

Consolidated Financial Statements (Japanese Accounting Standard)

May 10, 2019

(For the year ended March 31, 2019)

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: Eisei Miyama
Name of Contact Person: Position: Director	Name: Bunya Miyao Telephone: +81-50-2016-2907
Scheduled Date of the Ordinary Shareholders' Meeting: June 27, 2019	
Scheduled Date of Filing of Securities Report (Japanese only): June 27, 2019	
Scheduled Date of Commencement of Dividend Payments: -	
Supplemental Explanatory Material Prepared: Yes	Results Briefing Held: Yes (Japanese only)

1. Results for the Fiscal Year ended March 31, 2019 (April 1, 2018 through March 31, 2019)

(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 last year)

	Net sales		Operating profit		Recurring profit		Net income attributable to shareholders of the parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY ended March 31, 2019	505,223	-4.8	7,390	-67.8	7,063	-68.4	-68,662	—
FY ended March 31, 2018	530,840	2.0	22,930	0.1	22,354	-0.0	14,819	-27.4

(Note) Comprehensive income in the year ended March 31, 2019: -70,063 million yen (-%); year ended March 31, 2018: 13,997 million yen (-26.9%)

	Net income per share	Diluted net income per share	Return on equity	Recurring income / Total capital	Operating profit / Net sales
	Yen	Yen	%	%	%
FY ended March 31, 2019	-278.58	—	-57.2	2.2	1.5
FY ended March 31, 2018	58.02	57.93	9.3	6.6	4.3

(Reference) Equity in earnings of affiliates in FY ended March 31, 2019: 1 million yen, FY ended March 31, 2018: -0 million yen.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Equity per share
	Million yen	Million yen	%	Yen
As of March 31, 2019	291,790	81,338	27.7	331.87
As of March 31, 2018	337,134	159,438	47.2	630.84

(Reference) Shareholders' equity as of March 31, 2019: 80,915 million yen; as of March 31, 2018: 159,044 million yen

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of year
	Million yen	Million yen	Million yen	Million yen
FY ended March 31, 2019	-7,212	7,379	-15,181	83,019
FY ended March 31, 2018	27,338	-2,336	-18,354	98,246

2. Dividend Status

	Dividend per share					Total cash dividends (annual)	Dividend payout ratio (consolidated)	Dividend on equity ratio (consolidated)
	End of Q1	End of Q2	End of Q3	End of FY	Annual			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
FY ended March 31, 2018	—	10.00	—	12.00	22.00	5,546	37.9	3.6
FY ended March 31, 2019	—	0.00	—	0.00	0.00	—	—	—
FY ending March 31, 2020 (Estimate)	—	0.00	—	0.00	0.00		—	

3. Estimation of Consolidated Business Results for the Fiscal Year ending March 31, 2020 (April 1, 2019 through March 31, 2020)

(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
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Six months ending September 30, 2019	241,100	-5.6	-4,800	—	-5,200	—	-5,800	—	-23.79
FY ending March 31, 2020	502,200	-0.6	2,200	-70.2	1,300	-81.6	100	—	0.41

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) Changes in accounting principles, procedures or reporting methods used in preparation of financial statements
- (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
- (3) Total number of outstanding shares (common stock)
- (i) Total number of outstanding shares at term end (including treasury stock)
As of March 31, 2019: 244,882,515 shares, As of March 31, 2018: 252,682,515 shares
 - (ii) Total treasury stock at term end
As of March 31, 2019: 1,067,510 shares, As of March 31, 2018: 567,420 shares
 - (iii) Average number of outstanding shares during the period
As of March 31, 2019: 246,473,624 shares, As of March 31, 2018: 255,412,984 shares

(Reference) Summary of Non-Consolidated Financial Statements

1. Results of the Fiscal Year Ended March 31, 2019 (April 1, 2018 through March 31, 2019)

(1) Non-consolidated financial results (The percentage figures indicate rate of gain or loss compared with the previous FY)

	Net sales		Operating profit		Recurring income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY ended March 31, 2019	477,834	-5.5	5,561	-73.9	6,817	-68.8	-68,754	—
FY ended March 31, 2018	505,849	1.3	21,347	-1.6	21,879	0.7	14,917	-27.2

	Net income per share		Diluted net income per share	
	Yen		Yen	
FY ended March 31, 2019	-278.95		—	
FY ended March 31, 2018	58.40		58.31	

(2) Non-consolidated financial position

	Total assets		Net assets		Equity ratio		Equity per share	
	Million yen		Million yen		%		Yen	
As of March 31, 2019	260,700		76,644		29.2		312.69	
As of March 31, 2018	302,704		153,623		50.7		608.21	

(Reference) Shareholders' equity as of March 31, 2019: 76,239 million yen; as of March 31, 2018: 153,339 million yen

2. Estimation of Non-consolidated Business Results for the Fiscal Year Ending March 31, 2020 (April 1, 2019 through March 31, 2020)

(The percentage figures for full year represent the change compared with the previous FY, while those for the interim period represent the change compared with the same term in the previous FY)

	Net sales		Recurring profit		Net income		Net income per share	
	Million yen	%	Million yen	%	Million yen	%	Yen	
Six months ending September 30, 2019	227,500	-7.1	-4,800	—	-5,100	—	-20.92	
FY ending March 31, 2019	472,300	-1.2	1,400	-79.5	1,000	—	4.10	

*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 Leopalace21 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 pg. 6 "1. Business Results (1) Analysis of Business Results (Outlook for the next fiscal year).

(Method for the acquisition of supplemental explanatory material)

Supplemental Explanatory Material is scheduled to be posted on the Company's web site on May 10, 2019.

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1. Business Results

(1) Analysis of Business Results

Before explanations concerning business results, we sincerely apologize to our stakeholders for the trouble caused by construction defects confirmed in certain properties (apartments) constructed by Leopalace21.

We are marshaling our corporate forces to conduct investigations and repairs, and will make every effort to restore trust as soon as possible. We will continue investigating the root causes of the defects, and organize a structure to prevent recurrence and ensure thorough quality control.

(Million yen)

	Net sales	Operating profit	Recurring profit	Net income attributable to shareholders of the parent
FY ended March 31, 2019	505,223	7,390	7,063	-68,662
FY ended March 31, 2018	530,840	22,930	22,354	14,819
Difference	-25,616	-15,539	-15,291	-83,481

During the subject consolidated fiscal year, the domestic economy showed gradual progression supported by improvements in corporate earnings, employment, and corporate earnings.

New housing starts of leased units decreased two years in a row (down 4.9% year-on-year), due to the saturation in demand for inheritance tax reduction strategies as well as the environmental change in apartment loans. As the number of vacant houses continues to increase and recovery in nationwide demand becomes difficult, achieving stable occupancy rates requires constructing apartments in areas with high demand, in addition to providing high-quality products and services that meet tenants' needs.

Under these conditions, Leopalace21 (the "Company") aims to achieve targets of its Medium-term Management Plan "Creative Evolution 2020" by creating corporate value and new social value, under the basic policy of "supporting continuous growth of core businesses in ways that further increase corporate value while constructing a base for growth areas". Also, in order to resolve the problem concerning construction defects as soon as possible, we are marshaling our corporate forces to conduct investigations and repairs.

However, company earnings deteriorated as a result of the problem related to construction defects, and consolidated net sales for the subject fiscal year came to 505,223 million yen (down 4.8% year-on-year). Operating profit was 7,390 million yen (down 67.8% year-on-year) and recurring profit was 7,063 million yen (down 68.4% year-on-year). Net loss attributable to shareholders of the parent was 68,662 million yen (compared to a net income of 14,819 million yen in the previous fiscal year). This was due to extraordinary losses of 54,786 million yen recorded as a reserve for repairs and other incidental expenses related to construction defects, 9,684 million yen recorded as a reserve for apartment vacancy loss, as well as 7,560 million yen recorded as an impairment loss for company-owned apartments. Company-owned apartments were sold as part of the financial strategy set in our Medium-term Management Plan.

(Actual figures by segment)

(Million yen)

	Net sales			Operating profit		
	FY ended March 31, 2018	FY ended March 31, 2019	Difference	FY ended March 31, 2018	FY ended March 31, 2019	Difference
Leasing Business	435,537	426,388	-9,148	26,062	14,987	-11,074
Development Business	76,587	58,992	-17,595	3,663	-995	-4,659
Elderly Care Business	12,807	13,922	1,115	-1,596	-846	749
Hotels, Resort, & Other Business	5,908	5,919	11	-846	-1,346	-500
Adjustments	—	—	—	-4,353	-4,407	-54
Total	530,840	505,223	-25,616	22,930	7,390	-15,539

(i) Leasing Business

In the Leasing Business, we provide value-added services such as “my DIY,” which enable tenants to decorate their rooms, and smart apartments which enable remote control of electrical appliances and door locks. We also offer security systems in alliance with large security companies and the industry’s first electronic leasing contract. In addition, to achieve stable occupancy rates, we are strengthening sales towards corporate customers and increasing support for foreign tenants. In the ASEAN region, we develop and manage serviced apartments and offices.

Since new tenant recruitments on properties subject to top-priority investigations are suspended until investigations and repairs are completed, the occupancy rate at the end of the subject fiscal year dropped to 84.33% (down 9.39 points from the end of the previous fiscal year) and the average occupancy rate was 88.34% (down 2.25 points year-on-year). The number of units under management at the end of the subject fiscal year was 574 thousand (increasing 4 thousand from the end of the previous fiscal year).

As a result, net sales amounted to 426,388 million yen (down 2.1% year-on-year) and operating profit was 14,987 million yen (down 42.5% year-on-year).

(ii) Development Business

In the Development Business, we focused on supplying apartments in the three metropolitan areas where solid leasing demand is anticipated supported by an increase in population, while providing high quality and forefront strategic products. In addition, we expanded construction variations to propose ideal land use, and have begun reviewing suppliers and product prices to improve profitability.

Also, subsidiary Life Living Co., Ltd. develops condominiums and apartments and subsidiary Morizou Co., Ltd. provides luxury custom-built homes made with Kiso-hinoki.

As a result of orders becoming sluggish due to intensified competition in the metropolitan areas and changes in the environment of apartment loans, orders received during the subject fiscal year amounted to 64,495 million yen (down 15.0% year-on-year) and orders received outstanding stood at 62,367 million yen (down 2.5% from the end of the previous fiscal year).

As a result, net sales came to 58,992 million yen (down 23.0% year-on-year) and operating loss was 995 million yen (compared to an operating profit of 3,663 million yen in the previous fiscal year).

(iii) Elderly Care Business

The profitability of the Elderly Care Business, a strategic growth business, improved due to increases in the occupancy rate of existing facilities, and is steadily transitioning to becoming black in the final year of the medium-term management plan.

Net sales were 13,922 million yen (up 8.7% year-on-year) and operating loss was 846 million yen (improvement of 749 million yen year-on-year).

(iv) Hotels, Resort & Other Business

Net sales of the resort facilities in Guam, hotels in Japan, and other businesses including the finance business were 5,919 million yen (up 0.2% year-on-year) and operating loss was 1,346 million yen (a loss increase of 500 million yen year-on-year).

(2) Analysis of Consolidated Financial Position

(Million yen)

	Assets	Liabilities	Net assets
As of March 31, 2019	291,790	210,452	81,338
As of March 31, 2018	337,134	177,696	159,438
Difference	-45,344	32,756	-78,100

Total assets at the end of the fiscal year decreased 45,344 million yen from the end of the previous fiscal year to 291,790 million yen. This was mainly attributable to a decrease of 22,007 million yen in cash and cash equivalents, 14,416 million in land due to impairment losses, 4,296 million yen in leased assets (net), 2,989 million yen in deferred tax assets, and 2,163 million yen in buildings and structures (net), despite an increase of 2,982 million yen in real estate for sale in progress and 3,847 million yen in others (net) in non-current assets.

Total liabilities increased 32,756 million yen from the end of the previous fiscal year to 210,452 million yen. This was mainly due to a recording of 50,707 million yen in reserve for losses related to repairs and 9,684 million yen in reserve for apartment vacancy loss, despite a decrease of 9,313 million yen in short and long-term advances received, 7,415 million yen in accounts payable -other, 4,364 million yen in short and long-term lease obligations, 3,966 million yen in bonds, and 3,117 million yen in accounts payable for completed projects.

Net assets decreased 78,100 million yen from the end of the previous fiscal year to 81,338 million yen. This was mainly attributable to a recording of 68,662 million yen in net loss attributable to shareholders of the parent, 3,025 million yen in dividend payments, and 4,787 million yen in retirement of treasury shares. The ratio of shareholders’ equity to assets dropped 19.5 points from the end of the previous fiscal year to 27.7%.

(3) Analysis of Cash Flow Position

Cash flow from operating activities was a net outflow of 7,212 million yen (compared to a net inflow of 27,338 million yen in the previous fiscal year). This was mainly due to a loss before taxes and minority interests of 64,840 million yen, a decrease in advances received of 9,311 million yen, a decrease in accounts payable of 8,125 million yen, an increase in real estate for sale in progress of 3,058 million yen, and payment of 2,960 million yen related to repairs, despite depreciation and amortization of 12,945 million yen, impairment loss of 7,560 million yen, an increase in reserve for losses related to repairs of 50,707 million yen, and an increase in reserve for apartment vacancy loss of 9,684 million yen.

Cash flow from investing activities was a net inflow of 7,379 million yen (compared to a net outflow of 2,336 million yen in the previous fiscal year). This was mainly due to proceeds from sale of property, plant and equipment of 10,059 million yen and proceeds from withdrawal of time deposits of 8,126 million yen, despite payment for purchase of property, plant and equipment of 7,718 million yen and payment for deposit of fixed deposits of 1,500 million yen.

Cash flow from financing activities was a net outflow of 15,181 million yen (a decrease of 3,173 million yen in net outflow from the previous fiscal year). This was mainly due to payment for share buybacks of 5,012 million yen, dividend payments of 3,025 million yen, repayment of finance lease obligations of 5,640 million yen, and repayment of debt and redemption of bonds of 1,383 million yen (after deducting proceeds from debt).

As a result, cash and cash equivalents at the end of the subject fiscal year stood at 83,019 million yen, a decrease of 15,227 million yen from the end of the previous fiscal year.

(Reference) Trends in cash flow indicators

	FY ended March 31, 2015	FY ended March 31, 2016	FY ended March 31, 2017	FY ended March 31, 2018	FY ended March 31, 2019
Equity ratio (%)	40.4	44.2	47.0	47.2	27.7
Market price based equity ratio (%)	53.5	54.6	44.7	66.3	18.5
Ratio of cash flow to interest-bearing debt (year)	2.8	2.3	1.8	2.0	—
Interest coverage ratio (ratio)	13.8	23.6	39.8	38.2	—

Equity ratio: Shareholders' equity/assets

Market price based equity ratio: Market capitalization/assets

Ratio of cash flow to interest-bearing debt: Interest-bearing debt/cash flow

Interest coverage ratio: Cash flow/interest paid

(Note 1) Ratios are calculated based on consolidated financial data.

(Note 2) Market capitalization is calculated as closing price at the end of the fiscal year multiplied by shares outstanding at the end of the fiscal year (excluding treasury stock).

(Note 3) Cash flow is cash flow from operations from the Consolidated Statements of Cash Flow. Interest-bearing debt is all of the debt noted on the Consolidated Balance Sheets on which interest is being paid.

(Note 4) Ratio of cash flow to interest-bearing debt and interest coverage ratio for FY ended March 31, 2019 is omitted since cash flow from operations is negative.

(4) Outlook for the Next Fiscal Year

As for the consolidated business results of the fiscal year ending March 31, 2020, we expect sales of 502,200 million yen (down 0.6% year-on-year), operating profit of 2,200 million yen (down 70.2%), recurring profit of 1,300 million yen (down 81.6%), and net income attributable to shareholders of the parent of 100 million yen (compared to a net loss of 68,662 million yen in the previous fiscal year).

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.

(5) Significant Events Relating to Going Concern Assumption

The Company recorded net loss attributable to shareholders of the parent and negative operating cash flow in the subject fiscal year due to construction defects confirmed in our apartments. As a result, there are events or circumstances that raise significant doubts about the Company's going concern assumptions.

In order to respond to such events and circumstances, we are working to resume recruitment of tenants at an early stage by concentrating management resources on premise investigations and repairs in a systematic manner.

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, thereby securing sufficient funds to meet anticipated demand based on its funding plans.

As a result of the above, the Company believes that there are no significant uncertainties regarding the going concern assumptions.

2. Basic Approach to Selection of Accounting Standards

The Group prepares consolidated financial statements according to the Japanese accounting standards in consideration of comparability in terms of the period of consolidated financial statements and comparability among companies. As for the application of the International Financial Reporting Standards (IFRS), we will take the appropriate actions in light of the change in the ratio of foreign shareholders and movements of other companies in the same industry in Japan, among other factors.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Million yen)

	March 31, 2019	March 31, 2018
<Assets>		
Current assets		
Cash and cash equivalents	84,536	106,543
Trade receivables	6,908	7,626
Accounts receivable for completed projects	1,709	1,957
Operating loans	256	389
Securities	1,254	462
Real estate for sale	1,027	952
Real estate for sale in progress	5,554	2,571
Payment for construction in progress	680	458
Raw materials and supplies	565	528
Prepaid expenses	2,952	3,544
Other accounts receivable	1,198	1,027
Others	4,255	4,249
Allowance for doubtful accounts	-142	-145
Total current assets	110,757	130,167
Non-current assets		
Property, plant, and equipment		
Buildings and structures	88,833	93,363
Accumulated depreciation	-48,291	-50,657
Net	40,542	42,705
Machinery, equipment, and vehicles	21,414	21,254
Accumulated depreciation	-10,228	-8,707
Net	11,185	12,547
Land	49,221	63,638
Leased assets	32,178	31,839
Accumulated depreciation	-20,446	-15,810
Net	11,732	16,028
Construction in progress	3,470	5,208
Others	15,283	10,990
Accumulated depreciation	-8,220	-7,775
Net	7,062	3,215
Total property, plant, and equipment	123,215	143,344
Intangible fixed assets		
Goodwill	2,324	2,886
Others	7,250	8,102
Total intangible fixed assets	9,575	10,988
Investments and other assets		
Investment securities	16,903	17,999
Long-term loans	501	513
Bad debts	214	1,264
Long-term prepaid expenses	3,252	3,831
Deferred tax assets	23,650	26,639
Others	4,333	3,969
Allowance for doubtful accounts	-941	-2,023
Total investments and other assets	47,914	52,194
Total non-current assets	180,705	206,527
Deferred assets		
Allowance for doubtful accounts	327	440
Total deferred assets	327	440
Total assets	291,790	337,134

(Million yen)

	March 31, 2019	March 31, 2018
<Liabilities>		
Current liabilities		
Electronically recorded obligations - operating	897	1,451
Accounts payable	4,037	4,245
Accounts payable for completed projects	4,715	7,832
Short-term borrowings	1,088	1,210
Long-term debt due within one year	2,749	1,754
Bonds due within one year	3,966	3,966
Lease obligations	5,320	5,960
Accounts payable-other	14,922	22,337
Accrued income taxes	798	942
Advances received	34,635	39,964
Customer advances for projects in progress	3,651	4,592
Reserve for warranty obligations on completed projects	347	389
Reserve for fulfillment of guarantees	1,138	1,158
Reserve for losses related to repairs	50,707	-
Reserve for apartment vacancy loss	8,826	-
Asset retirement obligations	44	43
Others	3,919	4,363
Total current liabilities	141,765	100,212
Non-current liabilities		
Bonds	8,103	12,069
Long-term debt	18,318	16,643
Lease obligations	8,501	12,226
Long-term advances received	11,869	15,853
Lease/guarantee deposits received	6,599	6,989
Deferred tax liabilities	5	-
Reserve for Directors' compensation	-	10
Reserve for apartment vacancy loss	3,902	3,044
Liability for retirement benefit	8,213	7,338
Asset retirement obligations	86	84
Others	3,086	3,224
Total non-current liabilities	68,687	77,483
Total liabilities	210,452	177,696
<Net assets>		
Shareholders' equity		
Common stock	75,282	75,282
Capital surplus	45,148	45,235
Retained earnings	-38,635	37,839
Treasury stock	-655	-430
Total shareholders' equity	81,140	157,926
Accumulated other comprehensive income		
Net unrealized gains on "other securities"	280	586
Foreign currency translation adjustments	-176	872
Remeasurements of defined benefit plans	-327	-341
Total accumulated other comprehensive income	-224	1,117
Share subscription rights	404	284
Non-controlling interests	17	109
Total net assets	81,338	159,438
Total liabilities and net assets	291,790	337,134

(2) Consolidated Statements of Operations and Consolidated Statements of Comprehensive Income
Consolidated Statements of Operations

(Million yen)

	FY ended March 31, 2019 (Apr. 2018–Mar. 2019)	FY ended March 31, 2018 (Apr. 2017–Mar. 2018)
Net sales		
Sales from Leasing Business	426,388	435,537
Sales from Development Business	58,992	76,587
Sales from Other Business	19,842	18,715
Total net sales	505,223	530,840
Cost of sales		
Cost of Leasing Business	363,651	359,262
Cost of Development Business	44,597	55,201
Cost of Other Business	20,739	20,298
Total cost of sales	428,988	434,762
Gross profit	76,235	96,077
Selling, general, and administrative expenses		
Advertising expenses	3,008	4,235
Sales commission expense	1,978	2,289
Transfer to reserve for bad debt	112	51
Directors' compensation	997	799
Salary and bonuses	30,134	33,408
Transfer to reserve for Directors' compensation	-10	10
Retirement benefit cost	1,809	1,844
Rent expense	2,727	2,769
Depreciation and amortization	2,731	2,679
Taxes and public charges	5,221	4,965
Other	20,132	20,093
Total selling, general, and administrative expenses	68,844	73,147
Operating profit	7,390	22,930
Non-operating income		
Interest income	113	109
Dividend income	172	162
Valuation gains of investment securities	185	186
Equity in earnings of affiliated companies	148	-
Foreign exchange gain	1	-
Other	270	216
Total non-operating income	891	674
Non-operating expenses		
Interest expenses	748	783
Bond issuance fee	191	212
Foreign exchange losses	-	137
Equity in losses of affiliated companies	-	0
Other	278	115
Total non-operating expenses	1,218	1,250
Recurring profit	7,063	22,354

(Million yen)

	FY ended March 31, 2019 (Apr. 2018–Mar. 2019)	FY ended March 31, 2018 (Apr. 2017–Mar. 2018)
Extraordinary income		
Gain on sales of property, plant and equipment	245	927
Total extraordinary income	245	927
Extraordinary losses		
Loss on sale of property, plant and equipment	0	27
Loss on retirement of property, plant and equipment	117	112
Impairment loss	7,560	7,594
Provision of reserve for losses related to repairs	50,707	-
Loss related to repairs	4,079	-
Provision of reserve for apartment vacancy loss	9,684	-
Loss on cancellations	-	66
Compensation for damage	-	330
Total extraordinary losses	72,148	8,131
Income before taxes and other adjustments	-64,840	15,150
Income taxes — current	756	856
Income taxes – deferred	3,124	-519
Total income taxes	3,880	337
Net income	-68,720	14,813
Net income attributable to non-controlling interests	-58	-6
Net income attributable to shareholders of the parent	-68,662	14,819

Consolidated Statements of Comprehensive Income

(Million yen)

	FY ended March 31, 2019 (Apr. 2018–Mar. 2019)	FY ended March 31, 2018 (Apr. 2017–Mar. 2018)
Net income	-68,720	14,813
Other comprehensive income		
Net unrealized gains on “other securities”	-306	12
Foreign currency translation adjustments	-1,045	-1,161
Remeasurements of defined benefit plans	14	327
Share of other comprehensive income of associates	-4	6
Total other comprehensive income	-1,342	-815
Comprehensive income	-70,063	13,997
(Breakdown)		
Comprehensive income attributable to shareholders of the parent	-70,004	14,003
Comprehensive income attributable to non-controlling interests	-58	-6

(3) Consolidated Statements of Changes in Net Assets

Fiscal year ended March 31, 2019 (April 2018–March 2019)

(Million yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance at the previous year-end	75,282	45,235	37,839	-430	157,926
Change in the fiscal year					
Dividend of surplus			-3,025		-3,025
Net loss attributable to shareholders of parent			-68,662		-68,662
Acquisition of treasury stock				-5,012	-5,012
Retirement of treasury stock			-4,787	4,787	—
Change in share of parent from transactions with non-controlling interests		-86			-86
Changes in items other than shareholders' equity (net)					—
Total change in the fiscal year	—	-86	-76,474	-225	-76,786
Balance at the current year-end	75,282	45,148	-38,635	-655	81,140

	Accumulated other comprehensive income				Share subscription rights	Non-controlling interests	Total net assets
	Net unrealized gains on "other securities"	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total			
Balance at the previous year-end	586	872	-341	1,117	284	109	159,438
Change in the fiscal year							
Dividend of surplus							-3,025
Net loss attributable to shareholders of parent							-68,662
Acquisition of treasury stock							-5,012
Retirement of treasury stock							—
Change in share of parent from transactions with non-controlling interests							-86
Changes in items other than shareholders' equity (net)	-306	-1,049	14	-1,342	120	-92	-1,313
Total change in the fiscal year	-306	-1,049	14	-1,342	120	-92	-78,100
Balance at the current year-end	280	-176	-327	-224	404	17	81,338

Fiscal year ended March 31, 2018 (April 2017–March 2018)

(Million yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance at the previous year-end	75,282	45,235	39,923	-3,660	156,779
Change in the fiscal year					
Dividend of surplus			-5,675		-5,675
Net loss attributable to shareholders of parent			14,819		14,819
Acquisition of treasury stock				-8,000	-8,000
Disposal of treasury stock		1		2	3
Retirement of treasury stock		-1	-11,227	11,228	—
Changes in items other than shareholders' equity (net)					—
Total change in the fiscal year	—	—	-2,083	3,230	1,146
Balance at the current year-end	75,282	45,235	37,839	-430	157,926

	Accumulated other comprehensive income				Share subscription rights	Non-controlling interests	Total net assets
	Net unrealized gains on "other securities"	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total			
Balance at the previous year-end	574	2,027	-668	1,933	136	20	158,870
Change in the fiscal year							
Dividend of surplus							-5,675
Net loss attributable to shareholders of parent							14,819
Acquisition of treasury stock							-8,000
Disposal of treasury stock							3
Retirement of treasury stock							—
Changes in items other than shareholders' equity (net)	12	-1,154	327	-815	147	89	-578
Total change in the fiscal year	12	-1,154	327	-815	147	89	568
Balance at the current year-end	586	872	-341	1,117	284	109	159,438

(4) Consolidated Statements of Cash Flows

(Million yen)

	FY ended March 31, 2019 (Apr. 2018–Mar. 2019)	FY ended March 31, 2018 (Apr. 2017–Mar. 2018)
Cash flows from operating activities		
Income before taxes and minority interests	-64,840	15,150
Depreciation	12,945	11,726
Impairment loss	7,560	7,594
Loss related to repairs	4,079	-
Loss on compensation for damage	-	330
Amortization of goodwill	560	522
Increase (decrease) in reserve for doubtful accounts	-1,105	28
Increase (decrease) in liability for retirement benefits	895	-3,786
Increase (decrease) in reserve for apartment vacancy loss	9,684	-138
Increase (decrease) in reserve for losses related to repairs	50,707	-
Interest and dividend income	-285	-271
Interest expense	748	783
Foreign exchange loss (gain)	-148	137
Equity in losses (earnings) of affiliated companies	-1	0
Loss (gain) from evaluation of investment securities	-185	-186
Loss (gain) on sale of property, plant and equipment	-245	-899
Write-offs of property, plant and equipment	117	112
Decrease (increase) in accounts receivable	1,310	-252
Decrease (increase) in real estate for sale in progress	-3,058	-960
Decrease (increase) in work in process	-222	60
Decrease (increase) in long-term prepaid expenses	571	369
Increase (decrease) in accounts payable	-8,125	-1,105
Increase (decrease) in customer advances for projects in progress	-940	-789
Increase (decrease) in advances received	-9,311	-823
Increase (decrease) in guarantee deposits received	-372	-159
Increase (decrease) in accrued consumption taxes	-890	934
Other	-2,612	1,220
Subtotal	-3,166	29,600
Interest and dividends received	465	355
Interest paid	-749	-714
Payment related to repairs	-2,960	-
Income taxes paid	-800	-1,902
Net cash provided by operating activities	-7,212	27,338
Cash flows from investing activities		
Purchase of property, plant and equipment	-7,718	-11,218
Proceeds from sale of property, plant and equipment	10,059	14,121
Payment for purchase of intangible assets	-1,083	-818
Payment for purchase of investment securities	-231	-5,966
Proceeds from sale of investment securities	21	22
Payment for purchase of shares in subsidiaries	-	-401
Payment for loans	-1	-8
Proceeds from collection of loans	14	14
Payment for deposit of fixed deposits	-1,500	-1,500
Proceeds from withdrawal of fixed deposits	8,126	5,486
Other	-308	-2,068
Net cash provided by (used in) investing activities	7,379	-2,336

(Million yen)

	FY ended March 31, 2019 (Apr. 2018–Mar. 2019)	FY ended March 31, 2018 (Apr. 2017–Mar. 2018)
Cash flows from financing activities		
Proceeds from short-term debt	1,070	2,455
Repayment of short-term debt	-50	-1,250
Proceeds from long-term debt	3,960	4,303
Repayment of long-term debt	-2,397	-1,268
Repayment of finance lease obligations	-5,640	-4,953
Payment for redemption of bonds	-3,966	-3,966
Payment for purchase of treasury stock	-5,012	-8,000
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	-112	-
Payment of dividends to non-controlling interests	-8	-3
Proceeds from exercise of stock options	-	2
Payment of dividends	-3,025	-5,675
Net cash provided by (used in) financing activities	-15,181	-18,354
Effect of exchange rate changes on cash and cash equivalents	-213	-166
Net increase (decrease) in cash and cash equivalents	-15,227	6,480
Cash and cash equivalents at beginning of period	98,246	91,766
Cash and cash equivalents at end of period	83,019	98,246

(5) Notes Regarding Consolidated Financial Statements
(Notes regarding the premise of the Company as a going concern)

There are no relevant items.

(Application of “Partial Amendments to ‘Accounting Standard for Tax Effect Accounting’, etc.”)

The Company has applied “Partial Amendments to ‘Accounting Standard for Tax Effect Accounting’, etc.” (ASBJ Statement No. 28, February 16, 2018) as of the beginning of the subject fiscal year. Deferred tax assets are recorded under “Investments and other assets” and deferred tax liabilities are recorded under “Non-current liabilities.”

As a result, for the previous fiscal year, deferred tax assets under “Current assets” decreased 8,494 million yen, and deferred tax assets under “Investments and other assets” increased 8,494 million yen.

Also, total assets decreased 122 million yen since a portion of deferred tax assets and deferred tax liabilities have been offset.

(Additional information)

(Matters relating to the settlement date of consolidated subsidiaries)

The former settlement date of Morizou Co., Ltd. was the end of February, and the financial statements as of the said settlement date has been used, with adjustments made regarding important transactions which took place between the end of February and the consolidated settlement date. However, the settlement date has been changed to March 31 as of the subject first quarter.

Due to this change, the 13 months between March 1, 2018 and March 31, 2019 has been consolidated and adjusted through the consolidated statements of operations for the subject consolidated period.

(Reserve for loss related to repairs)

An amount of loss estimated based on ratio of defects, etc. is recorded to prepare for the occurrence of repairs related to construction defects of properties (apartments) constructed by the Company.

(Reserve for apartment vacancy loss)

Previously, to prepare for the risk of vacancies of apartments managed under master lease agreements, an estimated loss based on current rental income and expected future occupancy rates for each apartment was recorded in cost of sales in the Leasing Business. In the subject fiscal year, a decrease in occupancy rates followed by a large amount of loss is expected from suspending tenant recruitment due to the problem of construction defects. This loss is transient and large, and will not occur in ordinary business activities, and therefore has been recorded in extraordinary losses as a provision to the reserve for apartment vacancy loss.

(Segment Information)

(1) Overview of Reportable Segments

The Company's reportable segments are the components for which separate financial information is available, and whose operating results are reviewed regularly by the board of directors in order to determine allocation of resources and assess segment performance.

There are four reportable segments: the Leasing Business, Development Business, Elderly Care Business, and Hotels, Resort & Other Businesses. The Leasing Business operations comprise the leasing and management of apartment buildings and other properties, internet service, rent obligation guarantee, company residence agency business, solar power generation business, small-amount short-term insurance business, real estate brokerage business, and management of serviced apartments and offices. The Development Business operations comprise the construction subcontracting of apartments, detached houses and development of condominiums and others. The Elderly Care Business operates elderly care facilities. The Hotels, Resort and Other Business operates hotels and resort facilities etc.

(2) Calculation Method for Sales, Profits and Losses, Assets, and other Items by Reportable Segment

The accounting methods for reportable segments are in accordance to accounting policies adopted in the preparation of consolidated financial statements. The reportable segment profits (losses) represent operating profits (losses). Inter-segment sales and transfers are based on prevailing market prices.

Fiscal Year ended March 31, 2019 (April 1, 2018 through March 31, 2019)

(Million yen)

	Reportable Segment					Adjustments (Note 1)	Consolidated Total (Note 2)
	Leasing Business	Development Business	Elderly Care Business	Hotels, Resort, & Other Business	Segment Total		
Net sales							
Sales to customers	426,388	58,992	13,922	5,919	505,223	-	505,223
Inter-segment sales and transfers	226	1	-	3,632	3,859	-3,859	-
Total	426,615	58,993	13,922	9,551	509,083	-3,859	505,223
Segment earnings (or loss)	14,987	-995	-846	-1,346	11,798	-4,407	7,390
Segment assets	96,770	25,854	3,587	55,274	181,487	110,303	291,790
Other items							
Depreciation	8,940	219	104	1,480	10,745	2,200	12,945
Increase in property, plant and equipment, and intangible assets	7,068	154	40	1,614	8,878	909	9,788

Fiscal Year ended March 31, 2018 (April 1, 2017 through March 31, 2018)

(Million yen)

	Reportable Segment					Adjustments (Note 2)	Consolidated Total (Note 3)
	Leasing Business	Development Business	Elderly Care Business	Hotels, Resort, & Other Business	Segment Total		
Net sales							
Sales to customers	435,537	76,587	12,807	5,908	530,840	-	530,840
Inter-segment sales and transfers	131	65	-	3,541	3,738	-3,738	-
Total	435,669	76,652	12,807	9,449	534,578	-3,738	530,840
Segment earnings (or loss)	26,062	3,663	-1,596	-846	27,283	-4,353	22,930
Segment assets	112,393	19,572	3,553	56,808	192,327	144,807	337,134
Other items							
Depreciation	7,946	195	106	1,278	9,526	2,199	11,726
Increase in property, plant and equipment, and intangible assets	14,207	117	93	5,369	19,787	637	20,424

Note 1: Breakdown of adjustments is as follows.

Segment earnings (or loss) (Million yen)

	FY ended March 31, 2019	FY ended March 31, 2018
Inter-segment eliminations	△166	△243
Corporate expenses*	△4,240	△4,109
Total	△4,407	△4,353

*Corporate expenses consist mainly of general administrative expenses for administrative departments that are not part of reportable segments.

Segment assets (Million yen)

	FY ended March 31, 2019	FY ended March 31, 2018
Surplus operating funds, long-term investment capital, and assets which do not belong to reportable segments	110,303	144,807

Increase in property, plant and equipment, and intangible assets (Million yen)

	FY ended March 31, 2019	FY ended March 31, 2018
Capital investments which do not belong to reportable segments	909	637

Note 2: Segment profit (loss) is adjusted to the operating profit on the Consolidated Statements of Operations