

October 27, 2021

Company: Financial Products Group Co., Ltd.
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(Code 7148 on the First Section of the Tokyo Stock Exchange)
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Notice of Change in Consolidated Subsidiaries

Financial Products Group Co., Ltd. (FPG) hereby notifies you that our consolidated subsidiaries, FLIP NO. 243 Co., Ltd., FLIP NO. 244 Co., Ltd., and FLIP NO. 245 Co., Ltd., are to become non-consolidated subsidiaries as follows.

1. Reason for changing their status to non-consolidated subsidiaries

FPG forms silent partnerships to engage in operating leases and transfers (sells) its equity interest in the silent partnerships to investors, thereby earning commission income through the arrangement, sale and management of the relevant leasing business. The income and loss of the leasing business will be attributed to the investor through the transfer of the equity interest in the silent partnership.

In November 2019, we formed three silent partnerships in a leasing business with Air Mauritius Limited (AML) as the lessee and acquired the equity interest in the silent partnerships in the said leasing business with a view to transferring it to investors.

The leasing business will be carried out by the FPG's subsidiaries (FLIP NO. 243 Co., Ltd., FLIP NO. 244 Co., Ltd., FLIP NO. 245 Co., Ltd.) as the operators of the silent partnerships, but by transferring the equity interest in the silent partnership from FPG to investors, the profit and loss of the leasing business was intended to belong to the investors, not to FPG. Therefore, making the subsidiaries into consolidated subsidiaries may significantly mislead judgment of the interested parties, and as a result, subsidiaries were classified as non-consolidated subsidiaries after arrangement in accordance with Article 5, Paragraph 1, Item 2 of the "Regulations Concerning Terms, Forms and Preparation Methods of Consolidated Financial Statements" (Ministry of Finance Ordinance No. 28, 1976) until the end of March 2020 when the accounting treatment changed. Consequently, we did not record in its (consolidated) financial statements the related assets and liabilities, such as aircraft and non-recourse loans, as well as gains and losses from such leasing business, and recorded the equity interest in the silent partnership held by FPG as "equity underwritten".

However, due to the fact that AML filed for Voluntary Administration under the Insolvency Act in April 2020, there is no prospect of transferring the said silent partnership's equity interests to the investors, and the profit and loss of the leasing business was to belong to FPG. We determined that the aforementioned clause would therefore not be applicable, and we decided to change the accounting method as of the end of March 2020, to make the subsidiaries into consolidated subsidiaries, and to record the assets and liabilities as well as the profit and loss of the leasing business in the (consolidated) financial statements from that point onwards.

Since then, we have recorded losses and expenses such as valuation losses on aircraft and foreign exchange losses on non-recourse loans, and as a result, we have written them off as losses until the value of the equity interest in the silent partnership, which is calculated as the difference between the assets and liabilities of the leasing business, becomes zero. Under these circumstances, AML had been negotiating with stakeholders to formulate a deed of company arrangement after applying for voluntary administration proceedings, and after receiving approval at the watershed meeting held on September 28, 2021 (local time), the Deed of Company Arrangement was implemented and is expected to be fulfilled in the future.

2 We had been negotiating with the administrators of AML and the parties concerned about the lease contract with regard to whether to continue the lease contract after changing the terms or to cancel the contract and return the aircraft. It was decided that the lease contract will continue with a change in terms for the time being.

Based on the fact that the lease contract will be continued and the value of the equity interest in the silent partnership linked to the expected profitability of the leasing business will not be zero, FPG has decided to transfer (sell) the said equity interest in the silent partnership to investors in the future, although it is necessary to take into account the status of the rehabilitation of AML and the performance of the lease contract. Based on this policy, since the profits/losses and income/expenses of the said leasing business will belong to the said investors and not to FPG, the said subsidiaries will again become non-consolidated subsidiaries, and FPG's equity interest in the silent partnership will be recorded as "equity underwritten" at a memorandum value of 1 yen in the (consolidated) financial statements.

This policy was decided on October 27, 2021. However, due to the fiscal year-end of the silent partnership, it was assumed that the income and loss of the leasing business after September 30, 2021, would belong to the investors, so the subsidiaries were deconsolidated as of September 29, 2021, and will be recorded as equity underwritten thereafter.

2. Overview of Consolidated Subsidiaries

(1) FLIP NO.243 Co., Ltd.

(1) Address	29th floor, JP Tower, 2-7-2 Marunouchi, Chiyoda-ku, Tokyo		
(2) Name and title of representative	Takahiro Matsumoto, Representative Director		
(3) Business activities	Leasing business, etc.		
(4) Capital	1,500,000 yen		
(5) Date of establishment	November 21, 2018		
(6) Relationship between the listed company and the company in question	Capital relationship	100% owned by FPG	
	Personnel relationship	An employee of FPG has been appointed as the representative director.	
	Trading relationship	Receipt and payment of fees based on silent partnership investments paid and service agreement	
(7) Major shareholder and shareholding ratio	Financial Products Group Co., Ltd. (100%)		
(8) Recent financial position and operational results	(Unit: 1000 yen)		
Accounting period	October 2019	October 2020	September 2021
Net assets	1,224	1,141	1,083
Total assets	1,288	5,970,859	5,969,970
Sales	-	375,766	407,076
Operating income	△ 211	39,928	47,819
Ordinary income	△ 211	△ 13	△ 0
Net income for the current period	△ 275	△ 83	△ 58
Net income per share	△9,184.73 yen	△2,766.67 yen	△1,943.40 yen
Dividend per share	0 yen	0 yen	0 yen

(2) FLIP NO.244 Co., Ltd.

(1) Address	29th floor, JP Tower, 2-7-2 Marunouchi, Chiyoda-ku, Tokyo		
(2) Name and title of representative	Takahiro Matsumoto, Representative Director		
(3) Business activities	Leasing business, etc.		
(4) Capital	1,500,000 yen		
(5) Date of establishment	November 21, 2018		
(6) Relationship between the listed company and the company in question	Capital relationship	100% owned by FPG	
	Personnel relationship	An employee of FPG has been appointed as the representative director.	
	Trading relationship	Receipt and payment of fees based on silent partnership investments paid and service agreement	
(7) Major shareholder and shareholding ratio	Financial Products Group Co., Ltd. (100%)		
(8) Recent financial position and operational results	(Unit: 1000 yen)		
Accounting period	October 2019	October 2020	September 2021
Net assets	1,224	1,141	1,083
Total assets	1,288	5,970,859	5,969,970
Sales	-	375,766	407,076
Operating income	△ 211	39,928	47,819
Ordinary income	△ 211	△ 13	△ 0
Net income for the current period	△ 275	△ 83	△ 58
Net income per share	△9,184.73 yen	△2,766.70 yen	△1,943.40 yen
Dividend per share	0 yen	0 yen	0 yen

(3) FLIP NO.245 Co., Ltd.

(1) Address	29th floor, JP Tower, 2-7-2 Marunouchi, Chiyoda-ku, Tokyo		
(2) Name and title of representative	Takahiro Matsumoto, Representative Director		
(3) Business activities	Leasing business, etc.		
(4) Capital	1,500,000 yen		
(5) Date of establishment	November 21, 2018		
(6) Relationship between the listed company and the company in question	Capital relationship	100% owned by FPG	
	Personnel relationship	An employee of FPG has been appointed as the representative director.	
	Trading relationship	Receipt and payment of fees based on silent partnership investments paid and service agreement	
(7) Major shareholder and shareholding ratio	Financial Products Group Co., Ltd. (100%)		
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Dividend per share	0 yen	0 yen	0 yen

With respect to the financial position and operating results of each subsidiary, FPG has reclassified the financial statements of each subsidiary in accordance with FPG's consolidated accounting policies and incorporated them into the consolidated financial statements. In addition, the fiscal year ended September 30, 2021, has not yet been finalized.

3. Future Prospects

As a result of this transaction, by making each company a non-consolidated subsidiary, 14,700 million yen in assets (including 14,376 million yen in aircraft) and 14,696 million yen in liabilities (including 14,650 million yen in non-recourse loans) will be excluded from consolidation, and the equity interest in the silent partnership will be recorded as equity underwritten. As mentioned above, the equity interest in the silent partnership held by FPG, which is calculated as the difference between the assets and liabilities of the relevant leasing business, has been treated as a loss down to zero, and at the time of changing to a non-consolidated status, the equity underwritten will be recorded at a memorandum value of 1 yen.

When the said equity interest in the silent partnership is transferred in the future, the difference between the memorandum value and the transfer price is expected to be recorded as profit for FPG in net sales. The transferee, transfer price and transfer date are yet to be determined.

This change to non-consolidated subsidiaries and the change in accounting treatment as equity underwritten will be reflected in the financial results for the fiscal year ended September 30, 2021, but there will be no accounting gain or loss associated with this change, and the impact on the earnings forecast for the fiscal year ended September 30, 2021, will be minimal.

If there is a significant impact on the business results for the fiscal year ending September 30, 2022, and beyond, we will notify you at the time of the announcement of the business forecast for each fiscal year or as soon as necessary.