

Translation

Consolidated Financial Results for the First Six Months of the Fiscal Year Ending February 28, 2022 [Japanese GAAP]

October 13, 2021

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Stock exchange listing: Tokyo Stock Exchange
Code number: 3479
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Scheduled date of filing quarterly securities report: October 13, 2021
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, 2021 (March 1, 2021 to August 31, 2021)

(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, 2021	21,955	6.9	2,283	212.9	(498)	—	(746)	—	(2,133)	—
Six months ended August 31, 2020	20,544	(15.4)	729	(85.0)	(2,103)	—	(2,119)	—	(2,403)	—

(Note) Comprehensive Income: Six months ended August 31, 2021: ¥(2,012) million (- %)
Six months ended August 31, 2020: ¥(2,354) million (- %)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended August 31, 2021	(53.80)	—
Six months ended August 31, 2020	(63.94)	—

※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

As of	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
August 31, 2021	109,033	39,567	34.6
February 28, 2021	116,946	35,142	28.4

(Reference) Equity: As of August 31, 2021: ¥37,685 million
As of February 28, 2021: ¥33,220 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Fiscal year ended February 29, 2020	Yen —	Yen 0.00	Yen —	Yen 0.00	Yen 0.00
Fiscal year ended February 28, 2021	—	0.00			
Fiscal year ended February 28, 2021 (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, 2022 (March 1, 2021 to February 28, 2022)

(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	43,800	1.5	3,600	17.1	(1,900)	—	(2,500)	—	(3,900)	—	(98.34)

(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, 2021	41,481,885	As of February 28, 2021	38,422,285
2. Number of treasury shares	As of August 31, 2021	504,810	As of February 28, 2021	504,810
3. Average number of shares issued	Six months ended August 31, 2021	39,656,423	Six months ended August 31, 2020	37,588,092

* 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 14, 2021. 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.

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1. Qualitative overview of quarterly performance

(1) Overview of management performance for the quarter

During the course of six-month period that ended in August this year, TKP group observed significant reduction of social and economic activities in Japan due mainly to the frequent and intermittent issuances of state of emergency declarations at the major cities in an effort to prevent COVID-19 infection spread, particularly some variants of the original virus. On the other hand, the domestic vaccination rate has exceeded 60% and as of the end of September 2021, the state of emergency was generally lifted. Therefore, although we can anticipate a certain level of conditions as the restrictions are going to be eased, we should continue to be alerted.

Under such business environment, as a part of our efforts to improve vaccination rate in Japan and to improve our own utilization rate of TKP facilities, we opened up and started operating “TKP office-wide vaccination centers.” In Japan, office-wide vaccination officially got started from June 21st, 2021, and many companies started vaccinations as company-wide efforts. For such purposes, our “TKP office-wide vaccination centers” have been widely used. So far, we have arranged vaccinations for about 900,000 individuals. On the other hand, just like the rental meeting room business, APA hotel business had been generally negatively affected from the pandemic. However, as of the end of the second quarter of this fiscal year, we have managed to lease out four out of ten APA Hotels we operate to the relevant authorities as accommodation & treatment facilities for mild cases of COVID-19 patients.

With regards to property leasing agreements with the landlords, we are continuing our efforts to obtain wide range of information, extend rent-free periods, reduce & defer rents, through the network of property owners and property information providers, which we have been building ever since we started this business. Securing property leasing agreements at advantageous conditions is a foundation of our business model and we are keen to continue such effort as we know this should improve our profitability in the future.

As a result of these measures under the pandemic, during the first six months of this fiscal year, our consolidated net sales reached 21,955 million yen (up 6.9% from last year), consolidated EBITDA rose to 2,283 million yen (up 212.9% from last year), operating loss turned out to be 498 million yen (corresponding figure last year was a loss of 2,013 million yen), ordinary loss became 746 million yen (corresponding figure last year was a loss of 2,119 million yen), and net loss attributable to the owners of the parent company was 2,133 million yen (corresponding figure last year was a loss of 2,403 million yen).

1) Consolidated performance

(Million yen)

	Six months ended in August 2020	Six months ended in August 2021	YoY change
Net sales	20,544	21,955	+ 6.9%
EBITDA	729	2,283	+ 212.9%
Operating profit (loss)	(2,013)	(498)	-
Ordinary profit (loss)	(2,119)	(746)	-
Profit (loss) attributable to owners of parent	(2,403)	(2,133)	-

2) Overview of performance by companies

The TKP Group has a single business segment, the space regeneration and distribution business. However, for the reference, TKP and Regus Japan operating results are disclosed separately below.

i) TKP (non-consolidated basis)

	(Million yen)		
	Six months ended in August 2020	Six months ended in August 2021	YoY change
Net sales	10,672	12,325	+15.5%
Gross profit	2,158	3,817	+76.9%
Sales, General & Administrative Expenses	4,035	3,753	(7.0%)
EBITDA	(1,418)	521	-
Operating profit (loss)	(1,877)	64	-

During the second quarter that ended in August 2021, TKP opened two new facilities and closed two facilities as the leasing contracts for these locations expired. As a result, TKP is operating 241 facilities as of the end of August 2021.

Related to the office-wide COVID-19 vaccination program that officially started from June 21, 2021, TKP had made significant social contributions such as partial free-of-charge use of our facilities for such vaccination projects, as well as setting up and operating “TKP office-wide vaccination centers” to support many corporates at our 20 locations nation-wide. As a result of such efforts, Japan’s vaccination rate quickly rose. Furthermore, as a result of these efforts, our own utilization rate also increased, and many users started to repeatedly utilize our rental facilities for their regular meeting rooms. Therefore, sales per tsubo, which is KPI for TKP’s rental meeting business, rose by 9,432 yen from the same period last year.

With regard to APA hotel business, which was significantly negatively affected by the pandemic, starting from February this year, we have managed to lease out four out of ten APA Hotels we operate to the relevant authorities as accommodation & treatment facilities for mild cases of COVID-19 patients. These four hotels are “APA Hotel Hakata Higashi Hie Ekimae,” “APA Hotel Sendai Ekikita,” “APA Hotel Fukuoka Tenjin Nishi,” and “APA Hotel TKP Nippori Ekimae.” They are already making positive profit contributions. In particular, at our “APA Hotel Sendai Ekikita,” the attached facility, “TKP Garden City Sendai Ekikita” has been used for “Antibody Cocktail Treatment Center” ever since September 6th, 2021.

As a result of these efforts and measures, net sales for the first half of this fiscal year reached 12,325 million yen (up 15.5% from a year earlier), EBITDA turned around to be positive 521 million yen (EBITDA was negative 1,418 million yen last year), partly thanks to the fixed cost reduction we started to implement from last year. Operating profit turned out to be 64 million yen (we lost 1,877 million yen last year as operating loss).

Sales per tsubo for meeting rooms		(yen)	
	Average in Q1	Average in Q2	
FY ended in Feb. 2021 (A)	24,476	20,255	
FY ended in Feb. 2022 (B)	22,825	29,687	
(B) – (A)	(1,651)	9,432	

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 2020	Six months ended in August 2021	YoY change
Net sales	8,831	8,585	(2.8%)
Gross profit	2,987	2,289	(23.3%)
Sales, General & Administrative Expenses	2,549	2,727	+7.0%
EBITDA	1,975	1,071	(45.8%)
Operating profit (loss)	+437	(437)	-

(note) For calculation of SG&A expenses, operating profit (loss), we added amortization of goodwill & intangible assets such as customer related assets, all related to the acquisition of Regus Japan to SG&A expenses.

During the second quarter that ended in August 2021, Regus Japan opened three new facilities. As a result, it is operating 167 facilities as of the end of August 2021.

Since the average contract length is between 12 to 18 months, which is longer than TKP's rental meeting room business, the negative impacts of the pandemic was limited during the course of the first half of the last fiscal year. However, after that, Regus Japan started to suffer from certain level of top line reduction eventually. Such revenue slide stopped at the end of the February 2021, and it is on the recovery trend now.

Anticipating further growth of the flexible office market in the future, we are actively opening up new facilities. With such ambitious move, expenses such as rent payment for the new locations, personnel cost, as well as advertisement and promotion spending, are on the rising trend. We are of the view that the flexible office market in Japan is rapidly enlarging as many companies in Japan are, sparked by the pandemic as a catalyst, reducing the HQ space and actively promoting new working styles such as working from home or working from satellite offices.

At Regus Japan, as a part of our brand strategy, we are actively promoting our highest brand "SPACES" by opening up entire building type facilities in major cities like central Tokyo, where we expect sizable market demand. By doing so, we are going to further improve brand awareness of Regus Japan. With improved brand awareness, we should see occupancy rate improvements at "SPACES," mainstay "Regus," and unmanned office brand "Openoffice." Also, at the time of new opening, we are actively hedging risk and reducing our expenses such as an introduction of variable rent structures and asking the property owners to pay certain amount of renovation charges. Due to the pandemic, we are beginning to observe that the property owners are beginning to accept such leasing conditions that are generally advantageous to the tenant side. We firmly believe that these contract structures are going to create sound profit foundations for Regus Japan in the future.

As a result of such actions, as of the end of this August, the average occupancy rate of all the Regus Japan's facilities, which is an important KPI, turned out to be 69.8%. Despite active new openings, which tend to work negatively for the blended occupancy rate, it rose by 2.4% from a year earlier. Net sales dropped by 2.8% to reach 8,585 million yen. EBITDA finalized at 1,071 million yen, a reduction of 45.8%. Operating loss, after deducting amortization of goodwill related to the acquisition (1,146 million yen), came in at 437 million yen. Last year, we made 437 million yen of operating profit.

Occupancy rate trend at Regus Japan

FY		Q1	Q2	Q3	Q4
Feb. '21	All the facilities	75.8%	71.5%	68.5%	67.5%
	Less than two years since opening	42.1%	37.3%	37.6%	42.2%
	More than two years since opening	81.5%	79.0%	76.2%	74.2%
Feb. '22	All the facilities	67.4%	69.8%	-	-
	Less than two years since opening	46.7%	54.4%	-	-
	More than two years since opening	73.4%	74.4%	-	-
Y-Y change in all the facilities		(8.4pt)	(1.7pt)	-	-

The management team once again recognized that the value of the TKP Group is to solve social problems by providing integrated solutions through our nation-wide network of our facilities with value-added contents. The successful experience in “TKP office-wide Vaccination Center” project reaffirmed this idea. Going forward, we will continue to provide space regeneration operation in line with social requirements. As a leader in this space regeneration & distribution business, we will continue to identify office space demand and obtain, develop or tie-up with the third parties to create variety of value-added contents.

(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 2,035 million yen from the end of last fiscal year to become 19,337 million yen. Main reason for this is a reduction of cash & deposits by 2,882 million yen.

(Non-current assets)

Non-current assets as of the end of this quarter dropped by 5,887 million yen from the end of last fiscal year to become 89,696 million yen. Main reasons for this include reduction of land by 2,607 million yen, reduction of customer-related assets by 1,864 million, reduction of goodwill by 1,125 million.

(Current liabilities)

Current liabilities as of the end of this quarter dropped by 7,946 million yen from the end of last fiscal year to become 19,008 million yen. Main reasons for this include reduction of current portion of long-term borrowings by 4,657 million yen and reduction of income taxes payable by 2,588 million yen.

(Non-current liabilities)

Non-current liabilities as of the end of this quarter dropped by 4,392 million yen from the end of last fiscal year to become 50,457 million yen. Main reasons for this include reduction of long-term borrowings by 2,934 million yen and reduction of corporate bond by 897 million yen.

(Net assets)

Net assets as of the end of this quarter rose by 4,425 million yen from the end of last fiscal year to become 39,567 million yen. Main reasons for this include an increase in paid-in capital by 3,252 million yen, an increase of capital surplus by 3,252 million yen, and a drop of retained earnings by 2,133 million yen.

(ii) Overview of cash flow

During the six-month period that ended in August 2021, cash and cash equivalents (hereinafter referred to as “cash”) dropped by 2,882 million yen to become 12,312 million yen. The status of each cash flow and their factors are as follows.

(Cash flow from operating activities)

Cash flow from operation was net outflow of 3,028 million yen (net inflow of 3,112 million yen was recorded during the same period last year). Main factors include pretax loss of 2,282 million yen, reduction of unpaid consumption tax of 989 million yen, and payment of corporate tax of 3,032 million. On the other hand, there was an adjustment of non-cash items of 4,505 million yen.

(Cash flow from investment activities)

Net cash inflow from investment activities was 2,007 million yen (357.9% increase from the same period last year). Main factor was disposition of tangible assets which created 2,930 million yen, although acquisition of tangible assets of 821 million yen was recorded during the period.

(Cash flow from financing activities)

Net cash outflow from financing activities was 1,887 million yen (1,234 million yen inflow was recorded for the same period last year). Main factors include repayment of long-term debts of 7,791 million yen and redemption of corporate bond of 452 million yen, as well as inflow of 6,482 million yen from new equity issuance derived from exercise of share subscription rights.

(3) Explanation on future outlook including consolidated profit forecast

For the full year forecast, we have issued “notice concerning profit forecast revision and its announcement” as of October 6th, 2021.

2. Consolidated quarterly financial statements and notes
 (1) Consolidated quarterly balance sheets

(Million yen)

	Previous fiscal year (Feb. 28, 2021)	First six months of this fiscal year (Aug. 31, 2021)
Assets		
Current assets		
Cash and deposits	15,195	12,312
Accounts receivables	3,318	2,846
Others	2,875	4,199
Allowance for doubtful debts	(17)	(21)
Total current assets	21,373	19,337
Non-current assets		
Property, plant & equipment		
Buildings and structures, net	24,805	24,715
Tools, furniture and fixtures, net	973	924
Lease assets, net	2,524	2,504
Land	10,193	7,585
Construction in progress	219	12
Others, net	18	14
Total property, plant & equipment	38,735	35,757
Intangible assets		
Goodwill	37,102	35,976
Customer related assets	4,945	3,080
Others	148	102
Total intangible assets	42,196	39,159
Investments and other assets		
Investment securities	1,326	1,404
Leasehold and guarantee deposits	9,998	10,040
Deferred tax assets	2,251	2,315
Others	1,064	1,018
Total investments and other assets	14,641	14,778
Total non-current assets	95,573	89,696
Total assets	116,946	109,033

(Million yen)

	Previous fiscal year (February 28 th , 2021)	First six months of this fiscal year (August 31 st , 2021)
Liabilities		
Current liabilities		
Accounts payable	706	774
Short-term borrowings	-	8
Current portion of corporate bonds	855	1,300
Current portion of long-term borrowings	11,048	6,390
Income taxes payable	3,157	568
Others	11,187	9,965
Total current liabilities	26,955	19,008
Non-current liabilities		
Corporate bond	3,634	2,736
Long-term borrowings	44,480	41,546
Asset disposition related obligations	2,628	2,431
Deferred tax liabilities	1,510	964
Lease obligations	1,770	2,115
Others	823	662
Total non-current liabilities	54,849	50,457
Total liabilities	81,804	69,465
Net assets		
Shareholders' equity		
Paid-in capital	12,448	15,701
Capital surplus	14,466	17,718
Retained earnings	6,128	3,994
Treasury shares	(17)	(17)
Total shareholders' equity	33,025	37,397
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	277	331
Deferred gains or loss on hedges	△111	△107
Foreign currency translation adjustment	28	64
Total accumulated other comprehensive income	194	288
Share acquisition rights	75	54
Non-controlling interests	1,846	1,827
Total net assets	35,142	39,567
Total liabilities and net assets	116,946	109,033

(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 1 st , 2020 to August 31 st , 2020)	First half this year (From March 1 st , 2021 to August 31 st , 2021)
Net sales	20,544	21,955
Cost of sales	15,481	15,677
Gross profit	5,062	6,277
Selling, general and administrative expenses	7,076	6,775
Operating profit (loss)	(2,013)	(498)
Non-operating income		
Interest income	1	1
Dividend income	3	1
Compensations	193	16
Subsidies	244	82
Others	87	42
Total non-operating income	529	143
Non-operating expenses		
Interest on borrowings	284	280
Interest on corporate bonds	10	8
Commission paid	200	60
Foreign exchange loss	22	4
Others	117	36
Total non-operating expenses	635	391
Ordinary profit (loss)	(2,119)	(746)
Extraordinary gains		
Fixed asset disposition related gains	710	322
Subsidy for employment adjustment	233	-
Others	-	12
Total extraordinary gains	943	334
Extraordinary losses		
Evaluation losses on investment securities	180	-
Impairment	548	1,761
Losses related to COVID-19 pandemic	252	-
Others	179	109
Total extraordinary losses	1,161	1,870
Profit (Loss) before income tax	(2,337)	(2,282)
Income taxes	705	458
Income taxes -adjustment	(645)	(635)
Total income taxes	59	(176)
Net profit (loss)	(2,397)	(2,106)
Net profit (loss) attributable to non-controlling interests	6	27
Net profit (loss) attributable to owners of parent	(2,403)	(2,133)

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

(Million yen)

	First half previous year (From March 1 st , 2020 to August 31 st , 2020)	First half this year (From March 1 st , 2021 to August 31 st , 2021)
Net profit (loss)	(2,397)	(2,106)
Other comprehensive income		
Valuation difference on other marketable securities	21	53
Deferred gains or losses on hedges	61	4
Foreign currency translation adjustment	(40)	35
Total other comprehensive income	42	93
Comprehensive income	(2,354)	(2,012)
(Breakdown)		
Comprehensive income attributable to owners of parent	(2,360)	(2,039)
Comprehensive income attributable to non-controlling interests	6	27

(3) Quarterly consolidated statement of cash flows

(Million yen)

	First half previous year (From March 1 st , 2020 to August 31 st , 2020)	First half this year (From March 1 st , 2021 to August 31 st , 2021)
Cash flows from operating activities		
Profit (loss) before income taxes	(2,337)	(2,282)
Depreciation	1,342	1,428
Depreciation expense of customer related assets	269	228
Amortization of goodwill	1,093	1,085
Loss on retirement of non-current assets	74	0
Loss (gain) on valuation of investment securities	180	—
Gain on sales of non-current assets	(710)	(322)
Impairment loss	548	1,761
Interest and dividend income	(4)	(2)
Interest expenses on borrowings and bonds	294	289
Decrease (increase) in trade receivables	1,587	473
Decrease (increase) in prepaid expenses	(20)	(20)
Increase (decrease) in trade payables	(299)	68
Increase (decrease) in accounts payable - other	78	(787)
Increase (decrease) in accrued expenses	365	(522)
Increase (decrease) in advances received	(135)	217
Increase (decrease) in accrued consumption taxes	470	(989)
Increase (decrease) in income taxes payable - factor based tax	165	(342)
Other, net	547	(236)
Subtotal	3,513	47
Interest and dividends received	4	2
Interest paid	(293)	(291)
Income taxes paid	(208)	(3,032)
Income taxes refund	97	245
Net cash provided by (used in) operating activities	3,112	(3,028)
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,243)	(821)
Proceeds from sales of property, plant and equipment	1,481	2,930
Purchase of investment securities	(572)	-
Payments of leasehold and guarantee deposits	(247)	(363)
Proceeds from refund of leasehold and guarantee deposits	3,171	335
Others	(150)	(74)
Net cash provided by (used in) investing activities	438	2,007
Cash flows from financing activities		
Issuance of new equities from exercise of share subscription rights	34	6,482
Proceeds from long-term borrowings	4,805	200
Repayments of long-term borrowings	(4,653)	(7,791)
Repayments of lease obligations	(225)	(285)
Redemption of bonds	(520)	(452)
Proceeds from share issuance to non-controlling shareholders	1,800	-
Other, net	(6)	△40
Net cash provided by (used in) financing activities	1,234	(1,887)
Effect of exchange rate change on cash and cash equivalents	88	26
Net increase (decrease) in cash and cash equivalents	4,874	(2,882)
Cash and cash equivalents at beginning of period	9,131	15,195
Cash and cash equivalents at end of period	14,006	12,312

(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)

During the first six months for this fiscal year, paid-in capital and capital surplus rose by 3,252 million yen, respectively due to the executions of share acquisition rights (#4 tranche & #7 tranche). As a result of these actions, our paid-in capital rose to 15,701 million yen and our capital surplus amounted to 17,718 million yen.

(additional information)

(Financial covenants)

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 31 st , 2021)
Contract amount		¥1,750 million
Balance	Current portion of long-term borrowings	¥240 million
	Long-term borrowings	¥143 million

At the end of the fourth quarter of the fiscal year that ended on February 28, 2021, 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.

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: $\alpha \leq 6.50$
First half ending August 31, 2020: $\alpha \leq 6.25$
Fiscal year ending February 28, 2021: $\alpha \leq 6.00$
First half ending August 31, 2021: $\alpha \leq 5.75$
Fiscal year ending February 28, 2022: $\alpha \leq 5.50$
First half ending August 31, 2022: $\alpha \leq 5.25$
Fiscal year ending February 28, 2023: $\alpha \leq 5.00$
First half ending August 31, 2023: $\alpha \leq 4.75$
Fiscal year ending February 29, 2024: $\alpha \leq 4.50$
First half ending August 31, 2024: $\alpha \leq 4.25$

* 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 31 st , 2021)
Contract amount		¥25,000 million
Balance	Current portion of long-term borrowings	¥2,004 million
	Long-term borrowings	¥14,001 million

At the end of the first half of the fiscal year that ending on February 28, 2022, we did not meet the terms of the financial covenants attached to the aforementioned syndicated loan. However, the financial institutions are expected to agree to waive their claims to forfeit the benefit of time.

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: $\alpha \leq 6.50$
First half ending August 31, 2020: $\alpha \leq 6.25$
Fiscal year ending February 28, 2021: $\alpha \leq 6.00$
First half ending August 31, 2021: $\alpha \leq 5.75$
Fiscal year ending February 28, 2022: $\alpha \leq 5.50$
First half ending August 31, 2022: $\alpha \leq 5.25$
Fiscal year ending February 28, 2023: $\alpha \leq 5.00$
First half ending August 31, 2023: $\alpha \leq 4.75$
Fiscal year ending February 29, 2024: $\alpha \leq 4.50$
First half ending August 31, 2024: $\alpha \leq 4.25$

* 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 31 st , 2021)
Contract amount		¥2,500 million
Balance	Current portion of long-term borrowings	¥250 million
	Long-term borrowings	¥1,937 million

At the end of the first half of the fiscal year that ending on February 28, 2022, we did not meet the terms of the financial covenants attached to the aforementioned syndicated loan. However, the financial institutions are expected to agree to waive their claims to forfeit the benefit of time.

(Impact of COVID-19 pandemic)

We are currently still experiencing negative impacts from the pandemic including the reduction in demand for rental meeting / conference room as well as accommodations / food & beverages. As a result, our financial position, business performance and cash flows were negatively affected. Although the overall economy is gradually recovering from the large-scale economic recession during the first round of state of emergency which was issued on April 2020, the outlook for the economy to our future business performance remains unclear.

Amid such environment, based upon currently available information and intelligence, we assume that although we are going to be negatively impacted during the course of this fiscal year, the pandemic will be eventually subdued toward the end of February 2022. Alongside with this, we also assume that our own business performance will improve.

Based on these assumptions, we estimated future cash flows—an important component of accounting estimates—with regard to impairment losses on non-current assets (including goodwill). As a result, we booked an impairment loss on non-current assets of 1,751 million yen at the end of the first quarter of the year ending on February 28, 2022. In addition to that, we decided to impair additional 10 million yen for non-current assets. Therefore, the impairment amount for the entire first half turned out to be 1,761 million yen.

The aforementioned assumptions are subject to a high degree of uncertainty, and if the COVID-19 pandemic takes longer to subside due possibly to the variants or others, and if the negative impacts to us prolongs, we may record additional impairment losses in the future.

(sub-segment information)

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

(Significant subsequent events)

Not applicable

3. Others

Significant events regarding premise of going concern, etc.

In the first six months of the fiscal year ending February 28, 2022, the TKP Group posted an ordinary loss of 746 million yen due to impact of the COVID-19 pandemic. As the Group did not meet some of the financial covenants attached to a syndicated loan, there are events or conditions that raise significant doubts regarding the Group's ability to continue as a going concern.

With regard to the major businesses we operate such as rental meeting rooms and hotels / food & beverage catering services, we are significantly negatively affected by a drop in market demand as the frequent & nation-wide declaration of state of emergency or quasi-state of emergency derived from the pandemic is decreasing the level of social and economic activities in Japan. In order to improve this situation, we are implementing the following countermeasures.

(Business countermeasures)

- The Group decided to outsource food and beverage catering services
- The Group decided to lease out rental meeting rooms as rental offices
- The Group decided to set up vaccination centers to improve the vaccination rate in Japan

(Financial countermeasures)

- The Group reduced fixed costs
- The Group sold a certain size of tangible assets
- The Group concluded committed credit line and overdraft agreements
- The Group issued moving strike share subscription rights to a third party

Thanks to the above-mentioned countermeasures, the Group has secured cash & deposits and credit limit way above 12 month equivalent working capital requirements. In addition to that, the commercial bankers are anticipated to waive their claims to forfeit the benefit of time resulting from the violation of financial covenants.

In light of the above, the TKP Group has determined that significant uncertainty regarding the premise of its going concern is not justified.