Consolidated Financial Statements (Japanese Accounting Standard)

September 30, 2020

(For the three months ended June 30, 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: Executive Officer Name: Kiyoshi Arai Telephone: +81-50-2016-2907
Scheduled Date of Filing of Securities Report (Japanese only): September 30, 2020
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, 2020 (April 1, 2020 through June 30, 2020)

(1) Consolidated financial results (Amounts less than one million yen are omitted)

(The percentage figures indicate rate of gain or loss compared with the same period in the previous fiscal year)

	Net sales		Operating profit		Recurring profit		Net income attributable to shareholders of the parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended June 30, 2020	103,986	(8.2)	(6,827)	–	(6,848)	–	(14,123)	–
Three months ended June 30, 2019	113,324	(12.3)	(4,235)	–	(3,529)	–	(5,736)	–

(Note) Comprehensive income in the three months ended June 30, 2020: minus 13,413 million yen (–%);
three months ended June 30, 2019: minus 5,440 million yen (–%)

	Net income per share	Diluted net income per share
	Yen	Yen
Three months ended June 30, 2020	(57.84)	–
Three months ended June 30, 2019	(23.53)	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2020	174,037	(11,818)	(6.9)
As of March 31, 2020	196,953	1,589	0.7

(Reference) Shareholders' equity as of June 30, 2020: minus 12,030 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	—				
FY ending March 31, 2021 (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, 2021 (April 1, 2020 through March 31, 2021)

(The percentage figures for full year indicate rate of gain or loss compared with the previous FY, while those for the interim period indicate rate of gain or loss compared with the same term in the previous FY)

	Net sales		Operating profit		Recurring profit		Net income attributable to shareholders of the parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Six months ending September 30, 2020	213,600	(3.6)	(10,600)	–	(11,000)	–	(14,700)	–	(60.24)
FY ending March 31, 2021	431,100	(0.6)	(9,800)	–	(10,200)	–	(80,000)	–	(32.78)

(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. 9 “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 and restatements
- (i) Changes in accounting policies accompanying revision of accounting standards, etc.: None
- (ii) Changes in accounting policies other than (i) above: None
- (iii) Changes in accounting estimates: None
- (iv) Restatements: None

(4) Total number of outstanding shares (common stock)
- (i) Total number of outstanding shares at term end (including treasury stock)
  As of June 30, 2020: 244,882,515 shares, As of March 31, 2020: 244,882,515 shares
- (ii) Total treasury stock at term end
  As of June 30, 2020: 605,010 shares, As of March 31, 2020: 771,210 shares
- (iii) Average number of outstanding shares during the period
  As of June 30, 2020: 244,158,365 shares, As of June 30, 2019: 243,817,377 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. 5 “1. Business Results (3) Explanation of consolidated earnings forecasts and other future predictions.”

(Method for the acquisition of supplemental explanatory material)
Supplemental Explanatory Material on quarterly financial statements is scheduled to be posted on the Company’s web site on September 30, 2020.

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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
Three months ended June 30, 2020	103,986	(6,827)	(6,848)	(14,123)
Three months ended June 30, 2019	113,324	(4,235)	(3,529)	(5,736)
Difference	(9,338)	(2,592)	(3,319)	(8,386)

During the first quarter 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 22nd consecutive month (down 12.3% year on year) due to the tightening of lending terms by financial institutions. In the rental housing market, the number of vacant houses continues to increase, and in order to secure a stable occupancy rate amid difficulty in recovering nationwide demand, we believe it is important to implement a strategy of differentiation by focusing on supplying apartments in the areas where we can expect high occupancy rates in the future and by providing value-added services that leverage our unique strengths.

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

As a result, net sales for the first quarter of the current fiscal year amounted to 103,986 million yen (down 8.2% year on year), and operating loss was 6,827 million yen (an increased loss of 2,592 million yen year on year) due mainly to a decrease in rent revenues by stagnant occupancy rates, despite a decrease in cost of sales and SG&A expenses of 6,745 million yen year on year, which resulted in recurring loss of 6,848 million yen (an increased loss of 3,319 million yen year on year). Net loss attributable to shareholders of the parent was 14,123 million yen (an increased loss of 8,386 million yen year on year) due to impairment loss on non-current assets and goodwill of 3,741 million yen, special severance allowance of 2,481 million yen associated with the voluntary retirement program, and loss related to repairs concerning construction defects such as parting walls of 1,921 million yen in the extraordinary losses.

Results by business segment are as follows.

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

(Actual figures by segment)

(Million yen)

	Net sales			Operating profit		
	Three months ended June 30, 2019	Three months ended June 30, 2020	Difference	Three months ended June 30, 2019	Three months ended June 30, 2020	Difference
Leasing Business	107,710	99,233	(8,476)	(3,217)	(3,621)	(404)
Elderly Care Business	3,606	3,534	(71)	(165)	(243)	(77)
Other Businesses	2,008	1,217	(790)	301	(128)	(429)
Adjustments	—	—	—	(1,153)	(2,833)	(1,680)
Total	113,324	103,986	(9,338)	(4,235)	(6,827)	(2,592)

(i) Leasing Business

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

As for the occupancy rate, due to delays in repair works and delays in resumption of tenant recruitment, and restrained occupancy demand caused by the spread of COVID-19, the occupancy rate at the end of the first quarter of the current fiscal year was 79.43% (down 1.97 points year on year), the average occupancy rate during the first quarter of the current fiscal year was 80.24% (down 1.66 points year on year), and the number of rooms managed was 574 thousand (a decrease of one thousand units from the end of the previous fiscal year).

With regard to orders for apartments and others, due to intensified competition in the metropolitan areas and changes in the loan environment for apartments, as well as the suspension of new orders because of construction defects problem such as parting walls, total orders received during the first quarter under review amounted to 2,167 million yen (down 32.8% year on year) and outstanding orders received at the end of the first quarter of the current fiscal year amounted to 23,260 million yen (down 52.8% year on year).

As a result, net sales in the segment were 99,233 million yen (down 7.9% year on year) and operating loss was 3,621 million yen (an increased loss of 404 million yen year on year).

(ii) Elderly Care Business

In the Elderly Care Business, which is our strategic business, overall profitability steadily improved as the utilization rate of existing facilities began to rise, to realize a profit for the current fiscal year. However, due to the decline in the number of users of care services who were concerned about the risk of infection with COVID-19, net sales decreased to 3,534 million yen (down 2.0% year on year), and operating loss was 243 million yen (an increased loss of 77 million yen year on year).

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

(iii) Other Businesses

Other Businesses, which include the operations of Guam Resort facilities, travel services, and finance services, posted net sales of 1,217 million yen (down 39.4% year on year) and an operating loss of 128 million yen (compared to an operating profit of 301 million yen in the same period in the previous fiscal year).

(2) Analysis of Consolidated Financial Position

(Million yen)

	Assets	Liabilities	Net assets
As of June 30, 2020	174,037	185,855	(11,818)
As of March 31, 2020	196,953	195,363	1,589
Difference	(22,916)	(9,508)	(13,407)

Total assets at the end of the first quarter decreased to 174,037 million yen, a decrease of 22,916 million yen from the end of the previous fiscal year. This was mainly attributable to an increase of 1,906 million yen in investment securities, which was offset by a decrease of 18,445 million yen in cash and cash equivalents, 2,521 million yen in land due to impairment loss, and 1,663 million yen in building and structures (net).

Total liabilities decreased to 185,855 million yen, a decrease of 9,508 million yen from the end of the previous fiscal year. This was mainly attributable to an increase of 1,965 million yen in liability for retirement benefit, which was offset by a decrease of 3,904 million yen in short and long-term advances received, 2,665 million yen in accounts payable, 1,969 million yen in interest-bearing debt, 1,819 million yen in reserve for losses related to repairs and 1,770 million yen in reserve for apartment vacancy loss.

Net assets decreased by 13,407 million yen from the end of the previous fiscal year and showed liabilities exceeding assets by 11,818 million yen. This was mainly due to an increase of 1,122 million yen in net unrealized gains on other securities and 14,123 million yen was recorded in net loss attributable to shareholders of the parent. The ratio of shareholders' equity to assets dropped to minus 6.9%, a decrease of 7.6 points from the end of the previous fiscal year.

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

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

2. Consolidated Financial Statements and Notes
(1) Consolidated Balance Sheets

(Million yen)

	June 30, 2020	March 31, 2020
<Assets>		
Current assets		
Cash and cash equivalents	42,056	60,501
Trade receivables	6,924	7,260
Accounts receivable for completed projects	744	532
Operating loans	118	132
Securities	5,843	5,951
Real estate for sale	3,479	1,189
Real estate for sale in progress	669	2,797
Payment for construction in progress	1,043	725
Prepaid expenses	3,135	3,053
Others	4,947	6,325
Allowance for doubtful accounts	(170)	(164)
Total current assets	**68,792**	**88,304**
Non-current assets		
Property, plant, and equipment		
Buildings and structures (net)	22,200	23,863
Machinery, equipment, and vehicles (net)	9,510	9,798
Land	34,371	36,893
Leased assets (net)	6,197	7,197
Construction in progress	160	208
Others (net)	7,690	7,572
Total property, plant, and equipment	**80,132**	**85,534**
Intangible fixed assets		
Goodwill	17	127
Others	4,986	5,376
Total intangible fixed assets	**5,003**	**5,504**
Investments and other assets		
Investment securities	10,069	8,163
Bad debts	1,184	1,025
Long-term prepaid expenses	2,013	2,250
Deferred tax assets	1,906	1,297
Others	5,507	5,554
Allowance for doubtful accounts	(775)	(905)
Total investments and other assets	**19,906**	**17,385**
Total non-current assets	**105,042**	**108,424**
Deferred assets	**202**	**224**
Total assets	**174,037**	**196,953**

(Million yen)

	June 30, 2020	March 31, 2020
<Liabilities>		
Current liabilities		
Electronically recorded obligations -operating	142	176
Accounts payable	2,994	3,376
Accounts payable for completed projects	1,261	1,245
Short-term borrowings	3,444	3,507
Bonds due within one year	3,066	3,066
Lease obligations	4,138	4,344
Accounts payable -other	12,269	14,935
Accrued income taxes	386	840
Advances received	28,514	31,997
Customer advances for projects in progress	3,535	1,783
Provision for bonuses	253	–
Reserve for warranty obligations on completed projects	95	117
Reserve for fulfillment of guarantees	1,241	1,200
Reserve for loss related to repair works	7,673	8,302
Reserve for apartment vacancy loss	9,944	11,715
Others	3,108	3,398
Total current liabilities	**82,071**	**90,006**
Non-current liabilities		
Bonds	5,037	5,037
Long-term debt	14,860	15,650
Lease obligations	3,621	4,532
Long-term advances received	9,029	9,451
Lease/guarantee deposits received	6,139	6,286
Deferred tax liabilities	7	5
Reserve for losses related to repairs	46,755	47,945
Reserve for apartment vacancy loss	4,191	4,191
Liability for retirement benefit	10,667	8,701
Others	3,473	3,554
Total non-current liabilities	**103,783**	**105,357**
Total liabilities	**185,855**	**195,363**
<Net assets>		
Shareholders' equity		
Common stock	75,282	75,282
Capital surplus	45,148	45,148
Retained earnings	(133,021)	(118,874)
Treasury stock	(371)	(473)
Total shareholders' equity	**(12,961)**	**1,083**
Accumulated other comprehensive income		
Net unrealized gains on "other securities"	2,169	1,047
Foreign currency translation adjustments	(841)	(280)
Remeasurements of defined benefit plans	(397)	(546)
Total accumulated other comprehensive income	**931**	**220**
Share subscription rights	191	269
Non-controlling interests	21	16
Total net assets	**(11,818)**	**1,589**
Total liabilities and net assets	**174,037**	**196,953**

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

Consolidated Statements of Operations

(Million yen)

	Three months ended June 30, 2020 (Apr. 2020–Jun. 2020)	Three months ended June 30, 2019 (Apr. 2019–Jun. 2019)
Net sales	**103,986**	**113,324**
Cost of sales	97,016	102,042
Gross profit	6,969	11,282
Selling, general and administrative expense	13,797	15,517
Operating profit or Loss	**(6,827)**	**(4,235)**
Non-operating income		
Interest income	12	22
Dividend income	23	71
Anonymous partnership investment income	–	977
Valuation gains of investment securities	32	83
Foreign exchange gains	179	–
Other	54	32
Total non-operating income	**301**	**1,188**
Non-operating expenses		
Interest expenses	140	165
Foreign exchange losses	–	112
Bond issuance fee	33	44
Other	148	160
Total non-operating expenses	**322**	**482**
Recurring profit or loss	**(6,848)**	**(3,529)**
Extraordinary income		
Gain on sales of property, plant and equipment	0	–
Gain on sales of investment securities	0	16
Gain on reversal of share acquisition rights	–	17
Gain on cancellation of contracts	–	350
Total extraordinary income	**0**	**383**
Extraordinary losses		
Loss on sale of property, plant and equipment	6	–
Loss on retirement of property, plant and equipment	14	1
Impairment loss	3,741	–
Provision of reserve for losses related to repair works	–	3,827
Loss related to repairs	1,921	678
Special severance allowance	2,481	–
Total extraordinary losses	**8,164**	**4,506**
Income (loss) before taxes and other adjustments	(15,012)	(7,652)
Income taxes	**(889)**	**(1,916)**
Net income (loss)	**(14,123)**	**(5,736)**
Net income (loss) attributable to non-controlling interests	**(0)**	**0**
Net income (loss) attributable to shareholders of the parent	**(14,123)**	**(5,736)**

Consolidated Statements of Comprehensive Income

(Million yen)

	Three months ended June 30, 2020 (Apr. 2020–Jun. 2020)	Three months ended June 30, 2019 (Apr. 2019–Jun. 2019)
Net income (loss)	**(14,123)**	**(5,736)**
Other comprehensive income		
Net unrealized gains on “other securities”	1,122	(2)
Foreign currency translation adjustments	(556)	267
Remeasurements of defined benefit plans	149	31
Share of other comprehensive income of entities using equity method	(4)	(0)
Total other comprehensive income	**710**	**295**
Comprehensive income	**(13,413)**	**(5,440)**
(Breakdown)		
Comprehensive income attributable to shareholders of the parent	(13,412)	(5,440)
Comprehensive income attributable to non-controlling interests	(0)	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)

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.

(Additional information)

There are no significant changes in the assumptions or estimates, including the impact on Leopalace21 Group’s business due to the spread of COVID-19, and the time to resolve the epidemic, as described in the accounting assumption related to spread of COVID-19 as a part of additional information in the consolidated financial statements for the fiscal year ended March 31, 2020.

(Segment Information)

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

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

(Million yen)

	Reportable segments				Adjustments (Note 1)	Consolidated Total (Note 2)
	Leasing Business	Elderly Care Business	Other Businesses	Total		
Net sales						
Sales to customers	107,710	3,606	2,008	113,324	–	113,324
Inter-segment sales and transfers	82	–	729	812	(812)	–
Total	107,793	3,606	2,737	114,137	(812)	113,324
Segment profit (or loss)	(3,217)	(165)	301	(3,082)	(1,153)	(4,235)

(Note) 1. Adjustments in segment profit (loss) of minus 1,153 million yen include inter-segment eliminations of minus 99 million yen and corporate expenses not part of reportable segments of minus 1,053 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 Operations

II.Three months ended June 30, 2020 (April 1, 2020 through June 30, 2020)

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

(Million yen)

	Reportable segments				Adjustments (Note 1)	Consolidated Total (Note 2)
	Leasing Business	Elderly Care Business	Other Businesses	Total		
Net sales						
Sales to customers	99,233	3,534	1,217	103,986	–	103,986
Inter-segment sales and transfers	38	–	369	407	(407)	–
Total	99,272	3,534	1,587	104,394	(407)	103,986
Segment profit (or loss)	(3,621)	(243)	(128)	(3,994)	(2,833)	(6,827)

(Note) 1. Adjustments in segment loss of 2,833 million yen include inter-segment eliminations of minus 43 million yen and corporate expenses not part of reportable segments of minus 2,876 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) 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 Business" 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 Business reflects the Company's new policy of transferring or withdrawing from the Hotels and Resort Business.

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

(iii) Information on impairment losses of non-current assets

In the Leasing Business, the book value of properties for lease, which was determined to be sold, was reduced to the recoverable amount and the reduction was recorded as impairment loss of 3,551 million yen in the extraordinary losses. In the Other Businesses, the book value of the hotel, which was determined to be sold, was reduced to the recoverable amount and the reduction was recorded as impairment loss of 82 million yen in the extraordinary losses.

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

(Other significant events occurring after the balance sheet date)

(Issuance of new shares through a third-party allotment, issuance of stock acquisition rights and a consolidated subsidiary's issuance of preferred shares)

Pursuant to a resolution at the Board of Directors meeting held on September 30, 2020 on an issuance of new shares through a third-party allotment, issuance of Fifth Series Stock Acquisition Rights related to a loan with stock acquisition rights, financing through the loan with stock acquisition rights, and issuance of preferred shares by Leopalace Power Corporation, a consolidated subsidiary, the Company entered into the third-party allotment agreement and the loan agreement.

Please see the details in the Company's separate announcement dated September 30, 2020 with a title of "Notice Concerning Issuance of New Shares through Third-party Allotment, Issuance of Fifth Series Stock Acquisition Rights relating to Loan with Stock Acquisition Rights, Issuance of Preferred Shares by Consolidated Subsidiary, and Changes in Major Shareholders and Top Shareholder among Major Shareholders"

(Sale of investment securities)

The Company sold the shares in a listed company that the Company held to make efficient use of the resources that the Company possessed and to aim at reinforcing the financial position. As a result, 4,063 million yen of the gain on sale of investment securities will be recorded in the extraordinary income in the second quarter of the fiscal year ending March 31, 2021.

3. Others

Significant Events Relating to Going Concern Assumption

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

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

As to the results of the first quarter of the current fiscal year, the Company recorded 6,827 million yen in operating loss and 14,123 million yen in the net loss attributable to shareholders of the parent. Consequently the liabilities exceeded the assets by 11,818 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 manpower and physical resources including the voluntary retirement program for over 1,000 employees in accordance with the "Notice Concerning Implementing Structural Reforms based on Strategic Review Results for Drastic Business Strategies Reconstruction" disclosed on June 5, 2020, and is trying to improve the business performance and restore financial position by temporarily reducing the scale of repair works and organizational setup in July 2020 onward.

With regard to funding, while maintaining a sound financial balance, the Company endeavors to secure stable funds necessary for its business activities and maintain liquidity by selling the Company owned securities and non-current assets, 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 shares in a listed company which started on July 10, 2020 and secured 3,624 million yen by the sale of 17 properties for lease in August, 2020 and by the sale of the hotel in Nagoya in September, 2020.

As to the conflict with the financial covenant, the financial institution confirmed that they will not exercise the right of forfeiture of the benefit of time.

Under these circumstances, pursuant to a resolution at the Board of Directors meeting held on September 30, 2020 on an issuance of new shares through a third-party allotment, issuance of Fifth Series Stock Acquisition Rights related to a loan with stock acquisition rights and financing through the loan with stock acquisition rights, the Company entered into the third-party allotment agreement and the loan agreement.

In addition, Leopalace Power Corporation entered into a third-party allotment agreement on September 30, 2020 pursuant to a resolution at its Board of Directors meeting on September 30, 2020 that the company determined to issue preferred shares with the purpose for the Company as a guarantor to repay the company's borrowing considering the company's not meeting the financial covenant in the loan agreement.

Financing of totaling 57,215 million yen, with a net proceeds of approximately 54,010 million yen, enables the Company to improve the financial position by eliminating the excessive liabilities and by increasing the shareholders' equity to respond to the funding requirements such as repair expenses concerning the construction defects including the parting walls which were identified in the apartments constructed by the Company, repayment of debt and redemption of bonds.

Please see the details in the Company's separate announcement dated September 30, 2020 with a title of "Notice Concerning Issuance of New Shares through Third-party Allotment, Issuance of Fifth Series Stock Acquisition Rights relating to Loan with Stock Acquisition Rights, Issuance of Preferred Shares by Consolidated Subsidiary, and Changes in Major Shareholders and Top Shareholder among Major Shareholders"

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