

Consolidated Financial Statements (Japanese Accounting Standard)

August 9, 2019

(For the three months ended June 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):	August 9, 2019
Scheduled Date of Commencement of Dividend Payments:	-
Supplemental Explanatory Material Prepared: Yes	Results Briefing Held: No

1. Results for the Three Months ended June 30, 2019 (April 1, 2019 through June 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	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended June 30, 2019	113,324	(12.3)	(4,235)		(3,529)		(5,736)	-
Three months ended June 30, 2018	129,268	0.6	4,120	(40.8)	4,138	(40.2)	(957)	

(Note) Comprehensive income in the three months ended June 30, 2019: (5,440) million yen (-%);
three months ended June 30, 2018: (3,514) million yen (-%)

	Net income per share	Diluted net income per share
	Yen	Yen
Three months ended June 30, 2019	(23.53)	-
Three months ended June 30, 2018	(3.80)	

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2019	275,737	75,895	27.4
As of March 31, 2019	291,790	81,338	27.7

(Reference) Shareholders' equity as of June 30, 2019: 75,477 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	—				
FY ending March 31, 2020 (Estimate)		0.00	—	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		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

(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 pg. 10 "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 June 30, 2019: 244,882,515 shares, As of March 31, 2019: 244,882,515 shares
 - (ii) Total treasury stock at term end
As of June 30, 2019: 1,059,210 shares, As of March 31, 2019: 1,067,510 shares
 - (iii) Average number of outstanding shares during the period
As of June 30, 2019: 243,817,377 shares, As of June 30, 2018: 252,008,897 shares

*Indication regarding the status of auditing:

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

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

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

The business forecasts and other forward-looking statements contained in this report are based on information currently available to the Company and on certain assumptions that 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 (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 August 9, 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 trouble we have caused due to construction defects confirmed in certain properties constructed by the Company. Defects include parting wall defects, discrepancies of insulation materials in parting walls, exterior wall structures not meeting qualifications certified by the Minister of Land, Infrastructure and Transport (MLIT), ceiling construction defects, and fireproof parting wall structures not meeting qualifications certified by the MLIT (“defects related to parting walls, etc.”).

We are fully aware that the defects related to parting walls, etc. is a problem that should not have been caused by a construction company that deals in apartment buildings. We will continue to conduct investigations and repairs of apartments on a company-wide basis and make every effort to prevent recurrence of such problems.

(1) Analysis of Business Results

(Million yen)

	Net sales	Operating profit	Recurring profit	Net income attributable to shareholders of the parent
Three months ended June 30, 2019	113,324	(4,235)	(3,529)	(5,736)
Three months ended June 30, 2018	129,268	4,120	4,138	(957)
Difference	(15,944)	(8,355)	(7,667)	(4,778)

During the subject quarter, Although weaknesses continues mainly in exports, the domestic economy showed gradual progression supported by improvements in corporate earnings, employment, and corporate earnings.

New housing starts of leased units decreased 14.9% year-on-year for 10 consecutive months, due to 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, the Leoplace21 Group (the “Group”) aiming to create 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” announced in the Medium-term Management Plan “Creative Evolution 2020”. We will work together as a company in conducting investigations and repair works, taking effort to restore trust as soon as possible.

As a result, consolidated net sales for the subject first quarter came to 113,324 million yen (down 12.3% year-on-year), Operating loss was 4,235 million yen (Operating profit was 4,120million yen in the same period of the previous year), Ordinary loss was 3,529 million yen (Ordinary profit was 4,138million yen in the same period of the previous year).

An extraordinary loss of 4,505million yen was recorded for losses related to parting wall deficiencies confirmed in certain apartments constructed by the Company, resulting in net loss attributable to shareholders of the parent of 5,736million yen(Increased loss of 4,778 million yen in the same period of the previous year).

(Actual figures by segment)

(Million yen)

	Net sales			Operating profit		
	Three months ended June 30, 2018	Three months ended June 30, 2019	Difference	Three months ended June 30, 2018	Three months ended June 30, 2019	Difference
Leasing Business	111,847	100,380	(11,467)	7,214	(1,735)	(8,949)
Development Business	12,450	7,330	(5,119)	(891)	(1,515)	(624)
Elderly Care Business	3,360	3,606	245	(366)	(170)	196
Hotels, Resort & Other Business	1,611	2,008	397	(612)	299	912
Adjustments	—	—	—	(1,222)	(1,112)	109
Total	129,268	113,324	(15,944)	4,120	(4,235)	(8,355)

(i) Leasing Business

In the Leasing Business, the Company provides added-value services such as “my DIY” which enable tenants to decorate their rooms, promotes smart apartments which enable remote control of electrical appliances and check whether doors are locked, as well as security system installations in alliance with large security companies. Also, in order to achieve stable occupancy rates, the Company is strengthening sales against corporate customers and increasing support for foreign 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 81.40% (down 10.70 points from the end of the same period of the previous year) and the average occupancy rate for the period was 81.90% (down 10.66 points year-on-year). The number of units under management at the end of the subject first quarter was 575,000 (increasing 0 from the end of the previous fiscal year).

As a result, net sales amounted to 100,380 million yen (down 10.30% year-on-year), and operating loss was 1,735million yen (operating profits 7,214 million yen year-on-year)

(ii) Development Business

In the Development Business, the Company focused on supplying apartments in the three metropolitan areas where solid leasing demand is anticipated supported by an increase in population, as well as providing high quality and forefront strategic products. In addition, the Company implemented a new brand attempting to strengthen product competitiveness, expanded construction variations based on “ideal land use”, and has begun reconsidering suppliers and product prices to improve profitability.

Also, subsidiary Life Living Co., Ltd. operates the development business of 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 quarter amounted to 3,226 million yen (down 80.3% year-on-year) and orders received outstanding stood at 49,265 million yen (down 24.9% from the end of the same period of the previous year).

As a result, net sales came to 7,330 million yen (down 41.1% year-on-year) and operating loss was 1,515 million yen (compared to an operating loss of 624 million yen in 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 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 3,606 million yen (up 7.3% year-on-year), and operating loss was 170 million yen (improvement of 196 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 2,008 million yen (up 24.6% year-on-year) and operating profit was 299 million yen (compared to an operating loss of 612 million yen in the same period of the previous year).

(2) Analysis of Consolidated Financial Position

(Million yen)

	Assets	Liabilities	Net assets
As of June 30, 2019	275,737	199,841	75,895
As of March 31, 2019	291,790	210,452	81,338
Difference	(16,053)	(10,611)	(5,442)

Total assets at the end of the subject quarter decreased 16,053 million yen from the end of the previous fiscal year to 275,737million yen. This was mainly attributable to a decrease of 13,227 million yen in cash and cash equivalents,1,981 million yen in investment securities,1,700 million yen in construction in progress,1,110 million yen in leased assets (net),despite an increase of 2,416 million in deferred tax assets.

Total liabilities decreased 10,611 million yen from the end of the previous fiscal year to 199,841 million yen. This was mainly attributable to a decrease of 3,307 million yen in short and long-term advances received, 2,207 million yen in accounts payable for completed projects, 2,171 million yen in accounts payable -other, 2,403 million yen in interest-bearing debt.

Net assets decreased 5,442 million yen from the end of the previous fiscal year to 75,895 million yen. This was mainly due to a decrease of 5,738 million yen in retained earnings due to the recording of a net loss attributable to parent company shareholders of 5,736 million yen. The ratio of shareholders' equity to assets dropped 0.3 points from the end of the previous fiscal year to 27.4%.

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

Concerning consolidated earnings forecasts, there has been no change to the first half and fiscal year figures from those financial statements published on May10 2019. 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)

	June 30, 2019	March 31, 2019
<Assets>		
Current assets		
Cash and cash equivalents	71,309	84,536
Trade receivables	6,786	6,908
Accounts receivable for completed projects	1,317	1,709
Operating loans	202	256
Real estate for sale	2,371	1,027
Real estate for sale in progress	5,461	5,554
Payment for construction in progress	663	680
Prepaid expenses	3,050	2,952
Others	6,256	7,274
Allowance for doubtful accounts	(117)	(142)
Total current assets	97,301	110,757
Non-current assets		
Property, plant, and equipment		
Buildings and structures (net)	40,282	40,542
Machinery, equipment, and vehicles (net)	10,923	11,185
Land	49,236	49,221
Leased assets (net)	10,621	11,732
Construction in progress	1,769	3,470
Others (net)	7,439	7,062
Total property, plant, and equipment	120,273	123,215
Intangible fixed assets		
Goodwill	2,184	2,324
Others	6,788	7,250
Total intangible fixed assets	8,973	9,575
Investments and other assets		
Investment securities	14,921	16,903
Bad debts	1,092	501
Long-term prepaid expenses	3,017	3,252
Deferred tax assets	26,066	23,650
Others	4,837	4,548
Allowance for doubtful accounts	(1,045)	(941)
Total investments and other assets	48,890	47,914
Total non-current assets	178,136	180,705
Deferred assets	299	327
Total assets	275,737	291,790

(Million yen)

	June 30, 2019	March 31, 2019
<Liabilities>		
Current liabilities		
Electronically recorded obligations -operating	633	897
Accounts payable	3,296	4,037
Accounts payable for completed projects	2,507	4,715
Short-term borrowings	3,750	3,838
Bonds due within one year	3,516	3,966
Lease obligations	5,085	5,320
Accounts payable -other	12,750	14,922
Accrued income taxes	410	798
Advances received	31,979	34,635
Customer advances for projects in progress	3,329	3,651
Provision for bonuses	269	-
Reserve for warranty obligations on completed projects	321	347
Reserve for fulfillment of guarantees	1,104	1,138
Reserve for loss related to repair works	51,685	50,707
Reserve for apartment vacancy loss	9,297	8,826
Others	3,562	3,963
Total current liabilities	133,502	141,765
Non-current liabilities		
Bonds	8,103	8,103
Long-term debt	17,654	18,318
Lease obligations	7,534	8,501
Long-term advances received	11,217	11,869
Lease/guarantee deposits received	6,508	6,599
Provision for Directors' bonuses	5	5
Reserve for apartment vacancy loss	3,902	3,902
Liability for retirement benefit	8,295	8,213
Others	3,116	3,172
Total non-current liabilities	66,338	68,687
Total liabilities	199,841	210,452
<Net assets>		
Shareholders' equity		
Common stock	75,282	75,282
Capital surplus	45,148	45,148
Retained earnings	(44,374)	(38,635)
Treasury stock	(650)	(655)
Total shareholders' equity	75,406	81,140
Accumulated other comprehensive income		
Net unrealized gains on "other securities"	277	280
Foreign currency translation adjustments	89	(176)
Remeasurements of defined benefit plans	(295)	(327)
Total accumulated other comprehensive income	71	(224)
Share subscription rights	400	404
Non-controlling interests	17	17
Total net assets	75,895	81,338
Total liabilities and net assets	275,737	291,790

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

Consolidated Statements of Operations

(Million yen)

	Three months ended June 30, 2019 (Apr. 2019–Jun. 2019)	Three months ended June 30, 2017 (Apr. 2018–Jun. 2018)
Net sales	113,324	129,268
Cost of sales	102,042	105,408
Gross profit	11,282	23,860
Selling, general and administrative expense	15,517	19,740
Operating profit or Loss	(4,235)	4,120
Non-operating income		
Interest income	22	31
Dividend income	71	68
Anonymous partnership investment income	977	-
Valuation gains of investment securities	83	82
Foreign exchange gains	-	101
Other	32	50
Total non-operating income	1,188	334
Non-operating expenses		
Interest expenses	165	196
Foreign exchange losses	112	-
Bond issuance fee	44	49
Other	160	71
Total non-operating expenses	482	316
Recurring profit or loss	(3,529)	4,138
Extraordinary income		
Gain on sales of property, plant and equipment	-	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	383	2
Extraordinary losses		
Loss on sale of property, plant and equipment	1	22
Provision of reserve for loss related to repair works	3,827	5,000
Loss related to repairs	678	-
Total extraordinary losses	4,506	5,022
Income (loss) before taxes and other adjustments	(7,652)	(881)
Income taxes	(1,916)	101
Net income (loss)	(5,736)	(983)
Net income (loss) attributable to non-controlling interests	0	(25)
Net income (loss) attributable to shareholders of the parent	(5,736)	(957)

Consolidated Statements of Comprehensive Income

(Million yen)

	Three months ended June 30, 2018 (Apr. 2019–Jun. 2019)	Three months ended June 30, 2017 (Apr. 2018–Jun. 2018)
Net income (loss)	(5,736)	(983)
Other comprehensive income		
Net unrealized gains on “other securities”	(2)	283
Foreign currency translation adjustments	267	(2,851)
Remeasurements of defined benefit plans	31	41
Share of other comprehensive income of entities using equity method	(0)	(4)
Total other comprehensive income	295	(2,531)
Comprehensive income	(5,440)	(3,514)
(Breakdown)		
Comprehensive income attributable to shareholders of the parent	(5,440)	(3,487)
Comprehensive income attributable to non-controlling interests	0	(27)

(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)

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

(Segment Information)

Three months ended June 30, 2018 (April 1, 2018 through June 30, 2018)

(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	111,847	12,450	3,360	1,611	129,268	-	129,268
Inter-segment sales and transfers	55	0	-	1,028	1,083	(1,083)	-
Total	111,902	12,450	3,360	2,639	130,352	(1,083)	129,268
Segment profit (or loss)	7,214	(891)	(366)	(612)	5,342	(1,222)	4,120

(Note) 1. Adjustments in segment profit (loss) of (1,222) million yen include inter-segment eliminations of (40) million yen and corporate expenses not part of reportable segments of (1,181) 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

Three months ended June 30, 2019 (April 1, 2019 through June 30, 2019)

(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	100,380	7,330	3,606	2,008	113,324	-	113,324
Inter-segment sales and transfers	76	26	-	729	832	(832)	-
Total	100,456	7,357	3,606	2,737	114,157	(832)	113,324
Segment profit (or loss)	(1,735)	(1,515)	(170)	299	(3,112)	(1,112)	(4,235)

(Note) 1. Adjustments in segment profit (loss) of (1,112) million yen include inter-segment eliminations of (99) million yen and corporate expenses not part of reportable segments of (1,013) 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

3. Other

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. The Group's consolidated net assets at the end of the previous fiscal year fell below a certain level, and Leoplace 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 premise investigations and repairs in a systematic 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.