

**Consolidated Financial Results for the First Quarter of the Fiscal Year Ending June 30, 2022  
(Three Months Ended September 30, 2021)**

[Japanese GAAP]

November 15, 2021

Company name: HOPE, INC.

Stock code: 6195

Representative: Takayasu Tokitsu, CEO

Contact: Kensuke Ohshima, CFO

Scheduled date of filing of Quarterly Report:

Scheduled date of payment of dividend:

Preparation of supplementary materials for quarterly financial results: Yes

Holding of quarterly financial results meeting:

Listing: TSE-Mothers/FSE Q-Board

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November 15, 2021

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Yes (for institutional investors and analysts)

(All amounts are rounded down to the nearest million yen)

**1. Consolidated Financial Results for the First Quarter of the Fiscal Year Ending June 30, 2022  
(July 1, 2021 to September 30, 2021)**

(1) Consolidated results of operations

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended Sep. 30, 2021	12,978	-	(126)	-	(136)	-	(143)	-
Three months ended Sep. 30, 2020	-	-	-	-	-	-	-	-

Note: Comprehensive income (millions of yen)

Three months ended Sep. 30, 2021: (143) (-%)

Three months ended Sep. 30, 2020: - (-%)

	Net income per share	Diluted net income per share
	Yen	Yen
Three months ended Sep. 30, 2021	(17.05)	-
Three months ended Sep. 30, 2020	-	-

Notes: 1. Diluted net income per share is not presented because net loss was posted although there were outstanding dilutive shares.

2. Figures and year-on-year changes for the three months ended September 30, 2020 are not presented because HOPE started preparing consolidated financial statements from the second quarter of the fiscal year ended June 30, 2021.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of Sep. 30, 2021	12,279	(1,701)	(14.1)
As of Jun. 30, 2021	10,964	(2,498)	(23.1)

Reference: Shareholders' equity (millions of yen)

As of Sep. 30, 2021: (1,733)

As of Jun. 30, 2021: (2,530)

**2. Dividends**

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Jun. 30, 2021	-	0.00	-	0.00	0.00
Fiscal year ending Jun. 30, 2022	-	-	-	-	-
Fiscal year ending Jun. 30, 2022 (forecast)	-	-	-	-	-

Notes: 1. Revisions to the most recently announced dividend forecast: None

2. The dividend forecast for the fiscal year ending June 30, 2022 is to be determined.

**3. Consolidated Earnings Forecast for the Fiscal Year Ending June 30, 2022 (July 1, 2021 to June 30, 2022)**

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
First half	22,126	57.5	-	-	-	-	-	-	-
Full year	34,850	0.7	-	-	-	-	-	-	-

Note: Revisions to the most recently announced earnings forecast: Yes

**\* Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation): None

Newly added: -

Excluded: -

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: None

(3) Changes in accounting policies and accounting estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others: Yes

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting estimates: None

4) Restatements: None

Note: Please refer to the section "2. Quarterly Consolidated Financial Statements and Notes, (3) Notes to Quarterly Consolidated Financial Statements, Changes in Accounting Policies, Application of the Accounting Standard for Revenue Recognition" on page 10 of the attachments for further information.

(4) Number of shares outstanding (common shares)

1) Number of outstanding shares as of the end of the period (including treasury shares)

As of Sep. 30, 2021:	9,360,100 shares	As of Jun. 30, 2021:	7,775,100 shares
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2) Number of treasury shares as of the end of the period

As of Sep. 30, 2021:	24,981 shares	As of Jun. 30, 2021:	24,981 shares
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3) Average number of outstanding shares during the period

Three months ended Sep. 30, 2021:	8,427,767 shares	Three months ended Sep. 30, 2020:	5,977,821 shares
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\* The current quarterly financial report is not subject to quarterly review by certified public accountants or auditing firms .

\* Explanation of appropriate use of earnings forecasts, and other special items

- Forecasts of future performance in these materials are based on assumptions judged to be valid and information available to the management of HOPE at the time these materials were prepared. Actual results of operations may differ from forecasts due to uncertainty involving these judgments and assumptions or to changes in business operations and market conditions. HOPE does not guarantee the certainty of any forward-looking statements.

- Please refer to the section "1. Qualitative Information on Quarterly Consolidated Financial Performance, (3) Explanation of Consolidated Earnings Forecast and Other Forward-looking Statements" on page 5 of the attachments regarding preconditions or other related matters for the forecasts.

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## 1. Qualitative Information on Quarterly Consolidated Financial Performance

There are no prior-year comparisons because HOPE started preparing consolidated financial statements in the first half of the fiscal year ended June 30, 2021.

### (1) Explanation of Results of Operations

The fifth wave of the COVID-19 pandemic severely restricted economic activities in Japan and other countries during the first quarter of the current fiscal year. Although the number of infections is declining as people are vaccinated and other actions are taken to combat the pandemic, there is an urgent need to be prepared for a possible sixth wave. Due to this situation, the outlook for an economic recovery remains unclear.

Translating the corporate philosophy into actions and achieving more growth of corporate value will require an intent focus on our relationships with local governments. We have been using our business activities since our inception to increase the number of these relationships, which are a key strength of ours. Our objectives are the growth of existing businesses and creation of new businesses in two ways. The first is creating new businesses that can be easily reproduced in many fields while accurately responding to new and amended laws. The second is the easy reproduction of business expansion in the local government business domain. Taking these actions will allow us to support local governments as they create a self-reliant and sustainable social framework that utilize the distinctive strength and characteristics of individual communities. Moreover, we believe these actions will result in the realization of our corporate philosophy accompanied by the growth of corporate value.

On August 11, 2020, HOPE established HOPE NEXT 3, a three-year medium-term management plan beginning in the fiscal year that ended in June 2021. To accomplish the goals of this plan, many business activities with the aim of medium-term growth are under way. Between the middle of December 2020 and late January 2021, the price of electricity on the Japan Electric Power Exchange (JEPX) was very high. This big increase in the cost of electricity had an enormous negative impact on the performance of the energy business, which is the HOPE Group's largest business segment. There was negative equity of about 2.4 billion yen at the end of June 2021. We plan to reexamine HOPE NEXT 3 due to these events and make a return to positive equity by the end of the current fiscal year the highest priority.

Negative equity was more than 1.7 billion yen at the end of the first quarter, an improvement of about 700 million yen from the end of the previous fiscal year. Returning to positive equity will remain the highest priority and, in conjunction with actions needed to accomplish this goal, we plan to establish a new HOPE NEXT 3.

We continue to position the advertising business as a profit-generating business of the HOPE Group and are continuing to work on achieving the proper size of this business to improve profitability. One goal is reducing over the medium term the high percentage of fiscal year earnings of this business in the fourth quarter. These steps are aimed at making the advertising business more cost efficient and receiving higher rates for advertising services. In the energy business, the electricity retail sales business will be comprehensively succeeded to a HOPE's consolidated subsidiary to enable this company to focus on operating this business. In addition, we will no longer submit bids for public-sector electricity supply contracts in order to prevent any further increase in exposure to market risk associated with using the JEPX to buy electricity. We plan to downsize the energy business by lowering the amount of electricity supplied. In the Jichitai Works business (former media business), the market for promotions targeting local governments still has much potential for more public-private sector collaboration and measures to become more competitive. Our goal is to position ourselves at the very top of upstream information flows in order to capitalize on opportunities involving this potential. This business is upgrading content, strengthening information dissemination capabilities and reinforcing the ability to keep up with the latest information. The objective is firmly establishing the value of the Jichitai Works brand in order to stimulate more growth of the market for promotions targeting local governments. In addition, we believe that these activities will make possible even more public-private sector collaboration based on government information circulation centered on HOPE as well as the use of local government information databases for strengthening, supporting and creating business activities. We will use many activities to accomplish these goals. These measures will include upgrading and expanding our content production capabilities, increasing activities for B-to-G promotions (former B-to-G solutions) and making extensive use of Jichitai Works HA×SH, which is an internet platform for supporting public-private sector collaboration.

In the first quarter, net sales were 12,978 million yen. The operating loss was 126 million yen, the ordinary loss was 136 million yen, and there was a loss attributable to owners of parent of 143 million yen.

Business segment performance was as follows.

Beginning with the first quarter of the current fiscal year, as described in “2. Quarterly Consolidated Financial Statements and Notes, (3) Notes to Quarterly Consolidated Financial Statements (Segment Information),” the previous Media business segment has been changed to the Jichitai Works business segment. There is no effect on the segment information because only the segment name has changed.

#### 1) Advertising Business

In this business, the SMART RESOURCE service purchases a variety of advertising space from local governments by submitting competitive bids and then sells this space to companies. The SMART CREATION service jointly produces with local governments Machilet publications for residents at no cost and sells advertising space in these publications to companies. During the first quarter, there were measures to achieve the proper size of the Machilet service. Machilet, which is the primary medium of the advertising business, is operating in all areas of Japan while concentrating on six themes: marriage, raising children, senior nursing care, measures involving vacant houses, end-of-life messages, and condolence messages.

We started providing the SMART FR (Financial Resources) CONSULTING service in June 2021. This service encompasses consulting for every step from assistance for attracting advertisements to the creation and utilization of media. We have received consultation contracts from two local governments including the city of Fukuoka.

Our goal is to use this new service to take the advertising business beyond simply providing assistance for advertisements in order to become a source of a broad range of ideas and support concerning advertisements for the purpose of creating sources of revenue.

Segment sales were 272 million yen and the segment profit was 7 million yen.

#### 2) Energy Business

This business, which uses the GENEWAT brand for the retail sale of electricity, has the goal of reducing the expenses of local governments by providing new forms of value based on the concept of electricity as a generic product. On October 22, 2020, HOPE ENERGY, INC. was established as a wholly owned subsidiary of HOPE. As was explained earlier, the sharp increase in the cost of purchasing electricity due to the higher cost of electricity on the JEPX had a significant negative impact on the energy business. After this spike in the cost of electricity had largely ended, we determined measures to take for the stability of energy business earnings, stronger governance and other revisions to the framework for operating this business. As was announced on August 11, 2021 in the news release titled “Notice of Company Split (Absorption-type Split),” one of these measures is the use of an absorption and split for the transfer of the electricity retail sales business to HOPE ENERGY. We believe that HOPE ENERGY should directly operate of all energy operations because of the quantitative and qualitative importance of this business within the HOPE Group and due to the specialized knowledge required by this business.

To provide more information about the performance of the energy business, we are beginning in the first quarter the monthly announcement of preliminary data for the cost of market purchases of electricity, the volume of electricity supplied and the selling price of this electricity. These announcements will give investors more detailed and timely information with respect to the HOPE Group’s financial position and other aspects of operations.

In the electricity retail sales business, we will reduce the volume of electricity supplied for the purpose of preventing any further increase in exposure to market risk associated with market purchases of electricity. During the first quarter, the number of bids submitted for retail electricity supply contracts was reduced to 39 and the submission of all bids was subsequently suspended.

Segment sales were 12,651 million yen and the segment loss was 41 million yen.

### 3) Jichitai Works Business

The media business was renamed the Jichitai Works business beginning with the first quarter of the current fiscal year. This business has been distributing Jichitai Works magazine as HOPE's original media for about four years. This publication contains information, recommendations, ideas, stories about innovations and other useful information for local government employees. As these activities have made the Jichitai Works name well known among these employees, the decision was made to change the name of this business to more clearly reflect the nature of its operations.

Our goal is to position Jichitai Works as a brand that encompasses a variety of HOPE services for facilitating cooperation between the public and private sectors based on the concept of "invigoration for experiences and people concerning local government jobs."

In addition to the Jichitai Works magazine, this business has three order-made media to meet the budgets and requirements of individual companies: (1) Special editions; (2) PICKS; and (3) INFO. This diversity allows us to offer a broad range of advertising media to private-sector companies with products and services for local governments. Another important element of this business is B-to-G promotions (formerly B-to-G solutions), which uses our relationships with local governments to match the needs of these governments and companies.

In the first quarter, Kyohei Sakita, the former mayor of the city of Nichinan in Miyazaki prefecture, was named the second Jichitai Works ambassador. With Yuto Yoshida, the first ambassador, Mr. Sakita will provide advice concerning Jichitai Works, speak at Jichitai Works seminars, be involved with interviews and other Jichitai Works magazine articles, and provide support in many other ways.

Segment sales were 53 million yen and the segment profit was 8 million yen.

### 4) Other businesses

Other businesses include Machihiro, Jichitai Works HA×SH and other services that are not part of the reportable segments. Jichitai Works HA×SH has been operated by the Jichitai Works business but this activity is included in this category because Jichitai Works HA×SH is still in the investment phase.

Segment sales were 366 thousand yen and the segment loss was 23 million yen.

## (2) Explanation of Financial Position

### Assets

Total assets amounted to 12,279 million yen at the end of the first quarter of the current fiscal year, an increase of 1,314 million yen from the end of the previous fiscal year. Current assets amounted to 11,545 million yen, an increase of 1,148 million yen from the end of the previous fiscal year. This was mainly due to increases of 609 million yen in cash and deposits and 949 million yen in accounts receivable-trade and contract assets, while there were decreases of 109 million yen in merchandise and finished goods and 305 million yen in other under current assets. Non-current assets amounted to 733 million yen, an increase of 166 million yen from the end of the previous fiscal year. This was mainly due to increases of 16 million yen in intangible assets and 150 million yen in leasehold and guarantee deposits.

### Liabilities

Liabilities totaled 13,980 million yen, an increase of 518 million yen over the end of the previous fiscal year. Current liabilities amounted to 13,469 million yen, an increase of 589 million yen from the end of the previous fiscal year. This was mainly due to increases of 775 million yen in current portion of bonds payable and 243 million yen in other under current liabilities, while there were decreases of 365 million yen in accounts payable-trade and 30 million yen in current portion of long-term borrowings. Non-current liabilities amounted to 511 million yen, a decrease of 71 million yen from the end of the previous fiscal year. This was mainly due to a decrease of 71 million yen in long-term borrowings.

#### Net assets

At the end of the first quarter, there were negative net assets of 1,701 million yen while there was an increase of 796 million yen from the end of the previous fiscal year. This was mainly due to increases of 470 million yen in share capital and 470 million yen in legal capital surplus resulting from issuance of shares through third-party allotment and exercise of share acquisition rights, while there was the loss attributable to owners of parent of 143 million yen.

#### **(3) Explanation of Consolidated Earnings Forecast and Other Forward-looking Statements**

HOPE has revised the first-half and full-year consolidated earnings forecasts announced today (November 15, 2021). For more details, please refer to “Notice of Revisions to Fiscal Year Consolidated Forecasts” (Japanese version only).

**2. Quarterly Consolidated Financial Statements and Notes****(1) Quarterly Consolidated Balance Sheet**

(Thousands of yen)

	FY6/21 (As of Jun. 30, 2021)	First quarter of FY6/22 (As of Sep. 30, 2021)
<b>Assets</b>		
Current assets		
Cash and deposits	1,932,991	2,542,354
Notes and accounts receivable-trade	7,336,855	-
Trade receivables and contract asset	-	8,286,744
Merchandise and finished goods	427,497	317,817
Work in process	1,717	3,938
Supplies	193	66
Other	701,753	395,766
Allowance for doubtful accounts	(4,012)	(914)
Total current assets	<u>10,396,997</u>	<u>11,545,775</u>
Non-current assets		
Property, plant and equipment	18,912	18,057
Intangible assets	83,881	100,045
Investments and other assets		
Leasehold and guarantee deposits	458,279	609,175
Other	18,330	18,501
Allowance for doubtful accounts	(11,864)	(12,064)
Total investments and other assets	<u>464,745</u>	<u>615,612</u>
Total non-current assets	<u>567,539</u>	<u>733,715</u>
Total assets	<u>10,964,536</u>	<u>12,279,490</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable-trade	11,290,446	10,925,243
Short-term borrowings	950,000	950,000
Current portion of bonds payable	-	775,000
Current portion of long-term borrowings	366,952	336,952
Income taxes payable	42,242	12,447
Advances received	71,367	-
Contract liabilities	-	67,904
Other	159,036	402,318
Total current liabilities	<u>12,880,045</u>	<u>13,469,866</u>
Non-current liabilities		
Bonds payable	100,000	100,000
Long-term borrowings	482,658	410,920
Deferred tax liabilities	221	212
Total non-current liabilities	<u>582,879</u>	<u>511,132</u>
Total liabilities	<u>13,462,924</u>	<u>13,980,998</u>
<b>Net assets</b>		
Shareholders' equity		
Share capital	1,959,676	2,430,106
Capital surplus	1,913,476	2,383,906
Retained earnings	(6,333,191)	(6,476,842)
Treasury shares	(70,902)	(70,902)
Total shareholders' equity	<u>(2,530,939)</u>	<u>(1,733,732)</u>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	504	484
Total accumulated other comprehensive income	<u>504</u>	<u>484</u>
Share acquisition rights	32,047	31,740
Total net assets	<u>(2,498,387)</u>	<u>(1,701,507)</u>
Total liabilities and net assets	<u>10,964,536</u>	<u>12,279,490</u>



**(2) Quarterly Consolidated Statements of Income and Comprehensive Income****Quarterly Consolidated Statement of Income  
(For the Three-month Period)**

	(Thousands of yen)
	First three months of FY6/22 (Jul. 1, 2021 – Sep. 30, 2021)
Net sales	12,978,237
Cost of sales	12,854,281
Gross profit	123,956
Selling, general and administrative expenses	250,080
Operating loss	(126,124)
Non-operating income	
Interest income	8
Penalty income	2,643
Gain on sale of investment securities	2,621
Other	1,731
Total non-operating income	7,005
Non-operating expenses	
Interest expenses	5,813
Commission expenses	3,399
Share issuance costs	8,594
Other	57
Total non-operating expenses	17,864
Ordinary loss	(136,984)
Loss before income taxes	(136,984)
Income taxes-current	6,667
Total income taxes	6,667
Loss	(143,651)
Loss attributable to owners of parent	(143,651)

**Quarterly Consolidated Statement of Comprehensive Income**  
**(For the Three-month Period)**

	(Thousands of yen)
	First three months of FY6/22 (Jul. 1, 2021 – Sep. 30, 2021)
Loss	(143,651)
Other comprehensive income	
Valuation difference on available-for-sale securities	(20)
Total other comprehensive income	(20)
Comprehensive income	(143,671)
Comprehensive income attributable to	
Comprehensive income attributable to owners of parent	(143,671)
Comprehensive income attributable to non-controlling interests	-

### **(3) Notes to Quarterly Consolidated Financial Statements**

#### **Going Concern Assumption**

There are reasons for significant doubts concerning the going concern assumption due to consistently negative cash flows in prior years.

In addition, due to a very large increase in the JEPX price of electricity between the middle of December 2020 and late January 2021, there was a 6,895 million yen operating loss, 6,935 million yen ordinary loss and 6,978 million yen loss attributable to owners of parent in the previous fiscal year. Furthermore, there was a 126 million yen operating loss, 136 million yen ordinary loss and 143 million yen loss attributable to owners of parent in the first three months of the current fiscal year. As a result, HOPE continued to record a negative equity of 1,701 million yen at the end of the first quarter of the current fiscal year.

The HOPE Group is taking the following actions to end these problems.

#### 1. Stabilize earnings of business operations

##### (1) Management of risk involving energy business

The HOPE Group has no electricity generation facilities and therefore purchases most of the electricity sold to its customers by using the JEPX. As a result, this business is vulnerable to changes in the cost of electricity. As a surge in the market prices in the previous fiscal year caused a significant capital deficit, many actions have been taken in order to reduce exposure to this price volatility risk. Major initiatives include establishing new risk management policies and adjusting the amount of electricity purchased by using the JEPX and one-to-one transactions for each area and season. Since October 2021, prices on the JEPX have been higher than we anticipated. Furthermore, it is currently difficult to purchase the expected amount of electricity in line with our risk management policy by using direct purchases from suppliers. One reason for this difficulty is the inability to make these direct purchases while using payment terms that meet our requirements.

Due to these challenges, we plan to conduct a thorough study concerning the viability of the energy business, including the option of significantly downsizing this business, while monitoring market conditions and other factors.

##### (2) Payment in installments of the January 2021 imbalance fees associated with the insufficient supply of electricity

On January 29, 2021, the Ministry of Economy, Trade and Industry announced that companies meeting certain requirements will be allowed to pay January 2021 imbalance fees in equal installments over a period of up to five months. (On March 19, 2021, the ministry increased the maximum number of these installments from five to nine.) HOPE applied for the use of this installment payment program and, after receiving permission from every electricity distribution company involved, made the first of nine equal installment payments in April 2021.

#### 2. Stabilize cash flows

##### (1) Financial covenants

HOPE has received the agreement of financial institutions to not exercise the acceleration clause, which would require the immediate repayment of all applicable debt if HOPE is unable to fulfill the obligations of its debt covenants.

##### (2) Procurement of funds

HOPE is maintaining sound relationships with financial institutions, primarily its main banks, and management believes these institutions will continue to provide assistance. Furthermore, HOPE received proceeds of approximately 2.2 billion yen as of August 31, 2021 due to the May 17, 2021 sale of stock through a third-party allotment and the exercise of the Ninth Share Acquisition Rights with an exercise price adjustment clause. In addition, HOPE procured about 150 million yen by selling stock through a third-party allotment on September 21, 2021 and 1,000 million yen (about 620 million yen of these bonds had been redeemed as of the date of this first quarter earnings report by using proceeds from the exercise of the eleventh share acquisition rights) by issuing its fourth unsecured bonds (a private placement) on September 10, 2021.

As described in “(3) Notes to Quarterly Consolidated Financial Statements, Material Subsequent Events, Company Split,” HOPE plans to spin off its advertising business and the Jichitai Works business to newly established wholly owned subsidiaries on December 1, 2021. We will consider further actions concerning these subsidiaries, including the sale of the stock of these companies by using an equity and business alliance with business partners. Through these activities, the entire HOPE Group will be conducting activities to secure sufficient funds. HOPE will continue to consider many methods for procuring funds in order to improve cash flows and eliminate negative equity.

The goal of these actions is the minimization of risks in the energy business and stabilization of the earnings of business operations and of cash flows. However, we are only at the beginning of these actions. Moreover, the risk of volatility in the price of electricity is becoming more apparent. Consequently, there are significant uncertainties concerning the going concern assumption at this time.

The going concern assumption was used as the basis for the quarterly consolidated financial statements and these statements do not reflect the significant uncertainties concerning this assumption.

### **Significant Changes in Shareholders' Equity**

In the first three months, share capital and legal capital surplus increased by 75 million yen each due to the issuance of new shares through third-party allotment. Furthermore, share capital and legal capital surplus increased by 395 million yen each due to the issuance of new shares following the exercise of the ninth and eleventh share acquisition rights. As a result, share capital was 2,430 million yen and legal capital surplus was 2,383 million yen at the end of the first quarter.

### **Changes in Accounting Policies**

#### Application of the Accounting Standard for Revenue Recognition

HOPE has applied the Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 31, 2020) from the beginning of the first quarter of the current fiscal year. Based on this standard, revenue expected to be received in exchange for the provision of goods and services is recognized when the control of the goods and services is transferred to customers. In the energy business, fees received from customers as part of their electricity bills for supporting the development of renewable energy sources are classified as money collected for a third party. Accordingly, these fees were included in net sales in prior years and payments based on the Act on Special Measures Concerning Procurement of Electricity from Renewable Energy Sources were recorded as cost of sales. However, this fee is now not included in transaction prices based on the new revenue recognition standard and the corresponding payments are deducted from the cost of sales.

As a result, net sales and cost of sales for the first three months of the current fiscal year decreased by 3,067 million yen each, but there was no change in operating profit, ordinary profit and profit before income taxes. In addition, there is no cumulative effect of the application of this standard on retained earnings at the beginning of the fiscal year.

Due to the application of the Accounting Standard for Revenue Recognition, “Accounts receivable-trade” that was presented in the current assets section of the consolidated balance sheet in the previous fiscal year is presented as “Accounts receivable-trade and contract assets,” and “Advances received” that was presented in the current liabilities section is presented as “Contract liabilities” from the first quarter of the current fiscal year.

In accordance with the transitional measures prescribed in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, no reclassification has been made to the prior year’s consolidated financial statements to conform to the new presentation.

#### Application of the Accounting Standard for Fair Value Measurement

HOPE has applied the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019) from the beginning of the first quarter of the current fiscal year, and has applied the new accounting policies in

the Accounting Standard for Fair Value Measurement prospectively in accordance with the transitional measures in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019). There is no effect of the application of this standard on the quarterly consolidated financial statements.

## **Additional Information**

### Progress with Plan for Elimination of Negative Equity

#### 1. Basic policy for the elimination of negative equity

In the fiscal year that ended in June 2021, the HOPE Group recorded an ordinary loss of 6,935 million yen because of a big increase in the cost of sales in the energy business caused by high electricity on the JEPX between the middle of December 2020 and late January 2021. As a result, there was negative equity of 2,498 million yen at the end of June 2021. As was announced by HOPE on September 27, 2021 in a new release titled “Measures to End Negative Equity,” we are implementing a number of equity-related measures along with actions for improving business operations in order to stabilize earnings. Our goal is to end negative equity by the end of the current fiscal year. However, JEPX prices have been higher than we anticipated since October 2021. Consequently, the business climate for the energy business is still challenging.

The HOPE Group has established the basic policy of ending negative equity by taking the following actions. Market risk in the energy business (risk of volatility of the cost of purchasing electricity on the JEPX) will be properly managed, the effects of this risk will be minimized, and the business value of other growing businesses will be increased. In addition, equity financing will be used to procure the funds required to restore the group’s financial soundness, which declined during the previous fiscal year.

In the first three months, the operating loss was 126 million yen, the ordinary loss was 136 million yen and loss attributable to owners of parent was 143 million yen. Negative equity improved by 796 million yen from the end of the previous fiscal year to 1,701 million yen at the end of the first quarter due to the issuance of shares through third-party allotment and the issuance of new shares following the exercise of the ninth and eleventh share acquisition rights.

#### 2. Activities based on the basic policy and schedule

##### (1) Equity financing

HOPE received proceeds of approximately 2.2 billion yen as of August 31, 2021 due to the May 17, 2021 sale of stock through a third-party allotment and the exercise of the Ninth Share Acquisition Rights with an exercise price adjustment clause. On September 21, 2021, HOPE procured about 150 million yen by selling stock through a third-party allotment. On September 10, 2021, HOPE procured 1,000 million yen (about 620 million yen of these bonds had been redeemed as of the date of this first quarter earnings report by using proceeds from the exercise of the eleventh share acquisition rights) by issuing its fourth unsecured bonds (a private placement).

In addition, HOPE plans to spin off its advertising business and the Jichitai Works business to newly established wholly owned subsidiaries on December 1, 2021. HOPE will consider further actions concerning these subsidiaries, including the sale of the stock of these companies by using an equity and business alliance with business partners. Through these activities, the entire HOPE Group will be conducting activities to secure sufficient funds.

If for some reason we are unable to procure funds in accordance with this plan, we will reexamine the policy concerning equity as required.

Note 1: This is the amount decided in the terms announced on September 3, 2021 in a new release titled “Notice of Determination of Issuance Terms for Third-party Allotment of Stock and of the Eleventh Share Acquisition Rights with Exercise Price Adjustment Clause.”

##### (2) Management improvements for stability of earnings

###### a. Reduce risk in the electricity retail sales business and take actions concerning business risk

Currently, there is an excessive level of risk (determination of a suitable risk appetite using VaR and EaR for assessing risk is not possible at this time) due to the negative equity from the standpoint of achieving the proper balance in the future between capital and the risk appetite of the HOPE Group concerning business operations. To prevent a further increase in market risk in the electricity retail sales business involving purchases of electricity using the JEPX, the amount of electricity supplied will be reduced. Furthermore, we will adjust the balance between electricity purchased by using the JEPX and one-to-one transactions in different areas and seasons. All these measures are aimed at reducing exposure to market price volatility risk. As was explained before, the JEPX price of electricity has been higher than we anticipated since October 2021 and we have often been unable to purchase electricity using terms that match our requirements. As a result, the use of one-to-one transactions to purchase the amount of electricity originally planned is currently difficult. For these reasons, in order to prevent any further increases in market risk and working capital as equity remains negative, the electricity retail sales business will not participate in bidding for selling electricity to local governments until this business has clearly reached the point where JEPX market risk no longer has a significant effect on the HOPE's business operations. In fact, the submission of bids is currently suspended. Taking these actions will lower the demand for working capital for purchasing electricity and reduce the level of exposure to market risk. In addition, due to the current high price of electricity on the JEPX, we plan to conduct a thorough study to determine whether to continue the Energy Business, including the option of significantly downsizing this business, while taking into consideration the market conditions and other factors.

b. Use of a spinoff and absorption to transfer the electricity retail sales business to a subsidiary

As described above, to reduce risk exposure in the future, we are downsizing the electricity retail sales business and plan to use a spinoff for the transfer of this business to wholly owned subsidiary HOPE ENERGY, INC. As was announced on August 11, 2021 in a news release titled "Notice of Company Split (Absorption-type Split)," a resolution for this spinoff was submitted at the shareholders meeting held on September 28, 2021. Shareholders approved this resolution and the transfer of the electricity retail sales business to HOPE ENERGY will take place on December 1, 2021.

The HOPE Group is taking actions for transitioning to a framework for business operations with speed and flexibility. These actions will be accompanied by measures to control business risk as much as possible to prevent this risk from becoming excessive in relation to the level of liquidity. Our priorities are the timely and proper management of risk involving business operations and the efficient and effective allocation of the group's resources.

c. Earnings of current and new businesses

The advertising business and Jichitai Works business are consistently profitable and there are many activities in the current fiscal year with the goal of ensuring that these two businesses generate earnings as planned. There are also numerous activities for starting new businesses that can contribute to earnings. One example is the establishment on August 27, 2021 of an equity and business alliance with media4u inc. (Head office: Chuo-ku, Tokyo; President: Masahiko Okuoka) concerning a short message service (see note) for local governments.

Note 2: A short message service is a service for exchanging brief text messages between smartphones and other mobile devices.

By continuing initiatives to increase equity and improve business operations to increase financial soundness and profitability, we are determined to return to positive equity by the end of June 2022.

Conclusion of absorption-type split agreement

The Board of Directors of HOPE approved a resolution on August 11, 2021 to conclude an absorption-type split agreement with HOPE ENERGY, INC., a wholly owned subsidiary of HOPE, to succeed the electricity retail sales business operated by HOPE to HOPE ENERGY on December 1, 2021 (tentative). On the same day, HOPE concluded this agreement with HOPE ENERGY. The proposal for the conclusion of this agreement was approved by the shareholders' meeting held on September 28, 2021.

## Segment and Other Information

### Segment information

#### 1. Overview of reportable segment

##### (1) Method for identifying reportable segments

Segments used for financial reporting are HOPE's constituent units for which separate financial information is available and for which the Board of Directors performs periodic studies for the purposes of determining the allocation of resources and evaluating performance.

There are three reportable segments: advertising, energy, and Jichitai Works, which are based on HOPE's core advertising, energy, and Jichitai Works businesses.

##### (2) Types of products and services in each reportable segment

Products and services in the reportable segments are as follows.

Reportable segments	Products and services
Advertising	SMART RESOURCE service Ads in public info publications, banner ads, etc.
	SMART CREATION service Machilet
Energy	GENEWAT
Jichitai Works	Jichitai Works, B-to-G promotions

#### 2. Information related to net sales and profit or loss for each reportable segment

First three months of FY6/22 (Jul. 1, 2021 – Sep. 30, 2021)

(Thousands of yen)

	Reportable segment				Other (Note 1)	Total	Adjustment (Note 2)	Amounts shown on quarterly consolidated statement of income (Note 3)
	Advertising	Energy	Jichitai Works	Subtotal				
Net sales								
External sales	272,628	12,651,794	53,447	12,977,871	366	12,978,237	-	12,978,237
Inter-segment sales and transfers	-	-	-	-	-	-	-	-
Total	272,628	12,651,794	53,447	12,977,871	366	12,978,237	-	12,978,237
Segment profit (loss)	7,166	(41,371)	8,920	(25,284)	(23,677)	(48,962)	(77,162)	(126,124)

Notes: 1. Other consists of the businesses which are not included in any of the reportable segments and mainly includes Machihiro and Jichitai Works HA×SH services.

2. The negative 77,162 thousand yen adjustment to segment profit (loss) is corporate expenses that are not allocated to any of the reportable segments. Corporate expenses mainly consist of selling, general and administrative expenses that are not attributable to any of the reportable segments.

3. Segment profit (loss) is adjusted to be consistent with operating loss shown on the quarterly consolidated statement of income.

#### 3. Information related to changes in reportable segments, etc.

##### Change in segment name

From the first quarter of the current fiscal year, the previous Media business segment has been changed to the Jichitai Works business segment. There is no effect on the segment information because only the segment name has been changed.

##### Application of the Accounting Standard for Revenue Recognition

As described in Changes in Accounting Policies, HOPE has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) from the beginning of the first quarter of the current fiscal year and changed the accounting method for revenue recognition. Accordingly, the method for calculating segment profit or loss has been changed as well. Compared with the previous method, net sales decreased 3,067 million yen in the energy business in the first three months of the current fiscal year.

## Material Subsequent Events

### Company split

The Board of Directors of HOPE approved a resolution on October 26, 2021 to transfer the rights and obligations related to HOPE's advertising business and Jichitai Works business to a newly established wholly owned subsidiary A (newly established company A) and B (newly established company B), respectively, through an incorporation-type company split (the "Company Split") effective December 1, 2021 (tentative). Details are as follows.

#### 1. Background and purpose of the Company Split

The HOPE Group is currently in a state of substantial negative equity (net assets as of June 30, 2021: negative 2,498 million yen), and we are continuing to pursue equity financing to resolve this situation. In addition, we believe that we need to rebuild our management structure based on the stable business operations in line with our goal of eliminating negative equity. With respect to the electricity retail sales business, a resolution has been passed at the HOPE's shareholders' meeting held on September 28, 2021 regarding an absorption-type company split to be implemented on December 1, 2021 (tentative) with HOPE ENERGY, INC., a wholly owned subsidiary of HOPE.

However, HOPE has come to the conclusion that it is essential to establish a business management system that ensures greater mobility and flexibility, and enables the appropriate allocation of group management resources and the execution of financial strategies and capital policies, in order to achieve the continuity of the company and further enhance its corporate value over the medium to long term. For this reason, HOPE has determined that a shift to a holding company structure is appropriate to achieve the above objectives and has decided to implement the Company Split.

#### 2. Summary of the Company Split

##### (1) Schedule

Resolution of the Board of Directors	October 26, 2021
Date of stock split (effective date)	December 1, 2021 (tentative)

The Company Split will be conducted without obtaining approval at a shareholders' meeting, as it satisfies the requirements for a simplified incorporation-type company split under the provisions of Article 805 of the Companies Act. The same schedule is planned for the two newly established companies.

##### (2) Method of the Company Split

A simple incorporation-type company split by HOPE alone in which HOPE will be the splitting company and the two newly established companies will be the succeeding companies, and the two newly established companies will be wholly owned subsidiaries of HOPE.

##### (3) Distribution of stock associated with the Company Split

The newly established company A will issue 200 shares of common stock and the newly established company B will issue 200 shares of common stock, all of which will be allocated to HOPE, the splitting company.

##### (4) Treatment of share acquisition rights and bonds with share acquisition rights accompanying the Company Split

There will be no change in the treatment of share acquisition rights issued by HOPE following the Company Split. In addition, there is no applicable matter regarding bonds with share acquisition rights.

##### (5) Change in share capital

There will be no change in the share capital of HOPE due to the Company Split.



## (6) Rights and obligation to be transferred to the newly established companies

The newly established company A will succeed to the assets and liabilities, contractual status, and other rights and obligations belonging to the advertising business upon the Company Split. The employment contracts with the employees related to the advertising business will not be succeeded, and the employees related to the advertising business will be transferred to the newly established company A as of the effective date.

Furthermore, HOPE will be jointly responsible for the liabilities to be transferred to the newly established company A following the Company Split.

The newly established company B will succeed to the assets and liabilities, contractual status, and other rights and obligations belonging to the Jichitai Works business upon the Company Split. The employment contracts with the employees related to the Jichitai Works business will not be succeeded, and the employees related to the Jichitai Works business will be transferred to the newly established company B as of the effective date.

Furthermore, HOPE will be jointly responsible for the liabilities to be transferred to the newly established company B following the Company Split.

## (7) Prospect of fulfillment of obligations

As the assets of both of the two newly established companies are expected to exceed the liabilities, and as there is currently no foreseeable situation that will hinder the fulfillment of obligations to be borne after the Company Split, HOPE believes that there is no difficulty in fulfilling obligations by the successor companies in the Company Split.

## 3. Overview of companies involved in the Company Split

## (1) Splitting company

1) Company name	HOPE, INC.	
2) Location	1-14-5, Yakuin, Chuo-ku, Fukuoka	
3) Representative	Takayasu Tokitsu, CEO	
4) Business	Adverting business for the purpose of creating sources of revenue and reducing the expenses of local governments; energy business; Jichitai Works business for facilitating cooperation between the public and private sectors	
5) Capital	1,959,676 thousand yen	
6) Established	October 29, 1993	
7) Outstanding shares	7,775,100 shares	
8) Fiscal year end	June 30	
9) Major shareholders and shareholding ratios (as of June 30, 2021)	E.T. Co., Ltd.	17.29%
	Takayasu Tokitsu	13.90%
	GOLDMAN SACHS INTERNATIONAL	4.55%
	BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC)	4.09%
	MACQUARIE BANK LIMITED DBU AC	3.22%
	Hiroshi Fukudome	3.19%
	Masaki Kuge	3.09%
	Custody Bank of Japan, Ltd. (Trust Account)	2.76%
	Morgan Stanley MUFG Securities Co., Ltd.	2.49%
Individual shareholder	1.63%	
10) Financial position and operating results for the most-recent fiscal year (FY6/21) (Consolidated)	(Thousands of yen)	
Net assets		(2,498,387)
Total assets		10,964,536
Net asset per share (Yen)		(326.50)
Net sales		34,615,567
Operating loss		(6,895,420)
Ordinary loss		(6,935,626)
Loss attributable to owners of parent		(6,978,950)
Net loss per share (Yen)		(1,109.09)

## (2) Newly established company A \*at the time of establishment

1) Company name	JICHITAI AD, INC.
2) Location	1-14-5, Yakuin, Chuo-ku, Fukuoka
3) Representative	Takayasu Tokitsu, CEO
4) Business	Advertising business
5) Capital	10,000 thousand yen
6) Established	December 1, 2021 (tentative)
7) Outstanding shares	200 shares
8) Fiscal year end	June 30
9) Major shareholder and shareholding ratio	HOPE, INC.: 100%

## (3) Newly established company B \*at the time of establishment

1) Company name	JICHITAI WORKS, INC.
2) Location	1-14-5, Yakuin, Chuo-ku, Fukuoka
3) Representative	Takayasu Tokitsu, CEO
4) Business	Jichitai Works business
5) Capital	10,000 thousand yen
6) Established	December 1, 2021 (tentative)
7) Outstanding shares	200 shares
8) Fiscal year end	June 30
9) Major shareholder and shareholding ratio	HOPE, INC.: 100%

## 4. Overview of business to be spun off

## (1) Business to be spun off

Newly established company A: Advertising business

Newly established company B: Jichitai Works business

## (2) Operating results for the business to be spun off in the fiscal year ended June 2021

	Sales of businesses to be spun off (a)	Consolidated sales of HOPE (b)	Ratio (a/b)
Newly established company A	1,719,457 thousand yen	34,615,567 thousand yen	5.0%
Newly established company B	228,944 thousand yen		0.7%

## (3) Assets and liabilities to be spun off (as of June 30, 2021)

Newly established company A (Thousands of yen)

Assets		Liabilities	
Item	Amount	Item	Amount
Current assets	764,098	Current liabilities	553,069
Non-current assets	36,708	Non-current liabilities	-
Total	800,807	Total	553,069

Note: Since the above amount is calculated based on the balance sheet as of June 30, 2021, the actual amount to be succeeded will be adjusted for changes until the effective date.

Newly established company B (Thousands of yen)

Assets		Liabilities	
Item	Amount	Item	Amount
Current assets	64,005	Current liabilities	31,210
Non-current assets	-	Non-current liabilities	-
Total	64,005	Total	31,210

Note: Since the above amount is calculated based on the balance sheet as of June 30, 2021, the actual amount to be succeeded will be adjusted for changes until the effective date.

## 5. Post-company split details

Following the Company Split, there are no changes to the company name, location, name and title of representative, business, capital and fiscal year end of HOPE.

## 6. Outlook

The Company Split is a simple incorporation-type company split by HOPE alone, and will have no impact on HOPE's consolidated results of operations.

### Issuance of new shares and redemption of bonds

During the period from the end of the first quarter of the current fiscal year to the date of submission of this quarterly financial report, there was an exercise of the eleventh series of share acquisition rights. Details are as follows. The funds procured through the exercise of share acquisition rights were used to redeem the fourth unsecured bond.

(1)	Name of the share subscription rights	The eleventh share acquisition rights
(2)	Class and number of outstanding shares	Common shares 1,239,000 shares
(3)	Increased in share capital	198,399 thousand yen
(4)	Increased in legal capital surplus	198,399 thousand yen
(5)	Redeemed bonds	400,000 thousand yen

*This financial report is solely a translation of "Kessan Tanshin" (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.*