

Consolidated Financial Results for the Fiscal Year Ended March 31, 2022

[Japanese GAAP]

June 8, 2022

Company name: HOPE, INC.	Listing: TSE /FSE Q-Board
Stock code: 6195	URL: https://www.zaigenkakuho.com/en/ir
Representative: Takayasu Tokitsu, CEO	
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Scheduled date of Annual General Meeting of Shareholders:	June 30, 2022
Scheduled date of filing of Annual Securities Report:	June 30, 2022
Scheduled date of payment of dividend:	-
Preparation of supplementary materials for financial results:	Yes
Holding of financial results meeting:	Yes (for institutional investors and analysts)

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Fiscal Year Ended March 31, 2022 (July 1, 2021 to March 31, 2022)

(1) Consolidated results of operations (Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year ended Mar. 31, 2022	35,630	-	(16,651)	-	(16,731)	-	(19,730)	-
Fiscal year ended Jun. 30, 2021	34,615	-	(6,895)	-	(6,935)	-	(6,978)	-

Note: Comprehensive income (millions of yen) Fiscal year ended Mar. 31, 2022: (19,731) (-%)

Fiscal year ended Jun. 30, 2021: (6,976) (-%)

	Net income per share	Diluted net income per share	Return on equity	Ordinary profit to total assets	Operating profit to net sales
	Yen	Yen	%	%	%
Fiscal year ended Mar. 31, 2022	(1,952.73)	-	-	(269.9)	(46.7)
Fiscal year ended Jun. 30, 2021	(1,109.09)	-	-	(63.3)	(19.9)

Reference: Equity in earnings of affiliates (millions of yen) Fiscal year ended Mar. 31, 2022: -

Fiscal year ended Jun. 30, 2021: -

Notes: 1. Diluted net income per share is not presented because net loss was posted although there were outstanding dilutive shares.

2. Year-on-year changes for the fiscal years ended Jun. 30, 2021 are not presented because HOPE,INC. started preparing consolidated financial statements from the fiscal year ended Jun. 30, 2021. In addition, ordinary profit to total assets were calculated based on total assets at the end of the fiscal year, respectively, since the fiscal year ended Jun. 30, 2021 is the first fiscal year the consolidated financial statements were prepared.

3. With the change of the business year, the fiscal year ended Mar. 31, 2022 is a period of nine months, from Jul.1, 2021 through Mar. 31, 2022. Accordingly, comparisons with the previous fiscal year are not presented.

4. HOPE,INC. has applied the Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan (ASBJ) Statement No. 29, Mar. 31, 2020) from the beginning of the current fiscal year.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of Mar. 31, 2022	1,432	(5,602)	(391.9)	(500.72)
As of Jun. 30, 2021	10,964	(2,498)	(23.1)	(326.50)

Reference: Shareholders' equity (millions of yen) As of Mar. 31, 2022: (5,615) As of Jun. 30, 2021: (2,530)

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Fiscal year ended Mar. 31, 2022	266	(24)	1,176	906
Fiscal year ended Jun. 30, 2021	(2,847)	4	3,475	1,921

2. Dividends

	Dividend per share					Total dividends	Dividend payout ratio (consolidated)	Dividends on equity (consolidated)
	1Q-end	2Q-end	3Q-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Fiscal year ended Jun. 30, 2021	-	0.00	-	0.00	0.00	-	-	-
Fiscal year ended Mar. 31, 2022	-	0.00	-	0.00	0.00	-	-	-
Fiscal year ending Mar. 31, 2023 (forecasts)	-	-	-	-	-		-	

Notes: 1. The dividend forecast for the fiscal year ending Mar. 31, 2023 is to be determined.

2. With the change of the business year, the fiscal year ended Mar. 31, 2022 is a period of nine months, from Jul. 1, 2021 through Mar. 31, 2022.

3. The dividend reference date is altered to Mar. 31 due to the change in the fiscal year end effective from the fiscal year ended Mar. 31, 2022.

3. Consolidated Earnings Forecast for the Fiscal Year Ending March 31, 2023 (April 1, 2022 to March 31, 2023)

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
First half	1,076	-	88	-	82	-	61	-	5.52
Full year	1,995	-	126	-	105	-	76	-	6.80

Note: With the change of the business year, the fiscal year ended Mar. 31, 2022 is a period of nine months, from Jul. 1, 2021 through Mar. 31, 2022. Accordingly, comparisons with the previous fiscal year are not presented.

* Notes

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation): Yes

Newly added: 2 (JICHITAI AD, INC., JICHITAI WORKS, INC.) Excluded: 1 (HOPE ENERGY, INC.)

(2) Changes in accounting policies and accounting estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others: Yes

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting estimates: None

4) Restatements: None

Note: Please refer to the section "3. Consolidated Financial Statements and Notes, (5) Notes to Consolidated Financial Statements, Changes in Accounting Policies, Application of the Accounting Standard for Revenue Recognition" on page 19 of the attachments for further information.

(3) Number of shares outstanding (common shares)

1) Number of outstanding shares as of the end of the period (including treasury shares)

As of Mar. 31, 2022: 11,239,500 shares As of Jun. 30, 2021: 7,775,100 shares

2) Number of treasury shares as of the end of the period

As of Mar. 31, 2022: 24,981 shares As of Jun. 30, 2021: 24,981 shares

3) Average number of outstanding shares during the period

Fiscal year ended Mar. 31, 2022: 10,104,289 shares Fiscal year ended Jun. 30, 2021: 6,292,514 shares

(Reference) Overview of Non-consolidated Financial Results

Non-consolidated Financial Results for the Fiscal Year Ended March 31, 2022 (July 1, 2021 to March 31, 2022)

(1) Non-consolidated results of operations

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year ended Mar. 31, 2022	20,618	-	(4,453)	-	(4,485)	-	(4,501)	-
Fiscal year ended Jun. 30, 2021	34,615	140.3	(6,892)	-	(6,924)	-	(6,967)	-

	Net income per share	Diluted net income per share
	Yen	Yen
Fiscal year ended Mar. 31, 2022	(445.48)	-
Fiscal year ended Jun. 30, 2021	(1,107.25)	-

Note: With the change of the business year, the fiscal year ended Mar. 31, 2022 is a period of nine months, from Jul. 1, 2021 through Mar. 31, 2022. Accordingly, comparisons with the previous fiscal year are not presented.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of Mar. 31, 2022	1,201	(5,493)	(458.2)	(491.01)
As of Jun. 30, 2021	10,975	(2,486)	(22.9)	(325.01)

Reference: Shareholders' equity (millions of yen) As of Mar. 31, 2022: (5,506) As of Jun. 30, 2021: (2,518)

* The current financial report is not subject to the audit by certified public accountants or auditing firms.

* Explanation of appropriate use of earnings forecasts, and other special items

- Forecasts of future performance in these materials are based on assumptions judged to be valid and information available to the management of HOPE, INC. at the time these materials were prepared. Actual results of operations may differ from forecasts due to uncertainty involving these judgments and assumptions or to changes in business operations and market conditions. HOPE, INC. does not guarantee the certainty of any forward-looking statements.

- The "Business Plan and Growth Potential" (Dec. 6, 2021) was scheduled to be updated between mid-Aug. to the end of Sep. 2022. However, because of the change in our fiscal year end (from Jun. 30 to Mar. 31) which was approved at the extraordinary shareholders' meeting held on Mar. 24, 2022 the update was released simultaneously with the announcement of financial results for the fiscal year ended Mar. 2022.

Contents of Attachments

1. Overview of Results of Operations	2
(1) Results of Operations	2
(2) Financial Position	5
(3) Cash Flows	6
(4) Outlook	7
(5) Significant events regarding premise of a going concern	8
2. Basic Approach to the Selection of Accounting Standards	9
3. Consolidated Financial Statements and Notes	10
(1) Consolidated Balance Sheet	10
(2) Consolidated Statements of Income and Comprehensive Income	12
Consolidated Statement of Income	12
Consolidated Statement of Comprehensive Income	13
(3) Consolidated Statement of Changes in Equity	14
(4) Consolidated Statement of Cash Flows	16
(5) Notes to Consolidated Financial Statements	18
Going Concern Assumption	18
Reclassifications	18
Business Combinations	18
Changes in Accounting Policies	19
Additional Information	20
Segment and Other Information	22
Per-share Information	24
Material Subsequent Events	25

1. Overview of Results of Operations

(1) Results of Operations

The extraordinary shareholders meeting held on March 24, 2022 approved a proposal for amendment to the Articles of Incorporation to change the fiscal year end from June 30 to March 31. This resulted in a transitional nine-month fiscal period beginning on July 1, 2021 and ending on March 31, 2022.

Year-to-year percentage changes are not presented because the period of the current fiscal year differs from that of the previous fiscal year.

The drawn-out effects of the COVID-19 pandemic continued to impact the Japanese economy during the current fiscal year (July 1, 2021 to March 31, 2022). While the restrictions on movement of people were eased gradually following the lifting of all emergency declarations nationwide at the end of September 2021, the outlook for Japan's economy remains unclear.

Translating the HOPE Group's corporate philosophy into actions and achieving more growth of corporate value will require an intent focus on our relationships with local governments. We have been using our business activities since our inception to increase the number of these relationships, which are a key strength of ours. Our objectives are the growth of existing businesses and creation of new businesses in two ways. The first is creating new businesses that can be easily reproduced in many fields while accurately responding to new and amended laws. The second is the easy reproduction of business expansion in the local government business domain. Taking these actions will allow us to support local governments as they create a self-reliant and sustainable social framework that utilize the distinctive strength and characteristics of individual communities. Moreover, we believe these actions will result in the realization of the HOPE Group's corporate philosophy accompanied by the growth of corporate value.

On August 11, 2020, HOPE, INC. started HOPE NEXT 3, a three-year medium-term management plan beginning in the fiscal year that ended in June 2021. To accomplish the goals of this plan, many business activities with the aim of medium-term growth are under way. Between the middle of December 2020 and late January 2021, the price of electricity on the Japan Electric Power Exchange (JEPX) was very high. This big increase in the cost of electricity had an enormous negative impact on the performance of the energy business, which is the HOPE Group's largest business segment. There was negative equity of about 2.5 billion yen at the end of June 2021. Subsequently, there was an imbalance fee of approximately 6.5 billion yen (tax inclusive) for January 2021 and this was the primary cause of the negative equity. In response, the Company raised funds through equity finance, including the issuance of shares by third-party allotment announced on August 27, 2021, and the issuance and subsequent exercise of the eleventh share acquisition rights with a clause to amend exercise price. We were thus able to perform our obligations on schedule and make progress toward eliminating negative equity. Payments to utilities were also completed in December 2021. However, since mid-October 2021, the price of electricity on the JEPX has been higher than what the Group expected. As a result, the cost of sales and accounts payable-trade in the energy business increased significantly and negative equity rose to more than 8 billion yen at the end of the second quarter. The price of electricity has remained largely unchanged from January 2022 onward.

In this environment, we took actions to ensure business continuity in the energy business, considering the significant impact this business has on the Group's operations. These included suspension of bidding on energy contracts from August 2021 and reduction of risk volume. Simultaneously we conducted an absorption-type demerger of the energy business to HOPE ENERGY, INC. effective December 1, 2021, in order to set up a flexible and agile group management structure. Elsewhere, a capital tie-up with a potential sponsor company did not materialize but we continued to review options on the premise of business continuity.

Despite the measures taken on all fronts to ensure business continuity, as described in the March 22, 2022 press release titled "Termination of the Consigned Supply Agreement at HOPE ENERGY, INC., our Subsidiary Engaged in the Electricity Retail Sales Business" (Japanese version only), it has become difficult to purchase electricity due to the unparalleled electricity purchase price hikes since mid-October 2021, resulting in imbalance fees. In mid-March 2022, HOPE ENERGY, INC. failed to pay these imbalance fees and other charges due under the Wheeling Supply Agreement, and based on such default, the Wheeling Supply Agreements with all

transmission and distribution utilities with whom HOPE ENERGY, INC. does business were terminated at midnight on March 22, 2022. The cancellation penalty and compensation for damages due to the termination of these contracts are recorded as an extraordinary loss.

As it became practically impossible for HOPE ENERGY, INC. to continue operations, we came to the conclusion that filing a petition for commencement of court-ordered bankruptcy proceedings would be most appropriate option. As stated in the "Notice of Decision to Commence Bankruptcy Proceedings for Consolidated Subsidiary" released on March 28, we filed petition for commencement of bankruptcy proceedings on March 25, and the court ordered commencement of bankruptcy proceedings on the same day.

Business operations have been reorganized for the purposes of maintaining speed and agility and of establishing a management framework that can allocate the HOPE Group's resources in a suitable manner and implement strategies involving finances and equity. One step was the establishment on December 1, 2021 of two subsidiaries to operate businesses transferred from HOPE,INC.. JICHITAI AD, INC. is now operating the advertising business and JICHITAI WORKS, INC. is now operating the Jichitai Works business. Due to the spinoff of these businesses, HOPE,INC. became a holding company on December 1, 2021.

We continue to position the advertising business as a profit-generating business of the HOPE Group and are continuing to work on achieving the proper size of this business to improve profitability. One goal is reducing over the medium term the high percentage of fiscal year earnings of this business by season. These steps are aimed at making the advertising business more cost efficient and receiving higher rates for advertising services. In the Jichitai Works business, the market for promotions targeting local governments still has much potential for more public-private sector collaboration and measures to increase competition. Our goal is to position ourselves at the very top of upstream information flows in order to capitalize on opportunities involving this potential. This business is upgrading content, strengthening information dissemination capabilities and reinforcing the ability to keep up with the latest information. The objective is firmly establishing the value of the Jichitai Works brand in order to stimulate more growth of the market for promotions targeting local governments. In addition, we believe that these activities will make possible even more public-private sector collaboration based on government information circulation centered on the HOPE Group as well as the use of local government information databases for strengthening, supporting and creating business activities. We will use many activities to accomplish these goals. These measures will include upgrading and expanding our content production capabilities, increasing activities for B-to-G solutions (former B-to-G marketing) and making extensive use of Jichitai Works HA×SH, which is an internet platform for supporting public-private sector collaboration.

In addition, the Extraordinary General Meeting of Shareholders held on March 24, 2022 approved "Partial Amendment to the Articles of Incorporation." Accordingly, the probation period for delisting due to for insolvency will expire on March 31, 2023. We will continue to place the highest priority on eliminating negative equity. To secure funds for the entire Group, in addition to the fund procurement actions announced and implemented to date, we plan to maintain sound relationships with financial institutions, our main bank in particular, and strive to secure funds while at the same time weighing multiple options to restructure "HOPE NEXT 3" eliminate negative equity.

In the fiscal year ended March 31, 2022, net sales were 35,630 million yen. The operating loss was 16,651 million yen, the ordinary loss was 16,731 million yen, and there was a loss attributable to owners of parent of 19,730 million yen.

Business segment performance was as follows.

As stated above, HOPE ENERGY, INC. is excluded from the scope of consolidation following the approval of our petition to commence bankruptcy proceedings on March 25, 2022. Only its income statement from July 1, 2021 to March 25, 2022 are included in the consolidation. The results of operation of HOPE ENERGY, INC's energy business are therefore in the consolidated income statement.

The media business was renamed the Jichitai Works business from the current fiscal year. There is no effect on the segment information because only the segment name has been changed.

1) Advertising Business

In this business, the Smart Resource service purchases a variety of advertising space from local governments by submitting competitive bids and then sells this space to companies. In addition, we jointly produce with local governments Machilet publications for residents at no cost and sell advertising space in these publications to companies. As was explained earlier, activities are under way to achieve the proper size of this business in order to improve profitability. Machilet, which is a major medium of the HOPE Group, is published in all areas of Japan with content centered mainly on themes: raising children, senior nursing care, abandoned houses, end-of-life messages, and condolence messages.

A decision has also been made that JICHITAI AD, INC. will continue to provide operational support for JMA website advertisements for one year from April 2022. Another initiative is a "Proposal-based Naming Rights Partnership Agreement" with Kitakyushu City in which we will work with the city to publicize the project, support sponsor companies, develop proposals, and take other relevant actions. We aim to present a broad range of advertising proposals through the naming rights system and invite private companies to name facilities owned by local governments.

Segment sales were 935 million yen and the segment profit was 101 million yen.

2) Energy Business

We entered the electricity retail sales business in March 2018 with the goal of reducing the expenses of local governments by providing new forms of value based on the concept of electricity as a generic product. The business has been growing steadily. On October 22, 2020, HOPE, INC. established wholly owned subsidiary HOPE ENERGY, INC. with the goals of the growth of the energy business, more business flexibility concerning various transactions, and conducting activities involving clean energy. As was explained earlier, there was an abnormal increase in the purchase price of electricity on JEPX between the middle of December 2020 and late January 2021 and as a result, there was a significant temporary loss. After this spike in the cost of electricity had largely ended, we determined measures to take for the stability of energy business earnings, stronger governance and other revisions to the framework for operating this business. One measure was the transfer of the electricity retail sales business to HOPE ENERGY, INC. on December 1, 2021. This was announced on August 11, 2021 in a news release titled "Notice of Company Split (Absorption-type Split)." We believe HOPE ENERGY, INC. should directly operate all energy operations because of the quantitative and qualitative importance of the energy business and the specialized knowledge required by this business. In addition, the spinoff of the retail electricity gives the HOPE Group a management structure with more speed and flexibility that is expected to contribute to the group's sustained growth and the medium to long-term growth of corporate value. However, starting in October 2021, electricity purchase prices on JEPX stayed at levels higher than we expected and the high cost of purchasing electricity had a severe impact on our business operations. In response, we decided to suspend our participation in bidding for local government electricity supply contracts to reduce risk volume since August 2021. As explained above, the business climate for the energy business stayed challenging until it became impossible to continue operations. This led to the decision by HOPE ENERGY, INC. on March 25, 2022 to submit a petition for commencement of bankruptcy proceedings.

Segment sales were 34,459 million yen and the segment loss was 16,416 million yen.

As noted above, HOPE ENERGY, INC. submitted a petition for commencement of bankruptcy proceedings on March 25, 2022, and a decision to commence bankruptcy proceedings was made on the same day. Therefore, the aforementioned net sales and segment loss of the energy business are from July 1, 2021, the beginning of the consolidated fiscal year, to March 25, 2022, the date of the decision to commence bankruptcy proceedings.

3) Jichitai Works Business

Jichitai Works is positioned as a brand that encompasses a variety of HOPE Group's services for facilitating cooperation between the public and private sectors based on the concept of "invigoration for experiences and people concerning local government jobs."

For about four years, this business has been distributing Jichitai Works magazine, which is the HOPE Group's original publication. This publication contains hints, ideas information, stories about innovations and other useful information for local government employees. In addition to the Jichitai Works magazine, this business has three order-made media to meet the budgets and requirements of individual companies: (1) Special editions; (2) PICKS; and (3) INFO. This diversity allows us to offer a broad range of advertising media to private-sector companies with products and services for local governments. Another important element of this business is B-to-G solutions (formerly B-to-G marketing), which uses our relationships with local governments to match the needs of these governments and companies.

Starting with the regular issue (Vol. 18) of "Jichitai Works" published on March 1, 2022, we have increased the circulation from 70,000 to 115,000 and started distributing the magazine not only to local government officials but also to local assembly members.

Segment sales were 223 million yen and the segment profit was 37 million yen.

4) Other businesses

Other businesses include Machihiro, Jichitai Works HA×SH and other services that are not part of the reportable segments. Jichitai Works HA×SH has been operated by the Jichitai Works business but this activity is included in this category because Jichitai Works HA×SH is still in the investment phase.

Segment sales were 12 million yen and the segment loss was 69 million yen.

(2) Financial Position

Assets

Total assets amounted to 1,432 million yen at the end of the current fiscal year, a decrease of 9,531 million yen from the end of the previous fiscal year. This is mainly because HOPE ENERGY, INC. was excluded from the consolidation as its petition for commencement of bankruptcy proceedings was approved on March 25, 2021. Current assets amounted to 1,347 million yen, a decrease of 9,049 million yen from the end of the previous fiscal year. This was mainly due to decreases of 1,015 million yen in cash and deposits, 7,168 million yen in accounts receivable-trade, 184 million yen in advance payments-trade and 479 million yen in other under current assets mainly resulting from the effect of excluding HOPE ENERGY, INC. from the scope of consolidation. Non-current assets amounted to 85 million yen, a decrease of 481 million yen from the end of the previous fiscal year. This was mainly due to decreases of 55 million yen in other under intangible assets and 420 million yen in other under investments and other assets mainly resulting from the effect of excluding HOPE ENERGY, INC. from the scope of consolidation.

Liabilities

Liabilities totaled 7,035 million yen, a decrease of 6,427 million yen over the end of the previous fiscal year. This is mainly because HOPE ENERGY, INC. was excluded from the consolidation as its petition for commencement of bankruptcy proceedings was approved on March 25, 2021. Current liabilities amounted to 949 million yen, a decrease of 11,931 million yen from the end of the previous fiscal year. This was mainly due to decreases of 750 million yen in short-term borrowings, 202 million yen in current portion of long-term borrowings and 11,034 million yen in accounts payable-trade mainly resulting from the effect of excluding HOPE ENERGY, INC. from the scope of consolidation. Non-current liabilities amounted to 6,086 million yen, an increase of 5,503 million yen from the end of the previous fiscal year. This was mainly due to increases of 656 million yen in long-term borrowings and 4,846 million yen in special account for shares resulting from reorganization ("Special Account"). The special account was created at the time of the absorption-type demerger in compliance with the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10)" ("Guidance on Business Divestitures"), because the difference (equivalent to shareholders' equity) after deducting liabilities from assets of the business transferred from the Company to HOPE ENERGY, INC. was negative. The aforementioned special account is an equity account and is recorded as a liability since the value of the assets carried on the balance sheet is not negative.

Net assets

At the end of the current fiscal year, there were negative net assets of 5,602 million yen while there was a decrease of 3,104 million yen from the end of the previous fiscal year. This was mainly due to increases of 756 million yen in share capital and 756 million yen in legal capital surplus resulting from issuance of shares through third-party allotment and exercise of share acquisition rights, while there was the loss attributable to owners of parent of 19,730 million yen. There was an increase of 15,132 million yen in retained earnings mainly resulting from the effect of excluding HOPE ENERGY, INC. from the scope of consolidation.

(3) Cash Flows

Cash and cash equivalents (hereinafter “net cash”) as of the end of the current fiscal year amounted to 906 million yen, a decrease of 1,015 million yen from the end of the previous fiscal year. Net cash declined 2,433 million yen because HOPE ENERGY, INC. was excluded from the consolidation.

The cash flow components and the main reasons for changes are as described below.

Cash flows from operating activities

Net cash provided by operating activities totaled 266 million yen. The main factors include loss before income taxes of 19,713 million yen and a decrease of 11,034 million yen in trade payables, while there were decreases of 7,168 million yen in trade receivables, cancellation penalty of 2,542 million yen, compensation for damage of 363 million yen, an increase of 15,675 million yen in other under cash flows from operating activities, a decrease of 393 million yen in sales deposit, 4,846 million yen in the special equity account resulting from organizational restructuring. The difference between assets and liabilities resulting from the exclusion of HOPE ENERGY, INC. from the consolidation, except the special equity account resulting from organizational restructuring, is included in “Other” under cash flows from operating activities.

Cash flows from investing activities

Net cash used in investing activities totaled 24 million yen. This was mainly due to purchase of intangible assets of 22 million yen.

Cash flows from financing activities

Net cash provided by financing activities totaled 1,176 million yen. This was mainly due to proceeds from issuance of shares of 150 million yen and proceeds from issuance of shares resulting from exercise of share acquisition rights of 1,332 million yen, while there were repayments of long-term borrowings of 295 million yen and payments for issuance of shares of 22 million yen.

Other

The balance of funds at HOPE ENERGY, INC. was 2,433 million yen at the time of its exclusion from the consolidation. This amount is accounted as “Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from the consolidation” in the consolidated cash flow statement.

(4) Outlook

Drawn out effects of the COVID-19 pandemic continues to impact the Japanese economy. Following the lifting of all emergency declarations nationwide at the end of September 2021, economic activities are expected to resume and a gradual recovery is anticipated. Nevertheless, the outlook for Japan's economy remains unclear. To ensure the safety of employees and reduce the impact of this crisis on business activities, we are using teleworking and rigorous measures to prevent infections at our workplaces. We expect at this time that there will be no problem concerning the continuity of business operations. Since it is difficult to predict when the COVID-19 pandemic will end, we assume that there will be a certain level of impact of the pandemic on our business performance in the fiscal year ending March 2023.

Translating the corporate philosophy into actions and achieving more growth of corporate value will require an intent focus on our relationships with local governments. We have been using our business activities since our inception to increase the number of the relationships, which are a key strength of ours. Our objective is the growth of existing businesses and creation of new businesses in two ways. The first is creating new businesses that can be easily reproduced in many fields while accurately responding to new and amended laws. The second is the easy reproduction of business expansion in the local government business domain.

HOPE ENERGY, INC., which operates the energy business that accounts for the majority of consolidated sales, was excluded from the scope of consolidation on March 25, 2022 due to the start of bankruptcy proceedings. Consequently, we forecast a large decline in sales in the fiscal year ending in March 2023.

The advertising business and Jichitai Works business are now capable of generating consistently strong earnings due to measures to build a more powerful profit structure. For example, there have been activities to improve productivity and launch new services. As a result, we expect that the HOPE Group's earnings will increase.

The advertising business is positioned as a profit-generating business and there have been numerous measures to raise profitability by achieving the proper scale of operations. Another goal is consistently generating earnings by maintaining sales at a sufficient level and increasing productivity per employee. Due to these activities, we believe that the goal of raising profitability by revising the size of this business to the proper level has been mostly accomplished. Consequently, the goal for this business in the fiscal year ending in March 2023 is steady growth by continuing to raise productivity per employee and aiming for carefully planned renewed growth as a profit-generating business.

The Jichitai Works business has good prospects for growth because of the large volume of public-sector demand for the services of this business and the substantial potential for the enlargement of this market. One goal is generating earnings from the expansion of the B-to-G solutions sector while making the Jichitai Works brand for public-sector magazines even more powerful. Another goal is using multi-faceted business operations in order to raise the volume of services with significant added value.

From a medium to long-term perspective, we also plan to start new businesses that can become additional core businesses of the HOPE Group in the future.

In the fiscal year ending on March 31, 2023, we forecast net sales of 1,995 million yen, operating profit of 126 million yen, ordinary profit of 105 million yen, and profit attributable to owners of parent of 76 million yen.

Year-to-year percentage changes are not presented because the fiscal year to March 2022 is a transitional period due to change of the fiscal year end.

At the end of March 2022, the HOPE Group still had negative equity and was subject to the negative equity provisions of Securities Listing Rules Article 601, Paragraph 1-5 of the Tokyo Stock Exchange and the Stock Delisting Standards Article 2-2, Paragraph 1-4 of the Fukuoka Stock Exchange. As a result, HOPE,INC. is currently in a probation period for delisting. Due to the change in the fiscal year end from June 30 to March 31, the delisting probation period has been changed from the year ending June 30, 2022 to the period from July 1, 2021 to March 31, 2023. Ending negative equity before the end of the delisting probation period remains our highest priority.

(5) Significant events regarding premise of a going concern

Operating cash flows of the HOPE Group have been negative every year since the fiscal year that ended in June 2017. In addition, due to an abnormally large increase in the JEPX price of electricity between the middle of December 2020 and late January 2021, there was negative equity of 2,498 million yen at the end of June 2021. Furthermore, the JEPX price of electricity was higher than we expected beginning in October 2021 and has remained high. As a result, in the transitional fiscal period that ended in March 2022, there was an operating loss of 16,651 million yen and a loss attributable to owners of parent of 19,730 million yen. Due to these losses, as is explained in “1. Termination of the energy business,” HOPE ENERGY, INC., which operates the energy business, started bankruptcy proceedings on March 25, 2022. As of March 31, 2022, there was negative equity of 5,602 million yen. Consequently, there are reasons for significant doubts about the going concern assumption. However, for the following reasons, we believe that there are no significant uncertainties involving the reasons for these significant doubts.

1. Termination of the energy business

The JPEX electricity price was very high between the middle of December 2020 and late January 2021 and has been consistently high since October 2021. The high cost of electricity greatly increased the cost of sales in the energy business, resulting in consistently significant negative effects on the HOPE Group’s financial soundness. In August 2021, the energy business stopped submitting bids for new contracts and took actions to reduce its exposure to risk. Furthermore, to establish a management framework with speed and flexibility, the energy business was transferred to HOPE ENERGY, INC., which was divested from HOPE,INC. on December 1, 2021 based on resolutions approved by the board of directors on August 11, 2021 and shareholders on September 28, 2021 at the annual shareholders meeting. Creating a separate company and other actions had the goal of enabling the energy business to continue operating as thorough studies about the viability of this business were conducted.

Despite these measures, the cost of sales continued to increase and purchasing electricity became difficult. As a result, HOPE ENERGY, INC. was required to pay imbalance fees. In the middle of March 2022, payments involving the imbalance fee and other amounts due in accordance with contracts to supply electricity to customers became due. As HOPE ENERGY, INC. was unable to make these payments, all electricity supply contracts with general electricity transmission and distribution utilities were terminated on March 22. This resulted in the decision that HOPE ENERGY, INC. can no longer operate an energy business and an application to the Tokyo District Court on March 25 to initiate bankruptcy proceedings, which began on the same day. Due to the start bankruptcy proceedings, HOPE ENERGY, INC. was removed from the scope of consolidation.

When the divestiture for the establishment of HOPE ENERGY, INC. took place, HOPE,INC. transferred liabilities to HOPE ENERGY, INC. by using the concomitant liability assumption method. As a result, HOPE,INC. is obligated to make payments for the transferred liabilities. However, for liabilities incurred by HOPE ENERGY, INC. following its establishment, HOPE,INC., JICHITAI AD, INC. and JICHITAI WORKS, INC. have no debt guarantees or other obligations. Consequently, there is no reserve or contingencies concerning these subsequent liabilities. Furthermore, the loss of customers and other negative effects of the HOPE ENERGY, INC. bankruptcy are negligible at this time. For these reasons, we believe that this bankruptcy will have only a very small effect on the results of operations of the HOPE Group.

2. Stabilization of financing

HOPE,INC. is maintaining sound relationships with financial institutions, primarily its main banks, and management believes these institutions will continue to provide assistance. As of the end of January 2022, repayments on a portion of its bank loans (200 million yen) were in arrears. To ease repayment terms for the period to the end of March 2023, the Company negotiated agreements with all correspondent financial institutions, including the bank in question, to restructure the repayment plan that included a review of repayment schedules.

Furthermore, HOPE,INC. received proceeds of approximately 2.2 billion yen as of August 31, 2021 due to the May 17, 2021 sale of stock through a third-party allotment and the exercise of the ninth share acquisition rights with an exercise price adjustment clause and proceeds of about 150 million yen from the September 21, 2021

issuance of new shares through third-party allotment and 780 million yen from the exercise of the eleventh share acquisition rights with an exercise price adjustment clause. The exercise of the eleventh share acquisition rights has not been progressed satisfactorily because HOPE,INC.'s stock has hovered below the exercise price since early December 2021. Nevertheless, we do not intend at this stage to acquire or retire the existing eleventh share acquisition rights to enable them to be exercised when the stock price recovers in the future.

HOPE,INC. will continue to actively consider various fund procurement methods to procure the funds required to eliminate negative equity.

2. Basic Approach to the Selection of Accounting Standards

All of the operations of HOPE,INC. are in Japan and there are no plans to start operations in other countries in the near future. Consequently, consolidated financial statements are based on accounting standards used in Japan.

3. Consolidated Financial Statements and Notes**(1) Consolidated Balance Sheet**

	(Thousands of yen)	
	FY6/21 (As of Jun. 30, 2021)	FY3/22 (As of Mar. 31, 2022)
Assets		
Current assets		
Cash and deposits	1,932,991	917,132
Notes and accounts receivable-trade	7,336,855	-
Accounts receivable-trade	-	168,325
Merchandise and finished goods	427,497	211,680
Work in process	1,717	7,459
Supplies	193	82
Advance payments-trade	185,594	1,375
Prepaid expenses	14,230	19,750
Other	501,928	22,775
Allowance for doubtful accounts	(4,012)	(1,520)
Total current assets	10,396,997	1,347,061
Non-current assets		
Property, plant and equipment		
Buildings	9,895	9,895
Accumulated depreciation	(5,903)	(6,226)
Buildings, net	3,992	3,668
Vehicles	1,630	1,630
Accumulated depreciation	(1,191)	(1,300)
Vehicles, net	438	329
Tools, furniture and fixtures	35,700	38,547
Accumulated depreciation	(21,218)	(25,667)
Tools, furniture and fixtures, net	14,481	12,880
Total property, plant and equipment	18,912	16,878
Intangible assets		
Software	27,958	24,866
Other	55,922	-
Total intangible assets	83,881	24,866
Investments and other assets		
Investment securities	6,447	6,258
Distressed receivables	11,864	12,487
Other	458,298	37,844
Allowance for doubtful accounts	(11,864)	(12,487)
Total investments and other assets	464,745	44,102
Total non-current assets	567,539	85,848
Total assets	10,964,536	1,432,909

	(Thousands of yen)	
	FY6/21	FY3/22
	(As of Jun. 30, 2021)	(As of Mar. 31, 2022)
Liabilities		
Current liabilities		
Accounts payable-trade	11,290,446	256,359
Short-term borrowings	950,000	200,000
Current portion of long-term borrowings	366,952	164,801
Accounts payable-other	30,745	24,073
Accrued expenses	119,088	112,846
Income taxes payable	42,242	29,120
Accrued consumption taxes	-	71,778
Advances received	71,367	-
Deposits received	8,535	4,897
Contract liabilities	-	69,160
Other	666	16,004
Total current liabilities	12,880,045	949,041
Non-current liabilities		
Bonds payable	100,000	100,000
Long-term borrowings	482,658	1,139,595
Deferred tax liabilities	221	163
Special account for shares resulting from reorganization	-	4,846,528
Total non-current liabilities	582,879	6,086,287
Total liabilities	13,462,924	7,035,328
Net assets		
Shareholders' equity		
Share capital	1,959,676	2,716,601
Capital surplus	1,913,476	2,670,401
Retained earnings	(6,333,191)	(10,931,834)
Treasury shares	(70,902)	(70,902)
Total shareholders' equity	(2,530,939)	(5,615,732)
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	504	373
Total accumulated other comprehensive income	504	373
Share acquisition rights	32,047	12,939
Total net assets	(2,498,387)	(5,602,419)
Total liabilities and net assets	10,964,536	1,432,909

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

(Thousands of yen)

	FY6/21 (Jul. 1, 2020 – Jun. 30, 2021)	FY3/22 (Jul. 1, 2021 – Mar. 31, 2022)
Net sales	34,615,567	35,630,649
Cost of sales	40,457,415	51,420,938
Gross loss	(5,841,847)	(15,790,288)
Selling, general and administrative expenses	1,053,572	861,112
Operating loss	(6,895,420)	(16,651,400)
Non-operating income		
Interest income	22	15
Dividend income	6	-
Penalty income	3,774	3,494
Subsidy income	1,532	-
Gain on sale of investment securities	16,067	2,621
Interest on tax refund	-	2,339
Other	642	1,165
Total non-operating income	22,045	9,636
Non-operating expenses		
Interest expenses	11,176	61,772
Commission expenses	3,530	5,434
Share issuance costs	43,782	22,837
Loss on sales of investment securities	1,763	-
Other	1,999	168
Total non-operating expenses	62,252	90,214
Ordinary loss	(6,935,626)	(16,731,978)
Extraordinary losses		
Impairment loss	-	75,099
Cancellation penalty	-	2,542,770
Compensation for damage	-	363,235
Total extraordinary losses	-	2,981,105
Loss before income taxes	(6,935,626)	(19,713,083)
Income taxes-current	27,989	17,883
Income taxes-deferred	15,334	-
Total income taxes	43,323	17,883
Loss	(6,978,950)	(19,730,966)
Loss attributable to owners of parent	(6,978,950)	(19,730,966)

Consolidated Statement of Comprehensive Income

(Thousands of yen)

	FY6/21 (Jul. 1, 2020 – Jun. 30, 2021)	FY3/22 (Jul. 1, 2021 – Mar. 31, 2022)
Loss	(6,978,950)	(19,730,966)
Other comprehensive income		
Valuation difference on available-for-sale securities	2,394	(131)
Total other comprehensive income	2,394	(131)
Comprehensive income	(6,976,556)	(19,731,098)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(6,976,556)	(19,731,098)
Comprehensive income attributable to non-controlling interests	-	-

(3) Consolidated Statement of Changes in Equity

FY6/21 (Jul. 1, 2020 – Jun. 30, 2021)

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	315,149	268,949	735,427	(70,827)	1,248,698
Changes during period					
Issuance of new shares	250,091	250,091			500,182
Issuance of new shares-exercise of share acquisition rights	1,394,436	1,394,436			2,788,872
Dividends of surplus			(89,667)		(89,667)
Loss attributable to owners of parent			(6,978,950)		(6,978,950)
Increase due to decrease in consolidated subsidiaries because of change in scope of consolidation					
Purchase of treasury shares				(75)	(75)
Net changes in items other than shareholders' equity					
Total changes during period	1,644,527	1,644,527	(7,068,618)	(75)	(3,779,638)
Balance at end of period	1,959,676	1,913,476	(6,333,191)	(70,902)	(2,530,939)

	Accumulated other comprehensive income		Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Total accumulated other comprehensive income		
Balance at beginning of period	(1,889)	(1,889)	13,011	1,259,820
Changes during period				
Issuance of new shares				500,182
Issuance of new shares-exercise of share acquisition rights				2,788,872
Dividends of surplus				(89,667)
Loss attributable to owners of parent				(6,978,950)
Increase due to decrease in consolidated subsidiaries because of change in scope of consolidation				
Purchase of treasury shares				(75)
Net changes in items other than shareholders' equity	2,394	2,394	19,035	21,429
Total changes during period	2,394	2,394	19,035	(3,758,208)
Balance at end of period	504	504	32,047	(2,498,387)

FY3/22 (Jul. 1, 2021 – Mar. 31, 2022)

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	1,959,676	1,913,476	(6,333,191)	(70,902)	(2,530,939)
Cumulative effects of changes in accounting policies					-
Restated balance	1,959,676	1,913,476	(6,333,191)	(70,902)	(2,530,939)
Changes during period					
Issuance of new shares	75,039	75,039			150,079
Issuance of new shares-exercise of share acquisition rights	681,885	681,885			1,363,770
Dividends of surplus					
Loss attributable to owners of parent			(19,730,966)		(19,730,966)
Increase due to decrease in consolidated subsidiaries because of change in scope of consolidation			15,132,324		15,132,324
Purchase of treasury shares					
Net changes in items other than shareholders' equity					
Total changes during period	756,924	756,924	(4,598,642)	-	(3,084,792)
Balance at end of period	2,716,601	2,670,401	(10,931,834)	(70,902)	(5,615,732)

	Accumulated other comprehensive income		Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Total accumulated other comprehensive income		
Balance at beginning of period	504	504	32,047	(2,498,387)
Cumulative effects of changes in accounting policies				-
Restated balance	504	504	32,047	(2,498,387)
Changes during period				
Issuance of new shares				150,079
Issuance of new shares-exercise of share acquisition rights				1,363,770
Dividends of surplus				
Loss attributable to owners of parent				(19,730,966)
Increase due to decrease in consolidated subsidiaries because of change in scope of consolidation				15,132,324
Purchase of treasury shares				
Net changes in items other than shareholders' equity	(131)	(131)	(19,107)	(19,238)
Total changes during period	(131)	(131)	(19,107)	(3,104,031)
Balance at end of period	373	373	12,939	(5,602,419)

(4) Consolidated Statement of Cash Flows

	(Thousands of yen)	
	FY6/21	FY3/22
	(Jul. 1, 2020 – Jun. 30, 2021)	(Jul. 1, 2021 – Mar. 31, 2022)
Cash flows from operating activities		
Loss before income taxes	(6,935,626)	(19,713,083)
Depreciation	17,524	12,700
Impairment loss	-	75,099
Share-based payment expenses	4,406	1,265
Increase (decrease) in allowance for doubtful accounts	3,276	(1,868)
Share issuance costs	43,782	22,837
Interest and dividend income	(28)	(15)
Interest expenses	11,176	61,772
Loss (gain) on sales of investment securities	-	(2,621)
Loss (gain) on valuation of investment securities	204	-
Cancellation penalty	-	2,542,770
Compensation for damage	-	363,235
Decrease (increase) in trade receivables	(3,707,409)	7,168,529
Decrease (increase) in inventories	83,793	210,186
Decrease (increase) in advance payments-trade	48,222	184,219
Decrease(increase) in sales deposit	181,714	393,399
Increase (decrease) in trade payables	8,543,004	(11,034,087)
Increase (decrease) in accrued expenses	(69,237)	(5,125)
Increase (decrease) in advances received	9,828	(2,206)
Decrease/increase in consumption taxes receivable/payable	(601,057)	(522,944)
Other, net	(43,016)	15,675,511
Subtotal	(2,409,442)	(4,570,424)
Interest and dividends received	29	15
Interest paid	(12,258)	(61,120)
Special account for shares resulting from reorganization	-	4,846,528
Income taxes refund (paid)	(428,964)	51,741
Other, net	3,315	(591)
Net cash provided by (used in) operating activities	(2,847,320)	266,149
Cash flows from investing activities		
Payments into time deposits	(11,016)	(11,017)
Proceeds from withdrawal of time deposits	11,015	11,016
Purchase of property, plant and equipment	(8,720)	(4,946)
Purchase of intangible assets	(12,176)	(22,539)
Purchase of investment securities	(282)	-
Proceeds from sale of investment securities	25,027	2,621
Proceeds from collection of long-term loans receivable from employees	202	-
Proceeds from refund of leasehold and guarantee deposits	8	22
Net cash provided by (used in) investing activities	4,057	(24,842)

	(Thousands of yen)	
	FY6/21	FY3/22
	(Jul. 1, 2020 – Jun. 30, 2021)	(Jul. 1, 2021 – Mar. 31, 2022)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	517,000	-
Proceeds from long-term borrowings	200,000	-
Repayments of long-term borrowings	(411,952)	(295,214)
Proceeds from issuance of bonds	600,000	1,000,000
Redemption of bonds	(600,000)	(1,000,000)
Proceeds from issuance of shares	500,182	150,079
Payments for issuance of shares	(43,782)	(22,837)
Proceeds from issuance of share acquisition rights	25,919	12,050
Proceeds from issuance of shares resulting from exercise of share acquisition rights	2,777,582	1,332,203
Purchase of treasury shares	(75)	-
Dividends paid	(89,492)	-
Net cash provided by (used in) financing activities	3,475,382	1,176,281
Net increase (decrease) in cash and cash equivalents	632,118	1,417,588
Cash and cash equivalents at beginning of period	1,289,856	1,921,974
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	-	(2,433,447)
Cash and cash equivalents at end of period	1,921,974	906,115

(5) Notes to Consolidated Financial Statements**Going Concern Assumption**

Not applicable.

Reclassifications

Consolidated balance sheet

“Leasehold and guarantee deposits” under “investments and other assets” presented as a separate line item in the previous fiscal year is included in “other” under “investments and other assets” in the current fiscal year due to a decrease in the materiality of impact in the context of consolidated financial statements.

Accordingly, “leasehold and guarantee deposits” of 458 million yen under “investments and other assets” in the consolidated balance sheet for the previous fiscal year has been reclassified as “other”.

Business Combinations

Transaction under common control

Conversion to a holding company structure using a divestiture

In accordance with a resolution approved by the HOPE Board of Directors on August 11, 2021, an absorption-type spinoff agreement was signed with wholly owned subsidiary HOPE ENERGY, INC. for the transfer of the electricity retail sales business from HOPE,INC. to HOPE ENERGY, INC. on December 1, 2021. This transfer was approved by shareholders at the General Meeting of Shareholders on September 28, 2021 and the spinoff and transfer took place on December 1.

On October 26, 2021, the HOPE Board of Directors approved a resolution for the spinoff and transfer of the advertising business to JICHITAI AD, INC., a newly established wholly owned subsidiary, and the spinoff and transfer of the Jichitai Works business to JICHITAI WORKS, INC., a newly established wholly owned subsidiary. The spinoff and transfer of these two businesses took place on December 1, 2021.

Due to the transfer of these two businesses to subsidiaries, HOPE,INC. became a holding company on December 1, 2021.

1. Overview of business transaction

(1) Transferred businesses and activities

Electricity retailer business: Purchase and sale of electricity and other energy

Advertising business: Advertising business and other activities to generate revenue and reduce expenses for local governments

Jichitai Works business: Issuance of publications, support for promotions and other activities to facilitate public-private sector cooperation and cooperation among local governments

(2) Date

December 1, 2021

(3) Legal form of acquisition

A spinoff and absorption was used for the transfer of the electricity retail sales business from HOPE,INC. to wholly owned subsidiary HOPE ENERGY, INC. A simple spinoff with the establishment of new companies was used for the transfer of the advertising business and Jichitai Works business to wholly owned subsidiaries JICHITAI AD, INC. and JICHITAI WORKS, INC. Businesses were transferred to the following companies.

Electricity retail sales business: HOPE ENERGY, INC.

Advertising business: JICHITAI AD, INC.

Jichitai Works business: JICHITAI WORKS, INC.

(4) Other information

These businesses were transferred in order to establish a management framework for enabling the appropriate allocation of the resources of the HOPE Group and the implementation of financial strategies and equity policies.

2. Summary of accounting method

Accounting methods as a transaction under common control are based on “Accounting Standard for Business Combination” (Accounting Standards Board of Japan (ASBJ) Statement No. 21, January 16, 2019) and “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures.” (ASBJ Statement No. 10, January 16, 2019).

In addition, a special stock account in the amount of 4,846 million yen was recorded in the consolidated balance sheet. This was made necessary because of organizational restructuring following the absorption-type demerger to HOPE ENERGY, INC. with an effective date of December 1, 2021. The account was also created because, at the time divestiture, the balance of assets (equivalent to shareholders' equity) of the business transferred from the Company to HOPE ENERGY, INC., net of liabilities, was negative calculated based on the “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures.” This special account is a stock valuation account and is recorded as a liability since the balance sheet value of the assets is not negative.

Changes in Accounting Policies

Application of the Accounting Standard for Revenue Recognition

HOPE,INC. has applied the Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 31, 2020) from the beginning of the current fiscal year. Based on this standard, revenue expected to be received in exchange for the provision of goods and services is recognized when the control of the goods and services is transferred to customers. In accordance with the feed-in tariff system for renewable energy of the Japanese government, electricity users pay a renewable energy generation promotion fee that covers part of the cost incurred by general electricity transmission and distribution utilities when purchasing renewable energy. These fees are collected by retail electricity businesses as a third party. In prior years, these fees were recognized as sales and the corresponding payments of these fees by the energy business in accordance with the Act on Special Measures Concerning Procurement of Electricity from Renewable Energy Sources were recognized as cost of sales. Due to the application of the new accounting standard, these renewable energy promotion fees are no longer included in transaction prices and the corresponding payments of these fees are deducted from the cost of sales.

For the application of the Accounting Standard for Revenue Recognition, in accordance with the transitional measures in the proviso to paragraph 84 of this standard, net sales and cost of sales for the current fiscal year decreased by 7,842 million yen each, but there was no change in operating loss, ordinary loss and loss before income taxes. In addition, there is no cumulative effect of the application of this standard on retained earnings at the beginning of the fiscal year.

Due to the application of the Accounting Standard for Revenue Recognition, “Advances received” that was presented in the current liabilities section of the consolidated balance sheet in the previous fiscal year is presented as “Contract liabilities” from the current fiscal year. In accordance with the transitional measures prescribed in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, no reclassification has been made to the prior year’s consolidated financial statements to conform to the new presentation.

Furthermore, in accordance with the transitional treatment prescribed in Paragraph 89-3 of the Accounting Standard for Revenue Recognition, HOPE,INC. has not presented information on revenue from contracts with customers broken down for the previous fiscal year.

Application of the Accounting Standard for Fair Value Measurement

HOPE,INC. has applied the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019) from the beginning of the current fiscal year, and has applied the new accounting policies in the

Accounting Standard for Fair Value Measurement prospectively in accordance with the transitional measures in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019). There is no effect of the application of this standard on the consolidated financial statements.

Additional Information

(Significant Accounting Policies for the Preparation of Consolidated Financial Statements)

1. Matters concerning the scope of consolidation

Number of consolidated subsidiaries: 2

Name of principal consolidated subsidiary: JICHITAI AD, INC., JICHITAI WORKS, INC.

2. Matters concerning application of the equity method

Not applicable.

3. Matters concerning the scope of consolidation or application of the equity method

Newly established subsidiaries JICHITAI AD, INC. and JICHITAI WORKS, INC. were included in the scope of consolidation in the current fiscal year.

Beginning in about the middle of October 2021, HOPE ENERGY, INC. has had difficulties purchasing electricity because of the unprecedented increase in the cost of electricity. These difficulties resulted in the obligation to pay imbalance fees. In the middle of March 2022, payments involving the imbalance fee and other amounts due in accordance with contracts to supply electricity to customers became due. As HOPE ENERGY, INC. was unable to make these payments, all electricity supply contracts with general electricity transmission and distribution utilities were terminated by midnight March 22, 2022. This action made it impossible for HOPE ENERGY, INC. to continue operating its energy business. Based on the decision that asking a court to conduct bankruptcy proceedings is the best course of action, HOPE ENERGY, INC. submitted an application on March 25 to begin the bankruptcy process, which began on the same day. Due to the start bankruptcy proceedings, HOPE ENERGY, INC. was removed from the scope of consolidation. The removal of HOPE ENERGY, INC. from the consolidated balance sheet reduced current assets by 11,459 million yen and current liabilities by 31,437 million yen. There was no effect on non-current assets and non-current liabilities. The consolidated income statement includes the results of operations of HOPE ENERGY, INC. up to the date this company was removed from consolidation. The difference between assets and liabilities removed from the consolidated balance sheet was recognized in the stock special account as an amount resulting from a reorganization. With the exception of this figure, an adjustment was made in the consolidated statement of changes in equity as an item called "Increase due to decrease in consolidated subsidiaries because of change in scope of consolidation."

HOPE,INC.'s obligations due to the use of the concomitant liability assumption method for liabilities transferred to HOPE ENERGY, INC. when the divestiture took place on December 1, 2021 ended in the middle of February 2022. These obligations involved short-term loans and the collection of HOPE ENERGY, INC.'s trade receivables. However, for liabilities incurred by HOPE ENERGY, INC. following its establishment, HOPE,INC., JICHITAI AD, INC. and JICHITAI WORKS, INC. have no debt guarantees or other obligations. Consequently, there is no reserve concerning these subsequent liabilities. Furthermore, we believe that HOPE,INC., JICHITAI AD, INC. and JICHITAI WORKS, INC. are unlikely to incur contingent liabilities in conjunction with the bankruptcy of HOPE ENERGY, INC.

4. Matters concerning accounting period of consolidated subsidiary

The fiscal year of a consolidated subsidiary ends on the consolidated balance sheet date.

5. Matters concerning change in the consolidated fiscal year (fiscal year end)

The extraordinary shareholders meeting held on March 24, 2022 approved a proposal for amendment to the Articles of Incorporation to change the fiscal year end from June 30 to March 31. This resulted in a transitional nine-month fiscal period beginning on July 1, 2021 and ending on March 31, 2022.

6. Accounting standards

(1) Valuation criteria and methods for significant assets

a. Securities

Other securities

Securities excluding non-marketable shares, etc.

Stated at market value method (valuation difference is comprehensively reported as a component of net assets and the cost of securities sold is computed using the moving-average method.)

Non-marketable shares, etc.

Stated at cost by the moving-average method.

b. Inventories

Merchandise and finished goods and work in process

Stated at cost on an individual specified cost basis (the balance sheet value is computed by the method of devaluing book price to reflect declines in profitability).

Supplies

Stated at cost, cost being determined by the last purchased cost method (the balance sheet value is computed by the method of devaluing book price to reflect declines in profitability).

(2) Depreciation and amortization methods for significant depreciable assets

a. Property, plant and equipment

Declining-balance method except for buildings (excluding attached structures) acquired on or after April 1, 1998, which are accounted for by the straight-line method.

Useful lives of principle assets are as follows:

Buildings: 10 years

Vehicles: 5 to 6 years

Tools, furniture and fixtures: 2 to 8 years

b. Intangible assets

The straight-line method. Software for internal use is amortized over an expected useful life of five years.

(3) Recognition of allowances

Allowance for doubtful accounts

To prepare for losses on doubtful accounts such as notes and account receivables-trade and loans receivable, allowances equal to the estimated amount of uncollectible receivables are booked for general receivables based on the historical write-off ratio, and bad receivables based on case-by-case determination of collectibility.

(4) Basis for recording significant revenue and expenses

(Description of the main performance obligation in the main business and the usual time at which revenue is recognized)

a. Advertising Business

In the advertising business, revenue is derived from a variety of media purchased from local governments or produced by the HOPE Group and sales of advertising space and advertising services for publications issued by local governments for their residents. Revenue is recognized during the period that advertisements are placed in media or when media or publications with advertisements are issued. So-called agency sales (transactions where the HOPE Group does not have the right to determine sale prices and has no inventory risk) are recognized as a net amount by deducting the cost of sales from the amount of each sale.

Revenue is measured by using transaction prices specified in contracts with customers. In addition, payments for transactions are received within one year of the fulfillment of the associated obligations. Consequently, these payments do not incorporate any significant financial component.

b. Jichitai Works Business

i. Jichitai Works (a magazine for government employees): The HOPE Group receives revenue from sales of advertising space and the provision of associated advertising services involving the production and issuance of publications. This revenue is recognized when each publication is issued.

Revenue is measured by using transaction prices specified in contracts with customers. In addition, payments for transactions are received within one year of the fulfillment of the associated obligations. Consequently, these payments do not incorporate any significant financial component.

ii. B-to-G promotions: Revenue is received for the provision of services involving collaboration between the public and private sectors. Revenue is recognized at the time of a customer's final acceptance of services received and the HOPE Group has received the acceptance form from the customer.

Revenue is measured by using transaction prices specified in contracts with customers. In addition, payments for transactions are received within one year of the fulfillment of the associated obligations. Consequently, these payments do not incorporate any significant financial component.

c. Energy Business

The HOPE Group receives revenue for the supply of electricity to customers by using electricity that was purchased on the electricity wholesale market or directly from companies that sell electricity. Revenue is recognized when electricity is supplied to customers.

Revenue is measured by using transaction prices specified in contracts with customers. In addition, payments for transactions are received within one year of the fulfillment of the associated obligations. Consequently, these payments do not incorporate any significant financial component.

(5) Cash and cash equivalents in the Consolidated Statement of Cash Flows

Cash and cash equivalents consist of cash on hand, bank deposits which can be withdrawn at any time, and short-term investments with the duration of three months or less which can be easily converted to cash and are exposed to little risk of change in value.

Segment and Other Information

Segment information

1. Overview of reportable segment

(1) Method for identifying reportable segments

Segments used for financial reporting are the HOPE Group's constituent units for which separate financial information is available and for which the Board of Directors performs periodic studies for the purposes of determining the allocation of resources and evaluating performance.

The Company has adopted a holding company structure. There are now three major operating companies, JICHITAI AD, INC., HOPE ENERGY, INC., and JICHITAI WORKS, INC. under the holding company and three reportable segments: Advertising, Energy, and Jichitai Works, which are based on HOPE, INC.'s core advertising, energy, and Jichitai Works businesses.

HOPE ENERGY, INC. was ordered to commence bankruptcy proceedings on March 25, 2022 and withdrew from the energy business on the same day and was excluded from the consolidation. As a result, now there are two core operating companies, JICHITAI AD, INC. and JICHITAI WORKS, INC. under the holding company. The income statement of HOPE ENERGY, INC. from July 1, 2021 to March 25, 2022 is consolidated as the decision to commence bankruptcy proceedings came on March 25, 2022.

(2) Types of products and services in each reportable segment

Products and services in the reportable segments are as follows.

Reportable segments	Products and services
Advertising	Smart Resource service Ads in public info publications, banner ads, etc.
	Smart Creation service Machilet
Energy	Electricity retail sales business
Jichitai Works	Jichitai Works, B-to-G solutions

2. Calculation methods for net sales, profit or loss, assets, liabilities and other items for each reportable segment
The accounting treatment of reportable segments generally complies with the "Significant Accounting Policies for the Preparation of Consolidated Financial Statements." Profits of reportable segments represent operating profit.

3. Information related to net sales, profit or loss, assets, liabilities and other items for each reportable segment
FY6/21 (Jul. 1, 2020 – Jun. 30, 2021)

	Reportable segment				Other	Total	Adjustment	Amounts shown on consolidated financial statements
	Advertising	Energy	Jichitai Works	Subtotal				
Net sales								
External sales	1,719,457	32,663,973	228,944	34,612,376	3,191	34,615,567	-	34,615,567
Inter-segment sales and transfers	-	-	-	-	-	-	-	-
Total	1,719,457	32,663,973	228,944	34,612,376	3,191	34,615,567	-	34,615,567
Segment profit (loss)	328,200	(6,924,860)	58,425	(6,538,234)	(47,821)	(6,586,055)	(309,364)	(6,895,420)
Segment assets	800,142	7,652,970	64,005	8,517,119	24	8,517,144	2,447,392	10,964,536
Other items								
Depreciation	8,416	114	-	8,531	-	8,531	8,993	17,524
Increase in property, plant and equipment and intangible assets	-	12,726	-	12,726	-	12,726	8,245	20,971

Notes: 1. Other consists of the businesses which are not included in any of the reportable segments and mainly includes Machihiro and Jichitai Works HA×SH services.

- The negative 309,364 thousand yen adjustment to segment profit (loss) is corporate expenses that are not allocated to any of the reportable segments. Corporate expenses mainly consist of general and administrative expenses that are not attributable to any of the reportable segments.
- Segment profit (loss) is adjusted to be consistent with operating loss shown on the consolidated statement of income.
- Segment liabilities are not presented as they are not used for making decisions about allocation of management resources and evaluating results of operations.

FY3/22 (Jul. 1, 2021 – Mar. 31, 2022)

	Reportable segment				Other	Total	Adjustment	Amounts shown on consolidated financial statements
	Advertising	Energy	Jichitai Works	Subtotal				
Net sales								
External sales	935,638	34,459,655	223,125	35,618,419	12,230	35,630,649	-	35,630,649
Inter-segment sales and transfers	-	-	-	-	-	-	-	-
Total	935,638	34,459,655	223,125	35,618,419	12,230	35,630,649	-	35,630,649
Segment profit (loss)	101,059	(16,416,083)	37,439	(16,277,584)	(69,014)	(16,346,598)	(304,802)	(16,651,400)
Segment assets	523,727	-	100,907	624,635	5,868	630,503	802,405	1,432,909
Other items								
Depreciation	5,643	343	427	6,413	-	6,413	6,359	12,773
Increase in property, plant and equipment and intangible assets	-	-	4,275	4,275	-	4,275	4,426	8,701

Notes: 1. Other consists of the businesses which are not included in any of the reportable segments and mainly includes Machihiro and Jichitai Works HA×SH services.

- The negative 304,802 thousand yen adjustment to segment profit (loss) is corporate expenses that are not allocated to any of the reportable segments. Corporate expenses mainly consist of general and administrative expenses that are not attributable to any of the reportable segments.
- Segment profit (loss) is adjusted to be consistent with operating loss shown on the consolidated statement of income.
- Segment liabilities are not presented as they are not used for making decisions about allocation of management resources and evaluating results of operations.

resources and evaluating results of operations.

5. FY3/22 is a transitional period due to change of the fiscal year end. This resulted in a transitional nine-month fiscal period beginning on Jul. 1, 2021 and ending on Mar. 31, 2022.

3. Information related to changes in reportable segments, etc.

Change in segment name

From the current fiscal year, the previous Media business segment has been changed to the Jichitai Works business segment. There is no effect on the segment information because only the segment name has been changed. The segment information for FY6/21 is prepared and disclosed using the new segment name.

Application of the Accounting Standard for Revenue Recognition

As described in Changes in Accounting Policies, HOPE, INC. has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) from the beginning of the current fiscal year and changed the accounting method for revenue recognition. Accordingly, the method for calculating segment profit or loss has been changed as well. Compared with the previous method, net sales decreased 7,842 million yen in the energy business in the current fiscal year.

Related information

Information related to impairment losses on non-current assets for each reportable segment

FY6/21 (Jul. 1, 2020 – Jun. 30, 2021)

Not applicable.

FY3/22 (Jul. 1, 2021 – Mar. 31, 2022)

The Company's subsidiary HOPE ENERGY, INC., which was engaged in the Group's electricity retail sales business, has terminated operations due to the commencement of bankruptcy proceedings on March 25, 2022. The Company recorded impairment losses of 272 thousand yen for tools, furniture and fixtures, 640 thousand yen for software, and 74,186 thousand yen for emission credits.

Per-share Information

	(Yen)	
	FY6/21 (Jul. 1, 2020 – Jun. 30, 2021)	FY3/22 (Jul. 1, 2021 – Mar. 31, 2022)
Net assets per share	(326.50)	(500.72)
Net loss per share	(1,109.09)	(1,952.73)

Notes: 1. Diluted net income per share is not presented because net loss was posted although there were outstanding dilutive shares.

2. The basis for calculating net assets per share is as follows.

(Thousands of yen, unless otherwise stated)

	FY6/21 (As of Jun. 30, 2021)	FY3/22 (As of Mar. 31, 2022)
Total net assets	(2,498,387)	(5,602,419)
Amount deducted from total net assets	32,047	12,939
[of which share acquisition rights]	[32,047]	[12,939]
Net assets at the end of the fiscal year applicable to common shares	(2,530,435)	(5,615,359)
Number of common shares at the end of the fiscal year used for the calculation of net assets per share (shares)	7,750,119	11,214,519

3. The basis for calculating net loss per share is as follows.

(Thousands of yen, unless otherwise stated)

	FY6/21 (Jul. 1, 2020 – Jun. 30, 2021)	FY3/22 (Jul. 1, 2021 – Mar. 31, 2022)
Net loss per share		
Loss attributable to owners of parent	(6,978,950)	(19,730,966)
Amount not attributable to common shareholders	-	-
Loss attributable to owners of parent applicable to common shares	(6,978,950)	(19,730,966)
Average number of common shares outstanding during the period (shares)	6,292,514	10,104,289
Summary of dilutive shares not included in the calculation of diluted net income per share since there was no dilutive effect	The Eighth Share Acquisition Rights (Number of share acquisition rights: 600) The Ninth Share Acquisition Rights (Number of share acquisition rights: 22,370) The Tenth Share Acquisition Rights (Number of share acquisition rights: 579)	The Eighth Share Acquisition Rights (Number of share acquisition rights: 270) The Tenth Share Acquisition Rights (Number of share acquisition rights: 485) The Eleventh Share Acquisition Rights (Number of share acquisition rights: 26,259)

Material Subsequent Events

Reduction of capital and capital surplus and appropriation of retained earnings

The Board of Directors on May 31, 2022, resolved to submit a proposal to the 29th Ordinary General Meeting of Shareholders to be held on June 30, 2022, regarding the reduction of capital and capital surplus and the appropriation of retained earnings.

1. Purpose of reduction of capital and capital surplus and appropriation of retained earnings

In order to dispose of the current deficit in retained earnings brought forward and to improve financial soundness through the application of appropriate taxation, the Company has decided to reduce the amount of capital and capital surplus pursuant to the provisions of Article 447, Paragraph 1 and Article 448, Paragraph 1 of the Companies Act. Other capital surplus will be transferred to retained earnings carried forward, and in accordance with Article 452 of the Companies Act, other capital surplus will be transferred to dispose of the deficit in retained earnings brought forward.

Since this is a transfer between accounts in the net assets section of the balance sheet there will be no change in the net assets and in the total number of shares issued and outstanding.

2. Details of reduction in capital

(1) Amount of reduction of capital

The company will reduce 2,706,633,182 yen from its capital of 2,716,633,182 yen as of May 31, 2022 (the "Proposal Resolution Date"), the date on which the Company's Board of Directors resolved to submit the Proposal to the 29th Ordinary General Meeting of Shareholders. As a result, the Company's capital will be 10,000,000 yen.

In the event the share acquisition rights issued by the Company are exercised by the effective date, the amount of capital and the amount of capital after reduction will change.

(2) Method of reduction of capital

The capital reduction will be made without refund, the total number of outstanding shares will not be changed, and the amount of capital reduction of 2,706,633,182 yen will be transferred to other capital surplus.

(3) Effective date of capital reduction

August 5, 2022

3. Details of reduction of capital surplus

(1) Amount of decrease in capital surplus

The capital surplus of 2,670,433,178 yen as of the date of approval of the proposal will be reduced to 0 yen. If the share acquisition rights issued by the Company are exercised by the effective date, the amount of capital surplus and the amount of capital reserve after reduction will change.

(2) Method of reducing capital surplus

The amount of the capital surplus 2,670,433,178 yen to be reduced will be appropriated to other capital surplus.

(3) Effective date of reduction of capital surplus

August 5, 2022

4. Details of appropriation of retained earnings

Pursuant to Article 452 of the Companies Act, other capital surplus will be transferred to retained earnings brought forward for disposition of loss. This appropriation of surplus is conditional on the reduction of capital and capital surplus.

(1) Account and amount of surplus to be reduced

Other capital surplus	5,377,066,360 yen
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(2) Account and amount of surplus to be increased

Retained earnings brought forward	5,377,066,360 yen
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5. Schedule

(1) Board of Directors' resolution	May 31, 2022
(2) Annual General Meeting of Shareholders' resolution	June 30, 2022 (tentative)
(3) Public notice for creditors to file objection	July 1, 2022 (tentative)
(4) Deadline for filing objections by creditors	August 1, 2022 (tentative)
(5) Effective date	August 5, 2022 (tentative)

6. Outlook

As this accounting treatment is a transfer between accounts in the net assets section, there will be no change in net assets, and the impact on the Company's business performance will be negligible. However, this transfer is subject to approval at the 29th Ordinary General Meeting of Shareholders.

This financial report is solely a translation of "Kessan Tanshin" (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.