

# Consolidated Financial Statements (Japanese Accounting Standard)

August 5, 2022

(For the three months ended June 30, 2022)

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: Director, Executive Officer and Chief of the Corporate Management Headquarters  
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 Scheduled Date of Filing of Securities Report (Japanese only): August 8, 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 Three Months ended June 30, 2022 (April 1, 2022 – June 30, 2022)

(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 last fiscal year)

	Net sales		Operating profit		Recurring profit		Net income attributable to shareholders of the parent	
	JPY million	%	JPY million	%	JPY million	%	JPY million	%
Three months ended June 30, 2022	101,406	1.2	3,579	—	2,643	—	1,630	—
Three months ended June 30, 2021	100,244	(3.6)	(1,287)	—	(2,241)	—	(957)	—

(Note) Comprehensive income in the three months ended June 30, 2022: JPY 3,355 million (229.0%);

Comprehensive income in the three months ended June 30, 2021: JPY 1,019 million (—%)

	Net income per share	Diluted net income per share
	JPY	JPY
Three months ended June 30, 2022	4.96	4.14
Three months ended June 30, 2021	(2.91)	—

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	JPY million	JPY million	%
As of June 30, 2022	143,097	13,279	2.9
As of March 31, 2022	145,430	11,034	0.7

(Reference) Ownership equity as of June 30, 2022: JPY 4,082 million; as of March 31, 2022: JPY 1,068 million

## 2. Dividend Status

	Dividend per share				
	End of Q1	End of Q2	End of Q3	End of FY	Annual
	JPY	JPY	JPY	JPY	JPY
FY ended March 31, 2022	—	0.00	—	0.00	0.00
FY ending March 31, 2023	—				
FY ending March 31, 2023 (Estimate)		0.00	—	0.00	0.00

## 3. Consolidated Earnings Forecasts for the Fiscal Year ending March 31, 2023 (April 1, 2022 – March 31, 2023)

(The percentage figures for full fiscal year indicate rate of gain or loss compared with the previous FY; Those for the six-month period represent the change compared with the same term in the previous FY.)

	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
Six months ending September 30, 2022	202,400	1.4	2,600	221.0	100	—	(1,000)	—	(3.04)
FY ending March 31, 2023	410,800	3.1	11,700	559.2	6,800	—	24,900	110.0	75.71

(Notes) Change from the latest earnings forecast: No

(Notes)

- (1) Changes in major subsidiaries during the three months in the consolidated fiscal year ending March 2023 (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 consolidated 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.9 of the attached material.
- (4) Total number of outstanding shares (common stock)
  - (i) Total number of outstanding shares at term end (including treasury stock)  
As of June 30, 2022: 329,389,515 shares, As of March 31, 2022: 329,389,515 shares
  - (ii) Total treasury stock at term end  
As of June 30, 2022: 463,810 shares, As of March 31, 2022: 493,610 shares
  - (iii) Average number of outstanding shares during the period  
As of June 30, 2022: 328,905,730 shares, As of June 30, 2021: 328,866,763 shares

–Indication regarding the status of auditing:

These financial statements are not subject to auditing under the Financial Instruments and Exchange Act.

– Explanation on the proper use of the business forecasts, and other special notices:

(Note on the business forecasts and other forward-looking statements)

The business forecasts and other forward-looking statements contained in this report are based on information currently available to Leopalace21 (hereinafter the “Company”) and on certain assumptions that the Company has judged to be reasonable. Readers should be aware that a variety of factors might cause actual results to differ significantly from these forecasts.

For assumptions of business forecasts and notes on the proper use of these forecasts, please refer to “1. Business Results (3) Future Predictions in p.5.

(Method for the acquisition of supplemental explanatory material)

Supplemental Explanatory Material is planned to be posted on the Company’s website on August 5, 2022.

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## 1. Business Results

### (1) Analysis of Business Results

(JPY million)

	Three months ended June 30, 2022	Three months ended June 30, 2021	Difference	Percentage change
Net sales	101,406	100,244	1,162	1.2%
Cost of sales	86,908	90,472	(3,564)	(3.9)%
Operating profit (loss)	3,579	(1,287)	4,867	—%
Recurring profit (loss)	2,643	(2,241)	4,885	—%
Net income (loss) attributable to shareholders of the parent	1,630	(957)	2,587	—%

During Q1 of the consolidated fiscal year ending March 2023, the Japanese economy showed signs of picking up amid the full range of infection control measures against COVID-19 and the normalization of economic and social activities, but the outlook remained uncertain due to the prolonged situation in Ukraine caused by Russian invasion and the impact of restrained economic activities in China.

Although the number of new housing starts for rental market increased for 16 consecutive months (up 2.5% YoY), the number of vacant houses continues to increase in the rental housing market. In order to ensure a stable occupancy rate amid the difficulty of recovering demand nationwide, the Company believes it is important to supply properties mainly in the three major metropolitan areas where high occupancy rates can be expected in the future, to keep and enhance property values through appropriate maintenance, to promote sales strategies that match regional requirements and customer characteristics, and to provide highly convenient tenant services in order to attract customers through offering DX solutions.

Under these circumstances, Leopalace21 group (the “Group”) has continued the fundamental structural reforms announced in June 2020, has been concentrating management resources on the core leasing business and thoroughly reviewing and reducing all costs in an effort to stabilize its financial base and sustainably improve profitability.

As a result, the Group achieved an increase in both sales and profit. Net sales for Q1 of the current fiscal year increased by 1.2% YoY to JPY 101,406 million, and operating profit was JPY 3,579 million (compared to an operating loss of JPY 1,287 million in the same period of the previous fiscal year), mainly due to a JPY 3,564 million reduction in cost of sales compared to the same period of the previous fiscal year. Recurring profit was JPY 2,643 million (recurring loss of JPY 2,241 million in the same period of the previous fiscal year) due to interest expenses of JPY 1,101 million and other factors and net income attributable to shareholders of the parent was JPY 1,630 million (net loss attributable to shareholders of the parent of JPY 957 million in the same period of the previous fiscal year).

Results by segment are as follows:

(JPY million)

	Net sales			Operating profit		
	Three months ended June 30, 2022	Three months ended June 30, 2021	Difference	Three months ended June 30, 2022	Three months ended June 30, 2021	Difference
Leasing Business	97,571	96,201	1,369	5,366	230	5,135
Elderly Care Business	3,494	3,622	(127)	(357)	(230)	(126)
Other Businesses	341	420	(78)	(568)	(259)	(309)
Adjustments	—	—	—	(860)	(1,028)	168
Total	101,406	100,244	1,162	3,579	(1,287)	4,867

#### (i) Leasing Business

In Leasing Business, the Company is striving to secure stable occupancy rates by providing a wealth of value-added services: the digitalized services such as web-based customer service, apartment viewing, and rental contract signing; *my DIY*, which allows the tenants to customize a single wall of the room with a selected wallpaper; promotion of the transition to smart apartments which enables electrical appliances and door locks to be operated with a smartphone; and security services through an alliance with major security companies, while strengthening tie with real estate agents as well as implementing area intensive approach tailored to area specific requirements.

During Q1 of the consolidated fiscal year ending March 2023, the occupancy rate at the end of the period was 84.26% (up 3.35 points from the end of the same period of the previous fiscal year), with the average occupancy rate of 84.19% (up 3.56 points YoY). This was due to the gradual easing of restrictions on economic activities following the slowdown effect of COVID-19 pandemic, restored demand by corporate customers which had been subdued, and successful measure of strengthened tie with real estate agents. The

number of units under management was 565 thousand, a reduction of 1.6 thousand units from the end of the previous fiscal year, and the number of leasing sales offices was 109 (no change from the end of the previous fiscal year).

As a result, net sales for Q1 of the fiscal year ending March 2023 increased by 1.4% YoY to JPY 97,571 million due to recovered unit rent and an improved occupancy rate. Operating profit was JPY 5,366 million, an improvement of JPY 5,135 million YoY, due to the increased revenue and improved profitability resulting from the contractual adjustment of master-lease rent since the previous fiscal year.

(ii) Elderly Care Business

In Elderly Care Business, despite efforts to control costs through continuous operational improvements, net sales decreased by 3.5% YoY to JPY 3,494 million and operating loss amounted to JPY 357 million, a deterioration of JPY 126 million YoY, due to continued reluctance to use care services because of concerns about the risk of COVID-19 and other factors. The number of facilities as of the end of Q1 of the current consolidated fiscal year was 87.

(iii) Other Businesses

Other Businesses segment, which includes the operation of Guam resort facilities, reported net sales of JPY 341 million (down 18.8% YoY) and operating loss of JPY 568 million, a deterioration of JPY 309 million YoY due to a significant decline in the occupancy rate of Guam resort facilities caused by COVID-19.

## (2) Analysis of Consolidated Financial Position

(JPY million)

	June 30, 2022	March 31, 2022	Difference	Percentage change
Assets	143,097	145,430	(2,332)	(1.6)%
Liabilities	129,817	134,396	(4,578)	(3.4)%
Net assets	13,279	11,034	2,245	20.3%

Assets at the end of Q1 of the current fiscal year were JPY 143,097 million, a decrease of JPY 2,332 million from the end of the previous fiscal year. This was mainly due to an increase of JPY 452 million in buildings and structures (net), and decreases of JPY 1,653 million in cash and deposits, JPY 466 million in other current assets (advances paid, etc.), and JPY 561 million in other non-current assets (net).

Total liabilities amounted to JPY 129,817 million, a reduction of JPY 4,578 million from the end of the previous fiscal year. This was mainly due to decreases of JPY 1,329 million in accounts payable-other, JPY 1,012 million in income taxes payable, JPY 1,319 million in advances received and long-term advances received, JPY 579 million in provision for apartment vacancy loss, and JPY 313 million in provision for losses related to repairs.

Total net assets increased by JPY 2,245 million from the end of the previous fiscal year to JPY 13,279 million. This was mainly due to an increase of JPY 1,391 million in foreign currency translation adjustments resulting from the depreciation of the yen and JPY 1,630 million in net income attributable to shareholders of the parent, which more than offset a decrease of JPY 755 million in non-controlling interests resulting from payments of treasury stock acquisition costs and dividends to non-controlling shareholders at a consolidated subsidiary.

The shareholders' equity ratio increased by 2.2 points from the end of the previous fiscal year to 2.9%.

## (3) Future Predictions

Concerning consolidated earnings forecasts for the consolidated fiscal year ending March 2023, each profit/income for the three months significantly exceeded the forecast figures for the first half due to the postponement of property maintenance expenses and system development-related expenses and other items. However, since the Company expect the difference to narrow from the second quarter onward due to the expenditure of such expenses in accordance with the initial plan, there are no changes to the consolidated earnings forecasts for the first half and the full year announced on May 16, 2022 in the "Consolidated Financial Results for the Fiscal Year Ended March 31, 2022."

The forecasts are based on information available to the Company as of the date of publication of this document, and actual results may differ from the forecasts due to a variety of factors.

## 2. Consolidated Financial Statements and Notes

### (1) Consolidated Balance Sheets

(JPY million)

	June 30, 2022	March 31, 2022
<b>&lt;Assets&gt;</b>		
<b>Current assets</b>		
Cash and deposits	43,869	45,523
Trade receivables	8,369	8,618
Accounts receivable for completed projects	451	443
Securities	200	200
Real estate for sale	523	693
Payment for construction in progress	281	213
Prepaid expenses	1,707	1,634
Others	4,624	5,090
Allowance for doubtful accounts	(2,115)	(2,255)
<b>Total current assets</b>	<b>57,912</b>	<b>60,161</b>
<b>Non-current assets</b>		
Property, plant, and equipment		
Buildings and structures (net)	19,305	18,852
Machinery, equipment, and vehicles (net)	7,305	7,534
Land	31,521	31,269
Leased assets (net)	2,127	1,976
Construction in progress	105	92
Others (net)	4,364	4,926
<b>Total property, plant, and equipment</b>	<b>64,729</b>	<b>64,652</b>
Intangible fixed assets		
Goodwill	4	6
Others	2,908	3,130
<b>Total intangible fixed assets</b>	<b>2,912</b>	<b>3,136</b>
Investments and other assets		
Investment securities	5,216	5,180
Long-term loans	1,161	1,126
Long-term prepaid expenses	560	577
Deferred tax assets	6,600	6,596
Others	5,043	4,914
Allowance for doubtful accounts	(1,040)	(914)
<b>Total investments and other assets</b>	<b>17,542</b>	<b>17,480</b>
<b>Total non-current assets</b>	<b>85,184</b>	<b>85,269</b>
<b>Total assets</b>	<b>143,097</b>	<b>145,430</b>

(JPY million)

	June 30, 2022	March 31, 2022
<b>&lt;Liabilities&gt;</b>		
<b>Current liabilities</b>		
Accounts payable	2,295	2,552
Accounts payable for completed projects	163	427
Short-term borrowings	58	53
Lease obligations	1,976	1,992
Accounts payable -other	7,793	9,123
Accrued income taxes	291	1,304
Advances received	30,614	31,733
Customer advances for projects in progress	357	268
Provision for bonus payment	750	-
Provision for warranty obligations on completed projects	3	7
Provision for fulfillment of guarantees	2,140	2,187
Provision for losses related to repairs	2,624	1,941
Provision for apartment vacancy loss	3,638	4,218
Others	3,535	3,732
<b>Total current liabilities</b>	<b>56,243</b>	<b>59,542</b>
<b>Non-current liabilities</b>		
Long-term debt	30,435	30,429
Lease obligations	520	569
Long-term advances received	6,951	7,151
Lease/guarantee deposits received	7,302	7,382
Deferred tax liabilities	12	11
Provision for losses related to repairs	15,149	16,145
Provision for apartment vacancy loss	1,414	1,414
Liability for retirement benefits	9,549	9,525
Others	2,238	2,222
<b>Total non-current liabilities</b>	<b>73,574</b>	<b>74,854</b>
<b>Total liabilities</b>	<b>129,817</b>	<b>134,396</b>
<b>&lt;Net assets&gt;</b>		
<b>Shareholders' equity</b>		
Common stock	100	100
Capital surplus	136,339	136,345
Retained earnings	(134,134)	(135,749)
Treasury stock	(284)	(302)
<b>Total shareholders' equity</b>	<b>2,020</b>	<b>392</b>
<b>Accumulated other comprehensive income</b>		
Net unrealized gains on other securities	(50)	(39)
Foreign currency translation adjustments	2,138	746
Remeasurements of defined benefit plans	(25)	(31)
<b>Total accumulated other comprehensive income</b>	<b>2,061</b>	<b>675</b>
<b>Share subscription rights</b>	<b>343</b>	<b>357</b>
<b>Non-controlling interests</b>	<b>8,853</b>	<b>9,608</b>
<b>Total net assets</b>	<b>13,279</b>	<b>11,034</b>
<b>Total liabilities and net assets</b>	<b>143,097</b>	<b>145,430</b>

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

(JPY million)

	Three months ended June 30, 2022 (Apr 2022–Jun 2022)	Three months ended June 30, 2021 (Apr 2021–Jun 2021)
<b>Net sales</b>	<b>101,406</b>	<b>100,244</b>
<b>Cost of sales</b>	<b>86,908</b>	<b>90,472</b>
<b>Gross profit</b>	<b>14,498</b>	<b>9,771</b>
<b>Selling, general and administrative expense</b>	<b>10,919</b>	<b>11,059</b>
<b>Operating profit (loss)</b>	<b>3,579</b>	<b>(1,287)</b>
<b>Non-operating income</b>		
Interest income	5	6
Dividend income	4	4
Valuation gains of investment securities	27	28
Foreign exchange gains	183	–
Equity in earnings of affiliates	–	52
Other	68	103
<b>Total non-operating income</b>	<b>289</b>	<b>196</b>
<b>Non-operating expenses</b>		
Interest expenses	1,101	1,117
Foreign exchange loss	–	17
Share of loss of entities accounted for using equity method	95	–
Other	28	14
<b>Total non-operating expenses</b>	<b>1,225</b>	<b>1,150</b>
<b>Recurring profit (loss)</b>	<b>2,643</b>	<b>(2,241)</b>
<b>Extraordinary income</b>		
Gains on sale of property, plant and equipment	28	0
Gains on sale of investment securities	–	0
Reversal of provision for losses related to repairs	–	1,919
<b>Total extraordinary income</b>	<b>28</b>	<b>1,919</b>
<b>Extraordinary losses</b>		
Loss on sale of property, plant and equipment	42	–
Loss on retirement of property, plant and equipment	148	1
Loss related to repairs	246	–
Loss on closure of offices	–	5
<b>Total extraordinary losses</b>	<b>437</b>	<b>6</b>
<b>Income (loss) before taxes and other adjustments</b>	<b>2,235</b>	<b>(329)</b>
<b>Income taxes</b>	<b>267</b>	<b>312</b>
<b>Net income (loss)</b>	<b>1,967</b>	<b>(641)</b>
<b>Net income (loss) attributable to non-controlling interests</b>	<b>337</b>	<b>315</b>
<b>Net income (loss) attributable to shareholders of the parent</b>	<b>1,630</b>	<b>(957)</b>



## Consolidated Statement of Comprehensive Income

(JPY million)

	Three months ended June 30, 2022 (Apr 2022–Jun 2022)	Three months ended June 30, 2021 (Apr 2021–Jun 2021)
<b>Net income (loss)</b>	<b>1,967</b>	(641)
Other comprehensive income		
Net unrealized gains on other securities	(11)	(24)
Foreign currency translation adjustments	1,389	1,670
Remeasurements of defined benefit plans	5	13
Share of other comprehensive income of entities using equity method	4	2
<b>Total other comprehensive income</b>	<b>1,387</b>	1,661
<b>Comprehensive income</b>	<b>3,355</b>	1,019
(Breakdown)		
Comprehensive income attributable to shareholders of the parent	3,016	703
Comprehensive income attributable to non-controlling interests	338	316

### (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)

There are no relevant items.

(Application of accounting methods specific to the preparation of quarterly consolidated financial statements)

(Calculation of tax expenses)

Tax expenses are calculated by rationally estimating the effective tax rate after applying tax effect accounting to income before taxes and other adjustments for the consolidated fiscal year, including Q1 of consolidated fiscal year ending March 2023, and multiplying income before taxes and other adjustments for the quarter by said estimated effective tax rate. However, if the calculation of tax expenses using such estimated effective tax rate would be significantly unreasonable, the statutory effective tax rate is used.

(Changes in accounting policies)

(Application of Accounting Standard for Fair Value Measurement)

The Company adopted the new accounting policy stipulated by the "Guidance on Accounting Standard for Measurement of Fair Value" (ASBJ Guidance No. 31, June 17, 2021, hereinafter the "Guidance") from the beginning of Q1 of the fiscal year ending March 2023. The Company determined to apply the new accounting policy prescribed by the Guidance prospectively in accordance with the transitional treatment prescribed in Section 27-2 of the Guidance. This change has no impact on the quarterly consolidated financial statements.

## (Segment Information)

## (i) Information on net sales including breakdown, profit or loss, liabilities and other items by reportable segment

Three months ended June 30, 2022 (April 1, 2022 – June 30, 2022)

(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	74,372	–	–	74,372	–	74,372
Ancillary service income	11,175	–	–	11,175	–	11,175
Maintenance	9,014	–	–	9,014	–	9,014
Rental guarantee	1,080	–	–	1,080	–	1,080
Company housing agency fee	205	–	–	205	–	205
Roof lease solar power generation	849	–	–	849	–	849
Construction subcontracting	423	–	–	423	–	423
Other	73	3,494	341	3,909	–	3,909
Sales from contracts with customer	97,195	3,494	341	101,031	–	101,031
Furniture insurance	375	–	–	375	–	375
Other sales	375	–	–	375	–	375
Sales to customers	97,571	3,494	341	101,406	–	101,406
Inter-segment sales and transfers	17	–	63	81	(81)	–
Total	97,588	3,494	405	101,488	(81)	101,406
Segment profit (loss)	5,366	(357)	(568)	4,440	(860)	3,579

Note 1: The segment profit (loss) adjustments of JPY (860) million includes JPY 40 million in eliminated inter-segment transactions and JPY (901) million in corporate expenses that are not allocated to any reportable segment.

Corporate expenses mainly consist of general and administrative expenses related to administrative departments that do not belong to any reportable segment.

Note 2: Segment profit (loss) is adjusted with operating profit in the quarterly consolidated statements of income.

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

(JPY million)

	Reportable segments				Adjustments (Note 1)	Amount stated in Consolidated Statement of Income (Note 2)
	Leasing Business	Elderly Care Business	Other Businesses	Total		
Net sales						
Rent income	69,704	–	–	69,704	–	69,704
Ancillary service income	13,894	–	–	13,894	–	13,894
Maintenance	8,916	–	–	8,916	–	8,916
Rental guarantee	1,153	–	–	1,153	–	1,153
Company housing agency fee	203	–	–	203	–	203
Roof lease solar power generation	816	–	–	816	–	816
Construction subcontracting	826	–	–	826	–	826
Other	140	3,622	420	4,183	–	4,183
Sales from contracts with customer	95,657	3,622	420	99,700	–	99,700
Furniture insurance	544	–	–	544	–	544
Other sales	544	–	–	544	–	544
Sales to customers	96,201	3,622	420	100,244	–	100,244
Inter-segment sales and transfers	22	–	55	78	(78)	–
Total	96,224	3,622	476	100,322	(78)	100,244
Segment profit (loss)	230	(230)	(259)	(259)	(1,028)	(1,287)

Note 1: The segment income (loss) adjustments of JPY (1,028) million includes JPY 37 million in eliminated inter-segment transactions and JPY (1,066) million in corporate expenses that are not allocated to any reportable segment. Corporate expenses mainly consist of general and administrative expenses related to administrative departments that do not belong to any reportable segment.

Note 2: Segment profit (loss) is adjusted with operating loss on the quarterly consolidated statements of income.

(Significant subsequent events)

There are no relevant items.