Consolidated Financial Statements (Japanese Accounting Standard)

November 8, 2019

(For the six months ended September 30, 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: Bunya Miyao
Name of Contact Person: Position: Director Name: Kiyoshi Arai Telephone: +81-50-2016-2907
Scheduled Date of Filing of Securities Report (Japanese only): November 12, 2019
Scheduled Date of Commencement of Dividend Payments: —
Supplemental Explanatory Material Prepared: Yes
Results Briefing Held: Yes

1. Results for the Six Months ended September 30, 2019 (April 1, 2019 through September 30, 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 company	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended September 30, 2019	221,517	(13.3)	(17,126)	—	(16,497)	—	(24,435)	—
Six months ended September 30, 2018	255,479	(1.3)	7,192	(48.6)	7,159	(48.2)	(5,819)	—

(Note) Comprehensive income in the six months ended September 30, 2019: (25,129) million yen (— %);
Six months ended September 30, 2018: (7,075) million yen (—%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended September 30, 2019	(100.17)	—
Six months ended September 30, 2018	(23.36)	—

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2019	255,046	56,207	21.9
As of March 31, 2019	291,790	81,338	27.7

(Reference) Shareholders' equity as of September 30, 2019: 55,900 million yen; as of March 31, 2019: 80,915 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, 2019	—	0.00	—	0.00	0.00
FY ending March 31, 2020	—	0.00			
FY ending March 31, 2020 (Estimate)			—	0.00	0.00

(Note) Restatement of most recent dividend forecast: None

3. Consolidated Earnings Forecasts 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 company		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
FY ending March 31, 2020	447,300	(11.5)	(28,000)	—	(27,800)	—	(30,400)	—	(124.62)

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

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 procedures specific to the preparation of quarterly financial statements: Yes
(Note) Refer to p.12 “Application of accounting methods specific to the preparation of quarterly consolidated financial statements” for details.

(3) 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

(4) Total number of outstanding shares (common stock)
- (i) Total number of outstanding shares at term end (including treasury stock)
  As of September 30, 2019: 244,882,515 shares, As of March 31, 2019: 244,882,515 shares
- (ii) Total treasury stock at term end
  As of September 30, 2019: 821,710 shares, As of March 31, 2019: 1,067,510 shares
- (iii) Average number of outstanding shares during the period
  As of September 30, 2019: 243,935,746 shares, As of September 30, 2018: 249,117,715 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 p. 6 “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 8, 2019.

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1. Business Results

Before explanations concerning business results, we sincerely apologize to the parties concerned, including the owners and tenants of properties constructed by the Company as well as all our stakeholders, for the distress and trouble we have caused due to construction defects confirmed in certain properties constructed by the Company. Construction defects include parting walls defects, discrepancies of insulation materials in parting walls, exterior wall structures not meeting qualifications certified by the Minister of Land, Infrastructure, Transport and Tourism (hereinafter the "Minister"), defects in the ceilings, and the noncompliant parting walls in fire-proof structure with the specifications certified by the Minister (the defects mentioned above collectively hereinafter the "defects related to parting walls and other things").

The Company takes seriously a problem of the defects related to parting walls and other things which should not have been caused by a construction company dealing in apartment buildings. We will continue to conduct investigations and repair works of apartments in unison and make every effort to prevent recurrence of such a problem.

(1) Analysis of Business Results

(Million yen)

	Net sales	Operating profit	Recurring profit	Net income attributable to shareholders of the parent company
Six months ended September 30, 2019	221,517	(17,126)	(16,497)	(24,435)
Six months ended September 30, 2018	255,479	7,192	7,159	(5,819)
Difference	(33,961)	(24,319)	(23,657)	(18,615)

During the subject quarter, the domestic economy showed gradual progression supported by improvements in corporate earnings, employment, and personal income.

New housing starts of leased units decreased in the past 13 months in a row, a reduction of 15.7% year-on-year, due to the financial institutions' more cautious loan approval policy in place. While the number of vacant houses continues to increase and recovery in nationwide demand seems not realistic, it is essential for the Company to achieve stable occupancy rates by implementing the differentiation measures such as constructing apartments in the areas with continuing high demand, and providing further value-added services based on the Company's strengths.

Under these conditions, the Leopalace21 Group (hereinafter the "Group") deals with creating corporate and new social value with the basic policy of "Supporting continuous growth of core businesses in ways that further increase corporate value while constructing a base for growth areas" to realize the Medium-term Management Plan "Creative Evolution 2020".

As a result, consolidated net sales for the subject six months came to 221,517 million yen (down 13.3% year-on-year), operating loss was 17,126 million yen (operating profit was 7,192 million yen in the same period of the previous year), and ordinary loss was 16,497 million yen. Ordinary profit was 7,159 million yen in the same period of the previous year.

An extraordinary loss of 10,081 million yen recorded for losses related to repair works for parting wall construction deficiencies and others, resulted in net loss attributable to shareholders of the parent company of 24,435 million yen (Increased loss of 18,615 million yen in the same period of the previous year).

(Actual figures by segment)

(Million yen)

	Net sales			Operating profit		
	Six months ended September 30, 2018	Six months ended September 30, 2019	Difference	Six months ended September 30, 2018	Six months ended September 30, 2019	Difference
Leasing Business	219,025	197,267	(21,757)	12,180	(11,141)	(23,321)
Development Business	26,748	13,599	(13,148)	(1,301)	(3,473)	(2,171)
Elderly Care Business	6,869	7,301	431	(504)	(246)	257
Hotels, Resort & Other Business	2,835	3,348	512	(840)	(131)	708
Adjustments	—	—	—	(2,340)	(2,132)	207
Total	255,479	221,517	(33,961)	7,192	(17,126)	(24,319)

(i) Leasing Business

In the Leasing Business, the Company provides added-value services such as “my DIY” which allows the tenants to customize a selected single wall of the room without paying dilapidation cost at the time of moving out, promotion of smart apartments which enable remote control of electrical appliances and lock and unlock the door, introduction of the industry’s first electronic processing system of rent agreements, and security system installations in alliance with leading security companies. Also, in order to achieve stable occupancy rates, the Company is strengthening sales to the corporate customers for the apartment use by their employees and increasing support for the foreign national tenants. In the ASEAN region, the Company develops and manages serviced apartments and offices.

The occupancy rate at the end of the subject quarter was 80.07% (down 8.33 points from the end of the same period of the previous year) and the average occupancy rate for the period was 81.11% (down 9.88 points year-on-year). This was caused by the delay in repair works and in new tenants’ recruitment vis-à-vis higher priority on all-building investigations. The number of units under management at the end of the subject second quarter was 575,000 (increasing 0 from the end of the previous fiscal year).

As a result, net sales amounted to 197,267 million yen (down 9.9% year-on-year), and operating loss was 11,141 million yen (decrease of operating profits by 12,180 million yen year-on-year).

(ii) Development Business

In the Development Business, the Company has been trying to improve profitability with the measures such as supplying apartments in the three metropolitan areas where solid leasing demand is anticipated by an increasing population, providing high quality and forefront strategic products, expanding construction variation offerings to make effective use of the land, and reviewing suppliers and product pricing policy.

While Life Living Co., Ltd., a subsidiary, operates the development business of condominiums and apartments; Morizou Co., Ltd., another subsidiary, provides luxury custom-built homes made of Kiso-hinoki, Japanese cypress.

As a result of the Company’s cease of bookings from new customers because of the defects problem related to parting walls and other things amid the intensified competition in the metropolitan areas and the changes in the environment of apartment loans, orders received during the subject quarter amounted to 5,095 million yen (down 85.1% year-on-year) and outstanding orders received stood at 39,260 million yen (down 40.4% from the end of the same period of the previous year).

As a result, net sales came to 13,599 million yen (down 49.2% year-on-year) and operating loss was 3,473 million yen (increase of loss by 2,171 million yen compared to the same period of the previous year).

(iii) Elderly Care Business

As a strategic growth business, the profitability of the Elderly Care Business improved due to increase 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 7,301 million yen (up 6.3% year-on-year), and operating loss was 246 million yen (improvement of 257 million yen year-on-year).

(iv) Hotels, Resort & Other Business

Net sales of the resort facilities in Guam, hotels in Japan, travel business, and other businesses including the finance business were 3,348 million yen (up 18.1% year-on-year) and operating loss was 131 million yen (improvement of 708 million yen year-on-year).

(2) Analysis of Consolidated Financial Position

(Assets, Liabilities and Net Assets)

(Million yen)

	Assets	Liabilities	Net assets
As of September 30, 2019	255,046	198,838	56,207
As of March 31, 2019	291,790	210,452	81,338
Difference	(36,744)	(11,613)	(25,130)

Total assets at the end of the subject quarter was 255,046 million yen, decreased by 36,744 million yen from the end of the previous fiscal year. This was mainly attributable to a decrease of 15,683 million yen in cash and cash equivalents, 3,045 million yen in construction in progress, 2,303 million yen in leased assets (net), 6,247 million yen in buildings and structures as a result of selling some properties including the Company’s own residential houses for rental use and offices, 5,688 million yen in land, despite an increase of 1,076 million yen in deferred tax assets, 2,248 million yen in real estate for sale and real estate for sale in progress in line with strengthening development business.

Total liabilities decreased by 11,613 million yen from the end of the previous fiscal year to 198,838 million yen. This was mainly attributable to an increase of 7,072 million yen in reserve for apartment vacancy loss, despite decreases of 6,066 million yen in interest-bearing debt, 3,982 million yen in accounts payable - other, 4,607 million yen in short and long-term advances received, and 3,306 million yen in accounts payable for completed projects.

Net assets decreased by 25,130million yen from the end of the previous fiscal year to 56,207 million yen. This was mainly due to the recording of 24,435 million yen as a net loss attributable to shareholders of the parent company. The ratio of shareholders' equity to assets dropped by 5.8 points from the end of the previous fiscal year to 21.9%.

(Cash Flow)

(Million yen)

	Six months ended September 30, 2018	Six months ended September 30, 2019	Difference
Cash flow from operating activities	(1,187)	(25,306)	(24,119)
Cash flow from investing activities	(6,700)	15,475	22,175
Cash flow from financing activities	(10,380)	(6,181)	4,199
Cash and cash equivalents at end of period	79,745	67,011	(12,733)

Cash flow from operating activities was a net outflow of 25,306 million yen (an increase of 24,119 million yen in net outflow from the same period of the previous fiscal year). This was mainly due to increases of 6,286 million yen in depreciation, 7,072 million yen in reserve for apartment vacancy loss and 2,267 million yen in reserve for loss related to repair works whereas decreases of 24,706 million yen in loss before taxes and other adjustments, 6,916 million yen in accounts payable, 4,605 million yen in advances received.

Cash flow from investing activities was a net inflow of 15,475 million yen (compared to a net outflow of 6,700 million yen in the same period of the previous fiscal year). This was mainly due to proceeds from sale of property, plant and equipment of 15,876 million yen.

Cash flow from financing activities was a net outflow of 6,181 million yen (a decrease of 4,199 million yen in net outflow from the same period of the previous fiscal year). This was mainly due to repayment of interest-bearing debt of 6,182 million yen.

As a result, cash and cash equivalents at the end of the subject quarter stood at 67,011 million yen, a decrease of 12,733 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 from those announced on November 8, 2019, titled "Notice Concerning Corrected Revision of Earnings". 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
(1) Consolidated Balance Sheets

(Million yen)

	September 30, 2019	March 31, 2019
<Assets>		
Current assets		
Cash and cash equivalents	68,852	84,536
Trade receivables	6,661	6,908
Accounts receivable for completed projects	660	1,709
Operating loans	179	256
Real estate for sale	2,588	1,027
Real estate for sale in progress	6,241	5,554
Payment for construction in progress	500	680
Prepaid expenses	3,316	2,952
Others	5,534	7,274
Allowance for doubtful accounts	(138)	(142)
Total current assets	**94,397**	**110,757**
Non-current assets		
Property, plant, and equipment		
Buildings and structures (net)	34,294	40,542
Machinery, equipment, and vehicles (net)	10,656	11,185
Land	43,533	49,221
Leased assets (net)	9,429	11,732
Construction in progress	425	3,470
Others (net)	7,448	7,062
Total property, plant, and equipment	**105,787**	**123,215**
Intangible fixed assets		
Goodwill	1,103	2,324
Others	6,296	7,250
Total intangible fixed assets	**7,400**	**9,575**
Investments and other assets		
Investment securities	14,766	16,903
Bad debts	1,108	501
Long-term prepaid expenses	2,730	3,252
Deferred tax assets	24,726	23,650
Others	4,864	4,548
Allowance for doubtful accounts	(1,008)	(941)
Total investments and other assets	**47,188**	**47,914**
Total non-current assets	**160,376**	**180,705**
Deferred assets	**271**	**327**
Total assets	**255,046**	**291,790**

(Million yen)

	September 30, 2019	March 31, 2019
<Liabilities>		
Current liabilities		
Electronically recorded obligations -operating	254	897
Accounts payable	3,284	4,037
Accounts payable for completed projects	1,408	4,715
Short-term borrowings	3,638	3,838
Bonds due within one year	3,516	3,966
Lease obligations	4,812	5,320
Accounts payable -other	10,940	14,922
Accrued income taxes	755	798
Advances received	31,276	34,635
Customer advances for projects in progress	2,984	3,651
Provision for bonuses	43	—
Reserve for warranty obligations on completed projects	279	347
Reserve for fulfillment of guarantees	1,079	1,138
Reserve for loss related to repair works	17,181	50,707
Reserve for apartment vacancy loss	15,898	8,826
Others	3,364	3,963
Total current liabilities	**100,718**	**141,765**
Non-current liabilities		
Bonds	6,570	8,103
Long-term debt	16,966	18,318
Lease obligations	6,477	8,501
Long-term advances received	10,620	11,869
Lease/guarantee deposits received	6,373	6,599
Provision for Directors’ bonuses	5	5
Reserve for Loss related to repair works	35,793	—
Reserve for apartment vacancy loss	3,902	3,902
Liability for retirement benefit	8,341	8,213
Others	3,070	3,172
Total non-current liabilities	**98,120**	**68,687**
Total liabilities	**198,838**	**210,452**
<Net assets>		
Shareholders’ equity		
Common stock	75,282	75,282
Capital surplus	45,148	45,148
Retained earnings	(63,109)	(38,635)
Treasury stock	(504)	(655)
Total shareholders’ equity	**56,817**	**81,140**
Accumulated other comprehensive income		
Net unrealized gains on "other securities"	244	280
Foreign currency translation adjustments	(894)	(176)
Remeasurements of defined benefit plans	(267)	(327)
Total accumulated other comprehensive income	**(917)**	**(224)**
Share subscription rights	290	404
Non-controlling interests	16	17
Total net assets	**56,207**	**81,338**
Total liabilities and net assets	**255,046**	**291,790**

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

Consolidated Statements of Operations

(Million yen)

	Six months ended September 30, 2019 (Apr. 2019–Sep. 2019)	Six months ended September 30, 2018 (Apr. 2018–Sep. 2018)
Net sales	**221,517**	**255,479**
Cost of sales	208,058	210,891
Gross profit	13,458	44,588
Selling, general and administrative expense	30,585	37,395
Operating profit or Loss	**(17,126)**	**7,192**
Non-operating income		
Interest income	40	46
Dividend income	79	76
Anonymous partnership investment income	977	—
Valuation gains of investment securities	136	108
Foreign exchange gains	—	237
Other	125	89
Total non-operating income	**1,359**	**559**
Non-operating expenses		
Interest expenses	328	385
Foreign exchange losses	102	—
Bond issuance fee	88	98
Other	210	108
Total non-operating expenses	**730**	**592**
Recurring profit or loss	**(16,497)**	**7,159**
Extraordinary income		
Gain on sales of property, plant and equipment	3,467	2
Gain on sales of investment securities	16	—
Gain on reversal of share acquisition rights	17	—
Gain on cancellation of contracts	350	—
Total extraordinary income	**3,850**	**2**
Extraordinary losses		
Loss on sale of property, plant and equipment	972	—
Loss on retirement of property, plant and equipment	22	67
Impairment loss	982	7,560
Provision of reserve for loss related to repair works	8,682	6,724
Loss related to repair works	1,399	421
Total extraordinary losses	**12,059**	**14,773**
Income (loss) before taxes and other adjustments	(24,706)	(7,611)
Income taxes	(270)	(1,761)
Net income (loss)	**(24,435)**	**(5,849)**
Net income (loss) attributable to non-controlling interests	(0)	(30)
Net income (loss) attributable to shareholders of the parent company	(24,435)	(5,819)

Consolidated Statements of Comprehensive Income

(Million yen)

	Three months ended September 30, 2019 (Apr. 2019–Sep. 2019)	Three months ended September 30, 2018 (Apr. 2018–Sep. 2018)
Net income (loss)	**(24,435)**	**(5,849)**
Other comprehensive income		
Net unrealized gains on “other securities”	(36)	(19)
Foreign currency translation adjustments	(713)	(1,282)
Remeasurements of defined benefit plans	60	82
Share of other comprehensive income of entities using equity method	(4)	(4)
Total other comprehensive income	(693)	(1,225)
Comprehensive income	(25,129)	(7,075)
(Breakdown)		
Comprehensive income attributable to shareholders of the parent company	(25,128)	(7,044)
Comprehensive income attributable to non-controlling interests	(0)	(30)

(3) Consolidated Cash Flow

(Million yen)

	Six months ended September 30, 2019 (Apr 2019–Sep 2019)	Six months ended September 30, 2018 (Apr 2018–Sep 2018)
Cash flows from operating activities		
Income before taxes and other adjustment	(24,706)	(7,611)
Depreciation	6,286	6,437
Impairment loss	982	7,560
Loss related to repair works	1,399	421
Amortization of goodwill	237	280
Increase (decrease) in reserve for doubtful accounts	(80)	(38)
Increase (decrease) in reserve for apartment vacancy loss	7,072	—
Increase (decrease) in reserve for loss related to repair works	2,267	6,724
Interest and dividend income	(120)	(123)
Interest expense	328	385
Foreign exchange loss (gain)	102	(237)
Equity in losses (earnings) of affiliated companies	10	(0)
Loss (gain) on sale of property, plant and equipment	(2,495)	(2)
Loss (gain) on retirement of property, plant and equipment	22	67
Loss (gain) on evaluation of investment securities	(136)	(108)
Loss (gain) on sale of investment securities	(16)	—
Loss (gain) on investment in silent partnership	(977)	—
Loss (gain) on subscribe to new shares	(17)	—
Loss (gain) on rescission of contracts	(350)	—
Decrease (increase) in accounts receivable	1,521	2,073
Decrease (increase) in real estate for sale	(1,851)	(2,175)
Decrease (increase) in payment for construction in progress	181	(45)
Decrease (increase) in long-term prepaid expenses	427	244
Increase (decrease) in accounts payable	(6,916)	(8,435)
Increase (decrease) in customer advances for projects in progress	(668)	(177)
Increase (decrease) in advances received	(4,605)	(6,548)
Increase (decrease) in guarantee deposits received	(239)	(165)
Increase (decrease) in accrued consumption taxes	(265)	(727)
Other	(434)	1,983
Total	**(23,040)**	**(219)**
Interest and dividends received	292	301
Interest paid	(298)	(351)
Expenses related to repair works paid	(1,382)	(165)
Income taxes paid	(878)	(752)
Net cash provided by (used in) operating activities	**(25,306)**	**(1,187)**
Cash flows from investing activities		
Payment for purchase of property, plant and equipment	(2,131)	(5,575)
Proceeds from sale of property, plant and equipment	15,876	4
Payment for purchase of intangible assets	(57)	(619)
Payment for purchase of investment securities	(559)	(134)
Proceeds from sale of investment securities	3,499	14
Payment for sale of shares in subsidiary due to change in consolidation	(101)	—
Payment for loans	(653)	(1)
Proceeds from collection of loans	6	6
Payment for time deposit	(328)	—
Other	(74)	(393)
Net cash provided by (used in) investing activities	**15,475**	**(6,700)**

(Million yen)

	Six months ended September 30, 2019 (Apr 2019–Sep 2019)	Six months ended September 30, 2018 (Apr 2018–Sep 2018)
Cash flows from financing activities		
Proceeds from short-term borrowings	―	3,485
Repayment of short-term borrowings	(111)	(50)
Repayment of long-term debt	(1,418)	(924)
Payment for redemption of bonds	(1,983)	(1,983)
Repayment of finance lease obligations	(2,669)	(2,863)
Payment for purchases of treasury stock	―	(5,012)
Dividends paid	―	(3,025)
Dividends paid to non-controlling interests	―	(8)
Proceeds from exercise of stock options	0	―
Net cash provided by (used in) investing activities	**(6,181)**	**(10,380)**
Effect of exchange rate changes on cash and cash equivalents	5	(233)
Net increase (decrease) in cash and cash equivalents	(16,007)	(18,501)
Cash and cash equivalents at beginning of period	**83,019**	**98,246**
Cash and cash equivalents at end of period	**67,011**	**79,745**

(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 first and second quarter. However, a legally designated effective tax rate will be applied if the aforementioned tax expenses are found to be very unreasonable after calculation based on the relevant estimated effective tax rate.

(Additional information)

(Change in the purpose of holding tangible fixed assets)

During the subject quarter, due to a change in the purpose of holding a portion of property, plant and equipment, 49 million yen in buildings and structures, 334 million yen in land, and 4 million yen in others were transferred to 102 million yen in real estate for sale and 295 million yen in real estate for sale in progress.

(Reserve for loss related to repair works)

The entire amount of the reserve for loss related to repair works was previously recorded as a current liability, but in light of the current progress in repair work, it was reclassified as a long-term liability in the second quarter of the fiscal year ending March 31, 2020, of which the portion deemed to be used within one year has been recorded as a current liability.

(Segment Information)

(1) 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	Development Business	Elderly Care Business	Hotels, Resort & Other Business	Total		
Net sales							
Sales to customers	197,267	13,599	7,301	3,348	221,517	—	221,517
Inter-segment sales and transfers	151	27	—	1,342	1,521	(1,521)	—
Total	197,419	13,626	7,301	4,690	223,038	(1,521)	221,517
Segment profit (or loss)	(11,141)	(3,473)	(246)	(131)	(14,994)	(2,132)	(17,126)

(Note) 1. Adjustments in segment profit (loss) of (2,132) million yen include inter-segment eliminations of (158) million yen and corporate expenses not part of reportable segments of (1,974) 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 Statements of Operations

(ii) Impairment loss of non-current assets in reportable segments

In development business, 982 million yen, the balance of good will which has not been amortized after acquiring Morizou Co. Ltd., was impaired and recorded as a part of extraordinary losses as the profitability in the initial business plan turned out to be unrealistic.

(2) Six months ended September 30, 2018 (April 1, 2018 through September 30, 2018)

(i) Net sales, operating profit (loss) by reportable segment

(Million yen)

	Reportable segments					Adjustments (Note 1)	Consolidated Total (Note 2)
	Leasing Business	Development Business	Elderly Care Business	Hotels, Resort & Other Business	Total		
Net sales							
Sales to customers	219,025	26,748	6,869	2,835	255,479	—	255,479
Inter-segment sales and transfers	106	0	—	1,949	2,056	(2,056)	—
Total	219,131	26,748	6,869	4,785	257,535	(2,056)	255,479
Segment profit (or loss)	12,180	(1,301)	(504)	(840)	9,533	(2,340)	7,192

(Note) 1. Adjustments in segment profit (loss) of (2,340) million yen include inter-segment eliminations of (75) million yen and corporate expenses not part of reportable segments of (2,265) million yen. Corporate expenses consist mainly of general administrative expenses for administrative departments that are not part of reportable segments.
2. Segment profit (loss) is adjusted to the operating profit on the Consolidated Statements of Operations

(ii) Impairment loss of non-current assets in reportable segments

In leasing business, the book value of the rental properties to be sold was revalued to the recoverable amount and the decrease of 7,560 million yen was recorded as a part of extraordinary losses.

(Material subsequent events)

Material sale of non-current assets

The Company decided on the sale of following non-current assets based on the resolution at the meeting of Board of Directors held on October 4, 2019.

(i) Reason for the sale

The sale is intended for the Company to realize the efficient utilization of its resources and to strengthen the financial basis.

(ii) Non-current assets to be sold

Details and location	Sale value	Book value	Gain on sale*	Current state
Hotel Leopalace Sapporo 8-6-1 Minami-nijo-nishi, Chuo-ku, Sapporo-shi Land: 2,274.81 m^2 Building: 14,055.24 m^2	16,000 million yen	10,128 million yen	5,285 million yen	Hotel facilities
Hotel Leopalace Sendai 4-6-28 Tsutsujigaoka, Miyagino-ku, Sendai-shi Land: 1,633.15 m^2 Building: 6,596.15 m^2				
Hotel Leopalace Hakata 2-5-33 Hakata-eki-higashi, Hakata-ku, Fukuoka-shi Land: 1,459.77 m^2 Building: 9,248.46 m^2				

Note:
Gain on sale is the estimated amount which is calculated as the difference between the sale value and the book value with deducting the sale associated expenses.

(iii) Purchaser
The name of the purchaser is not disclosed in accordance with the agreement. There are no particularly notable capital, personal or business relationships between the Company and the purchaser. In addition, the purchaser is not the related party of the Company.

(iv) Date of sale

Resolution at the Board of Directors' Meeting	October 4, 2019
Conclusion of sale agreement and ownership transfer	October 31, 2019

(v) Impacts on the business forecast on a consolidated and non-consolidated basis
The Company plans to post an extraordinary profit of approximately 5,285 million yen as a result of the sale in its consolidated and non-consolidated financial statements for the period ending March 31, 2020 when the ownership transfer date belongs to.

Sale of non-current assets

The Company decided on the sale of all shares of Life Living Co., Ltd. (hereinafter Life Living), a subsidiary of the Company to Hajime Construction Co., Ltd., and concluded the share transfer agreement on the same date.

(i) Reason for the sale
Life Living had a successful business achievement in development featuring four-story condominiums in reinforced-concrete structure and wooden apartment buildings in the Tokyo metropolitan area, Nagoya area and Fukuoka area. The Company acquired 100% ownership of Life Living in July, 2016 with a view to strengthen the Company's core businesses such as leasing business and development business. In the light of changing business climate surrounding the Company, we decided on transferring the business operations of Life Living so that they can continue and further expand their business.

(ii) Name of transferee
Hajime Construction Co., Ltd.

(iii) Date of share transfer
To be decided

(iv) Name of the subsidiary, business description and business with the Company

Name	Life Living Co., Ltd.
Business description	Development business of condominiums and apartments
Business with the Company	No business to particularly note with the Company

(v) Number of shares to transfer, sale value and ownership ratio after transfer

Number of shares to transfer	4,001 shares
Sale value	Not to be disclosed due to the agreement between the contracting parties
Ownership ratio after transfer	—%

3.Other

Significant Events Relating to Going Concern Assumption

The Company recorded net loss attributable to shareholders of the parent company and negative operating cash flow in the consolidated previous fiscal year due to the defects related to parting walls and other things confirmed in the apartment buildings the Company constructed. The Group's consolidated net assets at the end of the previous fiscal year fell below a certain level, and Leopalace Power Co., Ltd., a subsidiary of the Company, violated financial covenants imposed on its loan agreements with financial institutions using the Company as a guarantor. 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 apartment buildings investigations and repair works in an organized manner.

With regard to funding, while maintaining a sound financial balance, including the sale of assets held, 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.

In addition, with respect to violations of financial covenants, the Group has received approval from financial institutions not to exercise the right to forfeit the benefit of expiration.

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