Consolidated Financial Statements (Japanese Accounting Standard)

February 10, 2022

(For the nine months ended December 31, 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): February 14, 2022
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 Nine Months ended December 31, 2021 (April 1, 2021 – December 31, 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	%
Nine months ended December 31, 2021	297,470	(3.5)	4,275	—	1,444	—	5,865	—
Nine months ended December 31, 2020	308,326	(6.2)	(16,585)	—	(20,562)	—	(25,003)	—

(Note) Comprehensive income in the nine months ended December 31, 2021: JPY 8,467 million (－%);
Comprehensive income in the nine months ended December 31, 2020: JPY (26,294) million (－%)

	Net income per share	Diluted net income per share
	JPY	JPY
Nine months ended December 31, 2021	17.83	15.95
Nine months ended December 31, 2020	(95.18)	—

(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 Q3 reflected such changes.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	JPY million	JPY million	%
As of December 31, 2021	143,137	4,209	(3.9)
As of March 31, 2021	161,708	3,277	(5.3)

(Reference) Ownership equity as of December 31, 2021: JPY (5,634) 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 Q3 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	399,400	(2.3)	2,600	—	(1,800)	—	1,800	—	5.47

(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 nine months in the fiscal year ending March 2022 (change in specific subsidiaries resulting in a change in the scope of consolidation) : No

(2) Use of accounting procedures specific to the preparation of quarterly financial statements: No

(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: No
- (iii) Changes in accounting estimates: No
- (iv) Restatements: No

(Note) For details please refer to 2. Consolidated Financial Statements (3) Notes Regarding Consolidated Financial Statements (Changes in accounting policies) in p.11 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 December 31, 2021: 329,389,515 shares, As of March 31, 2021: 329,389,515 shares
- (ii) Total treasury stock at term end
  As of December 31, 2021: 493,610 shares, As of March 31, 2021: 561,610 shares
- (iii) Average number of outstanding shares during the period
  As of December 31, 2021: 328,886,262 shares, As of December 31, 2020: 262,697,988 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 February 10, 2022.

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1. Business Results
(1) Analysis of Business Results

(JPY million)

	Nine months ended December 31, 2021	Nine months ended December 31, 2020	Difference
Net sales	297,470	308,326	(10,856)
Operating profit (loss)	4,275	(16,585)	20,860
Recurring profit (loss)	1,444	(20,562)	22,006
Net income (loss) attributable to shareholders of the parent	5,865	(25,003)	30,868

The corporate earnings showed a recovery trend in the domestic economy during the nine months 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 ten months in a row (up 7.9% 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 nine months ended December 31, 2021 became JPY 297,470 million, a decrease of 3.5% year on year and operating profit was JPY 4,275 million, compared with operating loss of JPY 16,585 million, due to the reduction of cost of sales and SGAE amounting to JPY 31,716 million against the same period in the previous fiscal year. The recording of interest expenses of JPY 3,374 million made recurring profit of JPY 1,444 million, which compared with recurring loss of JPY 20,562 million for the same period ended December 31, 2020.

The Company managed to record net income attributable to shareholders of the parent of JPY 5,865 million, which compared with net loss attributable to shareholders of the parent of JPY 25,003 million for the same period last fiscal year, in addition to operating profit and recurring profit. The improvement was mainly contributed by the reversal of provision for losses related to repairs of JPY 6,144 million because of lowered unit repair cost by placing batch orders and by insourcing repairs combined with reduced number of buildings to be repaired due to updated deficiency judgment and increase of demolition.

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 Q3 have been increased by JPY 140 million, cost of sales has been reduced by JPY 1,216 million, and operating profit, recurring profit, and income before taxes and other adjustments have been increased by JPY 1,357 million.

For details, please refer to 2. Consolidated Financial Statements (3) Notes Regarding Consolidated Financial Statements (Changes in accounting policies).

Result by segment are as follows:

(JPY million)

	Net sales			Operating profit		
	Nine months ended December 31, 2021	Nine months ended December 31, 2020	Difference	Nine months ended December 31, 2021	Nine months ended December 31, 2020	Difference
Leasing Business	285,696	295,224	(9,528)	8,588	(8,933)	17,522
Elderly Care Business	10,890	10,956	(65)	(456)	(461)	5
Other Businesses	884	2,145	(1,261)	(1,148)	(1,138)	(9)
Adjustments	—	—	—	(2,708)	(6,051)	3,343
Total	297,470	308,326	(10,856)	4,275	(16,585)	20,860

(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, 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.

The occupancy rate at the end of December 31, 2021 was 80.45% (up 3.38 points from the same month end in the previous fiscal year) with average occupancy rate of 80.65% (up 2.07 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 571 thousand (a decrease of 1,900 from the end of the previous fiscal year).

The number of direct leasing sales offices at the end of December 31, 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 1,862 million (down 60.8 % year on year) and the outstanding orders as of end of December 31, 2021 stood at JPY 7,065 million (down 38.5 % 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.

As a result, net sales came to JPY 285,696 million (down 3.2% year on year) due to the reduction of construction subcontracting business and lowered unit rent due to the impact of COVID-19 pandemic. Operating profit was JPY 8,588 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 8,933 million was recorded in Q3 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 nine months ended December 31, 2021 were JPY 10,890 million (down 0.6% year on year), and operating loss was JPY 456 million (an improvement of JPY 5 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 Q3 in the fiscal year ending March 31, 2022.

(iii) Other Businesses

Net sales of the Other Businesses including resort facilities in Guam and finance business, were JPY 884 million (down 58.8% year on year) and operating loss was JPY 1,148 million (an increase of loss by JPY 9 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 December 31 ,2021	143,137	138,927	4,209
As of March 31, 2021	161,708	158,431	3,277
Difference	(18,571)	(19,504)	932
Change rate	(11.5%)	(12.3%)	28.4%

Total assets at the end of December 31, 2021 decreased by JPY 18,571 million from the end of the previous fiscal year to JPY 143,137 million. This was mainly attributable to the decrease of the following items: JPY 10,733 million in cash and deposits, JPY 2,467 million in others (mostly accounts receivable), JPY 1,405 million in leased assets (net), and JPY 1,638 million in others (non-current assets).

Total liabilities decreased by JPY 19,504 million from the end of the previous fiscal year to JPY 138,927 million. This was mainly attributed to the decrease of the following items: JPY 2,102 million in accounts payable – other, JPY 1,804 million in lease obligations, JPY 8,406 million in provision for losses related to repairs, and JPY 5,012 million in provision for apartment vacancy loss.

Total net assets increased by JPY 932 million from the end of the previous fiscal year to JPY 4,209 million. This was mainly due to an increase of JPY 1,901 million in foreign currency transaction adjustments and the recording of JPY 5,865 million in net income attributable to shareholders of the parent, on the other hand, non-controlling interests decreased by JPY 1,896 as a result of dividend payment to a non-controlling shareholder by a consolidated subsidiary and its payment for purchased treasury stock, and retained earnings decreased by JPY 4,963 million resulting from retrospective application of the Accounting Standard for Revenue Recognition as of the beginning of the fiscal year ending March 2022. The equity ratio improved by 1.4 points from the end of the previous fiscal year to minus 3.9%.

(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 February 4, 2022 in “Notice Concerning Revision of Earnings Forecasts, Additional Recording of Extraordinary Income, and Consolidated Subsidiary’s Completion of Pro Rata Reinsurance Contracts.”

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)

	December 31, 2021	March 31, 2021
<Assets>		
Current assets		
Cash and deposits	44,130	54,863
Trade receivables	8,478	7,930
Accounts receivable for completed projects	257	524
Operating loans	69	86
Securities	300	100
Real estate for sale	677	180
Real estate for sale in progress	–	349
Payment for construction in progress	837	238
Prepaid expenses	2,002	2,076
Others	3,962	6,429
Allowance for doubtful accounts	(214)	(182)
Total current assets	**60,500**	**72,598**
Non-current assets		
Property, plant, and equipment		
Buildings and structures (net)	19,192	19,557
Machinery, equipment, and vehicles (net)	7,799	8,589
Land	31,291	31,118
Leased assets (net)	2,100	3,506
Construction in progress	97	82
Others (net)	5,560	7,198
Total property, plant, and equipment	**66,040**	**70,052**
Intangible fixed assets		
Goodwill	7	12
Others	3,423	4,161
Total intangible fixed assets	**3,431**	**4,173**
Investments and other assets		
Investment securities	5,172	5,431
Long-term loans	1,108	1,096
Long-term prepaid expenses	669	1,121
Deferred tax assets	2,157	2,194
Others	4,858	5,692
Allowance for doubtful accounts	(802)	(651)
Total investments and other assets	**13,164**	**14,883**
Total non-current assets	**82,636**	**89,109**
Total assets	**143,137**	**161,708**

(JPY million)

	December 31, 2021	March 31, 2021
<Liabilities>		
Current liabilities		
Electronically recorded obligations -operating	0	19
Accounts payable	2,658	3,172
Accounts payable for completed projects	359	514
Short-term borrowings	49	114
Lease obligations	2,173	3,133
Accounts payable -other	7,491	9,593
Accrued income taxes	658	696
Advances received	29,073	28,239
Customer advances for projects in progress	766	541
Provision for warranty obligations on completed projects	18	67
Provision for fulfillment of guarantees	1,207	2,783
Provision for losses related to repairs	1,898	3,777
Provision for apartment vacancy loss	4,289	9,301
Others	3,419	3,842
Total current liabilities	**54,064**	**65,798**
Non-current liabilities		
Long-term debt	30,427	30,615
Lease obligations	700	1,544
Long-term advances received	7,314	7,869
Lease/guarantee deposits received	6,997	6,423
Deferred tax liabilities	10	9
Provision for losses related to repairs	23,205	29,732
Provision for apartment vacancy loss	2,960	2,960
Liability for retirement benefits	9,527	9,650
Others	3,719	3,826
Total non-current liabilities	**84,862**	**92,633**
Total liabilities	**138,927**	**158,431**
<Net assets>		
Shareholders' equity		
Common stock	100	81,282
Capital surplus	136,345	55,174
Retained earnings	(141,685)	(142,586)
Treasury stock	(302)	(344)
Total shareholders' equity	**(5,542)**	**(6,474)**
Accumulated other comprehensive income		
Net unrealized gains on other securities	(14)	(0)
Foreign currency translation adjustments	24	(1,877)
Remeasurements of defined benefit plans	(102)	(142)
Total accumulated other comprehensive income	**(91)**	**(2,019)**
Share subscription rights	357	388
Non-controlling interests	9,486	11,383
Total net assets	**4,209**	**3,277**
Total liabilities and net assets	**143,137**	**161,708**

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

Consolidated Statement of Income

(JPY million)

	Nine months ended December 31, 2021 (Apr 2021–Dec 2021)	Nine months ended December 31, 2020 (Apr 2020–Dec 2020)
Net sales	**297,470**	**308,326**
Cost of sales	**262,264**	**287,110**
Gross profit	**35,206**	**21,215**
Selling, general and administrative expense	**30,930**	**37,801**
Operating profit (loss)	**4,275**	**(16,585)**
Non-operating income		
Interest income	23	38
Dividend income	57	76
Valuation gains of investment securities	119	135
Foreign exchange gains	–	90
Employment adjustment subsidy	239	243
Other	239	253
Total non-operating income	**679**	**837**
Non-operating expenses		
Interest expenses	3,374	1,052
Bond issuance cost	–	251
Foreign exchange loss	12	–
Funding costs	–	2,904
Other	123	606
Total non-operating expenses	**3,510**	**4,814**
Recurring profit (loss)	**1,444**	**(20,562)**
Extraordinary income		
Gains on sale of property, plant and equipment	92	224
Gains on sale of investment securities	0	4,065
Gain on sale of shares in the subsidiary	–	0
Reversal of provision for losses related to repairs	6,144	–
Total extraordinary income	**6,237**	**4,289**
Extraordinary losses		
Loss on sale of property, plant and equipment	–	18
Loss on retirement of property, plant and equipment	41	95
Impairment loss	–	3,742
Loss related to repairs	–	724
Special severance allowance	–	2,470
Retirement benefit cost	–	427
Provision for loss on liquidation of affiliates	–	38
Loss on liquidation of affiliates	–	111
Loss on closure of offices	67	–
Total extraordinary losses	**109**	**7,628**
Income (loss) before taxes and other adjustments	**7,572**	**(23,900)**
Income taxes	**1,035**	**670**
Net income (loss)	**6,537**	**(24,570)**
Net income (loss) attributable to non-controlling interests	**672**	**432**
Net income (loss) attributable to shareholders of the parent	**5,865**	**(25,003)**

Consolidated Statement of Comprehensive Income

(JPY million)

	Nine months ended December 31, 2021 (Apr 2021–Dec 2021)	Nine months ended December 31, 2020 (Apr 2020–Dec 2020)
Net income (loss)	**6,537**	(24,570)
Other comprehensive income		
Net unrealized gains on other securities	(14)	(1,047)
Foreign currency translation adjustments	1,904	(1,138)
Remeasurements of defined benefit plans	40	465
Share of other comprehensive income of entities using equity method	0	(3)
Total other comprehensive income	**1,929**	(1,723)
Comprehensive income	**8,467**	(26,294)
(Breakdown)		
Comprehensive income attributable to shareholders of the parent	7,793	(26,725)
Comprehensive income attributable to non-controlling interests	673	431

(3) Notes Regarding Consolidated Financial Statements

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

There are no relevant items.

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

The 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 136,345 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 (3) Notes Regarding Consolidated Financial Statements (Changes in accounting policies).

(Changes in accounting policies)

(Application of Accounting Standard for Revenue Recognition)

The Company adopted the Accounting Standard for Revenue Recognition (ASBJ Statement No.29, March 31, 2020) from the beginning of Q1 in 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 Q3 ended December 31, 2021 were increased by JPY 140 million, cost of sales was decreased by JPY 1,216 million. Consequently operating profit, recurring profit, and income before taxes and other adjustments were increased by JPY 1,357 million each. The beginning balance of retained earnings was reduced by JPY 4,963 million.

The Company followed the transitional handling stated in item 28–15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No.12, March 31, 2020) and did not disclose the breakdown information on the net sales from customer contracts which were concluded during Q3 in the fiscal year ended March 31, 2021.

(Application of Accounting Standard for Fair Value Measurement)

The Company adopted the Accounting Standard for Fair 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 despite observing continuing uncertainty relating to Omicron variant 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. Nine months ended December 31, 2021 (April 1, 2021 – December 31, 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	209,821	–	–	209,821	–	209,821
Ancillary service income	39,723	–	–	39,723	–	39,723
Maintenance	26,330	–	–	26,330	–	26,330
Rental guarantee	3,404	–	–	3,404	–	3,404
Furniture insurance	1,500	–	–	1,500	–	1,500
Company housing agency fee	577	–	–	577	–	577
Roof lease solar power generation	2,195	–	–	2,195	–	2,195
Construction subcontracting	1,797	–	–	1,797	–	1,797
Other	344	10,890	884	12,119	–	12,119
Sales from contracts with customer	285,696	10,890	884	297,470	–	297,470
Other sales	–	–	–	–	–	–
Sales to customers	285,696	10,890	884	297,470	–	297,470
Inter-segment sales and transfers	58	–	179	238	(238)	–
Total	285,754	10,890	1,064	297,708	(238)	297,470
Segment profit (or loss)	8,588	(456)	(1,148)	6,983	(2,708)	4,275

Note 1: Adjustment of JPY (2,708) million in segment profit (or loss) includes inter-segment elimination of JPY 115 million and corporate expenses of JPY (2,823) 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 140 million and segment profit has been increased by JPY 1,357 million for the nine months ended December 31, 2021.

II. **Nine months ended December 31, 2020 (April 1, 2020 – December 31, 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	295,224	10,956	2,145	308,326	—	308,326
Inter-segment sales and transfers	109	—	547	656	(656)	—
Total	295,334	10,956	2,693	308,983	(656)	308,326
Segment profit (or loss)	(8,933)	(461)	(1,138)	(10,534)	(6,051)	(16,585)

Note 1: Adjustment of JPY (6,051) million in segment profit (or loss) includes inter-segment elimination of JPY 126 million and corporate expenses of JPY (6,177) 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 3,552 million in 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.

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 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 nine months ended December 31, 2021, saw operating profit of JPY 4,275 million due to the reduction of cost of sales and SGAE despite net sales reduction by 3.5% and a net income attributable to shareholders of the parent of JPY 5,865 million. However, 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 nine months ended December 31, 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 nine months in the fiscal year ending March 31, 2022 is JPY 44,130 million, which is a sufficient funds to carry on as a going concern continuing 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 been 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 nine months ended December 31, 2021 operating profit of JPY 4,275 million, recurring profit of JPY 1,444 million, and net profit attributable to shareholders of the parent of JPY 5,865 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 5,276 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

The Company has made stable progress in transferring or withdrawing from non-core and unprofitable business since the previous fiscal year such as completed sale of non-current asset of a Cambodian subsidiary, started the liquidation proceedings of the subsidiaries in Thailand, Cambodia and Indonesia in the nine months ended December 31, 2021. Cost-cutting efforts have been continued in curtailed operation cost and management cost in the cost of sales, as well as lowering fixed cost through abolishing or merging leasing sales offices, and the reversal of provision for apartment vacancy loss.

The cost of sales and SGAE overachieved the respective planned numbers. The cost of sales was JPY 262,264 million, a reduction of JPY 2,535 million against the plan, a reduction of JPY 43,928 million in comparison to the same period two years ago and a reduction of JPY 24,846 million year on year. SGAE was JPY 30,930 million, a reduction of JPY 1,769 million against the plan, a reduction of JPY 14,402 million in comparison with the same period two years ago, and a reduction of JPY 6,870 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 number of web-based contracts was increased to 17,045 (a 319.4% increase year on year) and the number of contracts through real estate agents network was increased to 21,902 (an increase of 50.1% year on year).

The average occupancy rate during the nine months ended December 31, 2021 was 80.65%, which was behind the plan by 0.08 points, due to the increased number of leaving tenants in international students segment in the midst of world pandemic of Omicron variant of COVID-19.

The Company has made revision of earnings forecasts for the full consolidated financial year as announced on February 4, 2022 in “Notice Concerning Revision of Earnings Forecasts, Recording an Extraordinary Income and Consolidated Subsidiary’s Completion of Pro Rata Reinsurance Contracts”. 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 Nine Months Ended December 31, 2021 which has been disclosed on February 10, 2022.

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.