Translation

Consolidated Financial Results for the First Six Months of the Fiscal Year Ending February 28, 2023 [Japanese GAAP]

October 13, 2022

Company name:	TKP Corporation
Stock exchange listing:	Tokyo Stock Exchange
Code number:	3479
URL:	https://www.tkp.jp
Representative:	Takateru Kawano, CEO and Representative
Contact:	Koji Nakamura, CFO
Telephone:	+81-3-5227-7321
Scheduled date of filing quarterly securities report:	October 13, 2022
Scheduled date of commencing dividend payments:	None
Availability of supplementary briefing material on quarterly financial results:	Yes
Schedule of financial results briefing session:	Yes (for analysts and institutional investors)

(Amounts of less than one million yen are rounded down)

1. Consolidated financial results for the six months ended August 31, 2022 (March 1, 2022 to August 31, 2022)

(1) Consolidated operating results (accumulated) (Percentage figures indicate year-on-year changes)

	Net sales		EBITDA※		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended August 31, 2022	25,655	16.8	4,624	102.6	1,928	—	1,651	—	(102)	—
Six months ended August 31, 2021	21,955	6.9	2,283	212.9	(498)	—	(746)	—	(2,133)	—

(Note) Comprehensive Income: Six months ended August 31, 2022: ¥115 million (- %)
Six months ended August 31, 2021: ¥(2,012) million (- %)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended August 31, 2022	(2.47)	—
Six months ended August 31, 2021	(53.80)	—

※EBITDA is calculated by adding depreciation, goodwill amortization, amortization of long-term prepaid expenses, and amortization of intangible assets such as customer-related assets to operating profit/loss.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
As of	Million yen	Million yen	%
August 31, 2022	106,106	38,009	35.8
February 28, 2022	111,280	39,746	34.0

(Reference) Equity: As of August 31, 2022: ¥37,951 million
As of February 28, 2022: ¥37,842 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended February 28, 2022	—	0.00	—	0.00	0.00
Fiscal year ending February 28, 2023	—	0.00			
Fiscal year ending February 28, 2023 (forecast)			—	0.00	0.00

(Note) Changes in dividend forecast subsequent to most recent announcement: None

3. Consolidated financial results forecast for the fiscal year ending February 28, 2023 (March 1, 2022 to February 28, 2023)

(Yen, Percentage figures indicate year-on-year changes)

	Net Sales		EBITDA		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Million	%	Million	%	Million	%	Million	%	Million	%	Yen
Full Year	51,000	14.1	7,500	62.0	2,000	—	1,500	—	400	—	9.85

(Note) Changes in earnings forecast subsequent to most recent announcement: None

*Notes

(1) Significant changes in scope of consolidation (changes in scope of consolidation of specified subsidiaries) : No

(2) Changes in financial results forecast subsequent to most recent announcement : No

(3) Changes in accounting policies and accounting estimates

1. Changes in accounting policies due to the revision of accounting standards : No
2. Changes in accounting policies other than stated in 1 : No
3. Changes in accounting estimates : No
4. Retrospective restatement : No

(4) Number of shares issued (common stock)

1. Number of shares issued (including treasury shares)	As of August 31, 2022	42,239,385	As of February 28, 2022	42,219,285
2. Number of treasury shares	As of August 31, 2022	506,545	As of February 28, 2022	504,833
3. Average number of shares issued	Six months ended August 31, 2022	41,720,456	Six months ended August 31, 2021	39,656,423

* This financial report is not subject to the quarterly review procedures by independent auditors.

* Explanation regarding appropriate use of results forecast and additional notes

(Notes on forward-looking statements)

Forward-looking statements, including the results forecast, contained in this document are based on information available to us and on certain assumptions deemed to be reasonable as of the date of release of this document. Actual business results may differ substantially due to a number of factors. For conditions prerequisite to the results forecast, and the points to be noted in the use thereof, please refer to page 8 “1. Qualitative overview of quarterly performance (3) Explanation on future outlook including consolidated profit forecast” of the attachment.

(Notes on supplementary information for the quarterly financial results and briefing on the quarterly financial results)

We are going to hold a briefing on the quarterly financial results for institutional investors and analysts on Thursday, October 13, 2022. The actual proceedings and details of the briefing, along with the supplementary information on the quarterly financial results to be presented at the briefing, will be posted on our website, at our earliest convenience after the briefing session.

Table of Contents - Attachments

1. Qualitative overview of quarterly performance

(1) Overview of management performance for the quarter

During the six months that ended August 31, 2022, socioeconomic activity in Japan was on a moderate recovery track thanks to a decrease in the risk of developing serious complications from COVID-19 and, in response, the lifting of activity restrictions despite the persistently high number of new COVID-19 cases. Meanwhile, the future outlook remained uncertain due to a globally steep rise in the prices of resources, the rapid depreciation of the yen, and an increase in consumer prices primarily as a result of the prolonged Russia-Ukraine conflict and monetary policies, among other factors.

In this environment, the rental meeting room business worked to serve recovering demand for meeting, seminar, and examination venues, which resulted in significant year on year growth in net sales. In addition, net sales in accommodation services such as resort hotels and business hotels reached a new record high, as it did in the previous quarter, thanks to an increase in the use of hotels for travel, business trips, and other types of travel. Beginning in October 2022, activity restrictions will be lifted entirely, including entry to Japan, and the government's nationwide travel support will start; therefore, demand for inbound tourism and a further recovery in socioeconomic activity are expected.

Regus Japan's rental office business achieved record net sales as it did in the previous quarter, supported by strong demand in the market of flexible offices due to the trend of office downsizing and increasingly diverse working styles.

As a result of these measures under the pandemic, during the first six months of this fiscal year, our consolidated net sales reached 25,655 million yen (up 16.8% year on year), EBITDA of 4,624 million yen (up 102.6% year on year), an operating profit of 1,928 million yen (operating loss of 498 million yen in the same period of the previous year), and an ordinary profit of 1,621 million yen (ordinary loss of 746 million yen in the same period of the previous year), and loss attributable to the owners of the parent company was 102 million yen (loss attributable to the owners of the parent company of 2,133 million yen in the same period of the previous year).

1) Consolidated performance (Million yen)

	Six months ended in August 2021	Six months ended in August 2022	YoY change
Net sales	21,955	25,655	＋16.8%
EBITDA	2,283	4,624	＋102.6%
Operating profit (loss)	(498)	1,928	-
Ordinary profit (loss)	(746)	1,651	-
Profit (loss) attributable to owners of parent	(2,133)	(102)	-

2) Overview of performance by companies

The TKP Group has a single business segment, the space regeneration and distribution business. However, for the reference, operating results at TKP's rental meeting room and accommodation business("TKP") and Regus Japan are described below.
(Note) Each figure for TKP's rental meeting room and accommodation business is the sum of TKP's figures and the figures of special purpose subsidiaries that have real estate in TKP's accommodation business (TKPSPV-1 to 4 and TKPSPV-6).

i) TKP (non-consolidated basis)

(Million yen)

	Six months ended in August 2021	Six months ended in August 2022	YoY change
Net sales	12,325	14,727	+19.5%
Gross profit	3,994	6,076	+52.1%
Selling, General & Administrative Expenses	3,758	3,543	(5.7%)
EBITDA	934	3,154	+237.5%
Operating profit (loss)	236	2,533	+972.4%

During the first six months of the fiscal year ending February 28, 2023, TKP Corporation opened one facility and closed one facility due to contract expiration. TKP operated 239 facilities as of August 31, 2022.

The rental meeting room business continued to be affected by COVID-19 as the number of new cases remaining at a high level. In particular, gatherings of hundreds of people tended to be avoided. Meanwhile, a hybrid of online and offline shareholders' meetings, nationwide meetings and gatherings of companies, etc. increased, resulting in a price per meeting higher than the pre-COVID-19 price in some cases.

TKP rented out five of the ten APA Hotels it operates as a franchisee to be used as quarantine facilities for COVID-19 patients and infection control facilities. Moreover, TKP responded to significant demand for accommodations for travel and business trips, which was recovering, and achieved an increase in both the occupancy rate and unit price. Consequently, net sales in accommodation services reached a record high, as did in the previous quarter.

As a result, consolidated net sales for the first six months of the fiscal year under review totaled 14,727 million yen (up 19.5% year on year), EBITDA stood at 3,154 million yen (up 237.5% year on year), and operating profit amounted to 2,533 million yen (up 972.4% year on year), achieving significant growth. Sales per tsubo, a key performance indicator (KPI) in the rental meeting room business, came to 27,168 yen, a decrease of 2,519 yen from the same period of the previous year, in which a contribution of 1.5 billion yen was received from the COVID-19 vaccination centers, despite growth in demand for rental meeting room associated with a recovery in people's activity.

Sales per tsubo for meeting rooms (yen)

	Average in Q1	Average in Q2
FY ended in Feb. 2022 (A)	22,825	29,687
FY ended in Feb. 2023 (B)	31,780	27,168
(B) – (A)	8,955	(2,519)

Note: Sales are the total of meeting room rental fees and ancillary charges, such as optional and catering fees.

ii) Regus Japan

(Million yen)

	Six months ended in August 2021	Six months ended in August 2022	YoY change
Net sales	8,585	9,511	10.8%
Gross profit	2,289	1,839	(19.6%)
Selling, General & Administrative Expenses (Note 1)	1,580	1,401	(11.3%)
EBITDA	1,071	832	(22.3%)
Operating profit (Note 1)	709	438	(38.2%)
Adjusted EMITDA (Note 2)	1,252	1,590	27.0%
Adjusted operating profit (Note 2)	890	1,196	34.4%
Amortization of customer-related assets and amortization of goodwill	1,146	1,101	(4.0%)

(Note 1) Selling, general and administrative expenses and operating profit are amounts before deducting amortization of customer-related assets and amortization of goodwill related to the acquisition of Regus Japan.

(Note 2) Adjusted EBITDA and adjusted operating profit are EBITDA and operating profit before recording franchise expenses. In the calculation of adjusted EBITDA and adjusted operating profit, the effect of an accounting adjustment in selling, general and administrative expenses at the end of the fiscal year ended February 28, 2022 is distributed to each quarter of the fiscal year ended February 28, 2022 on a pro-rata basis.

During the second quarter that ended in August 2022, Regus Japan opened one new facility. As a result, it is operating 172 facilities as of the end of August 2022.

The average occupancy rate at the facilities that opened after the beginning of the COVID-19 pandemic increased successfully, and net sales hit a record high, as it did in the previous quarter. Franchise fees were raised in and after the third quarter of the fiscal year ended February 28, 2022, due to the expiration of fee exemption period and as a result, gross profit and profit rates below it declined. However, adjusted operating profit after excluding the effects of the increase in franchise expenses and an accounting adjustment at the end of the previous fiscal year steadily increased. In addition, progress was made in the development of the sub-franchise business, and two sub-franchise agreements had been signed and one facility operated by a sub-franchisee had started the business by the first six months of the fiscal year under review. Moreover, TKP plans to sign multiple new sub-franchise agreements in the fiscal year under review.

The average occupancy rate at all facilities, a KPI of Regus Japan, was 71.7%, up 0.5 percentage points quarter on quarter, at the end of August 2022 thanks to high average occupancy rates at the facilities that opened after the beginning of the COVID-19 pandemic.

Net sales stood at 9,511 million yen, up 10.8% year on year. EBITDA came to 832 million yen, down 22.3% year on year. Operating profit excluding amortization of goodwill and amortization of customer-related assets related to the acquisition (1,101 million yen) was 438 million yen, down 38.2% year on year.

Occupancy rate trend at Regus Japan

FY		Q1	Q2	Q3	Q4
Feb. '22	All the facilities	**67.4%**	**69.8%**	**68.5%**	**69.7%**
	Facilities that opened in the fiscal year ended Feb. 2022 or thereafter	21.2%	32.3%	25.9%	34.7%
	Facilities that opened in the fiscal year ended Feb. 2021	41.5%	50.1%	54.6%	60.1%
	Facilities that opened in or before the fiscal year ended Feb. 2020	70.4%	72.6%	72.5%	73.0%
Feb. '23	All the facilities	**71.2%**	**71.7%**	**-**	**-**
	Facilities that opened in the fiscal year ended Feb. 2022 or thereafter	39.5%	41.5%	-	-
	Facilities that opened in the fiscal year ended Feb. 2021	64.4%	66.4%		
	Facilities that opened in or before the fiscal year ended Feb. 2020	74.6%	75.0%	-	-
Y-Y change in all the facilities		**3.8pt**	**1.9pt**	**-**	**-**

(2) Overview of Financial Position

(i) Overview of assets, liabilities and net assets

(Current assets)
Current assets as of the end of this quarter dropped by 2,885 million yen from the end of last fiscal year to become 19,918 million yen. Main reason for this is a reduction of cash & deposits by 1,569 million yen.

(Non-current assets)
Non-current assets as of the end of this quarter dropped by 2,289 million yen from the end of last fiscal year to become 86,187 million yen. Main reasons for this include reduction of buildings and structures by 518 million yen, reduction of goodwill by 1,069 million.

(Current liabilities)
Current liabilities as of the end of this quarter rose by 796 million yen from the end of last fiscal year to become 20,952 million yen. Main reasons for this include reduction of current portion of corporate bonds by 654 million yen, as well as an increase of current portion of long-term borrowings by 1,135 million yen.

(Non-current liabilities)
Non-current liabilities as of the end of this quarter dropped by 4,234 million yen from the end of last fiscal year to become 47,143 million yen. Main reasons for this include reduction of long-term borrowings by 3,956 million yen.

(Net assets)
Net assets as of the end of this quarter dropped by 1,737 million yen from the end of last fiscal year to become 38,009 million yen. Main reasons for this include reduction of non-controlling interests by 1,854 million yen.

(ii) Overview of cash flow

During the six-month period that ended in August 2022, cash and cash equivalents (hereinafter referred to as “cash”) dropped by 1,569 million yen to become 12,361 million yen. The status of each cash flow and their factors are as follows.

(Cash flow from operating activities)
Cash flow from operation activities was net inflow of 4,544 million yen (net outflow of 3,028 million yen was recorded during the same period last year). Main factors include an adjustment of non-cash items of 2,831 million yen and pretax profit of 1,371 million yen. On the other hand, there was payment of corporate tax of 567 million yen.

(Cash flow from investment activities)
Net cash outflow from investment activities was 320 million yen (2,007 million yen inflow was recorded for the same period last year). Main factor was disposition of tangible assets which created 259 million yen, although acquisition of tangible assets of 576 million yen was recorded during the period.

(Cash flow from financing activities)
Net cash outflow from financing activities was 5,943 million yen (1,887 million yen outflow was recorded for the same period last year). Main factors include repayment of long-term borrowings of 3,621 million yen, redemption of corporate bond of 897 million yen and refund to non-controlling shareholders of 1,800 million yen, as well as inflow of 800 million yen from long-term borrowings.

(3) Explanation on future outlook including consolidated profit forecast

There is no change on the full-year profit forecast from the one disclosed in our “consolidated financial results for the fiscal year ending February 28, 2022”.

2. Consolidated quarterly financial statements and notes

(1) Consolidated quarterly balance sheets

(Million yen)

	Previous fiscal year (February 28th, 2022)	First six months of this fiscal year (August 31st, 2022)
Assets		
Current assets		
Cash and deposits	13,931	12,361
Accounts receivables	3,558	3,205
Others	5,318	4,360
Allowance for doubtful debts	(4)	(9)
Total current assets	22,803	19,918
Non-current assets		
Property, plant & equipment		
Buildings and structures, net	24,126	23,607
Tools, furniture and fixtures, net	882	877
Lease assets, net	2,930	2,859
Land	7,585	7,585
Construction in progress	27	1
Others, net	11	9
Total property, plant & equipment	35,564	34,940
Intangible assets		
Goodwill	34,817	33,747
Customer related assets	2,890	2,708
Others	175	334
Total intangible assets	37,883	36,791
Investments and other assets		
Investment securities	1,245	1,297
Leasehold and guarantee deposits	10,082	9,891
Deferred tax assets	2,653	2,256
Others	1,047	1,009
Total investments and other assets	15,029	14,455
Total non-current assets	88,477	86,187
Total assets	111,280	106,106

(Million yen)

	Previous fiscal year (February 28th, 2022)	First six months of this fiscal year (August 31st, 2022)
Liabilities		
Current liabilities		
Accounts payable	678	648
Current portion of corporate bonds	1,169	514
Current portion of long-term borrowings	7,638	8,774
Income taxes payable	681	1,263
Others	9,988	9,751
Total current liabilities	20,156	20,952
Non-current liabilities		
Corporate bond	2,465	2,222
Long-term borrowings	42,028	38,071
Asset disposition related obligations	2,544	2,589
Deferred tax liabilities	883	826
Lease obligations	2,469	2,323
Others	986	1,111
Total non-current liabilities	51,377	47,143
Total liabilities	71,533	68,096
Net assets		
Shareholders' equity		
Paid-in capital	16,295	16,297
Capital surplus	18,310	18,317
Retained earnings	2,917	2,814
Treasury shares	(17)	(18)
Total shareholders' equity	37,505	37,410
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	255	292
Deferred gains or losses on hedges	(57)	(37)
Foreign currency translation adjustment	138	286
Total accumulated other comprehensive income	336	540
Subscription rights to shares	50	57
Non-controlling interests	1,854	-
Total net assets	39,746	38,009
Total liabilities and net assets	111,280	106,106

(2) Consolidated quarterly statement of income and comprehensive income sheets

Consolidated statement of income for the first six months of the year

(Million yen)

	First half previous year (From March 1st, 2021 to August 31st, 2021)	First half this year (From March 1st, 2022 to August 31st, 2022)
Net sales	21,955	25,655
Cost of sales	15,677	17,398
Gross profit	6,277	8,256
Selling, general and administrative expenses	6,775	6,328
Operating profit (loss	(498)	1,928
Non-operating income		
Interest income	1	1
Dividends income	1	16
Gain on amortization of security deposits received	-	106
Subsidies	82	70
Others	59	59
Total non-operating income	143	254
Non-operating expenses		
Interest expenses	280	281
Interest on corporate bonds	8	6
Bad debts expenses	-	83
Commission paid	60	95
Others	42	65
Total non-operating expenses	391	531
Ordinary profit (loss)	(746)	1,651
Extraordinary gains		
Gain on sales of non-current asset	322	-
Others	12	-
Total extraordinary gains	334	-
Extraordinary losses		
Loss on debt waiver	-	271
Impairment	1,761	8
Others	109	-
Total extraordinary losses	1,870	280
Profit (Loss) before income tax	(2,282)	1,371
Income taxes	458	1,144
Income taxes - deferred	(635)	314
Total income taxes	(176)	1,459
Net profit (loss)	(2,106)	(88)
Net profit (loss) attributable to non-controlling interests	27	14
Net profit (loss) attributable to owners of parent	(2,133)	(102)

Consolidated statement of comprehensive income for the first six months of the year

(Million yen)

	First half previous year (From March 1st, 2021 to August 31st, 2021)	First half this year (From March 1st, 2022 to August 31st, 2022)
Net profit (loss)	(2,106)	(88)
Other comprehensive income		
Valuation difference on other marketable securities	53	36
Deferred gains or losses on hedges	4	20
Foreign currency translation adjustments	335	147
Total other comprehensive income	93	203
Comprehensive income	(2,012)	115
(Breakdown)		
Comprehensive income attributable to owners of parent	(2,039)	100
Comprehensive income attributable to non-controlling interests	27	14

(3) Quarterly consolidated statement of cash flows

(Million yen)

	First half previous year (From March 1st, 2021 to August 31st, 2021)	First half this year (From March 1st, 2022 to August 31st, 2022)
Cash flows from operating activities		
Profit (loss) before income taxes	(2,282)	1,371
Depreciation and amortization	1,428	1,406
Depreciation expense of customer related assets	228	182
Amortization of goodwill	1,085	1,069
Gain on amortization of deposit received	-	(106)
Loss on debt waiver	-	271
Gain on sales of non-current assets	(322)	-
Impairment loss	1,761	8
Interest and dividends income	(2)	(17)
Interest expenses paid on borrowings and bonds	289	287
Decrease (increase) in trade receivables	473	353
Decrease (increase) in accounts receivable – other	(1,273)	464
Decrease (increase) in prepaid expenses	(20)	(28)
Increase (decrease) in trade payables	68	(29)
Increase (decrease) in accounts payable - other	(787)	(244)
Increase (decrease) in accrued expenses	(522)	196
Increase (decrease) in accrued consumption taxes	(989)	(230)
Increase (decrease) in income taxes payable - factor based tax	(342)	(9)
Other, net	1,253	32
Subtotal	47	4,976
Interest and dividends received	2	17
Interest expenses paid	(291)	(286)
Income taxes paid	(3,032)	(567)
Income taxes refund	245	404
Net cash provided by (used in) operating activities	(3,028)	4,544
Cash flows from investing activities		
Purchase of property, plant and equipment	(821)	(576)
Proceeds from sales of property, plant and equipment	2,930	259
Payments of lease and guarantee deposits	(363)	(50)
Proceeds from refund of lease and guarantee deposits	335	265
Others	(74)	(218)
Net cash provided by (used in) investing activities	2,007	(320)
Cash flows from financing activities		
Proceed from issuance of stock resulting from exercise of subscription rights to shares	6,482	3
Proceeds from long-term borrowings	200	800
Repayments of long-term borrowings	(7,791)	(3,621)
Repayments of lease obligations	(285)	(359)
Redemption of bonds	(452)	(897)
Refund to non-controlling shareholders	(15)	(1,800)
Dividends paid to non-controlling interests	(24)	(68)
Other, net	0	0
Net cash provided by (used in) financing activities	(1,887)	(5,943)
Effect of exchange rate change on cash and cash equivalents	26	150
Net increase (decrease) in cash and cash equivalents	(2,882)	(1,569)
Cash and cash equivalents at beginning of period	15,195	13,931
Cash and cash equivalents at end of period	12,312	12,361

(4) Notes to the consolidated quarterly financial statements

(Notes concerning the going concern assumption)
Not applicable

(Notes related to the significant change in shareholders' equity)
Not applicable

(Changes in accounting policies)
(adoption of the accounting standard for revenue recognition, etc.)
The Group started to apply the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020, hereinafter the "Revenue Recognition Accounting Standard") at the beginning of the first three months of the consolidated fiscal year under review. Accordingly, it recognized revenue in the amount expected to be received in exchange for promised goods and services at points where control over such goods or services is transferred to customers.
Previously, the Group recorded part of the consideration paid to customers and amounts equivalent to points paid to point rewards programs operated by other companies in selling, general and administrative expenses. After the application of the Revenue Recognition Accounting Standard, etc., the Group recognizes revenue after the deduction of these amounts.
The Revenue Recognition Accounting Standard, etc. is applied according to the provisional measures stipulated in the proviso in Paragraph 84 of the standard. With respect to the application of a new accounting policy, it is applied to the balance of retained earnings at the beginning of the first three months of the consolidated fiscal year under review. This balance of retained earnings is obtained through calculation using the cumulative amount of the impact from retrospective application of the new accounting policy to periods prior to the beginning of the first three months, either by adding it to or deducting it from the retained earnings. However, applying the method stipulated in Paragraph 86 of the Revenue Recognition Accounting Standard, TKP does not retroactively apply the new accounting policy to the contracts almost all of whose revenue was recognized in compliance with the conventional method before the beginning of the first quarter of the fiscal year under review.
As a result, net sales and selling, general and administrative expenses for the six-month period of the consolidated fiscal year under review both decreased 36 million yen because of the application of the accounting standard. Operating profit, ordinary profit, profit before income taxes, and retained earnings at the beginning of the fiscal year under review were not affected by the application of the Revenue Recognition Accounting Standard, etc.
According to the transitional measures prescribed in Paragraph 89-2 of the Revenue Recognition Accounting Standard, TKP did not implement a reclassification that reflects the new method for presenting the results of the previous consolidated fiscal year.
Moreover, in accordance with the provisional treatment stipulated in Paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020), information that decomposes revenue from contracts with customers for the first six months of the previous fiscal year is not stated.

(application of accounting standard for fair value measurement, etc.)
TKP started to apply the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019, hereinafter the "Fair Value Measurement Accounting Standard") at the beginning of the first quarter under review. Accordingly, it has decided to continue to apply the new accounting policies specified in the Fair Value Measurement Accounting Standard and related measures according to the provisional treatment prescribed in Paragraph 19 of the Fair Value Measurement Accounting Standard and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019). This application has no impact on quarterly consolidated financial statements.

(additional information)

(Financial covenants)

① The financial covenants indicated below were attached to a syndicated loan agreement to us that entered into on September 30, 2014 to finance the capital investment on office buildings and hotel banquet halls. In the event we fail to meet the financial covenants, multiple number of the lenders may request to forfeit the benefit of time or accelerate the repayment clause with respect to all of the obligations associated with the syndicated loan agreement.

(1) Total net assets stated in the non-consolidated balance sheet as of the end of the fourth quarters of fiscal years from the fiscal year ended February 28, 2015 (including the fiscal year ended February 28, 2015) shall be maintained at 75% or more to the value of the total net assets as of the end of the immediately preceding fourth quarter or as of the end of February 28, 2014, whichever higher.

(2) Ordinary profit as of the end of the fourth quarters of fiscal years from the fiscal year ended February 28, 2015 (including the fiscal year ended February 28, 2015) shall not be negative on a non-consolidated basis for two consecutive fiscal years.

(3) The ratio of the total interest-bearing debts recorded at the non-consolidated balance sheets as of the end of the fourth quarters of fiscal years from the fiscal year ended February 28, 2015 (including the fiscal year ended February 28, 2015) divided by non-consolidated EBITDA shall not exceed 7.0 times for two consecutive fiscal years.

The contract amount and balance of debt under this agreement are outlined below.

		First half this year (August 31st, 2022)
Contract amount		¥1,750 million
Balance	Current portion of long-term borrowings	¥143 million
	Long-term borrowings	—

At the end of the fiscal year ended February 28, 2022, we did not meet the terms of the financial covenants attached to the aforementioned syndicated loan. However, the financial institutions already agreed to waive their claims to forfeit the benefit of time.

② The financial covenants indicated below are attached to a syndicated loan agreement that we entered into on March 31, 2017 to finance the capital investment on office buildings and hotel banquet halls. In the event we fail to meet the financial covenants, multiple number of lenders may request us to forfeit the benefit of time or accelerate the repayment clause with respect to all of the obligations associated with the syndicated loan agreement.

(1) Total net assets stated in the consolidated balance sheet as of the end of the fiscal year ended February 2017 and as of the end of the subsequent fiscal years shall be maintained at 75% or more of the value of the total net assets as of the end of the immediately preceding fiscal year or as of the end of February 2016, whichever is higher.

(2) Ordinary profit on the consolidated profit and loss statement of the fiscal year ended February 2017 and of the subsequent fiscal years shall not be negative for two consecutive fiscal years.

The contract amount and balance of debt under this agreement are outlined below.

		First half this year (August 31st, 2022)
Contract amount		¥5,000 million
Balance	Current portion of long-term borrowings	¥740 million
	Long-term borrowings	¥1,522 million

At the end of the fiscal year ended February 28, 2022, we did not meet the terms of the financial covenants attached to the aforementioned syndicated loan. However, the financial institutions already agreed to waive their claims to forfeit the benefit of time.

③ The financial covenants indicated below are attached to a syndicated loan agreement that we entered into on March 29, 2018 to finance the acquisition of land for hotel(s) and the construction cost of the building(s). In the event we fail to meet the financial covenants, multiple number of lenders may request us to forfeit the benefit of time or accelerate the repayment clause with respect to all of the obligations associated with the syndicated loan agreement.

(1) Total net assets stated in the non-consolidated balance sheet as of the end of the fiscal year ended February 2018 and as of the end of the subsequent fiscal years shall be maintained at 75% or more to the value of the total net assets as of the end of the immediately preceding fiscal year.

(2) Ordinary profit or net profit on the non-consolidated profit and loss statement of the fiscal year ended February 2018 and of the subsequent fiscal years shall not be negative for two consecutive fiscal years.

The contract amount and balance of debt under this agreement are outlined below.

		First half this year (August 31st, 2022)
Contract amount		¥1,810 million
Balance	Current portion of long-term borrowings	¥120 million
	Long-term borrowings	¥1,357 million

At the end of the fiscal year ended February 28, 2022, we did not meet the terms of the financial covenants attached to the loan. However, the financial institutions already agreed to waive their claims to forfeit the benefit of time.

④ The financial covenants indicated below are attached to a syndicated loan agreement that we entered into on March 30, 2018. In the event we fail to meet the financial covenants, multiple number of lenders may request us to forfeit the benefit of time or accelerate the repayment clause with respect to all of the obligations associated with the syndicated loan agreement.

(1) Total net assets stated in the consolidated balance sheet as of the end of the fiscal year ended February 2018 and as of the end of the subsequent fiscal years shall be maintained at 75% or more to the value of the total net assets as of the end of the immediately preceding fiscal year or the fiscal year ended February 2017, whichever is higher.

(2) Ordinary profit on the consolidated profit and loss statement of the fiscal year ended February 2018 and of the subsequent fiscal years shall not be negative for two consecutive fiscal years.

The contract amount and balance of debt under this agreement are outlined below.

		First half this year (August 31st, 2022)
Contract amount		¥500 million
Balance	Current portion of long-term borrowings	¥500 million
	Long-term borrowings	—

At the end of the fiscal year ending February 28, 2022, we did not meet the terms of the financial covenants attached to the loan. However, the financial institutions already agreed to waive their claims to forfeit the benefit of time.

⑤ The financial covenants indicated below were attached to a syndicated loan agreement we entered into on January 29, 2020 to refinance the funding raised to acquire Regus Japan. In the event we fail to meet the financial covenants, multiple number of the lenders may request to forfeit the benefit of time or accelerate the repayment clause with respect to all of the obligations associated with the syndicated loan agreement.

(1) The consolidated net leverage ratio* shall be below the values outlined in the figure below as of the end of the second and fourth quarters of fiscal years from the fiscal year ended February 29, 2020 (including the fiscal year ended February 29, 2020, and with each being for the most recent 12-month period), with both values remaining positive.

Net leverage ratio: α
Fiscal year ended February 29, 2020: α 6.50 First half ending August 31, 2020: α≦6.25 Fiscal year ending February 28, 2021: α≦6.00 First half ending August 31, 2021: α≦5.75 Fiscal year ending February 28, 2022: α≦5.50 First half ending August 31, 2022: α≦5.25 Fiscal year ending February 28, 2023: α≦5.00 First half ending August 31, 2023: α≦4.75 Fiscal year ending February 29, 2024: α≦4.50 First half ending August 31, 2024: α≦4.25

* Net leverage ratio = (net interest-bearing debt − (accounts receivable + inventories - accounts payable)) / (operating profit + depreciation (including lease depreciation) + goodwill amortization + amortization of long-term prepaid expenses + acquisition-related costs − repayment of lease obligations)

(2) Total net assets stated in the consolidated balance sheet as of the end of the second and fourth quarters of fiscal years from the fiscal year ended February 29, 2020 (including the fiscal year ended February 29, 2020) shall be maintained at 80% or more of the value of total net assets as of the end of the preceding second and fourth quarters, respectively, and at least ¥24.7 billion.

(3) Total net assets stated in the consolidated balance sheet as of the end of the second and fourth quarters of fiscal years from the fiscal year ended February 29, 2020 (including the fiscal year ended February 29, 2020) shall be maintained at 30% or more of total assets for the corresponding periods.

(4) Ordinary profit as of the end of the second and fourth quarters of fiscal years from the fiscal year ended February 29, 2020 (including the fiscal year ended February 29, 2020) shall not be negative on a consolidated basis.

The contract amount and balance of debt under this agreement are outlined below.

		First half this year (August 31st, 2022)
Contract amount		¥25,000 million
Balance	Current portion of long-term borrowings	¥2,004 million
	Long-term borrowings	¥11,997 million

At the end of the fiscal year ended February 28, 2022, we did not meet the terms of the financial covenants attached to the aforementioned syndicated loan. However, the financial institutions already agreed to waive their claims to forfeit the benefit of time.

⑥ The financial covenants indicated below were attached to a syndicated loan agreement we entered into on March 31, 2020 to refinance then existing loan agreement. In the event we fail to meet the financial covenants, multiple number of the lenders may request to forfeit the benefit of time or accelerate the repayment clause with respect to all of the obligations associated with the syndicated loan agreement.

(1) The consolidated net leverage ratio* shall be below the values outlined in the figure below as of the end of the second and fourth quarters of fiscal years from the fiscal year ended February 29, 2020 (including the fiscal year ended February 29, 2020, and with each being for the most recent 12-month period), with both values remaining positive.

Net leverage ratio: α
Fiscal year ended February 29, 2020: α 6.50
First half ending August 31, 2020: α≦6.25
Fiscal year ending February 28, 2021: α≦6.00
First half ending August 31, 2021: α≦5.75
Fiscal year ending February 28, 2022: α≦5.50
First half ending August 31, 2022: α≦5.25
Fiscal year ending February 28, 2023: α≦5.00
First half ending August 31, 2023: α≦4.75
Fiscal year ending February 29, 2024: α≦4.50
First half ending August 31, 2024: α≦4.25

* Net leverage ratio = (net interest-bearing debt − (accounts receivable + inventories - accounts payable)) / (operating profit + depreciation (including lease depreciation) + goodwill amortization + amortization of long-term prepaid expenses + acquisition-related costs − repayment of lease obligations)

(2) Total net assets stated in the consolidated balance sheet as of the end of the second and fourth quarters of fiscal years from the fiscal year ended February 29, 2020 (including the fiscal year ended February 29, 2020) shall be maintained at 80% or more of the value of total net assets as of the end of the preceding second and fourth quarters, respectively, and at least ¥24.7 billion.

(3) Total net assets stated in the consolidated balance sheet as of the end of the second and fourth quarters of fiscal years from the fiscal year ended February 29, 2020 (including the fiscal year ended February 29, 2020) shall be maintained at 30% or more of total assets for the corresponding periods.

(4) Ordinary profit as of the end of the second and fourth quarters of fiscal years from the fiscal year ended February 29, 2020 (including the fiscal year ended February 29, 2020) shall not be negative on a consolidated basis.

The contract amount and balance of debt under this agreement are outlined below.

		First half this year (August 31st, 2022)
Contract amount		¥2,500 million
Balance	Current portion of long-term borrowings	¥250 million
	Long-term borrowings	¥1,687 million

At the end of the fiscal year ended February 28, 2022, we did not meet the terms of the financial covenants attached to the aforementioned syndicated loan. However, the financial institutions already agreed to waive their claims to forfeit the benefit of time.

(Impact of COVID-19 pandemic)

No significant change resulted in assumptions and accounting estimates concerning the impact of COVID-19 stated in significant accounting estimates in the annual securities report for the previous year.

(sub-segment information)

[Segment information]
Details are omitted since we have only one segment, which is space regeneration and distribution business.

(Significant subsequent events)

(Sale of non-current asset and posting of extraordinary gain)

TKP sold a non-current asset on September 30, 2022, as described below.

1. Reason for the transfer

The sale was aimed at an efficient use of management resources and strengthening TKP's financial position.

2. Assets to be transferred

Address	1560-38 Kami Yamaguchi, Hayama Machi, Miura-gun, Kanagawa
Area	Land: 40,015.63 sqm Building: 9,756.25 sqm
Gain on sales (gain on sale of non-current asset)	Approx. 900 million yen
Present status	Accommodation and training facility

* The selling price and book value are not disclosed due to agreement with the buyer.

*The gain on sales (gain on sale of non-current asset) is the remainder of the subtraction of the book value and expenses for the sale from the selling price.

3. Outline of transferee

The buyer, which is a corporation in Japan, is not disclosed due to agreement with the buyer. TKP and the buyer have no capital, personal, business, or other relationships requiring special notice. The buyer does not fall under the category of a related party of TKP.

4. Schedule

Date of delivery: September 30, 2022

5. Outlook

The gain on sale of this non-current asset amounting to approximately 900 million yen will be posted as a gain on sale of non-current assets as part of extraordinary gains in the account settlement for the first nine months of the fiscal year ending February 28, 2023. The property currently operated as an accommodation and training facility will continue to be operated in the same way as it was in the past after establishing an ordinary building lease agreement.

3. Others

Significant events regarding premise of going concern, etc.

In the fiscal year ended February 28, 2022, the TKP Group posted an ordinary loss of 1,585 million yen due to impact of the COVID-19 pandemic. In the first six months of the fiscal year ending February 28, 2023, the Group breached some of the financial covenants attached to a syndicated loan, which caused significant doubts regarding the Group's ability to continue as a going concern.

However, the financial institutions have agreed not to exercise the right to demand the acceleration of repayment.

The economy is recovering from the significant slump that has occurred since the beginning of the COVID-19 pandemic. In this environment, the Group promoted product development. At the same time, the Group has reduced fixed costs due to the pandemic. As a result, an ordinary profit improved significantly to 1,651 million yen in the first six months of the fiscal year ending February 28, 2023. The Group has also built a solid financial base by developing a flexible real estate development scheme, which includes

sales-based rent, to curb fixed cost and expenses for the opening of new facilities and by concluding syndicated loan agreements and commitment line agreements with banks.

Based on the above, we declare that there is no significant uncertainly regarding our going concern assumptions.