Consolidated Financial Statements (Japanese Accounting Standard)

November 12, 2021

(For the six months ended September 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): November 12, 2021
Scheduled Date of Commencement of Dividend Payments: ―
Supplemental Explanatory Material Prepared: Yes
Results Briefing Held: Yes (for institutional investors and security analysts)

1. Results for the Six Months ended September 30, 2021 (April 1, 2021 – September 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	%
Six months ended September 30, 2021	199,550	(4.4)	809	―	(1,332)	―	647	―
Six months ended September 30, 2020	208,647	(5.8)	(12,616)	―	(12,854)	―	(17,571)	―

(Note) Comprehensive income in the six months ended September 30, 2021: JPY 2,907 million (―%);
Comprehensive income in the six months ended September 30, 2020: JPY (18,776) million (―%)

	Net income per share	Diluted net income per share
	JPY	JPY
Six months ended September 30, 2021	1.97	1.81
Six months ended September 30, 2020	(71.95)	―

(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 the fiscal year ending March 31, 2022. The result of 1H reflected such changes.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	JPY million	JPY million	%
As of September 30, 2021	145,255	630	(7.6)
As of March 31, 2021	161,708	3,277	(5.3)

(Reference) Ownership equity as of September 30, 2021: JPY (11,074) 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 the fiscal year ending March 31, 2022. The result of 1H 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	―	0.00			
FY ending March 31, 2022 (Estimate)			―	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 full fiscal year indicate rate of gain or loss compared with the previous full fiscal year.)

	Net sales		Operating profit		Recurring profit		Net income attributable to shareholders of the parent		Net income per share
	JPY million	%	JPY million	%	JPY million	%	JPY million	%	JPY
FY ending March 31, 2022	400,600	(2.0)	2,000	―	(2,900)	―	(1,500)	―	(4.56)

(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 adopted from the beginning of Q1 in the fiscal year ending March 31, 2022. Above consolidated earnings forecasts reflected such changes.

(Notes)

(1) Changes in major subsidiaries during the six 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 (4) Notes Regarding Consolidated Financial Statements (Changes in accounting policies) in p.12 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 September 30, 2021: 329,389,515 shares, As of March 31, 2021: 329,389,515 shares
- (ii) Total treasury stock at term end
  As of September 30, 2021: 493,610 shares, As of March 31, 2021: 561,610 shares
- (iii) Average number of outstanding shares during the period
  As of September 30, 2021: 328,881,414 shares, As of September 30, 2020: 244,229,765 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.6.

(Method for the acquisition of supplemental explanatory material)
Supplemental Explanatory Material is planned to be posted on the Company’s website on November 12, 2021.

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1. Business Results

(1) Analysis of Business Results

(JPY million)

	Six months ended September 30, 2021	Six months ended September 30, 2020	Difference
Net sales	199,550	208,647	(9,096)
Operating profit (loss)	809	(12,616)	13,425
Recurring profit (loss)	(1,332)	(12,854)	11,521
Net income (loss) attributable to shareholders of the parent	647	(17,571)	18,218

The corporate earnings showed a recovery trend in the domestic economy during the 1st half of the fiscal year ending March 2022 despite still heavily affected by the spread of COVID-19 pandemic.

The new housing starts of leased units increased for the seven months in a row (up 8.6% 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 six months ended September 30, 2021 became JPY 199,550 million, a decrease of 4.4% year on year and operating profit was JPY 809 million, compared with operating loss of JPY 12,616 million, due to the reduction of cost of sales and SGAE amounting to JPY 22,522 million against 1H in the previous fiscal year. The recording of interest expenses of JPY 2,244 million made recurring loss of JPY 1,332 million, which was an improvement of JPY 11,521 million year on year. Net income attributable to shareholders of the parent was JPY 647 million, which compared with net loss attributable to shareholders of the parent of JPY 17,571 million. The Company successfully managed to record the operating profit and net income attributable to shareholders of the parent. The improvement was mainly contributed by the reversal of provision for losses related to repairs of JPY 3,326 million because of lowered unit repair cost by placing batch orders.

The Company has adopted the Accounting Standard for Revenue Recognition (ASBJ Statement No.29, March 31, 2020) from Q1 in the fiscal year ending March 31, 2022. Net sales for 1H has been increased by JPY 411 million, cost of sales has been reduced by JPY 823 million, and operating profit has been increased by JPY 1,235 million, recurring loss was reduced by the same amount and income before taxes and other adjustments has been increased by the same amount.

For details, vide 2. Consolidated Financial Statements (4) Notes Regarding Consolidated Financial Statements (Changes in accounting policies).

Result by segment are as follows:

(JPY million)

	Net sales			Operating profit		
	Six months ended September 30, 2021	Six months ended September 30, 2020	Difference	Six months ended September 30, 2021	Six months ended September 30, 2020	Difference
Leasing Business	191,626	199,742	(8,116)	3,709	(7,135)	10,845
Elderly Care Business	7,253	7,244	8	(317)	(293)	(23)
Other Businesses	670	1,660	(989)	(692)	(633)	(59)
Adjustments	—	—	—	(1,889)	(4,552)	2,663
Total	199,550	208,647	(9,096)	809	(12,616)	13,425

(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 services such as web-based customer services, apartment viewing and rental 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 through top-level sales led by President and CEO which aims to recover the trust damaged by the construction defects problem and to ask for the customers to use increased number of apartment rooms, strengthening tie with real estate agents as well as implementing area intensive approach which deals with area specific requirements. In the ASEAN countries, the Company manages serviced offices through its subsidiaries.

The occupancy rate at the end of September 30, 2021 was 81.13% (up 3.04 points from the same month end in the previous fiscal year) with average occupancy rate of 80.69% (up 1.43 points year on year). The demand for apartment rooms was recovering due to the slowdown impact of COVID-19 pandemic and measures such as top-level sales and strengthened tie with real estate agents produced positive results. The number of units under management was 572 thousand (a decrease of one thousand from the end of the previous fiscal year).

The number of direct leasing sales offices at the end of September 30, 2021 was 109 (a reduction of 30 from the end of the previous fiscal year). That reflected efforts to increase the operational efficiency and productivity.

The orders received was JPY 1,340 million (down 65.4% year on year) and the outstanding orders as of end of September 30, 2021 stood at JPY 6,884 million (down 54.0% 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 191,626 million (down 4.1% year on year) due to the reduction of construction subcontracting business and real estate for sale and lowered unit rent due to the impact of COVID-19 pandemic. Operating profit was JPY 3,709 million due to the reduction of management cost and SGAE, contractual adjustment of master-lease rent as a result of agreement with the property owners and reversal of provision for apartment vacancy loss (operating loss of JPY 7,135 million was recorded in 1H in the fiscal year ended March 31, 2021).

(ii) Elderly Care Business

The Company has been cutting the operational cost by continuous efficiency improvement for the Elderly Care Business, a strategic growth business. Net sales during the six months ended September 30, 2021 were JPY 7,253 million (up 0.1% year on year), and operating loss was JPY 317 million (an increase of loss by JPY 23 million year on year) due to a decrease in the number of users for elderly care services concerning about the infection risk of COVID-19. The number of facilities was 87 as of the end of 1H in the fiscal year 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 670 million (down 59.6% year on year) and operating loss was JPY 692 million (an increase of loss by JPY 59 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 September 30 ,2021	145,255	144,624	630
As of March 31, 2021	161,708	158,431	3,277
Difference	(16,453)	(13,806)	(2,646)
Change rate	(10.2%)	(8.7%)	(80.8%)

Total assets at the end of September 30, 2021 decreased by JPY 16,453 million from the end of the previous fiscal year to JPY 145,255 million. This was mainly attributable to a decrease of JPY 11,010 million in cash and deposits, a reduction of JPY 1,196 million in leased assets, and reduction of JPY 1,935 million in others (mostly accounts receivable).

Total liabilities decreased by JPY 13,806 million from the end of the previous fiscal year to JPY 144,624 million. This was mainly attributed to an increase of JPY 1,089 million in short and long term advance received as a result of changes caused by the accounting standard for revenue recognition, whereas the reduction of the following items were recorded, JPY 3,369 million in accounts payable – other, JPY 1,451 in lease obligations, JPY 5,004 million in provision for losses related to repairs, and JPY 2,512 million in provision for apartment vacancy loss.

Total net assets decreased by JPY 2,646 million from the end of the previous fiscal year to JPY 630 million. This was mainly due to an increase of JPY 1,684 million in foreign currency transaction adjustments and the recording of JPY 647 million in net income attributable to shareholders of the parent, on the other hand, retained earnings decreased by JPY 4,316 million resulting from retrospective application of the Accounting Standard for Revenue Recognition and its cumulative effect of JPY 4,963 million was deducted from the retained earnings as of the beginning of the fiscal year ending March 2022. The equity ratio dropped by 2.3 points from the end of the previous fiscal year to minus 7.6%.

[Cash flows]

(JPY million)

	Six months ended September 30, 2021	Six months ended September 30, 2020	Difference
Cash flows from operating activities	(8,764)	(27,917)	19,153
Cash flows from investing activities	6	6,796	(6,790)
Cash flows from financing activities	(2,384)	(5,275)	2,891
Balance of cash and cash equivalents	42,335	32,440	9,894

Cash flow from operating activities was a net outflow of JPY 8,764 million, a reduction of JPY 19,153 million in net outflow year on year. This was mainly caused by recordings of income before taxes and minority interests of JPY 1,945 million and depreciation of JPY 4,847 million, whereas recordings were made to decrease in provision for losses related to repairs of JPY 3,326 million, decrease in advances received of JPY 3,876 million, decrease in accounts payable of JPY 3,502 million, decrease in provision for apartment vacancy loss of JPY 2,512 million, interest paid of JPY 2,230 million, and payment of repairs of JPY 1,619 million.

Cash flow from investing activities was a net inflow of JPY 6 million, a reduction of JPY 6,790 million in net inflow year on year. This was mainly caused by recordings of payment for purchase of property, plant and equipment of JPY 682 million and payment for purchase of intangible assets of JPY 522 million, despite proceeds from sale of investment securities of JPY 1,180 million.

Cash flow from financing activities was a net outflow of JPY 2,384 million, a reduction of net outflow of JPY 2,891 million year on year. This was mainly caused by the recordings of payment for finance lease liabilities of JPY 1,751 million and payment of dividends to non-controlling interests of JPY 590 million.

As a result, cash and cash equivalents at the end of the subject fiscal year stood at JPY 42,335 million, increased by JPY 9,894 million from the end of the 1st half of previous fiscal year.

(3) Future Predictions

Concerning consolidated earnings forecasts for the consolidated fiscal year ending March 2022, the Company confirms that there are no changes from the earnings forecasts for the full fiscal year ending March 2022 which it announced on November 8, 2021 in Notice Concerning Revision of Earnings Forecasts and Recording an Extraordinary Income.

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 and Notes
(1) Consolidated Balance Sheets

(JPY million)

	September 30, 2021	March 31, 2021
<Assets>		
Current assets		
Cash and deposits	43,852	54,863
Trade receivables	8,458	7,930
Accounts receivable for completed projects	423	524
Operating loans	75	86
Securities	300	100
Real estate for sale	670	180
Real estate for sale in progress	–	349
Payment for construction in progress	194	238
Prepaid expenses	2,054	2,076
Others	4,494	6,429
Allowance for doubtful accounts	(204)	(182)
Total current assets	**60,320**	**72,598**
Non-current assets		
Property, plant, and equipment		
Buildings and structures (net)	19,827	19,557
Machinery, equipment, and vehicles (net)	8,068	8,589
Land	31,401	31,118
Leased assets (net)	2,309	3,506
Construction in progress	131	82
Others (net)	6,230	7,198
Total property, plant, and equipment	**67,967**	**70,052**
Intangible fixed assets		
Goodwill	9	12
Others	3,702	4,161
Total intangible fixed assets	**3,711**	**4,173**
Investments and other assets		
Investment securities	5,128	5,431
Long-term loans	1,099	1,096
Long-term prepaid expenses	775	1,121
Deferred tax assets	2,175	2,194
Others	4,940	5,692
Allowance for doubtful accounts	(864)	(651)
Total investments and other assets	**13,255**	**14,883**
Total non-current assets	**84,934**	**89,109**
Total assets	**145,255**	**161,708**

(JPY million)

	September 30, 2021	March 31, 2021
<Liabilities>		
Current liabilities		
Electronically recorded obligations -operating	3	19
Accounts payable	2,581	3,172
Accounts payable for completed projects	269	514
Short-term borrowings	130	114
Lease obligations	2,363	3,133
Accounts payable -other	6,224	9,593
Accrued income taxes	675	696
Advances received	29,662	28,239
Customer advances for projects in progress	341	541
Provision for warranty obligations on completed projects	40	67
Provision for fulfillment of guarantees	1,428	2,783
Provision for losses related to repairs	1,230	3,777
Provision for apartment vacancy loss	6,788	9,301
Others	3,564	3,842
Total current liabilities	**55,304**	**65,798**
Non-current liabilities		
Long-term debt	30,594	30,615
Lease obligations	863	1,544
Long-term advances received	7,535	7,869
Lease/guarantee deposits received	6,896	6,423
Deferred tax liabilities	10	9
Provision for losses related to repairs	27,275	29,732
Provision for apartment vacancy loss	2,960	2,960
Liability for retirement benefits	9,558	9,650
Others	3,627	3,826
Total non-current liabilities	**89,320**	**92,633**
Total liabilities	**144,624**	**158,431**
<Net assets>		
Shareholders' equity		
Common stock	100	81,282
Capital surplus	136,346	55,174
Retained earnings	(146,903)	(142,586)
Treasury stock	(302)	(344)
Total shareholders' equity	**(10,759)**	**(6,474)**
Accumulated other comprehensive income		
Net unrealized gains on other securities	(6)	(0)
Foreign currency translation adjustments	(192)	(1,877)
Remeasurements of defined benefit plans	(115)	(142)
Total accumulated other comprehensive income	**(314)**	**(2,019)**
Share subscription rights	357	388
Non-controlling interests	11,347	11,383
Total net assets	**630**	**3,277**
Total liabilities and net assets	**145,255**	**161,708**

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

Consolidated Statement of Income

(JPY million)

	Six months ended September 30, 2021 (Apr 2021–Sep 2021)	Six months ended September 30, 2020 (Apr 2020–Sep 2020)
Net sales	**199,550**	**208,647**
Cost of sales	**177,603**	**194,662**
Gross profit	**21,946**	**13,984**
Selling, general and administrative expense	**21,136**	**26,600**
Operating profit (loss)	**809**	**(12,616)**
Non-operating income		
Interest income	17	28
Dividend income	12	31
Valuation gains of investment securities	68	83
Foreign exchange gains	–	70
Other	167	121
Total non-operating income	**266**	**335**
Non-operating expenses		
Interest expenses	2,244	257
Foreign exchange loss	92	–
Bond issuance cost	–	67
Other	72	249
Total non-operating expenses	**2,409**	**573**
Recurring profit (loss)	**(1,332)**	**(12,854)**
Extraordinary income		
Gains on sale of property, plant and equipment	0	206
Gains on sale of investment securities	0	4,065
Gain on reversal of subscription rights to shares	–	0
Reversal of provision for losses related to repairs	3,326	–
Total extraordinary income	**3,326**	**4,271**
Extraordinary losses		
Loss on sale of property, plant and equipment	–	11
Loss on retirement of property, plant and equipment	7	30
Impairment loss	–	3,741
Loss related to repairs	–	1,780
Special severance allowance	–	2,460
Retirement benefit cost	–	427
Loss on closure of offices	40	–
Total extraordinary losses	**48**	**8,452**
Income (loss) before taxes and other adjustments	**1,945**	**(17,034)**
Income taxes	**743**	**536**
Net income (loss)	**1,201**	**(17,571)**
Net income (loss) attributable to non-controlling interests	**554**	**(0)**
Net income (loss) attributable to shareholders of the parent	**647**	**(17,571)**

Consolidated Statement of Comprehensive Income

(JPY million)

	Six months ended September 30, 2021 (Apr 2021–Sep 2021)	Six months ended September 30, 2020 (Apr 2020–Sep 2020)
Net income (loss)	**1,201**	(17,571)
Other comprehensive income		
Net unrealized gains on other securities	(6)	(1,047)
Foreign currency translation adjustments	1,683	(606)
Remeasurements of defined benefit plans	26	452
Share of other comprehensive income of entities using equity method	2	(3)
Total other comprehensive income	**1,705**	(1,205)
Comprehensive income	**2,907**	(18,776)
(Breakdown)		
Comprehensive income attributable to shareholders of the parent	2,352	(18,775)
Comprehensive income attributable to non-controlling interests	555	(0)

(3) Consolidated Statements of Cash Flows

(JPY million)

	Six months ended September 30, 2021 (Apr 2021–Sep 2021)	Six months ended September 30, 2020 (Apr 2020–Sep 2020)
Cash flows from operating activities		
Income (loss) before taxes and minority interests	1,945	(17,034)
Depreciation	4,847	5,296
Impairment loss	–	3,741
Increase (decrease) in provision for losses related to repairs	(3,326)	–
Loss related to repairs	–	1,780
Special severance allowance	–	2,460
Amortization of goodwill	3	3
Increase (decrease) in provision for doubtful accounts	(419)	(222)
Increase (decrease) in liability for retirement benefits	(65)	1,323
Increase (decrease) in provision for apartment vacancy loss	(2,512)	(3,738)
Interest and dividend income	(30)	(60)
Interest expense	2,244	257
Foreign exchange loss (gain)	92	(70)
Equity in losses (earnings) of affiliated companies	51	15
Loss (gain) on sale of property, plant and equipment	(0)	(195)
Write-offs of property, plant and equipment	7	30
Loss (gain) from evaluation of investment securities	(68)	(83)
Loss (gain) from sale of investment securities	(0)	(4,065)
Gain on reversal of subscription rights to shares	–	(0)
Decrease (increase) in accounts receivable	(397)	185
Decrease (increase) in real estate for sale in progress	3	1,578
Decrease (increase) in work in process	43	(68)
Decrease (increase) in long-term prepaid expenses	294	415
Increase (decrease) in accounts payable	(3,502)	(5,229)
Increase (decrease) in customer advances for projects in progress	(199)	(64)
Increase (decrease) in advances received	(3,876)	(5,799)
Increase (decrease) in guarantee deposits received	226	(209)
Increase (decrease) in accrued consumption taxes	(146)	(583)
Other	293	1,395
Subtotal	(4,492)	(18,940)
Interest and dividends received	32	61
Interest paid	(2,230)	(272)
Payment related to repairs	(1,619)	(5,640)
Payment of special severance allowance	–	(2,460)
Income taxes paid	(455)	(665)
Net cash provided by operating activities	**(8,764)**	**(27,917)**
Cash flows from investing activities		
Payment for purchase of property, plant and equipment	(682)	(1,384)
Proceeds from sale of property, plant and equipment	0	3,951
Payment for purchase of intangible assets	(522)	(163)
Payment for purchase of investment securities	(26)	(348)
Proceeds from sale of investment securities	1,180	4,333
Payment for loans	(19)	(28)
Proceeds from collection of loans	53	41
Payment for deposit of fixed deposits	–	(0)
Other	24	396
Net cash provided by (used in) investing activities	**6**	**6,796**

(JPY million)

	Six months ended September 30, 2021 (Apr 2021–Sep 2021)	Six months ended September 30, 2020 (Apr 2020–Sep 2020)
Cash flows from financing activities		
Repayment of short-term debt	–	(141)
Repayment of long-term debt	(41)	(1,423)
Payment for redemption of bonds	–	(1,533)
Payment for finance lease liabilities	(1,751)	(2,177)
Payment of dividends to non-controlling interests	(590)	–
Proceeds from exercise of stock options	0	0
Net cash provided by (used in) financing activities	**(2,384)**	**(5,275)**
Effect of exchange rate changes on cash and cash equivalents	**131**	**(78)**
Net increase (decrease) in cash and cash equivalents	**(11,010)**	**(26,475)**
Cash and cash equivalents at beginning of period	**53,346**	**58,916**
Cash and cash equivalents at end of period	**42,335**	**32,440**

(4) 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 common stock was reduced by JPY 81,182 million and the capital surplus was increased by the same amount on August 10, 2021. Accordingly the common stock became JPY 100 million and the capital surplus became JPY 81,171 million.

The Company 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 31, 2022. The details are described in 2. Consolidated Financial Statements (4) 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 fiscal year 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 1st half ended September 30, 2021 were increased by JPY 411 million, cost of sales was decreased by JPY 823 million. Consequently operating profit and income before taxes and other adjustments were increased by JPY 1,235 million each and recurring loss was reduced by the same amount. 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 1st half in the fiscal year 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. Six months ended September 30, 2021 (April 1, 2021 – September 30, 2021)

(i) Information on net sales, profit or loss by 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	139,930	–	–	139,930	–	139,930
Ancillary service income	26,863	–	–	26,863	–	26,863
Maintenance	17,631	–	–	17,631	–	17,631
Rental guarantee	2,256	–	–	2,256	–	2,256
Furniture insurance	1,021	–	–	1,021	–	1,021
Company housing agency fee	393	–	–	393	–	393
Roof lease solar power generation	1,628	–	–	1,628	–	1,628
Construction subcontracting	1,636	–	–	1,636	–	1,636
Other	263	7,253	670	8,187	–	8,187
Sales from contracts with customer	191,626	7,253	670	199,550	–	199,550
Other sales	–	–	–	–	–	–
Sales to customers	191,626	7,253	670	199,550	–	199,550
Inter-segment sales and transfers	38	–	113	152	(152)	–
Total	191,664	7,253	784	199,702	(152)	199,550
Segment profit (or loss)	3,709	(317)	(692)	2,699	(1,889)	809

Note 1: Adjustment of JPY (1,889) million in segment profit (or loss) includes inter-segment elimination of JPY 76 million and corporate expenses of JPY (1,965) 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 profit 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 411 million and segment profit has been increased by JPY 1,235 million for the six months ended September 30, 2021.

II. **Six months ended September 30, 2020 (April 1, 2020 – September 30, 2020)**

(i) Net sales and loss by 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	199,742	7,244	1,660	208,647	—	208,647
Inter-segment sales and transfers	77	—	494	571	(571)	—
Total	199,820	7,244	2,154	209,219	(571)	208,647
Segment profit (or loss)	(7,135)	(293)	(633)	(8,063)	(4,552)	(12,616)

Note 1: Adjustment of JPY (4,552) million in segment profit (or loss) includes inter-segment elimination of JPY 86 million and corporate expenses of JPY (4,639) 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 Q1 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 by 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.

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 six months ended September 30, 2021, saw operating profit of JPY 809 million and a net income attributable to shareholders of the parent of JPY 647 million due to the recovery of occupancy rates and reduction of cost of sales and SGAE. However, cash flows from operating activities and the total net assets deducted by non-controlling interests still remain negative.

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 which was announced on June 5, 2020, the Company has been implementing various cost reduction measures, including the following: transferring of or withdrawing from non-core and unprofitable businesses including sale and transfer of real estate and investment securities owned, transfer or liquidation of subsidiaries; 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 sales offices; lowering SGAE such as advertising and sales promotion; and abolishing shareholders special benefit plan.

In the six months ended September 30, 2021, the Company has carried out the efforts of improving the occupancy rates through promoting remote services such as web-based customer services, apartment viewing and rental contract signing, working with real estate agents to attract increased number of customers, implementing area intensive sales strategy for delegating larger authorities to manage sales, cost and profit per area. The Company has been continuing to negotiate with property owners for contractual adjustment of master-lease rent, 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 deposits as of the end of the 1st half in the fiscal year ending March 31, 2022 is JPY 43,852 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, contractual adjustment of master-lease 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 Excessive Liabilities Elimination)

The Group has engaged in (i) continued drastic structural reforms and (ii) improvement of the occupancy rates, in accordance with the profitability improvement plan which was announced on May 14, 2021 with the title of Notice Concerning Efforts in Excessive Liabilities Elimination.

The Group recorded for the six months ended September 30, 2021 operating profit of JPY 809 million, recurring loss of JPY 1,332 million, and net profit attributable to shareholders of the parent of JPY 647 million. In addition, as a result of retrospectively applying the new Accounting Standards for Revenue Recognition,the beginning balance of retained earnings was reduced by JPY 4,963 million as a cumulative-effect adjustment, and the amount of excessive liabilities* was JPY 10,717 million.

* 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) Continued drastic structural reforms

Cost-cutting efforts 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 and 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 sales offices.

Operating profit of JPY 809 million has been recorded for the six months ended September 30, 2021, which is ahead of the plan by JPY 8,209 million, an improvement of JPY 17,936 million against the same period two years ago and an improvement of JPY 13,425 million year on year.

The cost of sales and SGAE overachieved the respective planned numbers. The cost of sales was JPY 177,603 million, a reduction of JPY 3,096 million against the plan, a reduction of JPY 30,454 million in comparison to the same period two years ago and a reduction of JPY 17,059 million year on year. SGAE was JPY 21,136 million, a reduction of JPY 3,563 million against the plan, a reduction of JPY 9,449 million in comparison with the same period two years ago, and a reduction of JPY 5,463 million year on year.

(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 services, apartment viewing and rental contract signing, as well as longer reach of customers through the strengthened tie with real estate agents network.

The average occupancy rate during the 1st half ended September 30, 2021 was 80.69%, which was ahead of the plan by 0.21 points.

The Company has made revision of earnings forecasts for the full consolidated financial year as announced on November 8, 2021 in Notice Concerning Revision of Earnings Forecasts and Recording an Extraordinary Income. The Company strives to improve the profitability by continuing the restructuring strategy to eliminate the excessive liabilities by the end of March 2023.

For details please refer to the Investor Meeting Presentation for the Six Months Ended September 30, 2021 which has been disclosed on November 12, 2021.

Please note that the Tokyo Stock Exchange has changed a part of the Securities Listing Regulations and extended the grace period from one year to two years to March 31, 2023 as the Company was judged to be in excessive liabilities due to the impact of COVID-19 pandemic.