11/21 (from December 1, 2021 to May 31, 2022)

The Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan [ASBJ] Statement No. 29, March 31, 2020, hereinafter referred to as "the Revenue Recognition Standard"), has been applied effective from the beginning of the subject first quarter accounting period. When control of promised goods or services is transferred to the customer, the amount expected to be received upon exchange for said goods or services will be recognized as revenue.

The main changes due to the application of this standard are as follows.

1. Revenue recognition for agent transactions

Previously, sales of utilities and corresponding purchases to tenants in rental properties, and hotel sales and corresponding purchases of outsourcing fees, etc. had been recorded as net sales and cost of sales, respectively. As a result of examining the Company's role (serving as a supplier or agent) in providing goods or services to customers, it was decided to change to a method that recognizes revenue as the net amount received for transactions in which the Company is judged to be acting as an agent.

2. Revenue recognition for other companies' point programs

Previously, the amount corresponding to the point programs of other companies given at the time of hotel sales was recorded as cost of sales, but as this represents an amount to be recovered for a third party, the decision was made to change to a method of deducting the amount from the transaction price.

3. Revenue recognition for variable consideration

With regard to variable consideration included in contracts related to hotel sales, net sales were previously recorded when the amount was fixed. However, when the uncertainty associated with this variable consideration is subsequently resolved, the decision was made that the amount should be estimated and reflected in the transaction price for portions where there is a high possibility that the profit recorded up to that point will not have been significantly reduced.

Regarding the application of the Revenue Recognition Standard, we followed the transitional treatment stipulated in Paragraph 84 of the Revenue Recognition Standard. Taking into account the cumulative impact of retroactive application of new accounting policies prior to the beginning of the first quarter of the current consolidated accounting period, the new accounting policy is applied from the balance at the beginning of the first quarter of the current consolidated accounting period by adding it to or subtracting it from the retained earnings at the beginning of the period.

As a result, net sales for the subject second quarter cumulative period decreased by ¥573 million, cost of sales decreased by ¥600 million, and selling, general and administrative expenses decreased by ¥13 million. Operating profit, ordinary profit, and income before income taxes each increased by ¥40 million, but this does not affect the balance of retained earnings at the beginning of the period.

In accordance with the transitional treatment stipulated in Paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020), we are not disclosing information on the disaggregation of revenue generated from contracts with customers for the second quarter of the previous consolidated cumulative period.

With regard to the transfer of real estate that is subject to the "Practical Guidelines for Accounting

“Treatments for Transferors Relating to Liquidation of Real Estate Utilizing Special Purpose Companies” contained in the Real Estate Development Business and Real Estate Solution Business segments of the Company, since this is outside the scope of the Revenue Recognition Standard, the accounting treatment will be performed as previously.

The Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019; hereinafter referred to as “the Fair Value Accounting Standard”), etc., has been applied from the beginning of the subject first quarter cumulative accounting period. New accounting policies prescribed by the Fair Value Accounting Standard, etc., will be prospectively applied in accordance with the transitional treatment prescribed in Paragraph 19 of the Fair Value Accounting Standard and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019). The effect of the application of the Fair Value Accounting Standard, etc., on the quarterly consolidated financial statements is immaterial.

(Additional Information)

Change in Holding Purpose

Because of a change in holding purpose, ¥12,798 million was transferred from property, plant, and equipment to inventories.

Impact of COVID-19 pandemic on accounting estimates

There are no significant changes to the assumptions relating to the effects of the COVID-19 pandemic set forth in the Securities Report (Significant Accounting Estimates) for the previous consolidated fiscal year.

(Segment Information)

I Results for the first half of FY11/21 (from December 1, 2020 to May 31, 2021)

1. Operating Revenues and Earnings (or Loss) by Reportable Segment

Six months ended May 31, 2021

	Millions of yen						
	Reportable Segment						
	Real Estate Development Business	Real Estate Solution Business	Overseas Business	Real Estate Leasing Business	Hotel Business	Real Estate Management Business	Total
Net sales:							
Net sales from third parties	14,756	3,595	99	3,709	737	1,296	24,193
Inter-segment net sales and transfers	—	—	—	—	53	266	320
Total	14,756	3,595	99	3,709	790	1,562	24,514
Operating profit (loss)	5,478	349	(50)	1,683	(1,488)	175	6,150

	Millions of yen		
	Total	Adjustment (Note 1)	Amount Recorded on Consolidated Income Statement (Note 2)
Net sales:			
Net sales from third parties	24,193	—	24,193
Inter-segment net sales and transfers	320	(320)	—
Total	24,514	(320)	24,193
Operating profit (loss)	6,150	(2,550)	3,599

Notes

1. The ¥2,550 million downward adjustment to operating profit (loss) comprises a negative ¥87 million in intersegment eliminations, and a negative ¥2,463 million in corporate expenses not allocated to any reportable segment. Corporate expenses are general and administrative expenses not attributed to any reportable segment.
2. Segment operating profit (loss) is adjusted to the operating profit on the consolidated income statement.

2. Disclosure of Impairment Loss of Non-Current Assets or Goodwill by Reportable Segment

Not applicable.

II Results for the first half of FY11/22 (from December 1, 2021 to May 31, 2022)

1. Operating Revenues and Earnings (or Loss) by Reportable Segment

Six months ended May 31, 2022

	Millions of yen						
	Reportable Segment						
	Real Estate Development Business	Real Estate Solution Business	Overseas Business	Real Estate Leasing Business	Hotel Business	Real Estate Management Business	Total
Net sales:							
Net sales from third parties	14,205	14,628	—	4,352	1,328	1,709	36,224
Inter-segment net sales and transfers	—	—	—	—	11	575	586
Total	14,205	14,628	—	4,352	1,339	2,284	36,811
Operating profit (loss)	2,349	2,563	(174)	2,120	(1,562)	390	5,687

	Millions of yen		
	Total	Adjustment (Note 1)	Amount Recorded on Consolidated Income Statement (Note 2)
Net sales:			
Net sales from third parties	36,224	—	36,224
Inter-segment net sales and transfers	586	(586)	—
Total	36,811	(586)	36,224
Operating profit (loss)	5,687	(2,934)	2,753

Notes

1. The ¥2,934 million downward adjustment to operating profit (loss) comprises a negative ¥68 million in intersegment eliminations, and a negative ¥2,865 million in corporate expenses not allocated to any reportable segment. Corporate expenses are general and administrative expenses not attributed to any reportable segment.
2. Segment operating profit (loss) is adjusted to the operating profit on the consolidated income statement.

2. Matters appertaining to changes in reportable segments, etc.

As described in the Change in Accounting Policy, the Accounting Standard for Revenue Recognition has been applied from the beginning of the subject first quarter cumulative accounting period. Due to the change in the accounting method for revenue recognition, the method for calculating profit or loss in the reportable segments has also changed.

Due to this change, compared with the previous method, net sales of the Real Estate Leasing Business for the subject second quarter cumulative period decreased by ¥68 million, net sales of the Hotel Business decreased by ¥505 million, and segment profit increased by ¥40 million.

Having reviewed the business segment classification method, from the previous consolidated fiscal year we changed the reportable segments from the previous Real Estate Business, Real Estate Leasing Business, and Other Businesses to the Real Estate Development Business, Real Estate Solution Business, Overseas Business, Real Estate Leasing Business, Hotel Business, and Real Estate Management Business.

With regard to the segment information for the previous second quarter consolidated cumulative period disclosed as comparative information for the subject second quarter cumulative period, this

was created from the post-change reportable segments, and thus differences can be seen from the reportable segments for the second quarter consolidated cumulative period disclosed in the previous consolidated fiscal year.

3. Disclosure of Impairment Loss of Non-Current Assets or Goodwill by Reportable Segment

Not applicable.

(Significant Events after the Reporting Period)

(Business Combination and Start of New Business by Acquisition of Shares)

At the Board of Directors' meeting held on June 10, 2022, the Company resolved to acquire, through its subsidiary SK Bridge Co., Ltd., shares in Nesta Resort Kobe Co., Ltd., to make that company a subsidiary and signed a share transfer agreement on the same date. Going forward, the Company will position Nesta Resort Kobe's business as a new growth engine for the Group and aim to further expand its business by investing management resources.

(1) Outline of Business Combination

(A) Name of acquired company and details of its business

Name of acquired company: Nesta Resort Kobe Co., Ltd.

Details of business: Development, planning and operation of resort areas and resort hotels; operation and management of activity facilities, all business incidental to these

(B) Name of other party company in share transfer agreement

Nobuta Enterprise Co., Ltd.

(C) Main reasons for carrying out business combination

Recognizing that the leading assets that are expected to grow in the post-COVID era are tourism and leisure-related assets, the Company acquired shares in Nesta Resort Kobe Co., Ltd., which operates such businesses.

(D) Date of business combination

June 30, 2022

(E) Legal method of business combination

Share acquisition

(F) Post-business combination name of company

No change

(G) Voting right ratio to be acquired

Voting right ratio after acquisition 100.0%

However, since the voting rights ratio of the Company in the acquiring company SK Bridge Co., Ltd. is 62.0%, the ratio of voting rights indirectly held by the Company will be 62.0%.

(H) Main rationale for deciding on acquisition company

SK Bridge Co., Ltd. to acquire shares as consideration for cash.

(2) Period of performance of acquired company to be included in consolidated financial statements

From June 30, 2022, onward

(3) Number of shares to be acquired and equity ratio after acquisition

Before transfer: 0 shares (Equity ratio: 0.0%, of which indirect 0.0%)

Number of shares to be acquired: 200 shares (Equity ratio: 62.0%, of which 62.0% is indirect)

After transfer: 200 shares (Equity ratio: 62.0%, of which 62.0% is indirect)

(4) Acquisition cost of acquired company and its breakdown

Not being disclosed at request of other party that is acquiring shares.

(5) Details and amount of major acquisition-related costs

Not being confirmed at this time.

(6) Amount of goodwill generated, cause of occurrence, amortization method and amortization period

Not being confirmed at this time.

(Borrowing of large amount of funds)

At the meeting of its Board of Directors held on June 24, 2022, the Company resolved to conclude a syndicated loan agreement as set out below, concluded the agreement on June 27, and executed the first loan on June 30.

(1) Use of borrowed funds

Land acquisition and construction work for the Company's hotel development project (Mercure Haneda)

(2) Lender's name

Arranger and Agent: Sumitomo Mitsui Banking Corporation

(3) Amount of money borrowed

Composition amount: 12,300 million yen (split borrowing executable)

(4) Borrowing interest rate

Floating interest rate (base interest rate + spread)

(5) Implementation period

From June 30, 2022, to October 31, 2023

(6) Repayment deadline

Final deadline: April 30, 2027

(7) Assets provided as collateral or as content of guarantee

The land and building after completion

END