

TCG Takamatsu Construction Group

Takamatsu Construction Group Co., Ltd.

Q2 Financial Results Briefing for the Fiscal Year Ending March 2021

November 24, 2020

Event Summary

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[Participants]		
[Number of Speakers]	1	
	Nobuhiko Yoshitake	President and Representative Director of the Board

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Presentation

Moderator: Thank you very much for joining us. Now, we will distribute a video of Takamatsu Construction Group Co., Ltd.'s financial results briefing for Q2 of the fiscal year ending March 31, 2021.

To prevent redundancy in the explanation, we use the following abbreviations: TCG for Takamatsu Construction Group, TK for Takamatsu Corporation, TK Group for the Takamatsu Corporation Group, AA for Asunaro Aoki Construction, and AA Group for the Asunaro Aoki Construction Group.

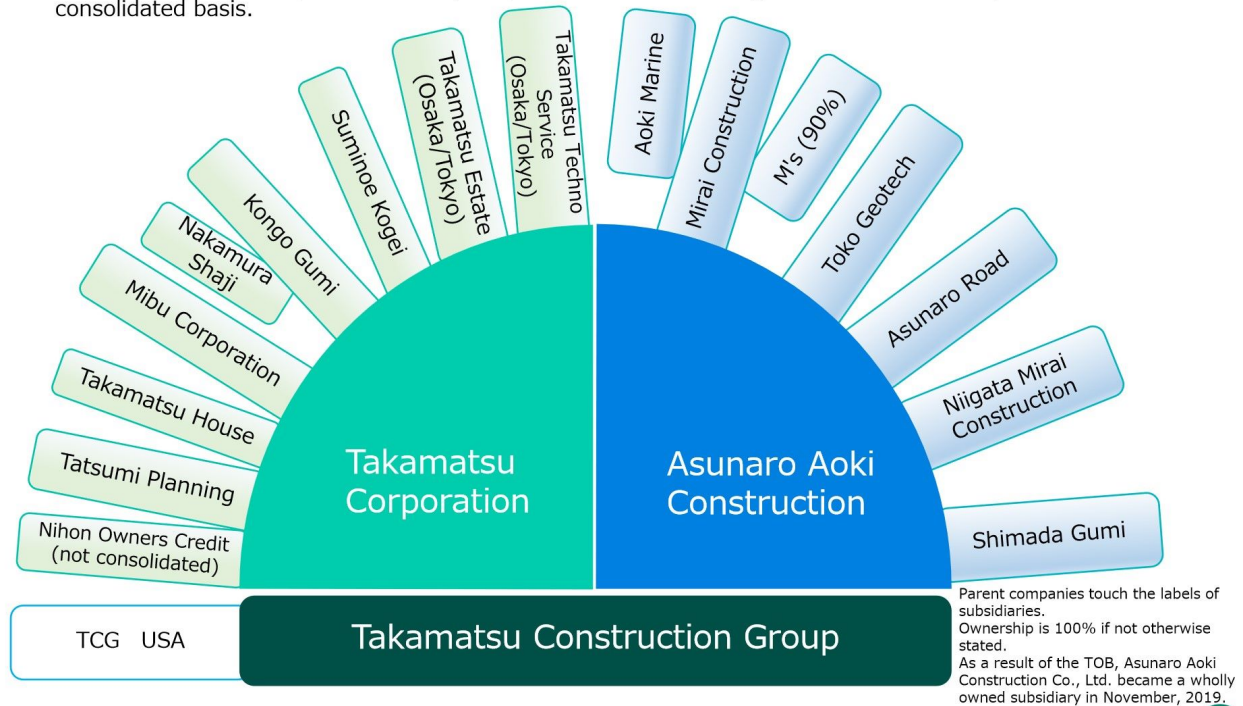
Now, Nobuhiko Yoshitake, President of Takamatsu Construction Group, will explain the financial results.

Yoshitake: This is Nobuhiko Yoshitake of Takamatsu Construction Group. Thank you for watching this video of Takamatsu Construction Group's financial results briefing for Q2 of the fiscal year ending March 2021.

I will explain the details of our financial results for Q2 in line with the slides.

Group formation

- ◆ The Takamatsu Construction Group is composed of Takamatsu Construction Group Co., Ltd., a pureholding company, and Takamatsu Corporation Co., Ltd. and 10 other companies, Asunaro Aoki Construction Co., Ltd. and 7 other companies, and TCG USA, Inc., an overseas subsidiary, for a total of 21 companies on a consolidated basis.



First, I will explain the outline of the financial results. Please turn to page three of the material.

This represents the composition of our Group.

The left half of the page is the TK Group. It consists of 11 companies, with TK as their parent company. The right half of the page is the AA Group. It is comprised of 8 companies, with AA as the parent company.

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In addition to these two core groups, we have TCG USA, which operates in New York and California in the US. Our Group consists of the 21 companies including TCG.

AA was listed on the First Section of the Tokyo Stock Exchange, but due to the tender offer we conducted, it became our 100% subsidiary on November 11 of last year and has been delisted.

Previously, the AA Group had non-controlling interests in earnings, which were not included in our TCG Group's consolidated results. However, since AA's consolidation a 100% subsidiary, the Group has been able to incorporate all of its earnings into TCG's consolidated results since Q3 of the previous fiscal year.

Situation of Corporate Group (Consolidated)

	Civil Engineering	Architecture	Real Estate	Main sales areas
Takamatsu Corporation Group		Takamatsu Corporation		Tokyo · Nagoya · Osaka
		Takamatsu Techno Service (Osaka)		Osaka
		Takamatsu Techno Service (Tokyo)		Tokyo
			Takamatsu Estate (Osaka)	Osaka
			Takamatsu Estate (Tokyo)	Tokyo
		Suminoe Kogei		Japan(nationwide)
		Kongo Gumi		Tokyo · Osaka
		Nakamura Shaji		Nagoya
		Takamatsu House		Tokyo · Kanagawa
			Mibu Corporation	Tokyo
Asunaro Aoki Construction Group		Asunaro Aoki Construction		Japan(nationwide)
		Mirai Construction		Japan(nationwide)
		Toko Geotech		Japan(nationwide)
		Aoki Marine		Japan(nationwide)
		Asunaro Road		Hokkaido
			M's	Metropolitan area
		Niigata Mirai Construction		Niigata
		Shimada Gumi		Japan(nationwide)
		TCG USA	USA	
Takamatsu Construction Group (Pure Holding Company)				

Please turn to page four.

This shows the business segments to which each of the Group's operating companies belongs and their main sales areas.

I will explain the results by business segment. Please note that the results are calculated based on this classification.

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TCG Performance for 2Q, FY ending March 2021 (Consolidated)

- ◆ Orders decreased by 29.9% from the previous FY due to delays in concluding contracts as consultations with private customers were temporarily unavailable due to the spread of the new coronavirus. Revenue increased due to steady construct of construction work in progress. Profit fell due to unprofitable construction work. Profit decreased due to unprofitable construction work. (100 million yen)

Item	2Q FY ended March 2020		2Q FY ending March 2021	+/-
Orders	1,459	↓	1,023	△29.9%
Revenue	1,293	↑	1,366	+5.6%
Gross Profit	180	↓	166	△7.8%
Gross Profit %	14.0%	↓	12.2%	△1.8 pt
Operating Income	56	↓	35	△36.7%
Operating Income %	4.4%	↓	2.6%	△1.8 pt
Ordinary income	53	↓	36	△32.9%
Ordinary income %	4.2%	↓	2.6%	△1.6 pt
Net earnings attributable to the owners of the parent	24	↓	19	△20.6%
Net earnings attributable to the owners of the parent %	1.9%	↓	1.5%	△0.4 pt

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Please see page five. This compares the consolidated results for Q2 with the same period of the previous fiscal year.

Orders received were JPY102.3 billion, down 29.9% YoY. This was largely attributable to the fact that employees at TK were temporarily unable to meet with individual customers and the execution of contracts was delayed due to the expansion of COVID-19 and that AA incurred postponements of orders in both public and private construction projects due to COVID-19.

Net sales increased 5.6% YoY to JPY136.6 billion. This is the ninth consecutive YoY sales growth for the first half and the seventh consecutive first half of record-high sales. We were concerned over the progress of construction due to the impact of COVID-19, but there was no major delay, and sales remained steady.

Operating income was JPY3.5 billion, a YoY decrease of 36.7%. As I will explain later, this was mainly due to several construction projects with low profitability.

Net earnings attributable to the owners of the parent decreased 20.6% YoY to JPY1.9 billion, and the net earnings margin was 1.5%, down 0.4 percentage point YoY.

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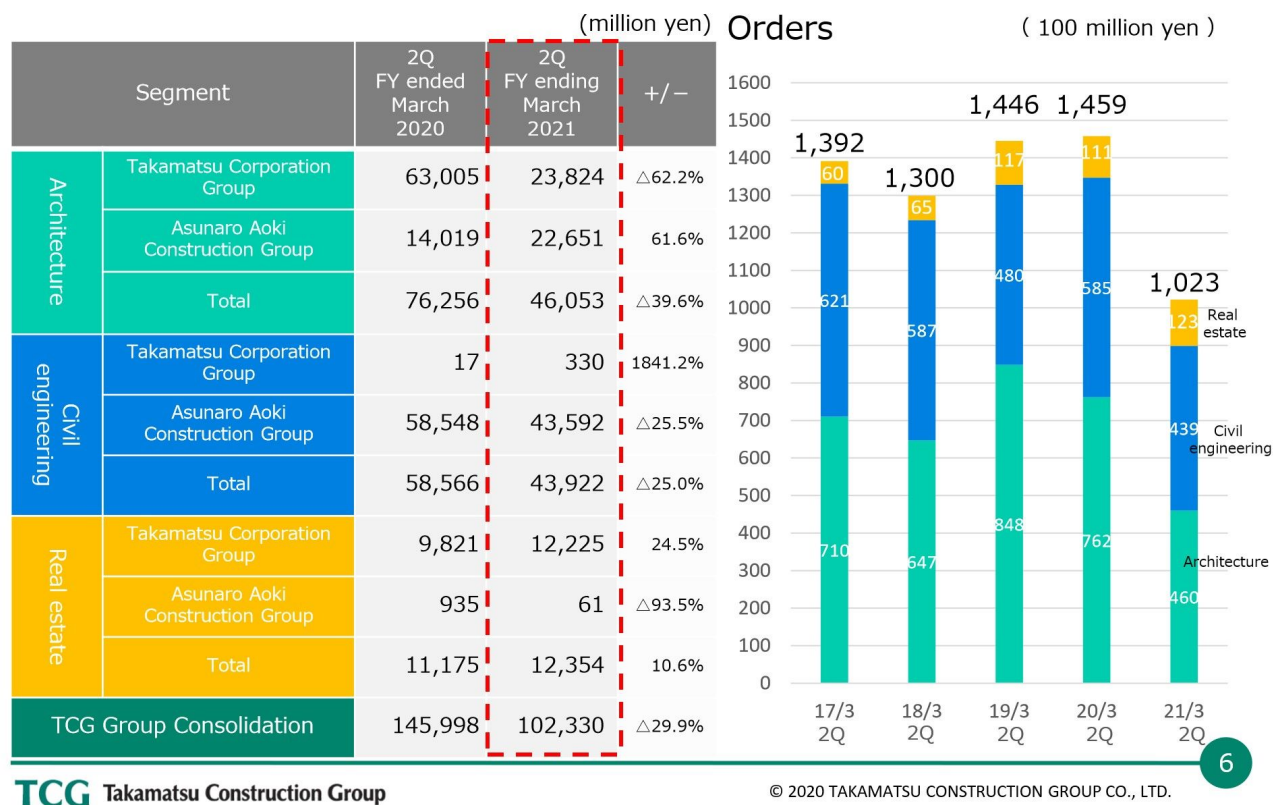
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Orders by segment (Consolidated)

* The total of individual figures and the total figures may not match due to consolidation adjustments.

- ◆ Orders decreased by 29.9% from the previous FY to 102,330 million yen. Although the decrease in orders was smaller than that in 1Q, orders declined substantially.



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Please turn to page six. I will explain the amount of orders received in each of the Architecture, Civil Engineering, and Real Estate segments.

In Architecture, the TK Group's orders received fell sharply to JPY23,824 million, down 62.2% YoY. As I mentioned earlier, we were temporarily unable to meet with private customers, and there were delays in the conclusion of contracts, though there were project proposals.

Meanwhile, the AA Group enjoyed a 61.6% YoY increase due to strong orders for public government work.

Next is the Civil Engineering business. The total amount of orders received by both groups was JPY43,922 million, a YoY decrease of 25.0%. This was mainly due to a reaction to large-scale construction orders in the previous fiscal year and the postponement of orders due to the impact of COVID-19.

In the previous fiscal year, AA and Mirai Construction received several large-scale construction orders, but in the current fiscal year both the public and private sectors were delayed in order placements. As a result, we were unable to receive large-scale construction orders as in the previous fiscal year.

Finally, this is the Real Estate business. Orders received by the TK Group performed well, increasing 24.5% YoY, but those received by the AA Group decreased 93.5% YoY due to the sluggish condominium development business.

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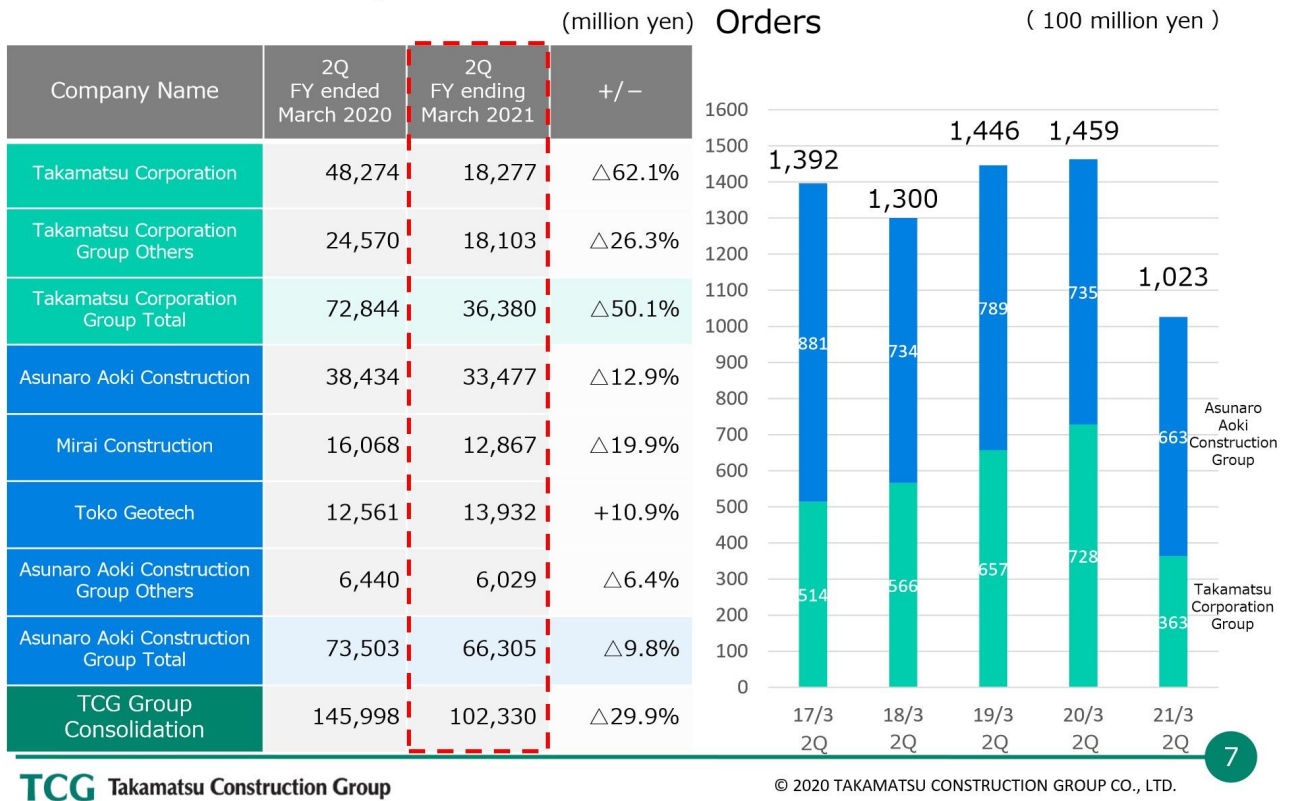
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Orders by group (Consolidated)

* The total of individual figures and the total figures may not match due to consolidation adjustments.

- ◆ Orders by government agencies were relatively favorable, mainly for architecture. As for orders by individuals, it took time to complete the contract because we mainly had business discussions on the Web and over the telephone conference until the middle of 2Q.



Please turn to page seven. This is a table of orders received by the core groups, as I explained earlier.

We showed the individual orders received by the four major Group companies, TK, AA, Mirai Construction, and Toko Geotech.

The total amount for the TK Group was JPY36.38 billion, a YoY decrease of 50.1%. The total for the AA Group was JPY66,305 million, a decrease of 9.8% YoY.

Major factors were explained earlier by segment.

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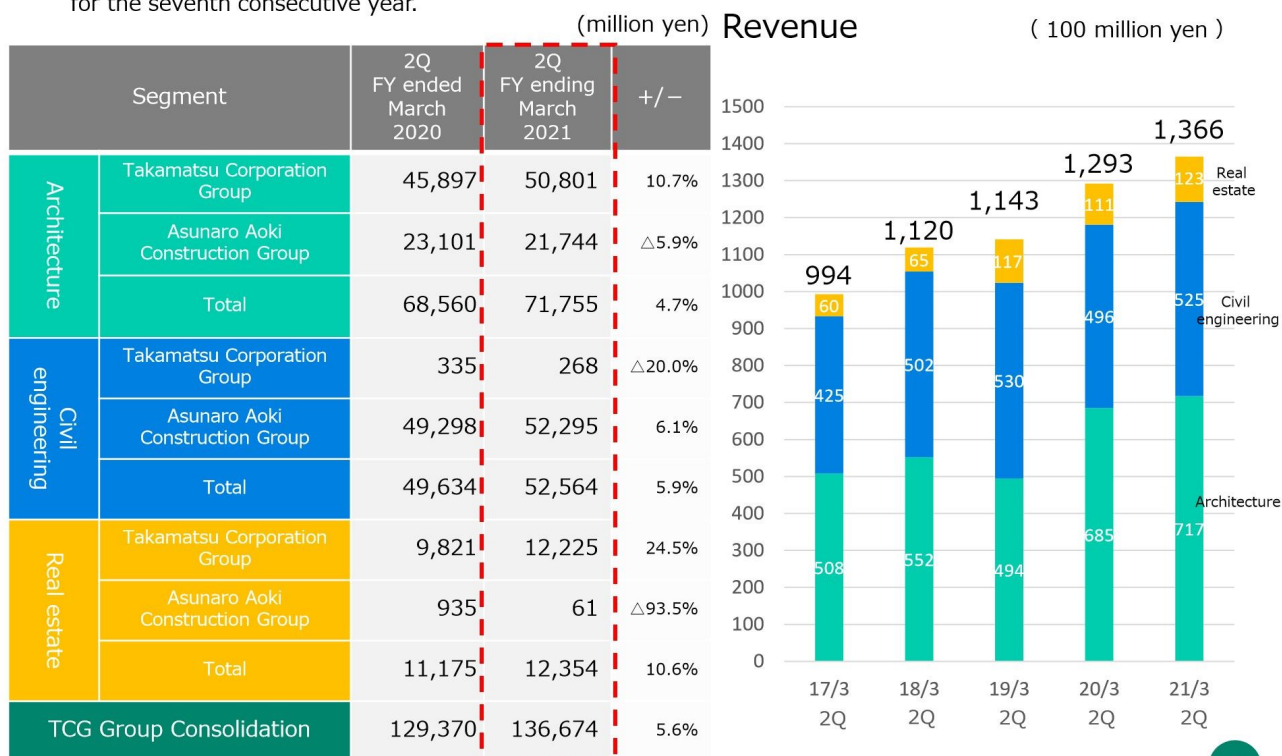
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Revenue by segment (Consolidated)

* The total of individual figures and the total figures may not match due to consolidation adjustments.

- ◆ Revenue increased by 5.6% from the previous FY to 136,674 million yen due to steady construct of construction work in progress. Revenue increased for the ninth consecutive year and reached a record high for the seventh consecutive year.



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Please turn to page eight. This section explains revenue by segment.

In Architecture, the TK Group's revenue recorded a YoY increase of 10.7% due to steady progress in construction work on hand. However, the AA Group incurred a 5.9% decrease YoY though it also performed construction work on hand smoothly.

Revenue in the Architecture segment totaled JPY71,755 million, a YoY increase of 4.7%.

Revenue in the Civil Engineering segment increased 5.9% YoY to JPY52,564 million due to steady progress in construction work on hand.

Total revenue increased 5.6% YoY to JPY136,674 million, marking the ninth consecutive first half of sales growth and the seventh consecutive first half of record highs.

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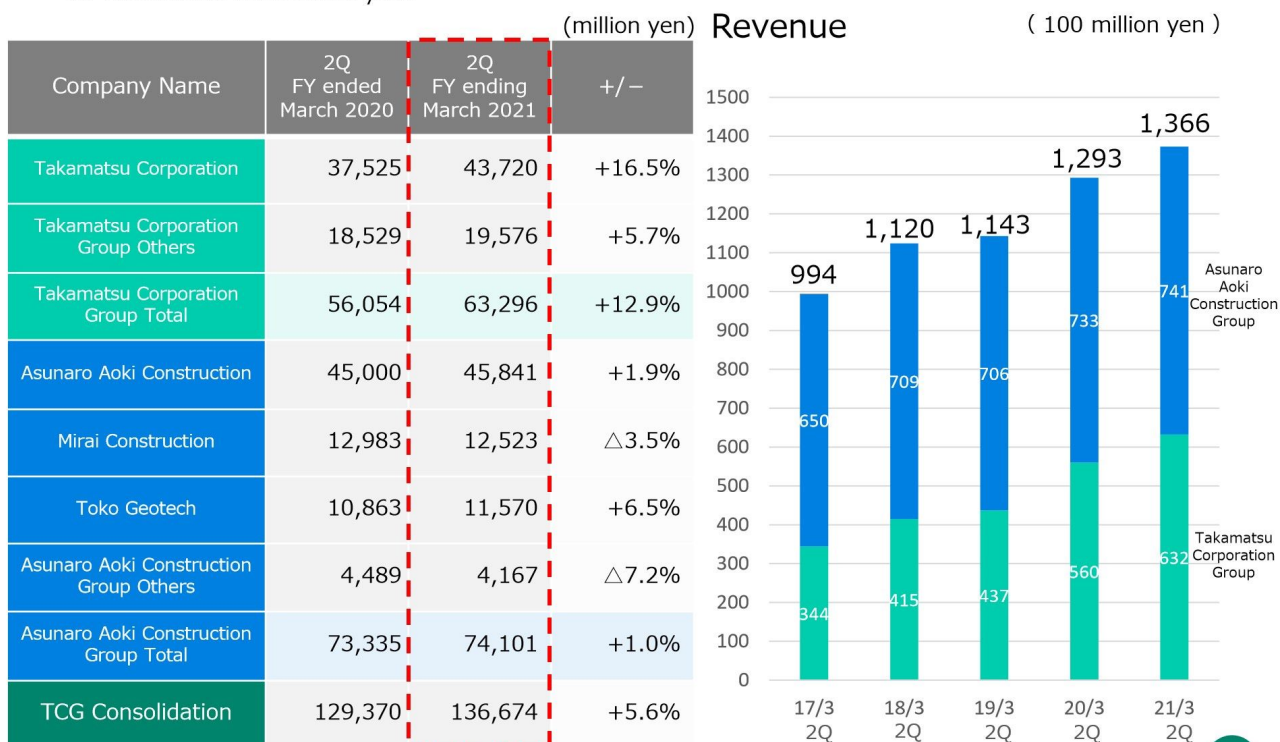
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Revenue by group (Consolidated)

* The total of individual figures and the total figures may not match due to consolidation adjustments.

- ◆ Revenue increased by 5.6% from the previous FY to 136,674 million yen due to steady construct of construction work in progress. Revenue increased for the ninth consecutive year and reached a record high for the seventh consecutive year.



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Please turn to page nine. This shows revenue by group.

In the TK Group, revenue increased 12.9% YoY to JPY63,296 million. In the AA Group, revenue increased 1.0% YoY to JPY74.1 billion. Group-wide revenue totaled JPY136,674 million, an increase of 5.6% YoY.

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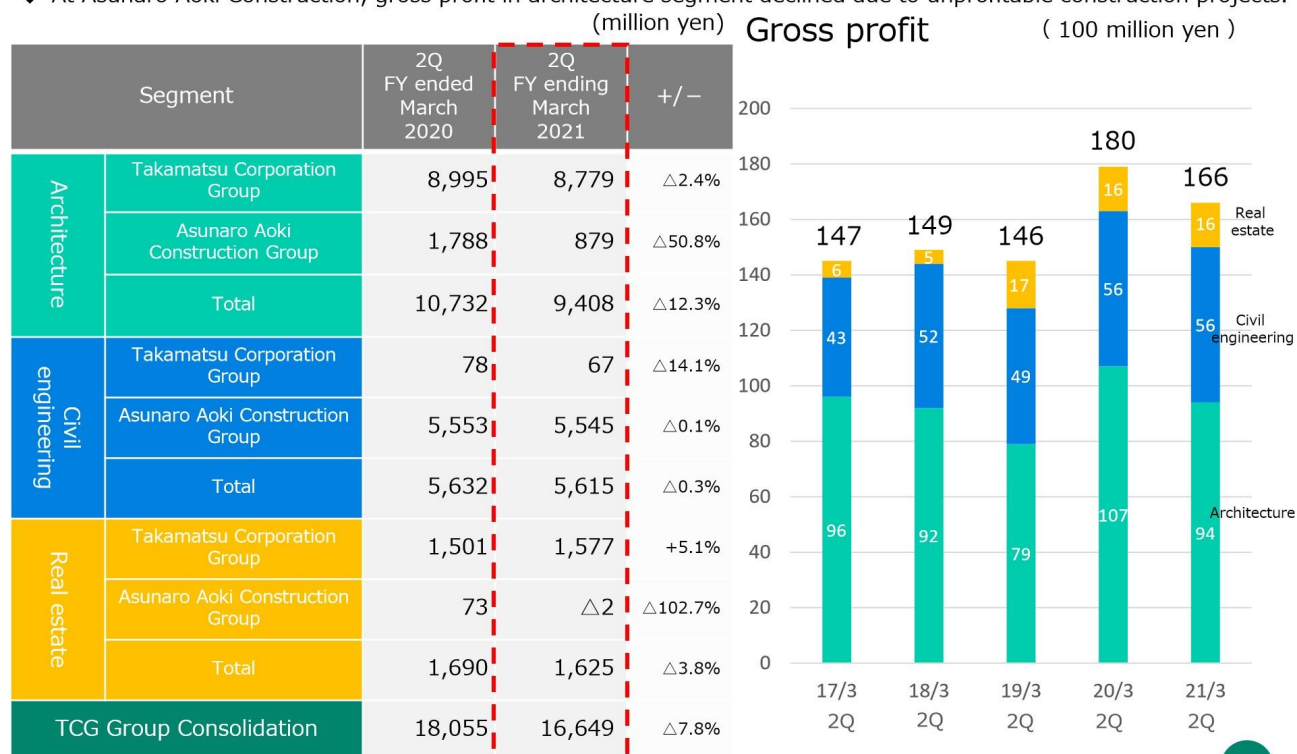
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Gross Profit by segment (Consolidated)

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- ◆ At Takamatsu Corporation, gross profit margins declined slightly due to an increase in non condominium projects.
- ◆ At Asunaro Aoki Construction, gross profit in architecture segment declined due to unprofitable construction projects.



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Page 10 shows gross profit by segment.

Regarding gross profit in the Architecture segment, the TK Group incurred a 2.4% YoY fall to JPY8,779 million. There were several general buildings, excluding rental condominiums, with low profit margins, resulting in the YoY decrease.

The AA Group incurred a 50.8% YoY decrease to JPY879 million. This was due to several low-margin construction projects at AA. As such low-margin construction projects are unlikely to take place among the development plans currently in progress, we expect that the situation will improve in Q3 and beyond.

Next is the Civil Engineering segment. The total amount of gross profit was JPY5,615 million, down 0.3% YoY.

Finally, gross profit in the Real Estate segment decreased 3.8% YoY to JPY1,625 million.

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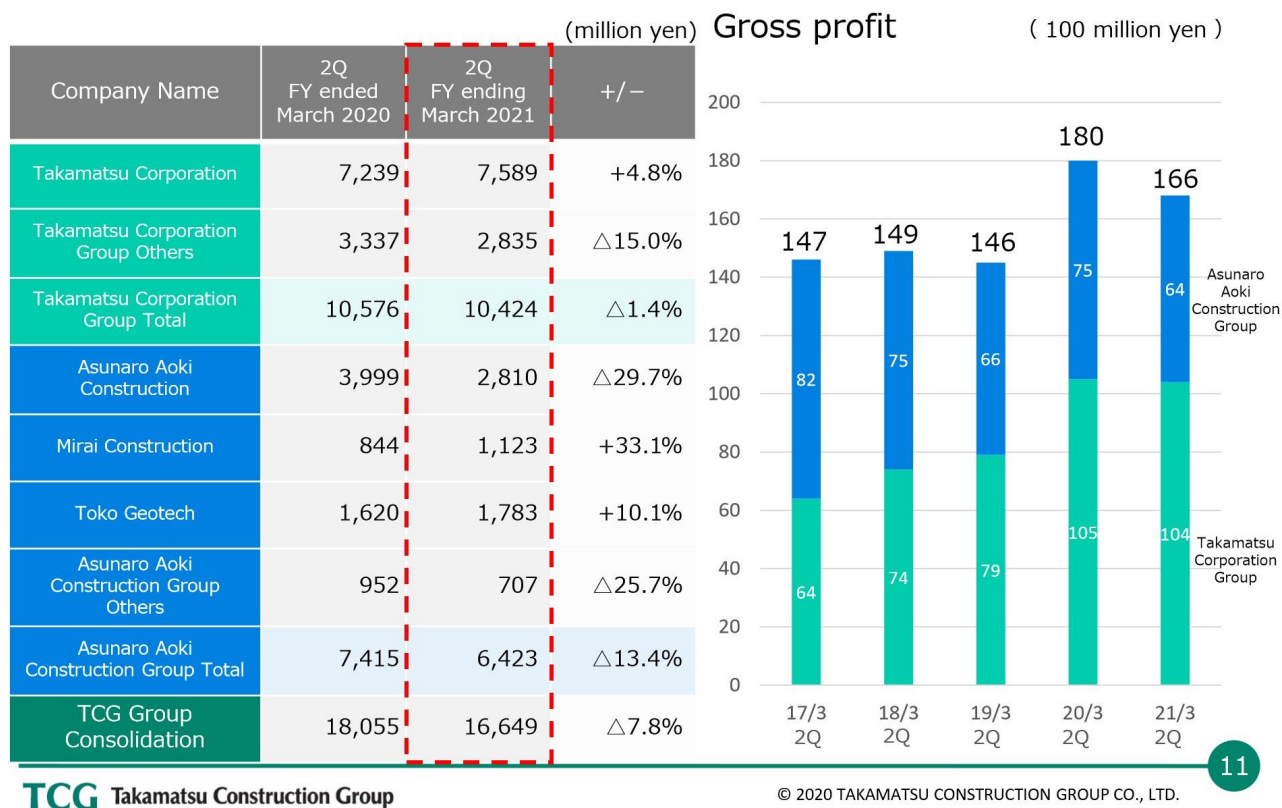
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Gross Profit by group (Consolidated)

* The total of individual figures and the total figures may not match due to consolidation adjustments.

- ◆ Although steady construct of construction work in progress, the company with unprofitable construction projects led to a significant decline in profit, resulting in a decline in gross profit for both groups.



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We will now look at gross profit by group. Please turn to page 11.

In the TK Group, gross profit decreased 1.4% YoY to JPY10,424 million, and in the AA Group, gross profit decreased 13.4% YoY to JPY6,423 million. The TCG Group's total gross profit was JPY16,649 million, down 7.8% YoY.

This was due to the impact of the low-margin construction projects in the AA Group's Architecture business. However, learning a lesson from this, we are strengthening the administration of construction profitability.

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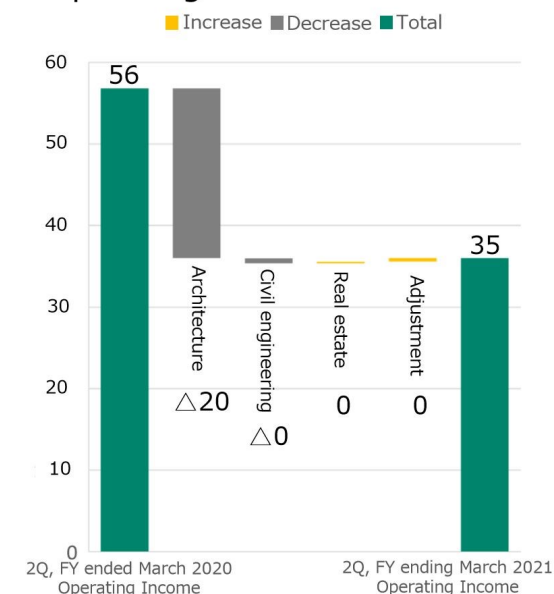
Operating Income by segment (Consolidated)

* The total of individual figures and the total figures may not match due to consolidation adjustments.

- ◆ Operating income decreased by 36.7% from the previous FY to 3,599 million yen due to a decrease in gross profit in architecture at Asunaro Aoki Construction.

(million yen) Analysis of Changes (100 million yen) in Operating Income

Segment		2Q FY ended March 2020	2Q FY ending March 2021	+/-
Architecture	Takamatsu Corporation Group	2,979	1,876	△37.0%
	Asunaro Aoki Construction Group	908	△73	△108.0%
	Total	3,887	1,803	△53.6%
Civil engineering	Takamatsu Corporation Group	72	68	△5.6%
	Asunaro Aoki Construction Group	2,989	2,929	△2.0%
	Total	3,061	2,997	△2.1%
Real estate	Takamatsu Corporation Group	623	714	+14.6%
	Asunaro Aoki Construction Group	39	△31	△179.5%
	Total	662	683	3.2%
TCG Group Consolidation		5,682	3,599	△36.7%



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Page 12 shows operating income by segment.

In the Architecture business, the TK Group incurred a YoY decrease of 37.0% in operating income to JPY1,876 million. This was attributable to the fact that the Group was unable to generate gross profit enough to offset an increase in SG&A expenses. The increase in SG&A expenses was mainly attributable to an increase in the number of sales personnel at TK and an increase in spending due to the entry into the wooden single house construction business.

The Wooden Detached Houses business is still at a start-up phase and sufficient gross profit is yet to be recorded, so the burden of SG&A expenses has been reported.

The Architecture business of the AA Group incurred operating loss of JPY73 million. As I explained earlier, this was due to a significant decrease in gross profit resulting from the impact of the low-margin projects.

In the Civil Engineering segment, operating income declined 2.1% YoY. In the Real Estate business, operating income was up 3.2% YoY. Operating income of the TCG Group was JPY3,599 million, a YoY decrease of 36.7%, owing to the worse operating income in the Architecture business.

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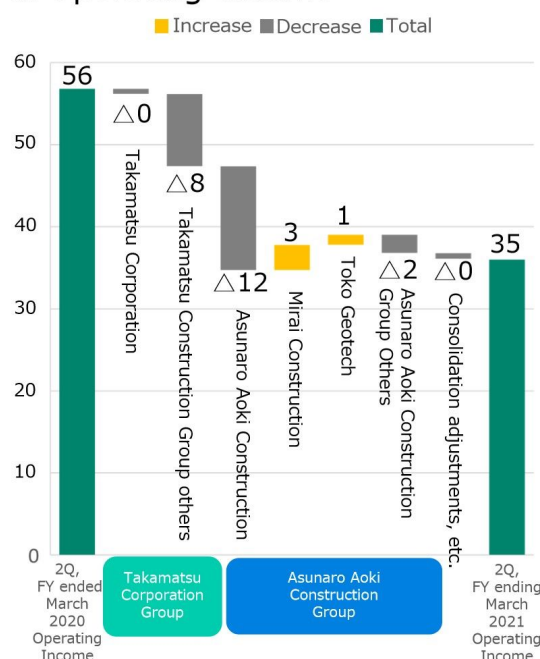
Operating Income by group (Consolidated)

* The total of individual figures and the total figures may not match due to consolidation adjustments.

- ◆ Operating income declined due to high SG&A expenses in the wooden detached house business due to the founding period of the business. Asunaro Aoki Construction Group recorded a decline in operating income due to a decline in Asunaro Aoki Construction's gross profit.

Company Name	2Q FY ended March 2020	2Q FY ending March 2021	+/-
Takamatsu Corporation	2,392	2,329	△2.6%
Takamatsu Corporation Group Others	1,338	455	△66.0%
Takamatsu Corporation Group Total	3,730	2,784	△25.4%
Asunaro Aoki Construction	1,306	41	△96.9%
Mirai Construction	△86	221	+357.0%
Toko Geotech	837	962	+14.9%
Asunaro Aoki Construction Group Others	527	303	△42.5%
Asunaro Aoki Construction Group Total	2,584	1,527	△40.9%
TCG Group Consolidation	5,682	3,599	△36.7%

Analysis of Changes (100 million yen) in Operating Income



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Page 13 shows operating income viewed by group.

Operating income of the TK Group decreased 25.4% YoY to JPY2,784 million, and that of the AA Group decreased 40.9% YoY to JPY1,527 million.

Again, I think the challenge for the TK Group is to put the Wooden Detached Houses Business on track at an early stage, and that for the AA Group is to strengthen the administration system so that low-profit construction projects do not occur.

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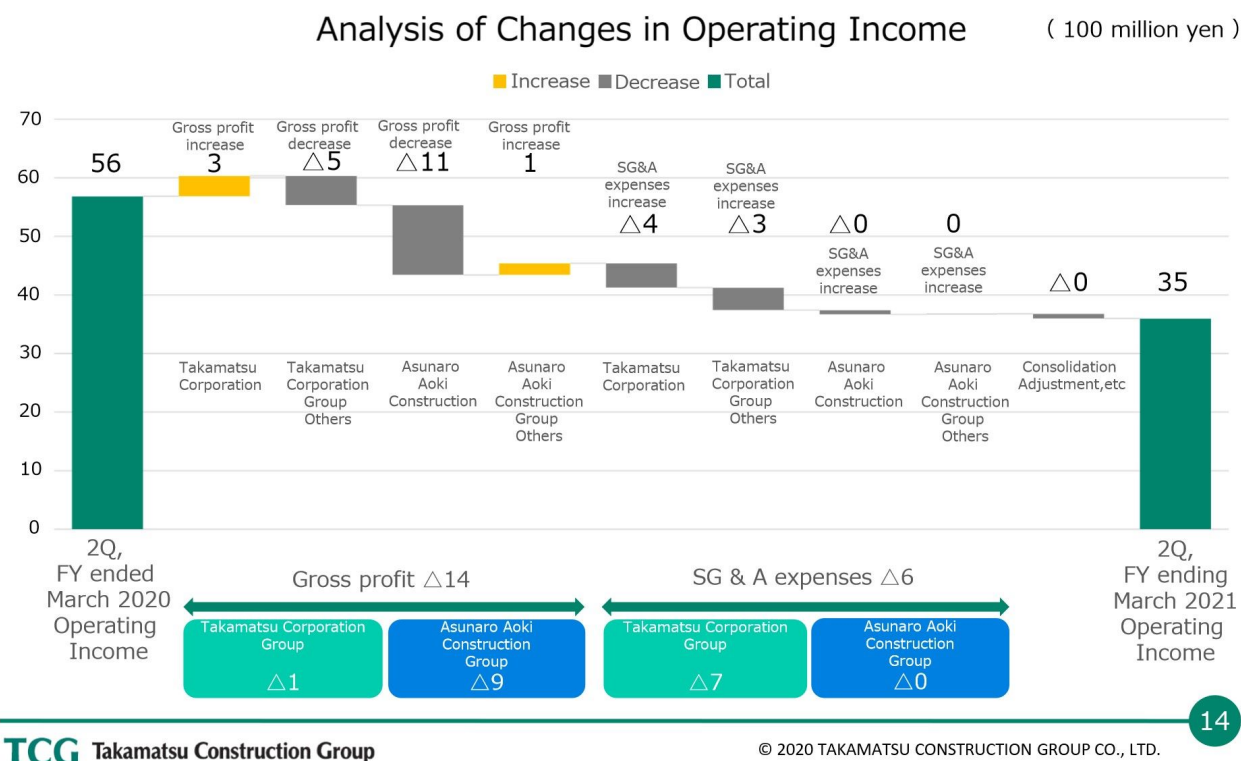
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Analysis of Changes in Operating Income by Gross Profit and SG & A Expenses

- ◆ Takamatsu Corporation's gross profit increased in line with the steady growth in construction. Asunaro Aoki Construction's gross profit declined due to unprofitable construction.



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I'll explain the factors behind the YoY change in operating income. Please turn to page 14.

Operating income decreased by approximately JPY2.1 billion from JPY5.6 billion in the first half of the previous fiscal year to JPY3.5 billion. The main factors behind this decrease were a decrease in gross profit of around JPY500 million at the TK Group companies other than TK, as indicated in grey by the third bar chart from left, a decrease in gross profit of some JPY1.1 billion at AA, shown in the next grey bar chart, an increase in SG&A expenses of some JPY400 million at TK, shown in the next bar chart but one, and an increase in SG&A expenses at the TK Group companies other than TK worth around JPY300 million.

Again, the key is to increase orders to match the increase in SG&A expenses, thereby increasing gross profit. Another key is to prevent the occurrence of low-margin construction projects.

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Impact of the new coronavirus infection on each segment

	Segment	Impact
Construction	Public sales activities	Orders have been delayed due to the spread of new coronavirus infection.
	Private sales activities	Due to the economic recession caused by the spread of the new coronavirus infection, orders have been delayed or suspended.
	Public construction	We are implementing thorough measures to prevent infection with new coronavirus.
	Private construction	We are implementing thorough measures to prevent infection with new coronavirus.
Real estate	Tenant mediation	Cancellation of stores increased and inquiries to vacant tenants decreased. There is no particular impact on housing.
	Building management	The number of housing construction projects to restore a house to its original condition decreased due to fewer moves. The number of visits to customers has decreased, and the progress of various construction proposals such as small-scale repair work has been delayed.
Employment	Employment of new graduates	Company information sessions, internships and interviews are being held online. In April 2021, TCG Group plans to hire 248 people.

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The business results for Q2 were significantly affected by the spread of COVID-19, and we summarized the effects by segment.

Please turn to page 15.

In sales activities targeting government agencies, there have been delays in order placements from those agencies.

Regarding sales activities targeting the private sector, until the middle of Q2, we were unable to meet with private customers, and there were delays in the conclusion of contracts. In addition, customers have become more cautious, resulting in the postponement of orders and suspension of investment plans.

The impact on construction work has been minimal in both the government and the private sector. There were temporary delays in delivery of water supply and drainage sanitation products and electrical equipment due to sluggish production in China, but the problem has been resolved. We will continue to thoroughly implement measures to prevent the COVID-19 infection at worksites so as not to cause delays in construction schedules.

In the Real Estate business, there has been some impact due to a decrease in tenant migration and other factors.

In our recruitment activities, we have been conducting web-based briefings, internships, and interviews to avoid face-to-face contact.

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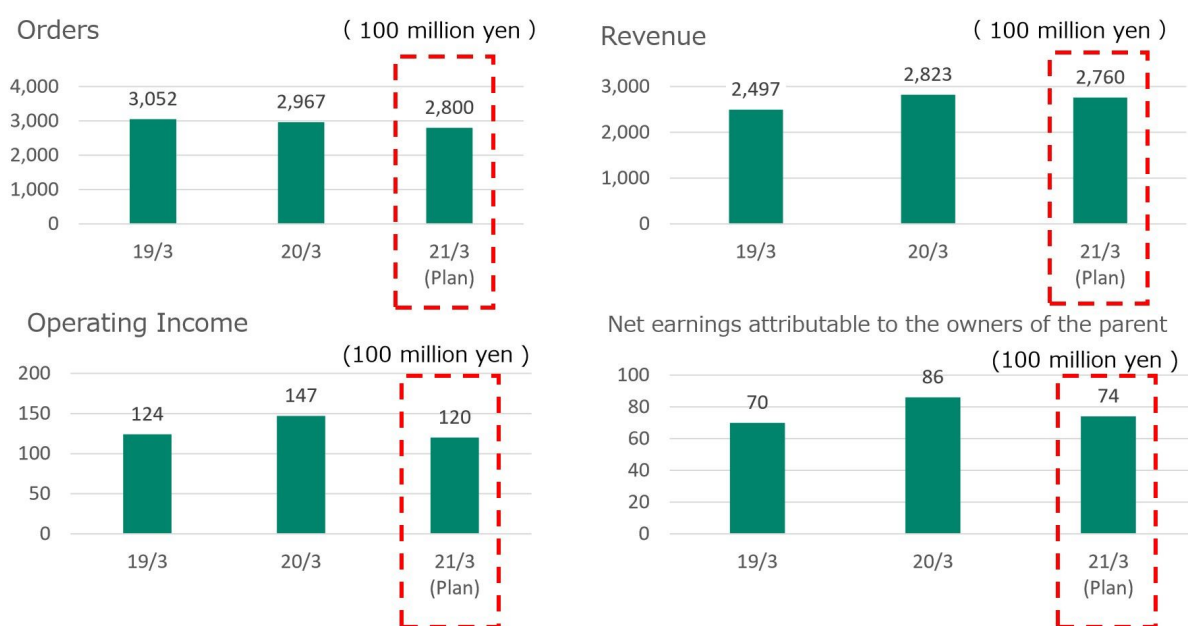
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Our group has not reduced the number of new employees and we have not canceled unofficial agreements with prospective employees on acceptance of them due to the spread of COVID-19. Although we do not describe here, we continue teleworking depending on departments.

Recently, the number of COVID-19 patients has been increasing, and the situation is unpredictable. However, the TCG Group will continue to work hard to minimize the impact of COVID-19 by taking firm countermeasures.

Outlook for Fiscal 2021

- ◆ Orders for the fiscal year ending March 31, 2021, which had been undecided at the beginning of the fiscal year, are expected to decrease by 16,700 million yen to 280,000 million yen partly due to the spread of new coronavirus infection. There are no changes from the previously announced figures for sales and profit.



Finally, I would like to explain the outlook for the current fiscal year ending March 2021. Please turn to page 17.

For annual orders received for the year ending March 2021, which we left undecided at the beginning of the year, we forecast an amount of JPY280 billion, including the impact of COVID-19.

We forecast JPY130 billion for the TK Group, whose main customers are individuals in the private sector, and JPY150 billion for the AA Group, whose main customers are government agencies and companies. Compared to the previous year, the forecast for the TK Group and the AA Group is down 5.8% YoY and down 6.0% YoY, respectively. The forecast for the TCG Group as a whole is down 5.6% YoY.

Amid the COVID-19 pandemic, orders have been strong in both groups. The estimated orders at Takamatsu Corporation, which struggled in the first half of the fiscal year, are expected to be 99.3% of the previous year's result, almost flat. Since early spring, when we were unable to meet with individual customers at all, we have made progress with a recovery in face-to-face sales, including the advancement of sales via our web site.

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Currently, we have virtually no difficulty in receiving orders. As a result, the number of inquiries on hand has remained at the same level as the previous year.

In addition, in the AA Group, the number of orders from government agencies, which had been delayed in the first half of the fiscal year, has continued to be placed in the second half. We believe that orders received in the current fiscal year and net sales in the next fiscal year and beyond will depend on the extent to which we can acquire orders from a wealth of inquiries, and we are currently devoting ourselves to order-taking activities.

We announced the financial results for Q2 as an upward revision to the forecast. For the full year, we have not revised our forecast partly because it is weighted toward the second half.

Takamatsu Corporation : Orders received by condominiums and non-condominiums

- ◆ Although interviews with private customers (major customers of Takamatsu Corporation), which were temporarily suspended due to the spread of the new coronavirus infection, were resumed, there were special factors such as the time needed to conclude contracts and the postponement of orders for corporate customers.
- ◆ Although these figures are only for reference, the Osaka Head Office is still focused on non-condominium projects, and the Tokyo Head Office has a fifty-fifty ratio of condominium construction to non-condominium projects.

Percentage of condominiums and non-condominiums Year-on-year comparison (%)					Orders by condominiums and non-condominiums (million yen)				
	Osaka		Tokyo			Osaka		Tokyo	
	2020/3 2Q	2021/3 2Q	2020/3 2Q	2021/3 2Q		2020/3 2Q	2021/3 2Q	2020/3 2Q	2021/3 2Q
condominiums	29.5%	20.1%	55.7%	51.3%	condominiums	6,853	1,944	13,933	4,411
non-condominiums	70.5%	79.9%	44.3%	48.7%	non-condominiums	16,392	7,729	11,096	4,193
Total	100%	100%	100%	100%	Total	23,245	9,673	25,030	8,604

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As reference indicators, we showed the amount of orders received by condominiums and non-condominiums of Takamatsu Corporation on page 19.

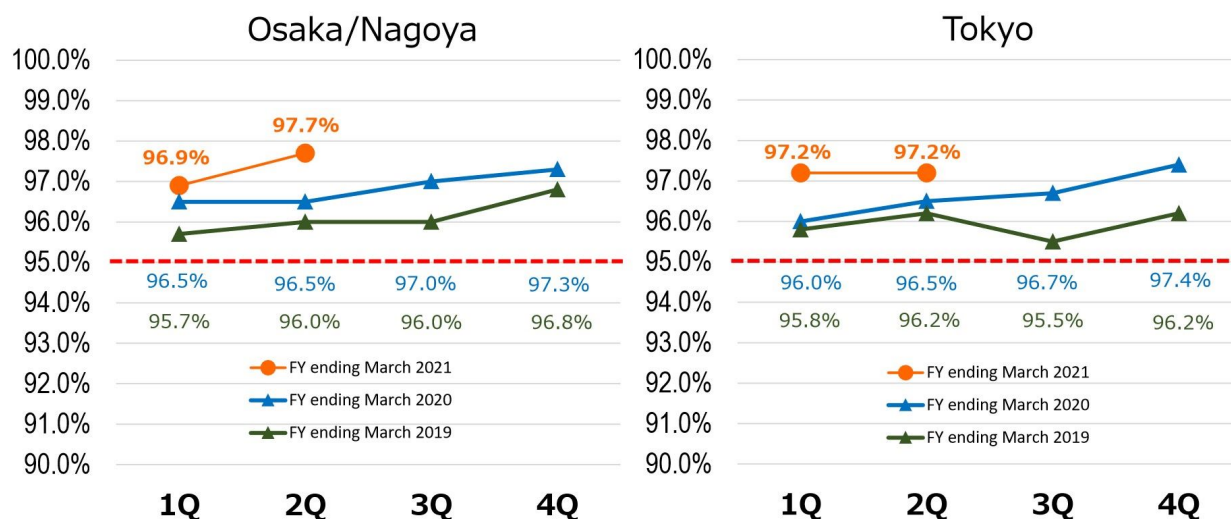
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Occupancy Rate of Properties Constructed by Takamatsu Corporation at Takamatsu Estate

◆ Occupancy rates of 95% or higher have been maintained for 2Q, FY ending March 2021 in both Tokyo and Osaka.



Definitions

"Osaka/Nagoya": Osaka, Kyoto, Hyogo, and Nagoya

"Tokyo": Tokyo, Kanagawa, Saitama, and Chiba

"Occupancy rate": Number of properties constructed by Takamatsu Corporation managed by Takamatsu Estate (Osaka/Tokyo) that are occupied at the end of each quarter ÷ total number of properties constructed by Takamatsu Corporation managed by Takamatsu Estate (Osaka/Tokyo) at the end of each quarter

And the occupancy rate of properties constructed by Takamatsu Corporation and managed by Takamatsu Estate, the TKG Group's condominium management company, on page 20.

Now I am finishing Takamatsu Construction Group's financial results briefing for Q2 of the fiscal year ending March 31, 2021. Thank you for watching.

Moderator: Thank you for viewing the video of Takamatsu Construction Group's financial results briefing for Q2 of the fiscal year ending March 31, 2021. We will conclude the briefing.

If you have any questions, please contact the corporate communication office of Takamatsu Construction Group. Thank you very much.

[END]

Document Notes

1. Portions of the document where the audio is unclear are marked with [Inaudible].
2. Portions of the document where the audio is obscured by technical difficulty are marked with [TD].
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