

Note: The accompanying consolidated financial statements were not audited since they have been prepared only for reference purposes only. All statements are based on “Kessan Tanshin” report prepared in accordance with the provisions set forth in the accounting regulations and principals generally accepted in Japan.

Summary of Consolidated Financial Results for the Second Quarter ended June 30, 2018 [Based on Japanese GAAP]

August 6, 2018

Listed company name: MUGEN ESTATE Co., Ltd Listed Stock Exchange: Tokyo Stock Exchange
 Securities code: 3299 URL <https://www.mugen-estate.co.jp/en/>
 Representative: Shinichi Fujita, President
 Contact: Akira Okubo, Director, General Manager of Administrative Division ir@mugen-estate.co.jp
 Scheduled date of quarterly securities report filing: August 10, 2018 Scheduled date of dividend payment: -
 Supplementary material for financial results: Yes
 Quarterly financial results briefing: Yes

(fractions of one million yen are rounded off)

1. Consolidated financial results for the second quarter ended June 30, 2018 (January 1 to June 30, 2018)

(1) Consolidated financial results (cumulative) (Percentages represent changes from the previous year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
2Q ended June 30, 2018	24,631	(22.0)	2,542	(30.1)	2,182	(33.8)	1,411	(36.6)
2Q ended June 30, 2017	31,576	19.0	3,638	14.2	3,298	14.9	1,051	25.4

(Note) Comprehensive income: 2Q ended June 30, 2018 1,411 million yen (-36.6%)
 2Q ended June 30, 2017 2,225 million yen (25.4%)

	Net Income per share	Diluted net income per share
	Yen	Yen
2Q ended June 30, 2018	57.94	57.77
2Q ended June 30, 2017	91.38	91.18

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2018	71,960	20,162	27.8
As of December 31, 2017	59,212	19,340	32.5

(Reference) Shareholders' equity: As of June 30, 2018 20,038 million yen
 As of December 31, 2017 19,230 million yen

2. Dividends

	Annual dividends per share				
	End of 1 st quarter	End of 2 nd quarter	End of 3 rd quarter	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ending December 31, 2017	-	0.00	-	25.00	25.00
Year ending December 31, 2018	-	0.00	-	-	-
Year ending December 31, 2018 (forecast)	-	-	-	30.00	30.00

(Note) Revision of the latest dividend forecast: No

3. Forecast of consolidated financial results for the fiscal year ending December 31, 2018

(January 1, 2018 to December 31, 2018)

(Percentages represent changes from the previous year.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	Yen
FY2018 (Full year)	53,284	(16.2)	4,562	(35.9)	3,760	(42.0)	2,381	(44.3)
								97.75

(Note) Revision of the latest consolidated financial results forecast: Yes

For details on revisions to the forecast of consolidated financial results, refer to the notice of revisions to the forecast for financial results announced today (August 6, 2018).

* Notes

(1) Changes in significant subsidiaries during the period: None

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

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

- (i) Changes in accounting policies due to revisions to accounting standards and other regulations : None
- (ii) Changes in accounting policies other than (i) : None
- (iii) Changes in accounting estimates : None
- (iv) Restatement of prior period financial statements after error corrections : None

(4) Number of shares issued (common stock)

(i) Number of shares outstanding at end of the period (including treasury stock)

As of June 30, 2018 24,361,000 shares

As of December 31, 2017 24,355,000 shares

(ii) Number of treasury stock held at end of the period

As of June 30, 2018 59 shares

As of December 31, 2017 – shares

(iii) Average number of shares outstanding during the period (cumulative)

As of June 30, 2018 24,357,909 shares

As of June 30, 2017 24,355,000 shares

*The current quarterly financial results are not subject to the quarterly review procedures.

* Explanation of the proper use of financial forecasts and other important notes

The statements about the future included in this report, including financial projections, are based on information currently available to the Company and certain assumptions that are considered reasonable, which do not guarantee the achievement of such projected results. Actual results may vary considerably from these projections due to a range of factors. See “(3) Information on future forecasts including consolidated financial forecasts under “1. Qualitative Information on Operating Results for the Second Quarter Ended June 30, 2018” on page 2 of the Accompanying Materials for the assumptions of the financial forecasts and points to note in the use of financial forecasts.

1. Qualitative Information on Operating Results for the Second Quarter Ended June 30, 2018

(1) Analysis of Operating Results

During the first six months of the consolidated fiscal year under review (January 1, 2018 through June 30, 2018), in the real estate industry where the MUGEN ESTATE Group operates, the nationwide average price of housing land per square meter (as of January 1, 2018) announced by the National Tax Administration Agency increased by 0.7%, marking an increase for the third straight year. The average price of housing land per square meter in the Tokyo metropolitan area, the mainstay area of the Group, increased for the second consecutive year, reflecting an increase in demand for commercial and accommodation facilities on the back of the increasing number of people visiting Japan.

According to the Real Estate Information Network for East Japan (East Japan REINS), the number of contracts signed for used condominiums in the Tokyo metropolitan area in June 2018 declined year on year, and contracted prices and contracted unit prices per square meter increased year on year, for 66 months consecutively since January 2013.

Meanwhile, uncertainty about the future grew, mainly reflecting the impacts of real estate prices remaining high and the tightening of loan standards by financial institutions.

In this market environment, the MUGEN Group continued to implement its strategy of becoming the dominant player in the Tokyo metropolitan area in the Real Estate Trading Business, its core segment, and strengthening the purchase activities for investment-type properties, which are its growth drivers. In addition, to respond to the diversification of businesses, the Group actively promoted its efforts to build a new revenue base, such as the commencement of purchases by establishing the lease back business and the acquisition of approval from the Governor of Tokyo to launch businesses based on the Act on Real Estate Specified Joint Enterprise. In the Real Estate Trading Business, net sales and all income categories fell year on year, although the Group focused its efforts on enhancing inventories (real estate for sale) and advanced sales activities by implementing full-scale profit management.

As a result, consolidated net sales decreased 22.0% year on year, to 24,631 million yen, consolidated operating income declined 30.1% year on year, to 2,542 million yen, consolidated ordinary income fell 33.8% year on year, to 2,182 million yen, and consolidated profit attributable to owners of parent shrunk 36.6% year on year, to 1,411 million yen.

Note: The “investment-type properties” are classified as real estate generating rental income, including rental condominiums, and office blocks, which are used by buyers for the purpose of investment. The “residential-type properties” are classified as real estate used by buyers as their housing units, most of which are owned condominiums.

The following is an overview of the results by segment.

[Real Estate Trading Business]

In the Real Estate Trading Business, the Group undertook purchase activities with the top priority on enhancing inventories (real estate for sale) and advanced its sales activities with a focus on full-scale profit management for each property. Despite such efforts, net sales and all income categories fell year on year. Net sales of investment-type properties, such as rental condominiums and office blocks, stood at 19,252 million yen (down 25.3% year on year), the number of units sold was 154 (down 10 units year on year), and the average unit selling price was 125.0 million yen (down 20.5% year on year). The results were mainly attributable to a slower-than-expected rise in unit sales and an increase in sales of property units for investment.

In addition, the Group conducted purchases and sales of residential-type properties, such as condominiums, the purchase prices of which continued to rise in the Tokyo metropolitan area, a highly competitive market, due to intensified competition because of low entry barriers into the market, by implementing select purchasing activities in areas that are convenient for daily living. However, net sales stood at 3,903 million yen (down 13.1% year on year), the number of units sold came to 139 (down 43 units year on year), and the average unit selling price was 28.0 million yen (up 13.8% year on year).

As a result, net sales for the segment decreased 23.5% year on year, to 23,189 million yen, and segment profit (operating income for the segment) fell 22.5% year on year, to 3,007 million yen.

[Real Estate Leasing and Other Business]

In the Real Estate Leasing and Other Business, revenue from real estate leasing expanded year on year due to an increase in real estate for sale linked with the active purchase of investment-type properties.

As a result, net sales for the segment increased 14.9% year on year, to 1,442 million yen, and segment profit (operating income for the segment) rose 7.3% year on year, to 534 million yen.

(2) Analysis of Financial Position

[Status of assets, liabilities and net assets]

The financial position at the end of the second quarter of the consolidated fiscal year under review included assets of 71,960 million yen (up 21.5% from the end of the previous fiscal year), liabilities of 51,797 million yen (up 29.9% from the end of the previous fiscal year), and net assets of 20,162 million yen (up 4.3% from the end of the previous year).

Principal factors contributing to the increase in assets included an increase of 17,383 million yen in real estate for sale and a decrease of 5,189 million yen in cash and deposits.

The decline in liabilities was primarily attributable to an increase of 12,289 million yen in long-term loans payable (including the current portion of such loans) and a fall of 432 million yen in income taxes payable.

The increase in net assets resulted in large part from a rise of 1,411 million yen in capital surplus due to the recording of profit attributable to owners of parent, and a decrease of 608 million yen attributable to dividends paid from surplus.

[Status of cash flows]

Cash and cash equivalents at the end of the second quarter of the consolidated fiscal year under review (“cash”) decreased 5,367 million yen from the end of the previous consolidated fiscal year, to 6,574 million yen. The cash flow positions and contributing factors during the first six months under review are as follows:

(Cash flows from operating activities)

Net cash used for operating activities during the first six months of the consolidated fiscal year under review totaled 16,673 million yen (net cash of 4,970 million yen provided during the first six months of the previous fiscal year). This was primarily attributable to an increase of 17,777 million yen in inventories, and the payment of 1,252 million yen in income taxes, while 2,187 million yen was recorded as profit before income taxes.

(Cash flows from investing activities)

Net cash used in investing activities during the first six months of the consolidated fiscal year under review was 236 million yen (net cash used during the first six months of the previous fiscal year was 139 million yen). This was caused primarily by proceeds from the withdrawal of 753 million yen for time deposits, while payments into time deposits totaled 931 million yen.

(Cash flows from financing activities)

Net cash provided by financing activities during the first six months under review amounted to 11,542 million yen (net cash of 3,909 million yen was used during the first six months of the previous fiscal year). This was mainly due to the result of proceeds from long-term loans payable amounting to 24,471 million yen, while the repayment of long-term loans was 12,182 million yen.

(3) Information on future forecasts including consolidated financial forecasts

In light of the trend in its recent financial results, the Group has decided to revise the full-year forecast of the consolidated results disclosed in the summary of consolidated financial results for the fiscal year ended December 31, 2017, as announced on February 13, 2018. For details, refer to the notice of revisions to the forecast for financial results announced today (August 6, 2018).

The descriptions of business forecasts presented in this document are based on the future assumptions, outlook, and plans as of the date of the publication of this document, which include risks and uncertain factors. The actual results may vary significantly from the forecasts presented in this document due to the economic environment, market trends, and various other factors that affect the business of the Group.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	FY2017 (As of December 31, 2017)	FY2018 2Q (As of June 30, 2018)
Assets		
Current assets		
Cash and deposits	13,268	8,079
Accounts receivable - trade	15	20
Real estate for sale	41,500	58,836
Real estate for sale in process	114	161
Deferred tax assets	394	519
Other	1,057	1,433
Allowance for doubtful accounts	(10)	(11)
Total current assets	56,339	69,039
Non-current assets		
Property, plant and equipment		
Buildings	1,264	1,291
Accumulated depreciation	(278)	(305)
Buildings, net	986	985
Land	1,326	1,343
Other	136	149
Accumulated depreciation	(70)	(78)
Other, net	66	70
Total property, plant and equipment	2,379	2,399
Intangible assets	124	116
Investments and other assets		
Deferred tax assets	177	169
Other	156	196
Total investments and other assets	334	365
Total non-current assets	2,837	2,881
Deferred assets	35	39
Total assets	59,212	71,960

(Million yen)

	FY2017 (As of December 31, 2017)	FY2018 2Q (As of June 30, 2018)
Liabilities		
Current liabilities		
Accounts payable - trade	523	734
Short-term loans payable	4,928	4,600
Current portion of bonds	530	714
Current portion of long-term loans payable	4,853	4,318
Income taxes payable	1,379	947
Provision for bonuses	72	35
Construction warranty reserve	58	50
Other	978	605
Total current liabilities	13,325	12,006
Non-current liabilities		
Bonds payable	1,760	1,841
Long-term loans payable	23,969	36,794
Net defined benefit liability	81	85
Other	736	1,069
Total non-current liabilities	26,547	39,790
Total liabilities	39,872	51,797
Net assets		
Shareholders' equity		
Capital stock	2,549	2,552
Capital surplus	2,472	2,475
Retained earnings	14,208	15,010
Treasury shares	—	(0)
Total shareholders' equity	19,230	20,038
Subscription rights to shares	110	124
Total net assets	19,340	20,162
Total liabilities and net assets	59,212	71,960

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

[Quarterly Consolidated Statements of Income]

(For six months from January 1 to June 30, 2018)

	(Million yen)	
	FY2017 2Q (From January 1 to June 30, 2017)	FY2018 2Q (From January 1 to June 30, 2018)
Net sales	31,576	24,631
Cost of sales	25,791	19,871
Gross profit	5,785	4,760
Selling, general and administrative expenses	2,147	2,217
Operating income	3,638	2,542
Non-operating income		
Interest and dividend income	1	1
Commission fee	4	7
Penalty income	7	5
Refund of real estate acquisition tax	0	4
Other	5	2
Total non-operating income	19	20
Non-operating expenses		
Interest expenses	330	330
Commission fee	24	39
Other	4	9
Total non-operating expenses	358	379
Ordinary profit	3,298	2,182
Extraordinary income		
Reversal of consumption taxes for prior period	133	
Gain on sales of non-current assets	28	0
Gain on reversal of subscription rights to shares		4
Total extraordinary income	162	4
Extraordinary losses		
Loss on sales of non-current assets	0	
Total extraordinary losses	0	
Profit before income taxes	3,460	2,187
Income taxes - current	1,217	893
Income taxes - deferred	17	(117)
Total income taxes	1,234	775
Profit	2,225	1,411
Profit attributable to owners of parent	2,225	1,411

[Quarterly Consolidated Statements of Comprehensive Income]

(For six months from January 1 to June 30, 2018)

(Million yen)

	FY2017 2Q (From January 1 to June 30, 2017)	FY2018 2Q (From January 1 to June 30, 2018)
Income before minority interests	2,225	1,411
Comprehensive income	2,225	1,411
(Breakdown)		
Comprehensive income attributable to owners of parent	2,225	1,411

(3) Quarterly Consolidated Cash Flow

(Million yen)

	FY2017 2Q (From January 1 to June 30, 2017)	FY2018 2Q (From January 1 to June 30, 2018)
Cash flows from operating activities		
Profit before income taxes	3,460	2,187
Depreciation	389	442
Increase (decrease) in allowance for doubtful accounts	(0)	4
Increase (decrease) in provision for bonuses	8	(37)
Increase (decrease) in construction warranty reserve	6	(8)
Increase (decrease) in net defined benefit liability	6	4
Interest and dividend income	(1)	(1)
Interest expenses	330	330
Share issuance cost	19	24
Share-based compensation expenses	2	6
Amortization of bond issuance cost	(28)	(0)
Loss (gain) on sales of non-current assets	(133)	
Reversal of consumption taxes for prior period		(4)
Decrease (increase) in notes and accounts receivable - trade	6	(7)
Decrease (increase) in inventories	2,582	(17,777)
Increase (decrease) in notes and accounts payable - trade	(12)	210
Increase (decrease) in accrued consumption taxes	(79)	(422)
Decrease (increase) in consumption taxes refund receivable	17	(360)
Increase (decrease) in lease and guarantee deposits received	(73)	332
Decrease (increase) in other current assets	(287)	(1)
Increase (decrease) in other current liabilities	99	(29)
Other, net	(28)	8
Subtotal	6,283	(15,097)
Interest and dividend income received	1	1
Interest expenses paid	(326)	(324)
Income taxes paid	(988)	(1,252)
Net cash provided by (used in) operating activities	4,970	(16,673)
Cash flows from investing activities		
Payments into time deposits	(912)	(931)
Proceeds from withdrawal of time deposits	698	753
Purchase of property, plant and equipment	(81)	(58)
Proceeds from sales of property, plant and equipment	186	2
Purchase of intangible assets	(0)	(1)
Payments for investments in capital	(29)	
Net cash provided by (used in) investing activities	(139)	(236)

(Million yen)

	FY2017 2Q (From January 1 to June 30, 2017)	FY2018 2Q (From January 1 to June 30, 2018)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	313	(392)
Proceeds from long-term loans payable	12,603	24,471
Repayments of long-term loans payable	(16,545)	(12,182)
Proceeds from issuance of bonds	292	490
Redemption of bonds	(60)	(235)
Proceeds from issuance of common shares	(1)	(1)
Repayments of lease obligations		(0)
Cash dividends paid	(511)	(608)
Proceeds from exercise of share options		0
Net cash provided by (used in) financing activities	(3,909)	11,542
Net increase (decrease) in cash and cash equivalents	920	(5,367)
Cash and cash equivalents at beginning of period	7,663	11,942
Cash and cash equivalents at end of period	8,584	6,574

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable

(Notes on Significant Changes in Shareholders' Equity)

Not applicable

(Segment Information)

For six months ended June 30, 2017 (From January 1 to June 30, 2017)

Information relating to the amount of net sales, and income or loss by reportable segment

(Million yen)

	Reportable Segments			Adjustment (Note 1)	Total (Note 2)
	Real Estate Trading Business	Real Estate Leasing and Other Business	Sub-total		
Net sales					
Net sales to external customers	30,320	1,256	31,576	—	31,576
Inter-segment sales or transfer	28	3	32	(32)	—
Total	30,349	1,259	31,609	(32)	31,576
Segment profit	3,879	498	4,377	(739)	3,638

(Note) 1. The segment profit adjustment of (739) million yen consists of primarily company-wide expenses that are not allocated to the selling, general and administrative expenses of each reported segment.

2. Segment profit has been adjusted to operating income stated in quarterly consolidated statements of income.

For six months ended June 30, 2018 (From January 1 to June 30, 2018)

Information relating to the amount of net sales, and income or loss by reportable segment

(Million yen)

	Reportable Segments			Adjustment (Note 1)	Total (Note 2)
	Real Estate Trading Business	Real Estate Leasing and Other Business	Sub-total		
Net sales					
Net sales to external customers	23,189	1,442	24,631	-	24,631
Inter-segment sales or transfer	1	0	2	(2)	-
Total	23,190	1,443	24,634	(2)	24,631
Segment profit	3,007	534	3,541	(999)	2,542

(Note) 1. The segment profit adjustment of (999) million yen consists of primarily company-wide expenses that are not allocated to the selling, general and administrative expenses of each reported segment.

2. Segment profit has been adjusted to operating income stated in quarterly consolidated statements of income.