Consolidated Financial Statements (Japanese Accounting Standard)

February 12, 2021

(For the nine months ended December 31, 2020)

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: Senior Department Manager Name: Shinji Takekura Telephone: +81-50-2016-2907
Scheduled Date of Filing of Securities Report (Japanese only): February 15, 2020
Scheduled Date of Commencement of Dividend Payments: —
Supplemental Explanatory Material Prepared: Yes
Results Briefing Held: Yes (for institutional investors and security analysts)

1. Results for the Nine Months ended December 31, 2020 (April 1, 2020 through December 31, 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 last year)

	Net sales		Operating profit		Recurring profit		Net income attributable to shareholders of the parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended December 31, 2020	308,326	(6.2)	(16,585)	—	(20,562)	—	(25,003)	—
Nine months ended December 31, 2019	328,721	(12.7)	(22,805)	—	(22,131)	—	(24,137)	—

(Note) Comprehensive income in the nine months ended December 31, 2020: (26,294) million yen (–%);
Nine months ended December 31, 2019: (24,324) million yen (–%)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended December 31, 2020	(95.18)	—
Nine months ended December 31, 2019	(98.93)	—

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of December 31, 2020	173,126	2,428	(5.4)
As of March 31, 2020	196,953	1,589	0.7

(Reference) Shareholders' equity as of December 31, 2020: (9,299) 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)

	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
FY ending March 31, 2021	408,900	(5.7)	(34,600)	—	(39,800)	—	(44,400)	—	(169.02)

(Note) Restatement of most recent consolidated earnings forecasts: Yes
As to the latest earnings forecasts, please refer to the "Notice Concerning Revision of Earnings Forecasts" disclosed on February 12, 2021.

4. Other

(1) Changes in major subsidiaries during the subject period (change in specific subsidiaries resulting in a change in the scope of consolidation): Wing Mate CO., LTD. has been excluded

(2) Use of accounting procedures specific to the preparation of quarterly financial statements: Yes
(Note) Refer for details to p.10 “2. Consolidated financial statements (3) Notes Regarding Consolidated Financial Statements “Application of accounting methods specific to the preparation of consolidated financial statements.”

(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 December 31, 2020: 329,389,515 shares, As of March 31, 2020: 244,882,515 shares
- (ii) Total treasury stock at term end
  As of December 31, 2020: 561,610 shares, As of March 31, 2020: 771,210 shares
- (iii) Average number of outstanding shares during the period (on a quarterly cumulative basis)
  As of December 31, 2020: 262,697,988 shares, As of December 31, 2019: 243,978,188 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.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 website on February 12, 2021.

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1. Business Results
(1) Analysis of Business Results

(Million yen)

	Net sales	Operating profit	Recurring profit	Net income attributable to shareholders of the parent
Nine months ended December 31, 2020	308,326	(16,585)	(20,562)	(25,003)
Nine months ended December 31, 2019	328,721	(22,805)	(22,131)	(24,137)
Difference	(20,394)	6,220	1,569	(865)

During the subject nine 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 28th consecutive month (down 10.6% 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 rates 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 subject nine months of the current fiscal year amounted to 308,326 million yen (down 6.2% year on year), and operating loss was 16,585 million yen (a reduced loss of 6,220 million yen year on year) due mainly to a decrease in rent revenues by stagnant occupancy rates, despite of 26,614 million yen reduction in cost of sales and SG&A expense year on year. Recurring loss was 20,562 million yen (a reduced loss of 1,569 million yen year on year) due to the funding costs in the fundraising and increased interest expenses. Net loss attributable to shareholders of the parent was 25,003 million yen (an increased loss of 865 million yen year on year) due to impairment loss on non-current assets and goodwill of 3,742 million yen, special severance allowance of 2,470 million yen associated with the voluntary retirement program, and loss related to repairs concerning construction defects such as parting walls of 724 million yen in the extraordinary losses despite the gains on sale of investment securities of 4,065 million yen.

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.

(Million yen)

	Net sales			Operating profit		
	Nine months ended December 31, 2019	Nine months ended December 31, 2020	Difference	Nine months ended December 31, 2019	Nine months ended December 31, 2020	Difference
Leasing Business	312,892	295,224	(17,668)	(16,319)	(8,933)	7,385
Elderly Care Business	11,007	10,956	(51)	(372)	(461)	(89)
Other Businesses	4,821	2,145	(2,675)	(474)	(1,138)	(664)
Adjustments	—	—	—	(5,639)	(6,051)	(412)
Total	328,721	308,326	(20,394)	(22,805)	(16,585)	6,220

(i) Leasing Business

In the Leasing Business, the Company provides value-added services such as “my DIY” which allows the tenants to customize a selected single wall of the room, promotion of smart apartments which enable remote control of electrical appliances and lock/unlock the door, customer interactions via internet, on-line room viewing and web-based contract conclusion, promotion of the electronic contract management system, 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 manages serviced apartments and offices.

The occupancy rate at the end of the subject quarter was 77.07% (down 1.84 points year on year) and the Q1-Q3 average occupancy rate was 78.58% (down 1.89 points year on year). This was caused mainly by the delay in repair works and in new tenants' recruitment and the spread of COVID-19. The number of units under management was 574 thousand (decreased by a thousand year on year). The number of direct leasing offices at the end of the subject quarter was 141 (a reduction of 48 year on year) and we continue to increase the operational efficiency and productivity.

The orders received for apartment buildings was 4,751 million yen (down 21.8% year on year) and the outstanding orders as of end of Q3 stood at 11,482 million yen (down 65.5% year on year) as a result of the Company's cease of bookings from new customers because of the construction defects problem amid the intensified competition in the metropolitan areas and the changes in the environment of apartment loans.

As a result, net sales came to 295,224 million yen (down 5.6% year on year) and operating loss was 8,933 million yen (a reduction of loss by 7,385 million yen year on year).

(ii) Elderly Care Business

The Company has been continuing to improve the operational efficiency of the Elderly Care Business, a strategic growth business, to lower the operational cost but suffered from declined number of users due to the fear of COVID-19 pandemic.

Net sales during the nine months was 10,956 million yen (down 0.5% year on year), and operating loss was 461 million yen (an increase of loss by 89 million yen year on year). The number of facilities was 87 as of end of the subject quarter.

(iii) Other Businesses

Net sales of the segment covering resort facilities in Guam, finance business were 2,145 million yen (down 55.5% year on year) and operating loss was 1,138 million yen (an increase of loss by 664 million yen year on year) due to a significant decline in occupancy rates because of COVID-19 pandemic and cutdown operation as a result of sale of hotels in Japan.

(2) Analysis of Consolidated Financial Position

(Assets, Liabilities, and Net Assets)

(Million yen)

	Assets	Liabilities	Net assets
As of December 31, 2020	173,126	170,698	2,428
As of March 31, 2020	196,953	195,363	1,589
Difference	(23,826)	(24,665)	839

Total assets at the end of the subject quarter decreased by 23,826 million yen from the end of the previous fiscal year to 173,126 million yen. This was mainly attributable to a decreases of 2,864 million yen in cash and cash equivalents, 2,444 million yen in real estate for sale in progress, 1,742 million yen in securities and investment securities, 1,498 million yen in prepaid expenses and long-term prepaid expenses, as well as 5,538 million yen in land, 3,608 million yen in buildings and structures (net), and 2,830 million yen in leased assets (net) due to the sale of own rental housing and recording of impairment loss.

Total liabilities decreased by 24,665 million yen from the end of the previous fiscal year to 170,698 million yen. This was mainly attributed to an increase of 3,395 million yen in interest-bearing debt and reductions of 7,103 million yen in short and long term advance received, 6,283 million yen in accounts payable - other, 6,352 million yen in reserve for loss related to repairs and 6,084 million yen in reserve for apartment vacancy loss.

Net assets increased by 839 million yen from the end of the previous fiscal year to 2,428 million yen. This was mainly due to increases of 5,999 million yen in common stock, 10,026 million yen in capital surplus and 11,322 million yen in non-controlling interests as a result of issuance of new shares through third party allotment and issuance of preferred stock in a Company's consolidated subsidiary despite recording of 25,003 million yen in net loss attributable to shareholders of the parent. The ratio of shareholders' equity to assets dropped by 6.1 percentage points from the end of the previous fiscal year to minus 5.4%.

(3) Explanation of Consolidated Earnings Forecasts and Other Future Predictions

Concerning consolidated earnings forecasts, we made revision for estimation of consolidated business results for the fiscal year ending March 31, 2021 in the consolidated financial statements dated June 5, 2020. For details please refer to the "Notice Concerning Revision of Earnings Forecasts" that we announced on February 12, 2021.

2. Consolidated Financial Statements
(1) Consolidated Balance Sheets

(Million yen)

	December 31, 2020	March 31, 2020
<Assets>		
Current assets		
Cash and cash equivalents	57,637	60,501
Trade receivables	7,307	7,260
Accounts receivable for completed projects	632	532
Operating loans	94	132
Securities	5,700	5,951
Real estate for sale	2,063	1,189
Real estate for sale in progress	352	2,797
Payment for construction in progress	450	725
Prepaid expenses	2,492	3,053
Others	4,636	6,325
Allowance for doubtful accounts	(195)	(164)
Total current assets	**81,172**	**88,304**
Non-current assets		
Property, plant, and equipment		
Buildings and structures (net)	20,255	23,863
Machinery, equipment, and vehicles (net)	8,882	9,798
Land	31,354	36,893
Leased assets (net)	4,367	7,197
Construction in progress	179	208
Others (net)	7,210	7,572
Total property, plant, and equipment	**72,249**	**85,534**
Intangible fixed assets		
Goodwill	14	127
Others	4,377	5,376
Total intangible fixed assets	**4,391**	**5,504**
Investments and other assets		
Investment securities	6,671	8,163
Long-term loans	1,116	1,025
Long-term prepaid expenses	1,312	2,250
Deferred tax assets	1,734	1,297
Others	5,249	5,554
Allowance for doubtful accounts	(771)	(905)
Total investments and other assets	**15,313**	**17,385**
Total non-current assets	**91,954**	**108,424**
Deferred assets	**–**	**224**
Total assets	**173,126**	**196,953**

(Million yen)

	December 31, 2020	March 31, 2020
<Liabilities>		
Current liabilities		
Electronically recorded obligations -operating	68	176
Accounts payable	3,038	3,376
Accounts payable for completed projects	732	1,245
Short-term borrowings	3,265	3,507
Bonds due within one year	–	3,066
Lease obligations	3,518	4,344
Accounts payable -other	8,651	14,935
Accrued income taxes	370	840
Advances received	26,132	31,997
Customer advances for projects in progress	610	1,783
Provision for bonuses	2	—
Reserve for warranty obligations on completed projects	85	117
Reserve for fulfillment of guarantees	1,108	1,200
Reserve for loss related to repairs	8,251	8,302
Reserve for apartment vacancy loss	5,630	11,715
Reserve for loss on liquidation of affiliates	38	–
Others	3,620	3,398
Total current liabilities	**65,123**	**90,006**
Non-current liabilities		
Bonds	–	5,037
Long-term debt	30,638	15,650
Lease obligations	2,111	4,532
Long-term advances received	8,212	9,451
Lease/guarantee deposits received	5,852	6,286
Deferred tax liabilities	7	5
Reserve for loss related to repairs	41,644	47,945
Reserve for apartment vacancy loss	4,191	4,191
Liability for retirement benefit	9,556	8,701
Others	3,360	3,554
Total non-current liabilities	**105,574**	**105,357**
Total liabilities	**170,698**	**195,363**
<Net assets>		
Shareholders' equity		
Common stock	81,282	75,282
Capital surplus	55,174	45,148
Retained earnings	(143,909)	(118,874)
Treasury stock	(344)	(473)
Total shareholders' equity	**(7,796)**	**1,083**
Accumulated other comprehensive income		
Net unrealized gains on "other securities"	(0)	1,047
Foreign currency translation adjustments	(1,421)	(280)
Remeasurements of defined benefit plans	(80)	(546)
Total accumulated other comprehensive income	**(1,502)**	**220**
Share subscription rights	388	269
Non-controlling interests	11,339	16
Total net assets	**2,428**	**1,589**
Total liabilities and net assets	**173,126**	**196,953**

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

(Million yen)

	Nine months ended December 31, 2020 (Apr 2020–Dec 2020)	Nine months ended December 31, 2019 (Apr 2019–Dec 2019)
Net sales	**308,326**	**328,721**
Cost of sales	**287,110**	**306,193**
Gross profit	**21,215**	**22,527**
Selling, general and administrative expense	**37,801**	**45,333**
Operating profit (loss)	**(16,585)**	**(22,805)**
Non-operating income		
Interest income	38	63
Dividend income	76	173
Anonymous partnership investment income	–	977
Valuation gains of investment securities	135	185
Foreign exchange gains	90	60
Employment adjustment subsidy	243	–
Other	253	207
Total non-operating income	**837**	**1,668**
Non-operating expenses		
Interest expenses	1,052	471
Bond issuance fee	251	126
Funding costs	2,904	–
Other	606	396
Total non-operating expenses	**4,814**	**994**
Recurring profit	**(20,562)**	**(22,131)**
Extraordinary income		
Gains on sale of property, plant and equipment	224	8,853
Gains on sale of investment securities	4,065	2,354
Gains on reversal of share acquisition rights	–	17
Gains on cancellation of contracts	–	350
Gains on sale of shares in the subsidiary	**0**	**–**
Total extraordinary income	**4,289**	**11,575**
Extraordinary losses		
Loss on sale of property, plant and equipment	18	972
Loss on retirement of property, plant and equipment	95	25
Impairment loss	3,742	1,059
Provision of reserve for loss related to repairs	–	10,157
Loss related to repairs	724	2,426
Loss on sale of shares in the subsidiary	–	2
Special severance allowance	2,470	–
Retirement benefit expenses	427	–
Provision of reserve for loss on liquidation of affiliates	38	–
Loss on liquidation of affiliates	111	–
Total extraordinary losses	**7,628**	**14,642**
Income (loss) before taxes and other adjustments	**(23,900)**	**(25,199)**
Income taxes	**670**	**(1,061)**
Net income (loss)	**(24,570)**	**(24,137)**
Net income (loss) attributable to non-controlling interests	**432**	**(0)**
Net income (loss) attributable to shareholders of the parent	**(25,003)**	**(24,137)**

Consolidated Statements of Comprehensive Income

(Million yen)

	Nine months ended December 31, 2020 (Apr 2020–Dec 2020)	Nine months ended December 31, 2019 (Apr 2019–Dec 2019)
Net income (loss)	(24,570)	(24,137)
Other comprehensive income		
Net unrealized gains on "other securities"	(1,047)	522
Foreign currency translation adjustments	(1,138)	(820)
Remeasurements of defined benefit plans	465	118
Share of other comprehensive income of entities using equity method	(3)	(7)
Total other comprehensive income	(1,723)	(187)
Comprehensive income	(26,294)	(24,324)
(Breakdown)		
Comprehensive income attributable to shareholders of the parent	(26,725)	(24,324)
Comprehensive income attributable to non-controlling interests	431	(0)

(3) 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)

The Company received a payment for new shares through third party allotment by Chidori Godo Kaisha on November 2, 2020. As a result common stock and capital reserve were increased by 5,999 million yen respectively for Q1-Q3 period and recorded 81,282 million yen for common stock and 51,235 million yen in capital reserve as of December 31, 2020.

(Application of accounting methods specific to the preparation of 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 Q1-Q3.

(Additional information)

(Accounting assumption related to spread of COVID-19)

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 third quarter and assume the impact will continue for a certain period in the fiscal year ending March 2022, 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 quarterly consolidated 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.

(Offering of material assets as a collateral)

The Company sourced funds from Kaede Godo Kaisha, a related company of Fortress Investment Group LLC, on November 2, 2020 through the loan with stock acquisition rights and the Company offered following assets as a collateral for Q3 of the current fiscal year; 5,600 million yen of securities, 34 million yen of real estate for sale, 4,566 million yen of buildings and structures, 2 million yen of machinery, equipment and vehicles, 23,540 million yen of land, 321 million yen of other non-current assets, and 3,474 million yen of investment securities.

In addition, the Company offered following assets as a collateral; 2,660 million yen of short term advance to affiliates, 476 million yen of shares in affiliates, and 5,355 million yen of long term advance to affiliates, each of them are eliminated in consolidation.

On top of the above, the Company offered following assets as a collateral for Q3 of the current fiscal year based on the consent by Plaza Guarantee Co., Ltd., a consolidated subsidiary; 565 million yen of buildings and structures and 1,450 million yen of land which Plaza Guarantee Co., Ltd. held.

(Segment Information)

I. Nine months ended December 31, 2019 (April 1, 2019 through December 31, 2019)

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

(Million yen)

	Reportable segments				Adjustments (Note 1)	Amount stated in Consolidated Statement of Income (Note 2)
	Leasing Business	Elderly Care Business	Other Businesses	Total		
Net sales						
Sales to customers	312,892	11,007	4,821	328,721	—	328,721
Inter-segment sales and transfers	156	—	1,883	2,040	(2,040)	—
Total	313,049	11,007	6,704	330,761	(2,040)	328,721
Segment profit (or loss)	(16,319)	(372)	(474)	(17,166)	(5,639)	(22,805)

(Note) 1. Adjustments in segment profit (loss) of (5,639) million yen included inter-segment eliminations of (122) million yen and corporate expenses not part of reportable segments of (5,516) million yen. Corporate expenses consisted mainly of general administrative expenses for administrative departments that were not part of reportable segments.
2. Segment profit (loss) was adjusted to the operating loss on the Consolidated Statements of Income.

(ii) Impairment loss by reportable segment

For leasing business segment, 76 million yen of impairment loss was recorded in the extraordinary losses for the difference of the book value and the recoverable amount for the properties for rent use whose profitability was significantly reduced.

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. Nine months ended December 31, 2020 (April 1, 2020 through December 31, 2020)

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

(Million yen)

	Reportable segments				Adjustments (Note 1)	Amount stated in Consolidated Statement of Income (Note 2)
	Leasing Business	Elderly Care Business	Other Businesses	Total		
Net sales						
Sales to customers	295,224	10,956	2,145	308,326	—	308,326
Inter-segment sales and transfers	109	—	547	656	(656)	—
Total	295,334	10,956	2,693	308,983	(656)	308,326
Segment profit (or loss)	(8,933)	(461)	(1,138)	(10,534)	(6,051)	(16,585)

(Note) 1. Adjustments in segment profit (loss) of (6,051) million yen includes inter-segment eliminations of (126) million yen and corporate expenses not part of reportable segments of (6,177) 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 loss on the Consolidated Statements 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 nine months of the previous consolidated fiscal year were reclassified in line with the above-mentioned changes of the segments.

(iii) 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 3,552 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.

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.

(Significant events occurring after the balance sheet date)

There are no relevant items.

3.Others

(Important item regarding premise of the Company as a going concern)

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 parting walls confirmed in the apartments constructed by the Company.

In Q1-Q3 period the Company recorded operating loss of 16,585 million yen and net loss attributable to shareholders of the parent of 25,003 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 through prioritizing the repairs for vacant rooms suspended for tenant recruitment due to construction defects to contribute to the occupancy rate improvement.

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 through 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.

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 as well as payment of repair work expenses related to construction defects found in the properties constructed by the Company.

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