

Summary of Consolidated Financial Results
for the First Quarter of the Fiscal Year Ending March 31, 2024
(Three Months Ended June 30, 2023)

[Japanese GAAP]

Company name: KI-STAR REAL ESTATE Co., Ltd. Listing: Tokyo Stock Exchange
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 Scheduled date of filing of Quarterly Report: August 14, 2023
 Scheduled date of payment of dividend: -
 Preparation of supplementary materials for quarterly financial results: Yes
 Holding of quarterly financial results meeting: None

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the First Three Months (April 1, 2023 – June 30, 2023) of the Fiscal Year Ending March 31, 2024

(1) Consolidated results of operations (Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended Jun. 30, 2023	61,096	22.1	2,502	(50.7)	2,411	(50.6)	2,078	(34.9)
Three months ended Jun. 30, 2022	50,035	15.7	5,073	(3.8)	4,883	(5.7)	3,191	(3.0)

Note: Comprehensive income (million yen) Three months ended Jun. 30, 2023: 2,210 (down 32.2%)
 Three months ended Jun. 30, 2022: 3,261 (down 6.1%)

	Net income per share	Diluted net income per share
	Yen	Yen
Three months ended Jun. 30, 2023	131.89	131.84
Three months ended Jun. 30, 2022	201.80	201.68

Note: KI-STAR REAL ESTATE Co., Ltd. ("the Company") has established a performance-linked stock compensation plan for directors and employee stock distribution trust program. Shares for these plans held by the trust are recorded as treasury shares in the consolidated balance sheet.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Jun. 30, 2023	221,621	59,758	23.3
As of Mar. 31, 2023	199,461	56,528	25.6

Reference: Shareholders' equity (million yen) As of Jun. 30, 2023: 51,586 As of Mar. 31, 2023: 50,969

Note: The Company has established a performance-linked stock compensation plan for directors and employee stock distribution trust program. Shares for these plans held by the trust are recorded as treasury shares in the consolidated balance sheet.

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Mar. 31, 2023	-	140.00	-	90.00	230.00
Fiscal year ending Mar. 31, 2024	-	-	-	-	-
Fiscal year ending Mar. 31, 2024 (forecasts)	-	118.00	-	118.00	236.00

Note: Revisions to the most recently announced dividend forecast: None

3. Consolidated Forecast for the Fiscal Year Ending March 31, 2024 (April 1, 2023 – March 31, 2024)

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	290,000	19.9	19,500	1.6	19,000	2.9	12,000	1.3	761.57

Note: Revisions to the most recently announced consolidated forecast: None

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in the scope of consolidation): None

Newly added: -

Excluded: -

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: None

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

1) Changes in accounting policies due to revisions in accounting standards, others: None

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

3) Changes in accounting estimates: None

4) Restatements: None

(4) Number of issued shares (common shares)

1) Number of shares issued at the end of the period (including treasury shares)

As of Jun. 30, 2023:	15,862,100 shares	As of Mar. 31, 2023:	15,861,700 shares
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2) Number of treasury shares at the end of the period

As of Jun. 30, 2023:	104,908 shares	As of Mar. 31, 2023:	104,878 shares
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3) Average number of shares during the period

Three months ended Jun. 30, 2023:	15,756,853 shares	Three months ended Jun. 30, 2022:	15,815,801 shares
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Note: The Company has established a performance-linked stock compensation plan for directors and employee stock distribution trust program. Shares for these plans held by the trust are included in treasury shares for calculating the number of treasury shares at the end of the period and the average number of shares during the period.

* The current financial report is not subject to quarterly review by certified public accountants or auditing firms.

* Cautionary statement with respect to forward-looking statements, and other special items

Cautionary statement with respect to forecasts

Forecasts of future performance in this report are based on assumptions judged to be valid and information currently available to the Company. Actual results may differ significantly from these forecasts for a number of factors.

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

In the first quarter of the current fiscal year, the Japanese economy witnessed a gradual recovery attributed to the resumption of economic activities following the reclassification of COVID-19 as Category 5. Nevertheless, the outlook remained uncertain due to the prolonged Russia-Ukraine conflict, ongoing upward price trends, and the deceleration of overseas economies.

In Japan's housing sector, where the KI-STAR Group operates, demand for houses remained strong, nevertheless property prices have risen due to the surge in construction costs caused by the global increase in the prices of building materials.

By supplying design houses with outstanding quality at low prices based on the vision of "house ownership for everyone," the KI-STAR Group continued to concentrate on the growth strategy for its core homebuilding and sales business. Activities are guided by the management philosophy of "creating lives that are fulfilling, enjoyable and pleasant." We expanded operations to new areas and are working to continue growing in markets where we already operate with the aim of increasing our market share.

In the first quarter of the current fiscal year, L-Housing Co., Ltd., primarily engaged in constructing single-family houses for sale mainly in Kyoto Prefecture, became a consolidated subsidiary through the acquisition of 51.6% of its outstanding shares. We proactively proceeded post-merger integration activities to enhance its market share across the Kinki region in the homebuilding and sales market.

In the consolidation of L-Housing Co., Ltd., a gain on bargain purchase was recorded as the fair value of net assets surpassed the acquisition cost as a result of the allocation of the acquisition cost to inventories. A substantial portion of these inventories was subsequently recorded as sales in the first quarter, thereby increasing the cost of sales.

Sales increased 11,060 million yen (22.1%) from the same period of the previous fiscal year to a record-high 61,096 million yen. However, operating profit decreased 2,571 million yen (50.7%) to 2,502 million yen. This was primarily due to higher cost of sales resulting from the consolidation of L-Housing Co., Ltd. and normalization of real estate demand which remained high during the first quarter of the previous fiscal year caused by the pandemic. Ordinary profit decreased 2,472 million yen (50.6%) to 2,411 million yen. Profit attributable to owners of parent was down 1,113 million yen (34.9%) to 2,078 million yen mainly due to the recording of negative goodwill of 495 million yen.

Results by business segment are as follows:

KI-STAR changed the classification of its reportable segments in the first quarter of the current fiscal year. The following year-on-year comparisons are based on the figures for the same period of the previous fiscal year, which have been reclassified to reflect the new segment classifications. More information about the change in reportable segments is described in "2. Quarterly Consolidated Financial Statements and Notes, (3) Notes to Quarterly Consolidated Financial Statements, Segment and Other Information."

i) Homebuilding and sales business

In this business, the Group is actively pursuing a strategy centered around offering "design houses with outstanding quality at low prices." Prices of houses are set at a level that makes the monthly mortgage payments less expensive than renting a residence. Simultaneously, the Group is expanding operations into new areas, executing a strategy of mergers and acquisitions based on its market share growth strategy.

During the first quarter, 1,625 houses (including land sale) were sold, up 250 from one year earlier. Sales increased 11,350 million yen to 58,903 million yen. Segment profit was down 2,361 million yen to 3,161 million yen. This was primarily due to higher cost of sales resulting from the consolidation of L-Housing Co., Ltd. and normalization of real estate demand, which remained high during the first quarter of the previous fiscal year caused by the pandemic.

ii) Custom-built housing business

This custom-built housing business is concentrating on increasing the number of custom-built houses for real estate companies, the single-story IKI semi custom-built houses and semi custom-built houses

The number of houses sold during the first quarter decreased by 25 from one year earlier to 72. Sales were down 617 million yen to 1,218 million yen. Segment profit increased 25 million yen to 83 million yen. This was primarily due to improved gross profit margin which had been declining as affected by rising prices of building materials following the high cost of wood. There were also strong sales of the single-story IKI semi custom-built houses that had produced up-front selling, general and administrative expenses because of the increasing number of orders.

(2) Explanation of Financial Position

Assets

Total assets increased by 22,160 million yen, which include a 11,907 million yen increase due to consolidation of L-Housing, Ltd., from the end of the previous fiscal year to 221,621 million yen at the end of the first quarter of the current fiscal year. This was mainly due to an increase of 33,874 million yen in inventories, which include real estate for sale, real estate for sale in process and costs on uncompleted construction contracts, and a decrease of 14,426 million yen in cash and deposits resulting mainly from income taxes paid.

Liabilities

Total liabilities increased by 18,930 million yen, which include an 8,685 million yen increase due to consolidation of L-Housing, Ltd., to 161,863 million yen. The main reasons include an increase of 17,673 million yen in borrowings, which include short-term borrowings, current portion of long-term borrowings and long-term borrowings because of procurement of funds to purchase land.

Net assets

Total net assets increased by 3,230 million yen to 59,758 million yen. The main reason was an increase of 2,078 million yen in retained earnings due to profit attributable to owners of parent, which was partly offset by a 1,427 million yen decrease as a result of payments of cash dividends and a 2,612 million yen increase in non-controlling interests.

(3) Explanation of Consolidated Forecast and Other Forward-looking Statements

There are no revisions to the consolidated forecast for the fiscal year ending March 31, 2024 that was announced in the “Summary of Consolidated Financial Results for the Fiscal Year Ended March 31, 2023” dated May 12, 2023. Sales and earnings at all levels are in line with the forecast. An announcement will be made promptly if there is any new information about the forecast that requires disclosure.

2. Quarterly Consolidated Financial Statements and Notes**(1) Quarterly Consolidated Balance Sheet**

(Thousands of yen)

	FY3/23 (As of Mar. 31, 2023)	First quarter of FY3/24 (As of Jun. 30, 2023)
Assets		
Current assets		
Cash and deposits	47,855,517	33,428,696
Accounts receivable from completed construction contracts	93,365	296,698
Real estate for sale	58,464,976	74,518,202
Real estate for sale in process	74,224,047	91,580,328
Costs on uncompleted construction contracts	4,126,652	4,592,033
Advance payments to suppliers	2,911,032	2,860,319
Other	3,874,441	5,350,077
Allowance for doubtful accounts	(33,740)	(37,164)
Total current assets	191,516,294	212,589,191
Non-current assets		
Property, plant and equipment	4,196,990	5,044,735
Intangible assets		
Goodwill	511,465	483,512
Other	438,371	409,733
Total intangible assets	949,837	893,246
Investments and other assets	2,798,160	3,094,638
Total non-current assets	7,944,989	9,032,620
Total assets	199,461,283	221,621,811
Liabilities		
Current liabilities		
Electronically recorded obligations-operating	4,269,404	4,484,138
Accounts payable for construction contracts	18,325,676	18,490,219
Short-term borrowings	79,159,885	94,980,460
Current portion of bonds payable	2,380,800	2,400,800
Current portion of long-term borrowings	8,082,142	12,277,658
Lease obligations	49,724	43,895
Income taxes payable	2,152,434	883,140
Provision for bonuses	705,496	794,631
Other	3,517,814	5,078,373
Total current liabilities	118,643,378	139,433,318
Non-current liabilities		
Bonds payable	3,387,600	3,591,600
Long-term borrowings	20,604,638	18,261,655
Lease obligations	6,577	39,169
Asset retirement obligations	69,463	69,137
Other	221,300	468,193
Total non-current liabilities	24,289,580	22,429,755
Total liabilities	142,932,958	161,863,074

	(Thousands of yen)	
	FY3/23 (As of Mar. 31, 2023)	First quarter of FY3/24 (As of Jun. 30, 2023)
Net assets		
Shareholders' equity		
Share capital	4,815,525	4,816,003
Capital surplus	5,703,643	5,704,122
Retained earnings	40,878,708	41,529,302
Treasury shares	(377,518)	(377,663)
Total shareholders' equity	51,020,359	51,671,764
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(48,046)	(80,779)
Foreign currency translation adjustment	(2,333)	(4,689)
Total accumulated other comprehensive income	(50,379)	(85,469)
Share acquisition rights	19,288	21,147
Non-controlling interests	5,539,056	8,151,294
Total net assets	56,528,325	59,758,737
Total liabilities and net assets	199,461,283	221,621,811

(2) Quarterly Consolidated Statements of Income and Comprehensive Income**Quarterly Consolidated Statement of Income****(For the Three-month Period)**

(Thousands of yen)

	First three months of FY3/23 (Apr. 1, 2022 – Jun. 30, 2022)	First three months of FY3/24 (Apr. 1, 2023 – Jun. 30, 2023)
Net sales	50,035,310	61,096,008
Cost of sales	40,782,877	53,631,481
Gross profit	9,252,433	7,464,527
Selling, general and administrative expenses	4,179,087	4,962,465
Operating profit	5,073,345	2,502,061
Non-operating income		
Interest income	618	7,205
Dividend income	1,935	461
Refund of real estate acquisition tax	86,594	139,408
Other	153,642	184,454
Total non-operating income	242,791	331,529
Non-operating expenses		
Interest expenses	234,782	326,820
Commission expenses	162,115	65,935
Other	35,329	29,353
Total non-operating expenses	432,227	422,108
Ordinary profit	4,883,910	2,411,481
Extraordinary income		
Gain on sale of non-current assets	967	-
Gain on bargain purchase	-	495,863
Total extraordinary income	967	495,863
Extraordinary losses		
Loss on retirement of non-current assets	1,014	1,508
Total extraordinary losses	1,014	1,508
Profit before income taxes	4,883,863	2,905,837
Income taxes-current	1,114,470	1,098,379
Income taxes-deferred	433,099	(438,115)
Total income taxes	1,547,570	660,263
Profit	3,336,292	2,245,573
Profit attributable to non-controlling interests	144,700	167,443
Profit attributable to owners of parent	3,191,592	2,078,130

Quarterly Consolidated Statement of Comprehensive Income
(For the Three-month Period)

	(Thousands of yen)	
	First three months of FY3/23 (Apr. 1, 2022 – Jun. 30, 2022)	First three months of FY3/24 (Apr. 1, 2023 – Jun. 30, 2023)
Profit	3,336,292	2,245,573
Other comprehensive income		
Valuation difference on available-for-sale securities	(40,693)	(32,733)
Foreign currency translation adjustment	(33,674)	(2,355)
Total other comprehensive income	(74,367)	(35,089)
Comprehensive income	3,261,925	2,210,484
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	3,117,224	2,043,041
Comprehensive income attributable to non-controlling interests	144,700	167,443

(3) Notes to Quarterly Consolidated Financial Statements**Going Concern Assumption**

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Segment and Other Information

First three months of FY3/23 (Apr. 1, 2022 – Jun. 30, 2022)

1. Information related to net sales and profit or loss for each reportable segment

(Thousands of yen)

	Reportable segment			Others (Note 1)	Adjustments (Note 2)	Amounts shown on the quarterly consolidated statement of income (Note 3)
	Homebuilding and sales	Custom-built housing	Total			
Net sales						
Sales to external customers	47,552,605	1,713,795	49,266,401	768,909	-	50,035,310
Inter-segment sales and transfers	-	122,233	122,233	217,521	(339,755)	-
Total	47,552,605	1,836,029	49,388,635	986,430	(339,755)	50,035,310
Segment profit	5,522,739	57,379	5,580,118	286,618	(793,391)	5,073,345

Notes: 1. Others represent the businesses which are not included in any of the reportable segments and mainly consist of pre-owned home, real estate leasing and brokerage businesses.

2. The -793 million yen adjustment to segment profit includes elimination for inter-segment transactions of 18 million yen and -811 million yen in corporate expenses that are not attributable to any of the reportable segments.

3. Segment profit is adjusted with operating profit shown on the consolidated statement of income.

First three months of FY3/24 (Apr. 1, 2023 – Jun. 30, 2023)

1. Information related to net sales and profit or loss for each reportable segment

(Thousands of yen)

	Reportable segment			Others (Note 1)	Adjustments (Note 2)	Amounts shown on the quarterly consolidated statement of income (Note 3)
	Homebuilding and sales	Custom-built housing	Total			
Net sales						
Sales to external customers	58,903,002	1,218,464	60,121,467	974,541	-	61,096,008
Inter-segment sales and transfers	-	-	-	155,384	(155,384)	-
Total	58,903,002	1,218,464	60,121,467	1,129,926	(155,384)	61,096,008
Segment profit	3,161,409	83,042	3,244,451	212,268	(954,657)	2,502,061

Notes: 1. Others represent the businesses which are not included in any of the reportable segments and mainly consist of pre-owned home, real estate leasing and brokerage businesses.

2. The -954 million yen adjustment to segment profit includes elimination for inter-segment transactions of 13 million yen and -968 million yen in corporate expenses that are not attributable to any of the reportable segments.

3. Segment profit is adjusted with operating profit shown on the consolidated statement of income.

2. Information related to revisions for reportable segments

In the first three months of FY3/24, the Group undertook a comprehensive reassessment of its business portfolio and changed its management structure and performance management classification in order to optimize the allocation of company-wide management resources and reinforce corporate governance. Consequently, the previously designated reportable segments, including Homebuilding and sales, Custom-built housing, Yokatown, Asahi Housing, Kenshin, and KEIAI Presto, have been reorganized into Homebuilding and sales and Custom-built housing.

The segment information for the first three months of FY3/23 are reported based on the reportable segment classification after the revision.

3. Information related to impairment of non-current assets, goodwill, etc. for each reportable segment

Significant gain on negative goodwill

In the Homebuilding and sales segment, a gain on negative goodwill was reported as a result of the acquisition of shares of L-Housing Co., Ltd. The amount of the gain on negative goodwill resulting from this acquisition was 495 million yen in the first three months of FY3/24.

Gain on negative goodwill is not included in the above segment profit because it is an extraordinary gain.

Additional Information

The Company has established a performance-linked stock compensation plan for directors and employee stock distribution trust program. Shares for this plan held by the trust are recorded as treasury shares in the consolidated balance sheet. The number of shares of the Company's stock held by the trust was 104,700 shares with a book value of 376 million yen as of March 31, 2023 and June 30, 2023.

This financial report is solely a translation of "Kessan Tanshin" (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.