

# Consolidated Financial Statements (Japanese Accounting Standard)

(For the six months ended September 30, 2020)

November 13, 2020

Name of Company Listed: **Leopalace21 Corporation**

Code Number: 8848

Representative:

Name of Contact Person:

Scheduled Date of Filing of Securities Report (Japanese only):

Scheduled Date of Commencement of Dividend Payments:

Supplemental Explanatory Material Prepared: Yes

URL: <http://eg.leopalace21.com/>

Position: President and CEO

Position: Senior Department Manager

Stock Listing: Tokyo Stock Exchange

Location of Head Office: Tokyo

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November 13, 2020

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## 1. Results for the Six Months ended September 30, 2020 (April 1, 2020 through September 30, 2020)

### (1) Consolidated financial results

(Amounts less than one million yen 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	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2020	208,647	(5.8)	(12,616)	—	(12,854)	—	(17,571)	—
Six months ended September 30, 2019	221,517	(13.3)	(17,126)	—	(16,497)	—	(24,435)	—

(Note) Comprehensive income in the six months ended September 30, 2020: minus 18,776 million yen (—%);  
six months ended September 30, 2019: minus 25,129 million yen (—%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended September 30, 2020	(71.95)	—
Six months ended September 30, 2019	(100.17)	—

### (2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of September 30, 2020	153,309	(17,181)	(11.3)
As of March 31, 2020	196,953	1,589	0.7

(Reference) Shareholders' equity as of September 30, 2020: minus 17,379 million yen; as of March 31, 2020: 1,303 million yen

## 2. Dividend Status

	Dividend per share				
	End of Q1	End of Q2	End of Q3	End of FY	Annual
	Yen	Yen	Yen	Yen	Yen
FY ended March 31, 2020	—	0.00	—	0.00	0.00
FY ending March 31, 2021	—	0.00			
FY ending March 31, 2021 (Estimate)			—	0.00	0.00

(Note) Restatement of most recent dividend forecast: None

## 3. Consolidated Earnings Forecasts for the Fiscal Year ending March 31, 2021 (April 1, 2020 through March 31, 2021)

(The percentage figures for full year indicate rate of gain or loss compared with the previous FY, while those for the interim period indicate rate of gain or loss 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
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
FY ending March 31, 2021	431,100	(0.6)	(9,800)	—	(10,200)	—	(80,000)	—	(28.67)

(Note) Restatement of most recent consolidated earnings forecasts: None

The Company issued the new shares through third party allotment on November 2, 2020. Net income per share in the consolidated earnings forecasts reflected the issuance of the new shares. For details refer to p.14 "2. Consolidated Financial Statements and Notes, (4) Notes to Notes Regarding Consolidated Financial Statements (Other significant events occurring after the balance sheet date)."

#### 4. Other

- (1) Changes in major subsidiaries during the subject period (change in specific subsidiaries resulting in a change in the scope of consolidation): None
- (2) Use of accounting methods specific to the preparation of quarterly consolidated financial statements: Yes  
(Note) For details refer to p.12 "(Application of accounting methods specific to the preparation of quarterly consolidated financial statements)."
- (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.: None
  - (ii) Changes in accounting policies other than (i) above: None
  - (iii) Changes in accounting estimates: None
  - (iv) Restatements: None
- (4) Total number of outstanding shares (common stock)
  - (i) Total number of outstanding shares at term end (including treasury stock)  
As of September 30, 2020: 244,882,515 shares, As of March 31, 2020: 244,882,515 shares
  - (ii) Total treasury stock at term end  
As of September 30, 2020: 572,410 shares, As of March 31, 2020: 771,210 shares
  - (iii) Average number of outstanding shares during the period  
As of September 30, 2020: 244,229,765 shares, As of September 30, 2019: 243,935,746 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 the Company and on certain assumptions that Leoplace21 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 p.5 "1. Business Results (3) Explanation of consolidated earnings forecasts and other future predictions."

(Method for the acquisition of supplemental explanatory material)

Supplemental Explanatory Material on quarterly financial statements is scheduled to be posted on the Company's web site on November 13, 2020.

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# 1. Business Results

## (1) Analysis of Business Results

(Millions of yen)

	Net sales	Operating profit	Recurring profit	Net income attributable to shareholders of the parent
Six months ended September 30, 2020	208,647	(12,616)	(12,854)	(17,571)
Six months ended September 30, 2019	221,517	(17,126)	(16,497)	(24,435)
Difference	(12,870)	4,510	3,643	6,864

During the first six months of the current fiscal year, the domestic economy remained extremely challenging, as consumer spending and corporate earnings deteriorated sharply due to such factors as the issuance of a declaration of emergency in response to the spread of COVID-19 and requests to stay home and refrain from going out.

The new housing starts of leased units declined for the 25th consecutive month (down 10.8% year on year) due to the tightening of lending terms by financial institutions. In the rental housing market, the number of vacant houses continues to increase, and in order to secure a stable occupancy rate amid difficulty in recovering nationwide demand, we believe it is important to implement a strategy of differentiation by focusing on supplying apartments in the areas where we can expect high occupancy rates in the future and by providing value-added services that leverage our unique strengths.

Under these circumstances, in the previous consolidated fiscal year, Leopalace21 Corporation with its consolidated subsidiaries (the "Company" and collectively the "Group") posted a significant loss for the second consecutive year, mainly due to repair expenses incurred to tackle the construction defects and a deterioration in the occupancy rate caused by the construction defects. In response, on June 5, 2020, the Company announced a business plan (medium- to long-term strategies) centered on "Reconstruct business foundation – selective concentration," "Implement structural reforms," and "Restore the trust of society."

As a result, net sales for the first six months of the current fiscal year amounted to 208,647 million yen (down 5.8% year on year), and operating loss was 12,616 million yen (a reduced loss of 4,510 million yen year on year) due mainly to a decrease in rent revenues by stagnant occupancy rates, despite a decrease in cost of sales and SG&A expenses of 17,380 million yen year on year, which resulted in recurring loss of 12,854 million yen (a reduced loss of 3,643 million yen year on year). Net loss attributable to shareholders of the parent was 17,571 million yen (a reduced loss of 6,864 million yen year on year) due to impairment loss on non-current assets and goodwill of 3,741 million yen, special severance allowance of 2,460 million yen associated with the voluntary retirement program, and loss related to repairs concerning construction defects such as parting walls of 1,780 million yen in the extraordinary losses.

Results by business segment are as follows.

From the first quarter of the current fiscal year, we changed the classification of reportable segments. For comparison with the previous fiscal year, the figures for the previous fiscal year were reclassified into the new reportable segments.

(Actual figures by segment)

(Millions of yen)

	Net sales			Operating profit		
	Six months ended September 30, 2019	Six months ended September 30, 2020	Difference	Six months ended September 30, 2019	Six months ended September 30, 2020	Difference
Leasing Business	210,867	199,742	(11,124)	(14,569)	(7,135)	7,433
Elderly Care Business	7,301	7,244	(56)	(236)	(293)	(56)
Other Businesses	3,348	1,660	(1,688)	(127)	(633)	(505)
Adjustments	—	—	—	(2,192)	(4,552)	(2,360)
Total	221,517	208,647	(12,870)	(17,126)	(12,616)	4,510

### (i) Leasing Business

In the Leasing Business, the Group provides a wide range of added value, including *my DIY*, where tenants can decorate their rooms to their preferences, the promotion of smart apartments where the home electronics can be operated and rooms can be locked up remotely by smartphones, the industry-first electronic rental agreements, and security services through tie-ups with major security companies. The Group also strives to secure stable occupancy rates by capturing corporate dormitory and corporate housing demand and by enhancing the support system for foreign national tenants. Furthermore the Group operates serviced apartments and offices in ASEAN countries.

As for the occupancy rate, due to delays in repair works and delays in resumption of tenant recruitment, and restrained occupancy demand caused by the spread of COVID-19, the occupancy rate at the end of the first six months of the current fiscal year was 78.09% (down 1.98 points year on year), the average occupancy rate during the first six months of the current fiscal year was 79.26% (down 1.85 points year on year), and the number of rooms managed was 574 thousand (a decrease of one thousand units from the end of the previous fiscal year). The number of directly managed sales offices has been decreased to 142 (a reduction of 47 from the end of the previous fiscal year) for improvement of sales efficiency and productivity.

With regard to orders for apartments and others, due to intensified competition in the metropolitan areas and changes in the loan environment for apartments, as well as the suspension of new orders because of construction defects problem such as parting walls, total orders received during the first six months under review amounted to 3,872 million yen (down 24.0% year on year) and outstanding orders received at the end of the first six months of the current fiscal year amounted to 14,963 million yen (down 61.9% year on year).

As a result, net sales in the segment were 199,742 million yen (down 5.3% year on year) and operating loss was 7,135 million yen (a reduced loss of 7,433 million yen year on year).

#### (ii) Elderly Care Business

In the Elderly Care Business, which is our strategic business, costs have been controlled through continuous operational improvement. However, due to the decline in the number of users of care services who were concerned about the risk of infection with COVID-19, net sales decreased to 7,244 million yen (down 0.8% year on year), and operating loss was 293 million yen (an increased loss of 56 million yen year on year).

The number of facilities at the end of the first six months in the current fiscal year was 87.

#### (iii) Other Businesses

Other Businesses, which include the operations of Guam Resort facilities, travel services, and finance services, posted net sales of 1,660 million yen (down 50.4% year on year) and an operating loss of 633 million yen (an increased loss of 505 million yen year on year) due to the impact of spreading COVID-19 and reduction of business scale resulted in sales of domestic hotels.

## (2) Analysis of Consolidated Financial Position

(Millions of yen)

	Assets	Liabilities	Net assets
As of September 30, 2020	153,309	170,491	(17,181)
As of March 31, 2020	196,953	195,363	1,589
Difference	(43,643)	(24,872)	(18,771)

Total assets at the end of the first six months decreased to 153,309 million yen, a decrease of 43,643 million yen from the end of the previous fiscal year. This was mainly attributable to a reduction of 26,475 million yen in cash and cash equivalents, 2,216 million yen in real estate for sale in progress, 1,820 million yen in securities and investment securities, 5,220 million yen in land as a result of sale and recording impairment loss of real estate for lease, and 2,979 million yen in building and structures (net).

Total liabilities decreased to 170,491 million yen, a decrease of 24,872 million yen from the end of the previous fiscal year. This was mainly attributable to a decrease of 5,799 million yen in short and long-term advances received, 5,425 million yen in accounts payable - other, 5,303 million yen in interest-bearing debt, 4,272 million yen in reserve for losses related to repairs and 3,738 million yen in reserve for apartment vacancy loss.

Net assets decreased by 18,771 million yen from the end of the previous fiscal year and showed liabilities exceeding assets by 17,181 million yen. This was mainly due to recording of 17,571 million yen in net loss attributable to shareholders of the parent and decrease of 1,047 million yen in net unrealized gains on other securities. The ratio of shareholders' equity to assets dropped to minus 11.3%, a decrease of 12.0 points from the end of the previous fiscal year.

#### (Cash Flow)

(Millions of yen)

	Six months ended September 30, 2019	Six months ended September 30, 2020	Difference
Cash flow from operating activities	(25,306)	(27,917)	(2,611)
Cash flow from investing activities	15,475	6,796	(8,678)
Cash flow from financing activities	(6,181)	(5,275)	906
Cash and cash equivalents at end of period	67,011	32,440	(34,570)

Cash flow from operating activities was a net outflow of 27,917 million yen (an increase of 2,611 million yen in net outflow year on year). This was mainly due to minus 17,034 million yen in income before taxes, 5,799 million yen in decrease in advances received,

5,229 million yen in decrease in accounts payable, 3,738 million yen in reserve for apartment vacancy loss and 5,640 million yen in expenses related to repairs paid despite increases of 5,296 million yen in depreciation and amortization and 3,741 million yen in impairment loss.

Cash flow from investing activities was a net inflow of 6,796 million yen (an income decrease of 8,678 million yen year on year). This was mainly due to 4,333 million yen in proceeds from sale of investment securities and 3,951 million yen in proceeds from sale of property, plant and equipment, which were offset by 1,384 million yen in payment for purchase of property, plant and equipment.

Cash flow from financing activities was a net outflow of 5,275 million yen (a decrease of 906 million yen in net outflow from the same period of the previous fiscal year). This was mainly due to 5,275 million yen in repayment of interest-bearing debt.

As a result, cash and cash equivalents at the end of the subject period stood at 32,440 million yen, a decrease of 34,570 million yen from the end of the same period of the previous fiscal year.

### **(3) Explanation of consolidated earnings forecasts and other future predictions**

Concerning consolidated earnings forecasts, there has been no change to the current fiscal year figures from the consolidated financial statements for fiscal year ended March 2020 published on June 5, 2020. Earnings forecasts are judged by the Company based on information currently available to the Company as of the publication of this statement, and actual results may differ from these forecasts due to a variety of factors.

## 2. Consolidated Financial Statements and Notes

### (1) Consolidated Balance Sheet

(Million yen)

	September 30, 2020	March 31, 2020
<b>&lt;Assets&gt;</b>		
<b>Current assets</b>		
Cash and cash equivalents	34,026	60,501
Trade receivables	7,087	7,260
Accounts receivable for completed projects	573	532
Operating loans	104	132
Securities	5,738	5,951
Real estate for sale	1,821	1,189
Real estate for sale in process	580	2,797
Payment for construction in progress	793	725
Prepaid expenses	2,702	3,053
Others	4,653	6,325
Allowance for doubtful accounts	(171)	(164)
<b>Total current assets</b>	<b>57,909</b>	<b>88,304</b>
<b>Non-current assets</b>		
Property, plant, and equipment		
Buildings and structures (net)	20,883	23,863
Machinery, equipment, and vehicles (net)	9,195	9,798
Land	31,672	36,893
Leased assets (net)	5,261	7,197
Construction in progress	204	208
Other (net)	7,393	7,572
<b>Total property, plant, and equipment</b>	<b>74,611</b>	<b>85,534</b>
Intangible fixed assets		
Goodwill	15	127
Others	4,731	5,376
<b>Total intangible fixed assets</b>	<b>4,747</b>	<b>5,504</b>
Investments and other assets		
Investment securities	6,555	8,163
Bad debts	1,127	1,025
Long-term prepaid expenses	1,768	2,250
Deferred tax assets	1,750	1,297
Others	5,388	5,554
Allowance for doubtful accounts	(729)	(905)
<b>Total investments and other assets</b>	<b>15,861</b>	<b>17,385</b>
<b>Total non-current assets</b>	<b>95,219</b>	<b>108,424</b>
<b>Deferred assets</b>	<b>179</b>	<b>224</b>
<b>Total assets</b>	<b>153,309</b>	<b>196,953</b>

(Million yen)

	September 30, 2020	March 31, 2020
<b>&lt;Liabilities&gt;</b>		
<b>Current liabilities</b>		
Electronically recorded obligations -operating	124	176
Accounts payable	3,068	3,376
Accounts payable for completed projects	1,220	1,245
Short-term borrowings	3,381	3,507
Bonds due within one year	3,066	3,066
Lease obligations	3,870	4,344
Accounts payable -other	9,509	14,935
Accrued income taxes	763	840
Advances received	27,014	31,997
Customer advances for projects in progress	1,719	1,783
Provision for bonuses	32	—
Reserve for warranty obligations on completed projects	79	117
Reserve for fulfillment of guarantees	1,195	1,200
Reserve for loss related to repair works	7,716	8,302
Reserve for apartment vacancy loss	7,977	11,715
Others	3,190	3,398
<b>Total current liabilities</b>	<b>73,931</b>	<b>90,006</b>
<b>Non-current liabilities</b>		
Bonds	3,504	5,037
Long-term debt	14,200	15,650
Lease obligations	2,812	4,532
Long-term advances received	8,634	9,451
Lease/guarantee deposits received	5,974	6,286
Deferred tax liabilities	7	5
Reserve for losses related to repairs	44,259	47,945
Reserve for apartment vacancy loss	4,191	4,191
Liability for retirement benefit	9,572	8,701
Others	3,402	3,554
<b>Total non-current liabilities</b>	<b>96,560</b>	<b>105,357</b>
<b>Total liabilities</b>	<b>170,491</b>	<b>195,363</b>
<b>&lt;Net assets&gt;</b>		
<b>Shareholders' equity</b>		
Common stock	75,282	75,282
Capital surplus	45,148	45,148
Retained earnings	(136,474)	(118,874)
Treasury stock	(351)	(473)
<b>Total shareholders' equity</b>	<b>(16,394)</b>	<b>1,083</b>
<b>Accumulated other comprehensive income</b>		
Net unrealized gains on other securities	(0)	1,047
Foreign currency translation adjustments	(890)	(280)
Remeasurements of defined benefit plans	(93)	(546)
<b>Total accumulated other comprehensive income</b>	<b>(984)</b>	<b>220</b>
<b>Share subscription rights</b>	176	269
<b>Non-controlling interests</b>	21	16
<b>Total net assets</b>	<b>(17,181)</b>	<b>1,589</b>
<b>Total liabilities and net assets</b>	<b>153,309</b>	<b>196,953</b>



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

### Consolidated Statement of Income

(Millions of yen)

	Six months ended September 30, 2020 (Apr. 2020–Sep. 2020)	Six months ended September 30, 2019 (Apr. 2019–Sep. 2019)
<b>Net sales</b>	<b>208,647</b>	<b>221,517</b>
<b>Cost of sales</b>	<b>194,662</b>	<b>208,058</b>
<b>Gross profit</b>	<b>13,984</b>	<b>13,458</b>
<b>Selling, general and administrative expense</b>	<b>26,600</b>	<b>30,585</b>
<b>Operating profit or Loss</b>	<b>(12,616)</b>	<b>(17,126)</b>
<b>Non-operating income</b>		
Interest income	28	40
Dividend income	31	79
Investment returns from anonymous associations	—	977
Gains on valuation of investment securities	83	136
Foreign exchange gain	70	—
Other	121	125
<b>Total non-operating income</b>	<b>335</b>	<b>1,359</b>
<b>Non-operating expenses</b>		
Interest expenses	257	328
Foreign exchange losses	—	102
Bond issuance cost	67	88
Other	249	210
<b>Total non-operating expenses</b>	<b>573</b>	<b>730</b>
<b>Recurring profit or loss</b>	<b>(12,854)</b>	<b>(16,497)</b>
<b>Extraordinary income</b>		
Gain on sales of property, plant and equipment	206	3,467
Gain on sales of investment securities	4,065	16
Gain on reversal of share subscription rights	0	17
Gain on cancelling contracts	—	350
<b>Total extraordinary income</b>	<b>4,271</b>	<b>3,850</b>
<b>Extraordinary losses</b>		
Loss on sale of property, plant and equipment	11	972
Loss on retirement of property, plant and equipment	30	22
Impairment loss	3,741	982
Provision of reserve for losses related to repairs	—	8,682
Loss related to repairs	1,780	1,399
Special severance allowance	2,460	—
Retirement benefit expenses	427	—
<b>Total extraordinary losses</b>	<b>8,452</b>	<b>12,059</b>
<b>Income (loss) before taxes and other adjustments</b>	<b>(17,034)</b>	<b>(24,706)</b>
<b>Income taxes</b>	<b>536</b>	<b>(270)</b>
<b>Net income (loss)</b>	<b>(17,571)</b>	<b>(24,435)</b>
<b>Net income (loss) attributable to non-controlling interests</b>	<b>(0)</b>	<b>(0)</b>
<b>Net income (loss) attributable to shareholders of the parent</b>	<b>(17,571)</b>	<b>(24,435)</b>

## Consolidated Statement of Comprehensive Income

(Millions of yen)

	Six months ended September 30, 2020 (Apr. 2020–Sep. 2020)	Six months ended September 30, 2019 (Apr. 2019–Sep. 2019)
<b>Net income (loss)</b>	<b>(17,571)</b>	<b>(24,435)</b>
Other comprehensive income		
Net unrealized gains on other securities	(1,047)	(36)
Foreign currency translation adjustments	(606)	(713)
Remeasurements of defined benefit plans	452	60
Share of other comprehensive income of entities accounted for using equity method	(3)	(4)
<b>Total other comprehensive income</b>	<b>(1,205)</b>	<b>(693)</b>
<b>Comprehensive income</b>	<b>(18,776)</b>	<b>(25,129)</b>
(Breakdown)		
Comprehensive income attributable to shareholders of the parent	(18,775)	(25,128)
Comprehensive income attributable to non-controlling interests	(0)	(0)

### (3) Consolidated Cash Flow

(Millions of yen)

	Six months ended September 30, 2020 (Apr 2019–Sep 2020)	Six months ended September 30, 2019 (Apr 2019–Sep 2019)
Cash flows from operating activities		
Income before taxes	(17,034)	(24,706)
Depreciation and amortization	5,296	6,286
Impairment loss	3,741	982
Provision of reserve for losses related to repairs	—	8,682
Loss related to repairs	1,780	1,399
Special severance allowance	2,460	—
Amortization of goodwill	3	237
Increase (decrease) in reserve for doubtful accounts	(222)	(80)
Increase (decrease) in liability for retirement benefits	1,323	214
Increase (decrease) in reserve for apartment vacancy loss	(3,738)	7,072
Interest and dividend income	(60)	(120)
Interest expense	257	328
Foreign exchange loss (gain)	(70)	102
Share of loss (profit) of entities accounted for using equity method	15	10
Loss (gain) on sale of property, plant and equipment	(195)	(2,495)
Loss on retirement of property, plant and equipment	30	22
Loss (gain) on valuation of investment securities	(83)	(136)
Loss (gain) on sale of investment securities	(4,065)	(16)
Investment returns from anonymous associations	—	(977)
Gain on reversal of share subscription rights	(0)	(17)
Gain on cancelling contracts	—	(350)
Decrease (increase) in accounts receivable	185	1,521
Decrease (increase) in real estate for sale	1,578	(1,851)
Decrease (increase) in payment for construction in progress	(68)	181
Decrease (increase) in long-term prepaid expenses	415	427
Increase (decrease) in accounts payable	(5,229)	(6,916)
Increase (decrease) in customer advances for projects in progress	(64)	(668)
Increase (decrease) in advances received	(5,799)	(4,605)
Increase (decrease) in guarantee deposits received	(209)	(239)
Increase (decrease) in accrued consumption taxes	(583)	(265)
Other	1,395	(649)
<b>Total</b>	<b>(18,940)</b>	<b>(16,625)</b>
Interest and dividends received	61	292
Interest paid	(272)	(298)
Expenses related to repairs paid	(5,640)	(7,797)
Special severance paid	(2,460)	—
Income taxes paid	(665)	(878)
<b>Net cash provided by (used in) operating activities</b>	<b>(27,917)</b>	<b>(25,306)</b>

(Millions of yen)

	Six months ended September 30, 2020 (Apr 2020–Sep 2020)	Six months ended September 30, 2019 (Apr 2019–Sep 2019)
Cash flows from investing activities		
Payment for purchase of property, plant and equipment	(1,384)	(2,131)
Proceeds from sale of property, plant and equipment	3,951	15,876
Payment for purchase of intangible assets	(163)	(57)
Payment for purchase of investment securities	(348)	(559)
Proceeds from sale of investment securities	4,333	3,499
Payment for sale of shares in subsidiary due to change in consolidation	–	(101)
Payment for loans	(28)	(653)
Proceeds from collection of loans	41	6
Payment for time deposit	–	(328)
Other	396	(74)
Net cash provided by (used in) investing activities	<b>6,796</b>	<b>15,475</b>

(Millions of yen)

	Six months ended September 30, 2020 (Apr 2020–Sep 2020)	Six months ended September 30, 2019 (Apr 2019–Sep 2019)
Cash flows from financing activities		
Repayment of short-term borrowings	(141)	(111)
Repayment of long-term debt	(1,423)	(1,418)
Payment for redemption of bonds	(1,533)	(1,983)
Repayment of finance lease obligations	(2,177)	(2,669)
Proceeds from exercise of stock options	0	0
Net cash provided by (used in) financing activities	<b>(5,275)</b>	<b>(6,181)</b>
Effect of exchange rate changes on cash and cash equivalents	(78)	5
Net increase (decrease) in cash and cash equivalents	(26,475)	(16,007)
Cash and cash equivalents at beginning of period	<b>58,916</b>	<b>83,019</b>
Cash and cash equivalents at end of period	<b>32,440</b>	<b>67,011</b>

#### (4) Notes Regarding Consolidated Financial Statements

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

There are no relevant items.

##### (Notes regarding significant changes in shareholders' equity)

There are no relevant items.

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

Tax expenses are calculated by multiplying net income before income taxes by a reasonably estimated effective tax rate, after applying the tax effect accounting to net income before income taxes for the consolidated fiscal year that includes the consolidated second quarter (cumulative).

##### (Additional information)

The reference is made to "Consolidated Financial Statements for the fiscal year ended March 31, 2020, Notes Regarding Consolidated Financial Statements (Accounting assumption related to spread of COVID-19)" in which we assumed that the spread of COVID-19 and resultant sluggish economy would affect our business and expected the occupancy rates in our main Leasing Business may lack buoyancy until June 2020. We acknowledge our business has been affected in the second quarter and assume the impact will continue for a certain period in the current fiscal year, and accordingly made an accounting estimate for recoverability of deferred tax assets.

The Company has made best assumption based on information currently available to the Company as of preparing the financial statements. The assumption may, however, include uncertainties such as time of ceasing COVID-19 infection along with its economic impact and the changes in the uncertainty factors may affect the Group's financial position and business results.

**(Segment Information)****I. Six months ended September 30, 2019 (April 1, 2019 through September 30, 2019)****(i) Net sales, operating profit (loss) by reportable segment**

(Million yen)

	Reportable segments				Adjustments (Note 1)	Consolidated Total (Note 2)
	Leasing Business	Elderly Care Business	Other Businesses	Total		
Net sales						
Sales to customers	210,867	7,301	3,348	221,517	—	221,517
Inter-segment sales or transfers	110	—	1,342	1,453	(1,453)	—
Total	210,977	7,301	4,690	222,970	(1,453)	221,517
Segment profit (or loss)	(14,569)	(236)	(127)	(14,934)	(2,192)	(17,126)

(Note) 1. Adjustments in segment loss of minus 2,192 million yen include inter-segment eliminations of minus 152 million yen and corporate expenses not part of reportable segments of minus 2,039 million yen. Corporate expenses consist mainly of general administrative expenses for administrative departments that are not part of reportable segments.

2. Segment loss is adjusted to the operating loss on the Consolidated Statement of Income.

**(ii) Information on impairment losses for non-current assets by reportable segment**

In the Leasing Business, the Company recorded the goodwill when acquired Morizou Co. Ltd. The Company recorded all of the unamortized balance of the goodwill as impairment loss of 982 million yen in the extraordinary losses because profitability in the original business plan examined at the time of acquisition was no longer expected.

**II. Six months ended September 30, 2020 (April 1, 2020 through September 30, 2020)****(i) Net sales, operating profit (loss) by reportable segment**

(Million yen)

	Reportable segments				Adjustments (Note 1)	Consolidated Total (Note 2)
	Leasing Business	Elderly Care Business	Other Businesses	Total		
Net sales						
Sales to customers	199,742	7,244	1,660	208,647	—	208,647
Inter-segment sales or transfers	77	—	494	571	(571)	—
Total	199,820	7,244	2,154	209,219	(571)	208,647
Segment profit (or loss)	(7,135)	(293)	(633)	(8,063)	(4,552)	(12,616)

(Note) 1. Adjustments in segment loss of 4,552 million yen include inter-segment eliminations of minus 86 million yen and corporate expenses not part of reportable segments of minus 4,639 million yen. Corporate expenses consist mainly of general administrative expenses for administrative departments that are not part of reportable segments.

2. Segment loss is adjusted to the operating loss on the Consolidated Statement of Income.

**(ii) Changes in the reportable segments**

The reportable segments have been changed from the previous four segments, "Leasing Business," "Development Business," "Elderly Care Business," and "Hotels, Resort & Other Businesses" to three segments, "Leasing Business," "Elderly Care Business," and "Other Businesses" from the first quarter of the current fiscal year. 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 which focuses on strengthening profitability of the Leasing Business from the diversification policy in line with the drastic business strategies reconstruction. The change in the name to Other Businesses from Hotels, Resort & Other Businesses reflects the Company's new policy of transferring or withdrawing from the Hotels and Resort Business.

The reportable segments for the first six months of the previous consolidated fiscal year were reclassified in line with the above-mentioned changes of the segments.

**(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 3,551 million yen 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 82 million yen in the extraordinary losses.

As we are unable to expect the initial profitability which we planned at the time of acquiring the shares in Enplus Inc., the balance of unamortized goodwill of 107 million yen was recorded as impairment loss in the extraordinary losses.

### (Significant events occurring after the balance sheet date)

(Fundraising through the issuance of new shares and the issuance of the stock acquisition rights in connection with the loan with stock acquisition rights, and issuance of preferred stock by consolidated subsidiary)

As for the fundraising which the Company's board of directors resolved on September 30, 2020 consisting of the issuance of new shares of the Company through third party allotment ("Issuance of New Shares"), the issuance of the 5<sup>th</sup> series of stock acquisition rights ("Issuance of Stock Acquisition Rights") and the loan with stock acquisition rights ("Loan"), the payments have been completed on November 2, 2020. In addition, the payment has been completed on November 2, 2020 for the issuance of preferred stock in Leopalace Power Corporation ("Issuance of Preferred Stock"), a consolidated subsidiary. The Issuance of Preferred Stock was resolved in the extraordinary general shareholders' meeting held on September 30, 2020.

#### Outline of Issuance of New Shares

(1) Type and number of new shares issued	84,507,000 shares of common stock
(2) Issue price	142 yen per share
(3) Total issue price	11,999,994,000 yen
(4) Aggregate capitalization amount	5,999,997,000 yen
(5) Date of payment	November 2, 2020
(6) Method of allotment and allottee	All shares were allotted to Chidori Godo Kaisha, an affiliated entity of Fortress Investment Group LLC ("FIG"), through the third party allotment.

(Note) 1. Total number of issued shares of the Company after the Issuance of New Shares has become 329,389,515 shares and the amount of paid-in capital has become 81,282 million yen.

2. As a result of Issuance of New Shares, Chidori Godo Kaisha owns 25.70% of the voting rights of the Company, which led to a change in the largest shareholder among the major shareholders.

#### Outline of Issuance of Stock Acquisition Rights

(1) Date of allotment	November 2, 2020
(2) Total number of stock acquisition rights	159,748,700 units
(3) Issue price	215,660,745 yen (in total) (1.35 yen per unit of the stock acquisition rights)
(4) Number of dilutive shares resulting from the issuance	Number of dilutive shares : 159,748,700 shares
(5) Exercise price	142 yen
(6) Method of allotment and allottee	All units were allotted to Chidori Godo Kaisha, an affiliated entity of FIG, through the third party allotment.
(7) Exercise period for stock acquisition rights	From and including November 2, 2020 to and including November 2, 2025

#### Outline of Loan

(1) Borrower	Leopalace21 Corporation
(2) Lender	Kaede Godo Kaisha ("Loan Lender"), an affiliated entity of FIG
(3) Principal amount of loan	30,000,000,000 yen
(4) Date of execution of agreement	September 30, 2020
(5) Loan drawdown date	November 2, 2020
(6) Maturity date	November 4, 2025
(7) Voluntary prepayment	Prepayment may be made after three (3) years from the loan drawdown date; provided, however, that, after two (2) years from the drawdown date, prepayment may be made only during the period when the occupancy rate of the Company's properties reaches a certain level.
(8) Applicable interest rate	14.5% per annum However, only during the period when the occupancy rate of the Company's properties reaches a certain level, the applicable interest rate is 10.0% per annum.
(9) Guaranty	Joint and several guarantees by the Company's subsidiaries (Leopalace

	Leasing Corporation, Plaza Guarantee Co., Ltd., and Azu Life Care Co., Ltd.)
(10) Use of funds	<ul style="list-style-type: none"> <li>- Payment of repair work expenses related to construction defects such as parting walls found in the properties constructed by the Company</li> <li>- Repayment of Leopalace Power Corporation's existing borrowings</li> <li>- Redemption of bonds</li> </ul>
(11) Exercise of stock acquisition rights	<p>If contributions in cash are made upon exercise of the stock acquisition rights, the amount of such contribution in cash will be used to prepay a portion of the principal amount of the loan principal receivables and the loan interest receivables to the Company under a loan agreement concerning the Loan between the Company and the Loan Lender (the loan principal receivables and the loan interest receivables shall be hereinafter referred to as the "the Loan Receivables").</p> <p>If contributions in the Loan Receivables are made upon exercise of the stock acquisition rights, the Loan Receivables so contributed will be deemed to have become due and payable and extinguished by merger up to the amount of such claim at the same time as such contribution.</p>

At the execution of Loan, the Company provided as security, buildings and structures of 4,424 million yen, machinery, equipment, and vehicles of 2 million yen, land of 23,540 million yen, securities of 5,600 million yen, investment securities of 3,474 million yen, real estate for sale of 35 million yen, each of them owned by the Company as of November 11, 2020.

The Company provided as security shares in the subsidiaries and affiliates of 476 million yen, short-term loans to the subsidiaries and affiliates of 2,600 million yen, and long-term loans to the subsidiaries and affiliates of 4,192 million yen, each of them has been eliminated in the consolidation process.

In addition to the above, security against Loan includes buildings and structures of 572 million yen and land of 1,450 million yen which are held as of November 11, 2020 by Plaza Guarantee Co., Ltd, a consolidated subsidiary of the Company with the consent of Plaza Guarantee Co., Ltd.

#### Outline of Issuance of Preferred Stock

(1) Issuer	Leopalace Power Corporation
(2) Type and number of new shares	750,000 shares of Class A Preferred Stock
(3) Issue price	20,000 yen per share
(4) Total issue price	15,000,000,000 yen
(5) Aggregate capitalization amount	7,500,000,000 yen
(6) Date of payment	November 2, 2020
(7) Method of allotment and allottee	All of the preferred stock were allotted to Kikyo Godo Kaisha and Willow Investment Holdings L.P., affiliated entities of FIG through the third-party allotment.
(8) Preferred dividend	<ul style="list-style-type: none"> <li>-The rate which is the higher of 7 percent per annum or the internal rate of return for the Preferred Stock approved at the class shareholders' meeting comprising the preferred stock holders</li> <li>- Preferred dividend is cumulative and non-participating, and no dividends of surplus will be paid in excess of the preferred dividend and unpaid and cumulating preferred dividend.</li> </ul>
(9) Others	<ul style="list-style-type: none"> <li>-The Preferred Stock may be converted into shares of Leopalace Power Corporation's common stock. The voting ratio will be 99.78%, assuming that all the Preferred Stock are converted into common stock. The total number of issued and outstanding shares of Leopalace Power Corporation is 1,600.</li> <li>- The Scheduled Allottee of Preferred Stock may request Leopalace Power Corporation to purchase the Preferred Stock.</li> <li>- The number of one full unit of the Preferred Stock is 909 shares, and the total number of voting rights carried by the Preferred Stock represents 34.0% of the total voting rights of Leopalace Power Corporation.</li> </ul>

### 3. Others

#### Significant Events Relating to Going Concern Assumption

The Group recorded operating loss in the previous fiscal year and net loss attributable to shareholders of the parent as well as negative operating cash flow for two consecutive years due to construction defects such as the paring walls confirmed in the apartments constructed by the Company.

As the Company's consolidated net assets failed to satisfy the required standard and the Company posted operating loss in the previous fiscal year, there is a relevant item with respect to Leopalace Power Corporation, a subsidiary of the Company and its loan agreement with a financial institution for which the Company acts as a guarantor. The Company does not meet the financial covenant in the loan agreement.

As to the results of the first six months of the current fiscal year, the Company recorded 12,616 million yen in operating loss and 17,571 million yen in the net loss attributable to shareholders of the parent. Consequently the liabilities exceeded the assets by 17,181 million yen.

As a result, there are events or circumstances that raise significant doubts about the Company's going concern assumption.

The Company have been reallocating human and physical resources including the voluntary retirement program for over 1,000 employees in accordance with the "Notice Concerning Implementing Structural Reforms based on Strategic Review Results for Drastic Business Strategies Reconstruction" disclosed on June 5, 2020, and is trying to improve the business performance and restore financial position by temporarily reducing the scale of repair works and organizational setup in July 2020 onward.

With regard to funding, while maintaining a sound financial balance, the Company endeavors to secure stable funds necessary for its business activities and maintain liquidity by selling the Company owned securities and non-current assets and utilizing the available funds within the Group, thereby securing sufficient funds to meet anticipated demand based on its funding plans. As a part of the measures, the Company financed 4,162 million yen by completing the sale of investment securities and secured 3,624 million yen by the sale of 17 properties for lease and the Leopalace Hotel Nagoya.

As reported in "2. Consolidated Financial Statements and Notes (4) Notes Regarding Consolidated Financial Statements (Other significant events occurring after the balance sheet date)" the Company executed the fundraising by the issuance of new shares of the Company through third party allotment and the issuance of the stock acquisition rights in connection with the loan with stock acquisition rights and the issuance of the preferred stock by Leopalace Power Corporation, a consolidated subsidiary. Consequently the Company received the funds of 57,215 million yen on November 2, 2020 and can respond to the funds needed to eliminate the excessive liabilities, payment of repair work expenses related to construction defects found in the properties constructed by the Company, repayment of debt and redemption of bonds.

The Company repaid all debt of Leopalace Power Corporation to the financial institutions on November 2, 2020 which the Company as a guarantor failed to meet the financial covenant at the end of the first six months of the current fiscal year.

Consequently, the Company believes that there are no significant uncertainties regarding the going concern assumption.