Consolidated Financial Statements (Japanese Accounting Standard)

Aug 10, 2021

(For the three months ended June 30, 2021)

Name of Company Listed: **Leopalace21 Corporation**
Stock Listing: Tokyo Stock Exchange
Code Number: 8848 URL: http://eg.leopalace21.com/
Location of Head Office: Tokyo
Representative: Position: President and CEO Name: Bunya Miyao
Name of Contact Person: Position: Executive Officer Name: Shinji Takekura Telephone: +81-50-2016-2907
Scheduled Date of Filing of Securities Report (Japanese only): Aug 11, 2021
Scheduled Date of Commencement of Dividend Payments: —
Supplemental Explanatory Material Prepared: Yes
Results Briefing Held: No

1. Results for the Three Months ended June 30, 2021 (April 1, 2021 – June 30, 2021)

(1) Consolidated financial results (Amounts less than JPY 1 million are omitted)

(The percentage figures indicate rate of gain or loss compared with the same period in the previous fiscal year)

	Net sales		Operating profit		Recurring profit		Net income attributable to shareholders of the parent	
	JPY million	%	JPY million	%	JPY million	%	JPY million	%
Three months ended June 30, 2021	100,244	(3.6)	(1,287)	—	(2,241)	—	(957)	—
Three months ended June 30, 2020	103,986	(8.2)	(6,827)	—	(6,848)	—	(14,123)	—

(Note) Comprehensive income in the three months ended June 30, 2021: JPY 1,019 million (－%);
Comprehensive income in the three months ended June 30, 2020: JPY (13,413) million (－%)

	Net income per share	Diluted net income per share
	JPY	JPY
Three months ended June 30, 2021	(2.91)	—
Three months ended June 30, 2020	(57.84)	—

(Note) Changes caused by the “Accounting Standard for Revenue Recognition” (ASBJ Statement No.29, March 31, 2020) have been applied from the beginning of Q1 in FY ending March 31, 2022. The result of Q1 reflected such changes.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	JPY million	JPY million	%
As of June 30, 2021	150,332	(1,257)	(8.5)
As of March 31, 2021	161,708	3,277	(5.3)

(Reference) Total shareholders’ equity as of June 30, 2021: JPY (12,723) million; as of March 31, 2021: JPY (8,494) million

(Note) Changes caused by the “Accounting Standard for Revenue Recognition” (ASBJ Statement No.29, March 31, 2020) have been adopted from the beginning of Q1 in FY ending March 31, 2022. The result of Q1 reflected such changes.

2. Dividend Status

	Dividend per share				
	End of Q1	End of Q2	End of Q3	End of FY	Annual Total
	JPY	JPY	JPY	JPY	JPY
FY ended March 31, 2021	–	0.00	–	0.00	0.00
FY ending March 31, 2022	–				
FY ending March 31, 2022 (Estimate)		0.00	–	0.00	0.00

(Note) Change from the latest dividend estimate: No

3. Consolidated Earnings Forecasts for the Fiscal Year ending March 31, 2022 (April 1, 2021 – March 31, 2022)*

(The percentage figures for six months and full fiscal year indicate rate of gain or loss compared with the previous six months and full FY.)

	Net sales		Operating profit		Recurring profit		Net income attributable to shareholders of the parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Six months ending September 30, 2021	198,000	(5.1)	(7,400)	—	(9,700)	—	(11,500)	—	(34.97)
FY ending March 31, 2022	402,900	(1.5)	2,000	—	(2,900)	—	(5,600)	—	(17.03)

(Note) Change from the latest earnings forecast: No
Changes caused by the “Accounting Standard for Revenue Recognition” (ASBJ Statement No.29, March 31, 2020) have been applied from the beginning of Q1 in FY ending March 31, 2022. Above consolidated earnings forecasts reflected such changes.

(Notes)

(1) Changes in major subsidiaries during the three months in the fiscal year ending March 2022 (change in specific subsidiaries resulting in a change in the scope of consolidation) : None

(2) Use of accounting procedures specific to the preparation of quarterly financial statements: None

(3) Changes in accounting policies, procedures or reporting methods used in preparation of financial statements and restatements
   (i) Changes in accounting policies accompanying revision of accounting standards, etc.: Yes
   (ii) Changes in accounting policies other than (i) above: None
   (iii) Changes in accounting estimates: None
   (iv) Restatements: None
   (Note) For details please refer to 2. Consolidated Financial Statements (3) Notes Regarding Consolidated Financial Statements (Changes in accounting policies) in p.9 of the attached material.

(4) Total number of outstanding shares (common stock)
   (i) Total number of outstanding shares at term end (including treasury stock)
      As of June 30, 2021: 329,389,515 shares, As of March 31, 2021: 329,389,515 shares
   (ii) Total treasury stock at term end
      As of June 30, 2021: 493,610 shares, As of March 31, 2021: 561,610 shares
   (iii) Average number of outstanding shares during the period
      As of June 30, 2021: 328,866,763 shares, As of June 30, 2020: 244,158,365 shares

–Indication regarding the status of auditing:
These financial statements are not subject to auditing under the Financial Instruments and Exchange Act.

– Explanation on the proper use of the business forecasts, and other special notices:
(Note on the business forecasts and other forward-looking statements)
The business forecasts and other forward-looking statements contained in this report are based on information currently available to Leopalace21 (hereinafter the “Company”) and on certain assumptions that the Company has judged to be reasonable. Readers should be aware that a variety of factors might cause actual results to differ significantly from these forecasts.
For assumptions of business forecasts and notes on the proper use of these forecasts, please refer to “1. Business Results (3) Future Predictions. In p.5.

(Method for the acquisition of supplemental explanatory material)
Supplemental Explanatory Material is planned to be posted on the Company’s website on August 10, 2021.

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1. Business Results
(1) Analysis of Business Results

(JPY million)

	Three months ended June 30, 2021	Three months ended June 30, 2020	Difference
Net sales	100,244	103,986	(3,741)
Operating profit (loss)	(1,287)	(6,827)	5,539
Recurring profit (loss)	(2,241)	(6,848)	4,607
Net income (loss) attributable to shareholders of the parent	(957)	(14,123)	13,165

The domestic economy, apart from some parts of the industries that have shown signs of recovery in earnings, remained uncertain for future outlook due to the spread of COVID-19 pandemic.

The new housing starts of leased units increased for the four months in a row (up 10.0% year on year). In the rental housing market, the number of vacant houses continues to increase, and in order to secure a stable occupancy rates amid difficulty in recovering nationwide demand, the Company believes it is important to implement a differentiation strategy by providing value-added services and by focusing on supplying apartments in the three metropolitan areas where high occupancy rates are expected in the future.

Under these circumstances, Leopalace21 Group (the "Group") posted a significant loss for the three years in a row in the previous fiscal year, mainly due to a deterioration in the occupancy rates caused by the construction defects. The Company announced "Notice Concerning Implementing Structural Reforms based on Strategic Review Results for Drastic Business Strategies Reconstruction" on June 5, 2020 and took selective concentration approach with prioritized allocation of the management resources into the Leasing Business, a core business, and continued structural reforms to fundamentally improve the business structure. The Company strives to stabilize the business and financial position and continuously improve the profitability.

As a result, net sales for the three months ended June 30, 2021 became JPY 100,244 million, a decrease of 3.6% year on year and operating loss was JPY 1,287 million, an improvement of JPY 5,539 million year on year, due to the reduction of cost of sales and SGAE amounting to JPY 9,281 million against Q1 in the previous fiscal year. The recording of interest expenses of JPY 1,117 million made recurring loss of JPY 2,241 million, which was an improvement of JPY 4,607 million year on year. Net loss attributable to shareholders of the parent was JPY 957 million, which was an improvement of JPY 13,165 million year on year. The improvement was mainly contributed by the reversal of reserve for losses related to repairs of JPY 1,919 million because of lowered unit repair cost by placing batch orders and by employing a new construction method.

The Company has adopted the "Accounting Standard for Revenue Recognition" (ASBJ Statement No.29, March 31, 2020) from Q1 in FY ending March 31, 2022. Net sales for Q1 has been increased by JPY 651 million, cost of sales has been reduced by JPY 127 million, and operating loss, recurring loss as well as loss before taxes and other adjustments have been decreased by JPY 778 million each.

For details vide 2. Consolidated Financial Statements (3) Notes Regarding Consolidated Financial Statements (Changes in accounting policies).

Result by segment are as follows:

(JPY million)

	Net sales			Operating profit		
	Three months ended June 30, 2021	Three months ended June 30, 2020	Difference	Three months ended June 30, 2021	Three months ended June 30, 2020	Difference
Leasing Business	96,201	99,233	(3,031)	230	(3,621)	3,852
Elderly Care Business	3,622	3,534	87	(230)	(243)	13
Other Businesses	420	1,217	(797)	(259)	(128)	(130)
Adjustments	—	—	—	(1,028)	(2,833)	1,804
Total	100,244	103,986	(3,741)	(1,287)	(6,827)	5,539

(i) Leasing Business

In the Leasing Business, the Company provides abundant value-added services such as "my DIY" which allows the tenants to customize a selected single wall of the room, promotion of the transition to smart apartments which enables electrical appliances and door locks and others, to be operated by smartphone, support for so-called remote service such as web-based customer service, apartment viewing and contract signing, and security services in collaboration with leading security companies. Also, in order to achieve stable occupancy rates, the Company is strengthening sales to the corporate customers for the apartment use by their employees as a dormitory or corporate housing, and increasing support for the foreign national tenants. In the ASEAN countries, the Company manages serviced apartments and offices through its subsidiaries.

The occupancy rate at the end of June 30, 2021 was 80.91% (up 1.48 points from the same month end in the previous fiscal year) with average occupancy rate of 80.63% (up 0.39 points year on year). These results reflected the prolonged impact of COVID-19 pandemic although the adverse effect of construction defects problem declined. The number of units under management was 573 thousand (a decrease of six hundred from the end of the previous fiscal year).

The number of direct leasing offices at the end of June 30, 2021 was 111 (a reduction of 28 from the end of the previous fiscal year). That reflected efforts to increase the operational efficiency and productivity.

The orders received was JPY 969 million (down 55.3% year on year) and the outstanding orders as of end of June 30, 2021 stood at JPY 8,530 million (down 63.3% from the end of the previous fiscal year). This was due to the Company's ceasing of new bookings because of the construction defects problem such as parting walls along with the intensified competition in the metropolitan areas, changes in the environment of apartment loans and other factors.

As a result, net sales came to JPY 96,201 million yen (down 3.1% year on year) and operating profit was JPY 230 million (operating loss of JPY 3,621 million was recorded in Q1 in FY ended March 31, 2021).

(ii) Elderly Care Business

The Company has seen occupancy rate recovering at the existing facilities which improved the segment profitability of the Elderly Care Business, a strategic growth business. Net sales during the three months ended June 30, 2021 were JPY 3,622 million (up 2.5% year on year), and operating loss was JPY 230 million (an improvement of JPY 13 million year on year). The number of facilities was 87 as of the end of Q1 in FY ending March 31, 2022.

(iii) Other Businesses

Net sales of the Other Businesses including resort facilities in Guam, a finance business, and other businesses, were JPY 420 million (down 65.5% year on year) and operating loss was JPY 259 million (an increase of loss of JPY 130 million year on year) due mainly to a significant decline in occupancy rates in Guam because of COVID-19 pandemic.

(2) Analysis of Consolidated Financial Position

(JPY million)

	Assets	Liabilities	Net assets
As of June 30 ,2021	150,332	151,590	(1,257)
As of March 31, 2021	161,708	158,431	3,277
Difference	(11,375)	(6,841)	(4,534)
Change rate	(7.0%)	(4.3%)	–%

Total assets at the end of June 30, 2021 decreased by JPY 11,375 million yen from the end of the previous fiscal year to JPY 150,332 million. This was mainly attributable to a decrease of JPY 9,088 million in cash and cash equivalents as well as a reduction of JPY 1,735 million in Others (mostly Accounts receivable – other).

Total liabilities decreased by JPY 6,841 million from the end of the previous fiscal year to JPY 151,590 million. This was mainly attributed to an increase of JPY 2,328 million in short and long term advance received as a result of changes caused by the accounting standard for revenue recognition, JPY 2,799 million in accounts payable – other, JPY 3,136 million in reserve for losses related to repairs and JPY 1,194 million in reserve for apartment vacancy loss.

Total net assets decreased by JPY 4,534 million from the end of the previous fiscal year to JPY 1,257 million in excess liabilities. This was mainly due to increase of JPY 1,671 million in foreign currency transaction adjustments, yet decrease of JPY 5,932 million in retained earnings because of cumulative-effect adjustment to beginning retained earnings of JPY 4,963 million resulting from retrospective application of the Accounting Standard for Revenue Recognition, and the recording of net loss attributable shareholders of the parent of JPY 957 million. The ratio of total shareholders' equity to assets dropped by 3.2 percentage points from the end of the previous fiscal year to minus 8.5%.

(3) Future Predictions

Concerning consolidated earnings forecasts for the consolidated fiscal year ending March 2022, the Company confirms that there are no changes for the six months in FY ending March 2022 and for the full FY ending March 2022 which it announced on May 14, 2021 "Consolidated Financial Statements (Japanese Accounting Standard, for the fiscal year ended March 31, 2021)".

This forward-looking statement is based on the information which is available on the date of release, but actual results may differ significantly from these forecasts due to various factors.

2. Consolidated Financial Statements
(1) Consolidated Balance Sheets

(JPY million)

	June 30, 2021	March 31, 2021
<Assets>		
Current assets		
Cash and cash equivalents	45,774	54,863
Trade receivables	8,111	7,930
Accounts receivable for completed projects	394	524
Operating loans	80	86
Securities	100	100
Real estate for sale	561	180
Real estate for sale in progress	–	349
Payment for construction in progress	244	238
Prepaid expenses	1,978	2,076
Others	4,693	6,429
Allowance for doubtful accounts	(191)	(182)
Total current assets	**61,747**	**72,598**
Non-current assets		
Property, plant, and equipment		
Buildings and structures (net)	20,189	19,557
Machinery, equipment, and vehicles (net)	8,340	8,589
Land	31,526	31,118
Leased assets (net)	2,705	3,506
Construction in progress	133	82
Others (net)	6,865	7,198
Total property, plant, and equipment	**69,761**	**70,052**
Intangible fixed assets		
Goodwill	11	12
Others	3,924	4,161
Total intangible fixed assets	**3,936**	**4,173**
Investments and other assets		
Investment securities	5,510	5,431
Long-term loans	1,141	1,096
Long-term prepaid expenses	940	1,121
Deferred tax assets	2,180	2,194
Others	5,881	5,692
Allowance for doubtful accounts	(767)	(651)
Total investments and other assets	**14,886**	**14,883**
Total non-current assets	**88,584**	**89,109**
Total assets	**150,332**	**161,708**

(JPY million)

	June 30, 2021	March 31, 2021
<Liabilities>		
Current liabilities		
Electronically recorded obligations -operating	9	19
Accounts payable	2,695	3,172
Accounts payable for completed projects	293	514
Short-term borrowings	125	114
Lease obligations	2,646	3,133
Accounts payable -other	6,794	9,593
Accrued income taxes	315	696
Advances received	30,720	28,239
Customer advances for projects in progress	471	541
Reserve for bonus payment	204	–
Reserve for warranty obligations on completed projects	65	67
Reserve for fulfillment of guarantees	2,716	2,783
Reserve for losses related to repairs	260	3,777
Reserve for apartment vacancy loss	8,107	9,301
Others	3,571	3,842
Total current liabilities	**58,998**	**65,798**
Non-current liabilities		
Long-term debt	30,620	30,615
Lease obligations	1,102	1,544
Long-term advances received	7,716	7,869
Lease/guarantee deposits received	6,734	6,423
Deferred tax liabilities	10	9
Reserve for losses related to repairs	30,113	29,732
Reserve for apartment vacancy loss	2,960	2,960
Liability for retirement benefits	9,632	9,650
Others	3,701	3,826
Total non-current liabilities	**92,591**	**92,633**
Total liabilities	**151,590**	**158,431**
<Net assets>		
Shareholders' equity		
Common stock	81,282	81,282
Capital surplus	55,174	55,174
Retained earnings	(148,518)	(142,586)
Treasury stock	(302)	(344)
Total shareholders' equity	**(12,364)**	**(6,474)**
Accumulated other comprehensive income		
Net unrealized gains on "other securities"	(24)	(0)
Foreign currency translation adjustments	(205)	(1,877)
Remeasurements of defined benefit plans	(129)	(142)
Total accumulated other comprehensive income	**(359)**	**(2,019)**
Share subscription rights	357	388
Non-controlling interests	11,108	11,383
Total net assets	**(1,257)**	**3,277**
Total liabilities and net assets	**150,332**	**161,708**

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

Consolidated Statement of Income

(JPY million)

	Three months ended June 30, 2021 (Apr 2021–Jun 2021)	Three months ended June 30, 2020 (Apr 2020–Jun 2020)
Net sales	**100,244**	**103,986**
Cost of sales	**90,472**	**97,016**
Gross profit	**9,771**	**6,969**
Selling, general and administrative expense	**11,059**	**13,797**
Operating profit (loss)	**(1,287)**	**(6,827)**
Non-operating income		
Interest income	6	12
Dividend income	4	23
Valuation gains of investment securities	28	32
Foreign exchange gains	–	179
Equity in earnings of affiliates	52	–
Other	103	54
Total non-operating income	**196**	**301**
Non-operating expenses		
Interest expenses	1,117	140
Foreign exchange loss	17	–
Bond issuance cost	–	33
Other	14	148
Total non-operating expenses	**1,150**	**322**
Recurring profit (loss)	**(2,241)**	**(6,848)**
Extraordinary income		
Gains on sale of property, plant and equipment	0	0
Gains on sale of investment securities	0	0
Reversal of reserve for losses related to repairs	1,919	–
Total extraordinary income	**1,919**	**0**
Extraordinary losses		
Loss on sale of property, plant and equipment	–	6
Loss on retirement of property, plant and equipment	1	14
Impairment loss	–	3,741
Loss related to repairs	–	1,921
Special severance allowance	–	2,481
Loss on closure of offices	5	–
Total extraordinary losses	**6**	**8,164**
Income (loss) before taxes and other adjustments	**(329)**	**(15,012)**
Income taxes	**312**	**(889)**
Net income (loss)	**(641)**	**(14,123)**
Net income (loss) attributable to non-controlling interests	**315**	**(0)**
Net income (loss) attributable to shareholders of the parent	**(957)**	**(14,123)**

Consolidated Statement of Comprehensive Income

(JPY million)

	Three months ended June 30, 2021 (Apr 2021–Jun 2021)	Three months ended June 30, 2020 (Apr 2020–Jun 2020)
Net income (loss)	(641)	(14,123)
Other comprehensive income		
Net unrealized gains on “other securities”	(24)	1,122
Foreign currency translation adjustments	1,670	(556)
Remeasurements of defined benefit plans	13	149
Share of other comprehensive income of entities using equity method	2	(4)
Total other comprehensive income	1,661	710
Comprehensive income	1,019	(13,413)
(Breakdown)		
Comprehensive income attributable to shareholders of the parent	703	(13,412)
Comprehensive income attributable to non-controlling interests	316	(0)

(3) Notes Regarding Consolidated Financial Statements

(Notes regarding the premise of the Company as a going concern)

There are no relevant items.

(Note related to the significant changes in the amount of shareholders equity)

The Company adopted the “Accounting Standard for Revenue Recognition” (ASBJ Statement No.29, March 31, 2020) from the beginning of Q1 in FY ending March 31, 2022. The details are described in 2. Consolidated Financial Statements (3) Notes Regarding Consolidated Financial Statements (Changes in accounting policies).

(Changes in accounting policies)

(Application of Accounting Standard for Revenue Recognition)

The Company adopted the “Accounting Standard for Revenue Recognition” (ASBJ Statement No.29, March 31, 2020) from the beginning of Q1 in FY ending March 31, 2022 and started to recognize the revenue when the Company transfers a promised goods or services to a customer with the amount which the Company expects to receive from the customer as a consideration. As a result, instead of recognizing revenue in one go for key money, reduction of rent, handling charge for monthly rental contract, and other handling charges for service provision, such revenue have been divided by the tenants’ average staying period in the apartment on a pro rata basis. The whole income from *LEONET* service used to be recognized as a revenue prior to the change but the new amount of revenue is the income from *LEONET* users deducted by the Company’s cost payable to the service supplier.

At the application of the new accounting policy based on the Accounting Standard for Revenue Recognition, the Company followed the specific transitional handling as stated in the item 84 of the Accounting Standard for Revenue Recognition. The Company adjusted the beginning retained earnings by cumulative-effect amount to reflect the retrospective application of account processing from the beginning of Q1 ended June 30, 2021. However, the Company has not applied the accounting policy in accordance with the item 86 of the said Accounting Standard for the contracts with most of the revenue recognition has been completed prior to the beginning of Q1 ended June 30, 2021, following the previous accounting policy. The Company followed the item 86 (1) of the Accounting Standard for Revenue Recognition and did the account processing for the contracts which were modified prior to the beginning of Q1 ended June 30, 2021 and adjusted the beginning retained earnings by the cumulative-effect amount.

As a result of the above account processing, net sales for Q1 ended June 30, 2021 were increased by JPY 651 million, cost of sales was decreased by JPY 127 million, and operating loss, recurring loss, and loss before taxes and other adjustments were decreased by JPY 778 million each. The beginning balance of retained earnings was reduced by JPY 4,963 million.

The Company followed the transitional handling stated in item 28–15 of the “Accounting Standard for Quarterly Financial Reporting” (ASBJ Statement No.12, March 31, 2020) and did not disclose the breakdown information on the net sales from customer contracts which were concluded during Q1 in FY ended March 31, 2021.

(Application of Accounting Standard for Fair Value Measurement)

The Company adopted the “Accounting Standard for Fiar Value Measurement” (ASBJ Statement No.30, July 4, 2019, hereinafter “Accounting Standard for FVMt”) from the beginning of Q1 ended June 30, 2021. The Company determined to apply the new accounting policy for future following the transitional handling stated in the item 19 of the Accounting Standard for FVM and in the item 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No.10, July 4, 2019). The effect of the application on the Quartely Consolidated Financial Statements is immaterial.

(**Additional information**)

There are no material changes to the accounting assumption and estimate related to the spread of COVID-19 pandemic and its impact on the Group’s business as well as the time of ceasing COVID-19 pandemic, which the Company announced in the Consolidated Financial Statements (Japanese Accounting Standard) for the fiscal year ended March 31, 2021 as (Accounting assumption related to spread of COVID-19)

(Segment Information)

I. Three months ended June 30, 2021 (April 1, 2021 – June 30, 2021)

(i) Information on net sales, profit or loss per reportable segment and breakdown of net sales

(JPY million)

	Reportable segments				Adjustments (Note 1)	Amount stated in Consolidated Statement of Income (Note 2)
	Leasing Business	Elderly Care Business	Other Businesses	Total		
Net sales						
Rent income	69,704	–	–	69,704	–	69,704
Ancillary service income	13,894	–	–	13,894	–	13,894
Maintenance	8,916	–	–	8,916	–	8,916
Rental guarantee	1,153	–	–	1,153	–	1,153
Furniture insurance	544	–	–	544	–	544
Company housing agency fee	203	–	–	203	–	203
Roof lease solar power generation	816	–	–	816	–	816
Construction subcontracting	826	–	–	826	–	826
Other	140	3,622	420	4,183	–	4,183
Sales from contracts with customer	96,201	3,622	420	100,244	–	100,244
Other sales	–	–	–	–	–	–
Sales to customers	96,201	3,622	420	100,244	—	100,244
Inter-segment sales and transfers	22	—	55	78	(78)	—
Total	96,224	3,622	476	100,322	(78)	100,244
Segment profit (or loss)	230	(230)	(259)	(259)	(1,028)	(1,287)

Note 1: Adjustment of JPY (1,028) million in segment profit (or loss) includes inter-segment elimination of JPY 37 million and corporate expenses of JPY (1,066) million which have not been divided into each segment. Corporate expenses consist mainly of general administrative expenses for administrative departments that are not part of reportable segments.

Note 2: Segment profit or loss have been adjusted to the operating loss on the Consolidated Statement of Income

(ii) Changes in reportable segments

The Company has adopted the “Accounting Standard for Revenue Recognition” (ASBJ Statement No.29, March 31, 2020) from the beginning of Q1 in the fiscal year ending March 2022 which was mentioned in the changes in the accounting policies. The method of calculating profit or loss for reportable segments has been changed in accordance with the change in the Accounting Standard for Revenue Recognition.

As a result of the change, net sales for the Leasing Business has been increased by JPY 651 million and segment profit has been increased by JPY 778 million for the three months ended June 30, 2021.

II. Three months ended June 30, 2020 (April 1, 2020 – June 30, 2020)

(i) Net sales and loss per reportable segment

(JPY million)

	Reportable segments				Adjustments (Note 1)	Amount stated in Consolidated Statement of Income (Note 2)
	Leasing Business	Elderly Care Business	Other Businesses	Total		
Net sales						
Sales to customers	99,233	3,534	1,217	103,986	—	103,986
Inter-segment sales and transfers	38	—	369	407	(407)	—
Total	99,272	3,534	1,587	104,394	(407)	103,986
Segment profit (or loss)	(3,621)	(243)	(128)	(3,994)	(2,833)	(6,827)

Note 1: Adjustment of JPY (2,833) million in segment profit (or loss) includes inter-segment elimination of JPY 43 million and corporate expenses of JPY (2,876) million which have not been divided into each segment. Corporate expenses consist mainly of general administrative expenses for administrative departments that are not part of reportable segments.

Note 2: Segment loss has been adjusted to the operating loss on the Consolidated Statement of Income

(ii) Changes in reportable segments

The reportable segments have been changed from the previous four segments, “Leasing Business,” ”Development Business,” “Elderly Care Business,” and “Hotels, Resort & Other Business” to three segments, “Leasing Business,” “Elderly Care Business,” and “Other Businesses” from the first quarter of the fiscal year ended March 2021. The change in segments is due to the integration of (old) Development Business in the Leasing Business where the integrated part concentrates on strengthening the relationship with the current apartment owners and providing comprehensive services to their properties based on the shift of business strategies from diversification policy to profitability-oriented policy of the Leasing Business in line with the drastic business strategies reconstruction. The change in the name to Other Businesses from Hotels, Resort & Other Business reflects the Company’s new policy of transferring or withdrawing from the Hotels and Resort Business.

(iii) Information on impairment losses of non-current assets per reportable segment

In the Leasing Business, the book value of properties for lease, which was determined to be sold, was reduced to the recoverable amount and the reduction was recorded as impairment loss of JPY 3,551 million in the extraordinary losses. In the Other Businesses, the book value of the hotel, which was determined to be sold, was reduced to the recoverable amount and the reduction was recorded as impairment loss of JPY 82 million in the extraordinary losses.

As the Company is unable to expect the initial profitability which it planned at the time of acquiring the shares in Enplus Inc., the balance of unamortized goodwill of JPY 107 million was recorded as impairment loss, in the extraordinary losses.

(Significant events occurring after the balance sheet date)

(Reduction of common stock)

The Ordinary General Shareholders’ Meeting held on June 29, 2021 approved the reduction of common stock with the effective date of August 10, 2021.

1. Purpose of reduction of common stock
   In order to ensure the flexibility and speediness of the capital policy, the Company has decided to reduce the common stock, as stated in Article 447, Paragraph 1 of the Companies Act.
2. Main points in reduction of common stock
   (1) Reduced amount of common stock
   Reduce common stock by JPY 81,182,359,829 from JPY 81,282,359,829 to make the common stock of JPY 100,000,000.
   (2) Method of reduction
   There will be no change in the total number of outstanding shares. The entire amount of the reduction, JPY 81,182,359,829, will be transferred to other capital surplus.

3. Other

(Significant Events Relating to Going Concern Assumption)

The Group recorded an operating loss for two consecutive years in the fiscal year ended March 2021 and a net loss attributable to shareholders of the parent as well as negative operating cash flow for three consecutive years due to construction defects such as parting walls confirmed in the properties constructed by the Company and spread of COVID-19 pandemic impact.

The three months ended June 30, 2021, saw operating loss of JPY 1,287 million and a net loss attributable to shareholders of the parent of JPY 957 million although the occupancy rates are back on track for recovery.

As a result, there are events or circumstances that raise significant doubt about the Company's ability to continue as a going concern assumption.

In order to resolve the situation, the Company raised on November 2, 2020 a total funds of JPY 57,215 million by issuance of new shares through a third-party allotment, by a loan with the stock acquisition rights, and by issuance of preferred stock by its consolidated subsidiary, Leopalace Power Corporation.

Furthermore, based on the “Notice Concerning Implementing Structural Reforms based on Strategic Review Results for Drastic Business Strategies Reconstruction” announced on June 5, 2020, the Company has been implementing various cost reviews and cost reduction measures, including the following: transferring of or withdrawing from non-core unprofitable businesses (sale and transfer of real estate and investment securities owned, transfer or liquidation of subsidiaries, and others); offering of the voluntary retirement program; reducing executive remuneration; revising personnel cost structure including revision of human resources management system; curbing operation and management costs in the Leasing Business; reducing fixed costs through abolishment and merger of leasing offices; lowering SGAE such as advertising and sales promotion; and abolishing shareholders special benefit plan.

In the three months ended June 30, 2021, the Company has carried out the efforts of improving the occupancy rates through promoting remote services such as web-based customer service, apartment viewing and contract signing, working with real estate agents to attract increased number of customers, implementing area intensive sales strategies for delegating larger authorities to manage sales, cost and profit per area. The Company has been continuing to negotiate with property owners for corrected rent payment based on the master lease contracts, reducing the management cost for the Leasing Business, and adjusting the pace of repair works to improve the business results and stabilize the financial position

In terms of cash liquidity, the balance of cash and cash equivalents as of the end of Q1 in FY ending March 31, 2022 is JPY 45,774 million, which is a sufficient funds to carry on as a going concern continue operations for the present time.

The important assumption for the business outlook is based on the number of rental contracts, number of contracted rooms, rent income, corrected rent payment to the property owners and reduction of management costs in the Leasing Business. Although there are a certain level of uncertainties in the assumptions, the Company believes that there are no significant uncertainties regarding the going concern assumption.

(State of Progress for Excess Liabilities Elimination)

The Group has implemented the management restructuring strategies such as continuing the drastic structural reforms and improving the occupancy rates, which the Group disclosed on May 14, 2021 with the title of "Notice Concerning Efforts in Excessive Liabilities Elimination."

The Group recorded for the three months ended June 30, 2021 operating loss of JPY 1,287 million, recurring loss of JPY 2,241 million, and net loss attributable to shareholders of the parent of JPY 957 million. As a result of retrospectively applying the new Accounting Standards for Revenue Recognition, the amount of excessive liabilities* was JPY 12,366 million due to a reduction from the beginning retained earnings of JPY 4,963 million as a cumulative-effect adjustment of retrospective application of the Accounting Standard for Revenue Recognition.

* The excessive liabilities per the Tokyo Stock Exchange is defined as the total net assets in the consolidated balance sheet deducted by non-controlling interests.

(i) Continuation of the drastic structural reforms

Cost review and reduction across the board which has been exercised since the previous fiscal year in line with the drastic structural reforms has been showing effect as a result of transferring or withdrawing from non-core unprofitable businesses, reviewing personnel cost structure, curtailing operation cost and management cost in the Leasing Business, as well as lowering fixed cost through abolishing or merging leasing offices.

Operating loss of JPY 1,287 million has been recorded for the three months ended June 30, 2021, which is an improvement of JPY 5,312 million against the plan and on a path of recovery; an improvement of JPY 2,947 million against the same period in the fiscal year ended March 2020 and an improvement of JPY 5,539 million against the same period in the fiscal year ended March 2021.

The results of Cost of sales and SGAE overachieved the respective planned numbers. Cost of sales for Q1 was JPY 90,472 million, which went lower the plan by JPY 2,427 million. The result was a decrease of JPY 11,569 million against the FY20/3 Q1 result and a decrease of JPY 6,543 million against the FY21/3 Q1 result. SGAE for Q1 was JPY 11,059 million which went lower the plan by JPY 1,440 million. The result was a reduction of JPY 4,457 million against the FY20/3 Q1 result and a reduction of JPY 2,737 million against the FY21/3 Q1 result.

(ii) Improvement of the occupancy rates

The Company implemented the sales strategies such as prioritized allocation of management resources into the Leasing Business, introduction of area intensive approach, DX solution promotions such as web-based customer service, apartment viewing and contract signing, as well as longer reach of customers through the strengthened tie with real estate agents network.

The occupancy rate as of the end of June 2021 was 80.91%, which was ahead of the plan by 0.59p.

The Company continues to carry out the management restructuring strategy and strives to improve the profitability.

For details please refer to the "Investor Meeting Presentation for the Three Months Ended June 30, 2021" which has been disclosed on August 10, 2021.