

Consolidated Financial Results for the Fiscal Year Ended June 30, 2021

[Japanese GAAP]

August 11, 2021

Company name: HOPE, INC.

Stock code: 6195

Representative: Takayasu Tokitsu, CEO

Contact: Kensuke Ohshima, CFO

Scheduled date of Annual General Meeting of Shareholders:

Scheduled date of filing of Annual Securities Report:

Scheduled date of payment of dividend:

Preparation of supplementary materials for financial results:

Holding of financial results meeting:

Listing: TSE-Mothers/FSE Q-Board

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September 28, 2021

September 29, 2021

-

Yes

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 June 30, 2021 (July 1, 2020 to June 30, 2021)

(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 Jun. 30, 2021	34,617	-	(6,897)	-	(6,937)	-	(6,963)	-
Fiscal year ended Jun. 30, 2020	-	-	-	-	-	-	-	-

Note: Comprehensive income (millions of yen)

Fiscal year ended Jun. 30, 2021: (6,960) (-%)

Fiscal year ended Jun. 30, 2020: - (-%)

	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 Jun. 30, 2021	(1,106.57)	-	-	(63.4)	(19.9)
Fiscal year ended Jun. 30, 2020	-	-	-	-	-

Reference: Equity in earnings of affiliates (millions of yen)

Fiscal year ended Jun. 30, 2021: -

Fiscal year ended Jun. 30, 2020: -

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 June 30, 2021 and 2020 and figures for the fiscal year ended June 30, 2020 are not presented because HOPE started preparing consolidated financial statements from the fiscal year ended June 30, 2021. In addition, the return on equity and ordinary profit to total assets were calculated based on the shareholders' equity and total assets at the end of the fiscal year, respectively, since this is the first fiscal year the consolidated financial statements were prepared.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of Jun. 30, 2021	10,941	(2,482)	(23.0)	(324.46)
As of Jun. 30, 2020	-	-	-	-

Reference: Shareholders' equity (millions of yen)

As of Jun. 30, 2021: (2,514)

As of Jun. 30, 2020: -

Note: Figures as of June 30, 2020 are not presented because HOPE started preparing consolidated financial statements from the fiscal year ended June 30, 2021.

(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 Jun. 30, 2021	(2,847)	4	3,475	1,921
Fiscal year ended Jun. 30, 2020	-	-	-	-

Note: Figures for the fiscal year ended June 30, 2020 are not presented because HOPE started preparing consolidated statement of cash flows from the fiscal year ended June 30, 2021.

2. Dividends

	Dividend per share					Total dividends	Dividend payout ratio (consolidated)	Dividends on equity (consolidated)
	1Q-end	2Q-end	3Q-end	Year-end	Total			
Fiscal year ended Jun. 30, 2020	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Fiscal year ended Jun. 30, 2020	-	0.00	-	15.00	15.00	89	-	-
Fiscal year ended Jun. 30, 2021	-	0.00	-	0.00	0.00	-	-	-
Fiscal year ending Jun. 30, 2022 (forecasts)	-	-	-	-	-	-	-	-

Notes: 1. The year-end dividend for the fiscal year ended June 30, 2020 is a commemorative dividend of 15.00 yen. The consolidated dividend payout ratio and consolidated dividends on equity for the fiscal year ended June 30, 2020 are not presented because HOPE started preparing consolidated financial statements from the fiscal year ended June 30, 2021.

2. The dividend forecast for the fiscal year ending June 30, 2022 is to be determined.

3. Consolidated Earnings Forecast for the Fiscal Year Ending June 30, 2022 (July 1, 2021 to June 30, 2022)

(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	22,126	57.5	(46)	-	(82)	-	(95)	-	(9.72)
Full year	34,850	0.7	479	-	424	-	398	-	32.18

* Notes

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

Newly added: 1 (HOPE ENERGY, INC.) Excluded: -

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

1) Changes in accounting policies due to revisions in accounting standards, others: None

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

3) Changes in accounting estimates: None

4) Restatements: None

(3) Number of shares outstanding (common shares)

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

As of Jun. 30, 2021: 7,775,100 shares As of Jun. 30, 2020: 6,002,800 shares

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

As of Jun. 30, 2021: 24,981 shares As of Jun. 30, 2020: 24,960 shares

3) Average number of outstanding shares during the period

Fiscal year ended Jun. 30, 2021: 6,292,514 shares Fiscal year ended Jun. 30, 2020: 5,637,136 shares

Note: HOPE conducted a 4-for-1 common stock split effective on January 1, 2020. The number of outstanding shares as of the end of the period, the number of treasury shares as of the end of the period and the average number of outstanding shares during the period have been calculated as if this stock split had taken place at the beginning of the previous fiscal year.

(Reference) Overview of Non-consolidated Financial Results

Non-consolidated Financial Results for the Fiscal Year Ended June 30, 2021 (July 1, 2020 to June 30, 2021)

(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 Jun. 30, 2021	34,617	140.3	(6,894)	-	(6,925)	-	(6,951)	-
Fiscal year ended Jun. 30, 2020	14,407	273.0	1,020	-	1,012	961.9	665	779.9

	Net income per share	Diluted net income per share
	Yen	Yen
Fiscal year ended Jun. 30, 2021	(1,104.74)	-
Fiscal year ended Jun. 30, 2020	117.97	109.33

Note: Diluted net income per share is not presented because net loss was posted although there were outstanding dilutive shares in the fiscal year ended June 30, 2021.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of Jun. 30, 2021	10,953	(2,471)	(22.9)	(322.97)
As of Jun. 30, 2020	6,519	1,259	19.1	208.57

Reference: Shareholders' equity (millions of yen) As of Jun. 30, 2021: (2,503) As of Jun. 30, 2020: 1,246

Note: HOPE conducted a 4-for-1 common stock split effective on January 1, 2020. Net assets per share have been calculated as if this stock split had taken place at the beginning of the previous fiscal year.

* The current financial results are 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 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 does not guarantee the certainty of any forward-looking statements.

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1. Overview of Results of Operations

(1) Results of Operations

The COVID-19 pandemic continued to severely restrict economic activity in Japan and other countries in the fiscal year ended June 30, 2021 and the outlook for the Japanese economy remains unclear.

All business activities are based on the HOPE corporate philosophy of “providing new forms of value to citizens through local governments and aiming for more growth of our business and our people.” Since HOPE’s establishment, cumulative additional local government revenue generated by the advertising business is about 8,440 million yen as of the end of June 2021 and the energy business has reduced expenses of local governments by about 32,500 million yen (estimate of saving during the entire length of all contracts received since the energy business started). These savings have made a significant contribution to local governments throughout Japan as well as the residents of these communities.

On August 11, 2020, HOPE announced 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 HOPE’s largest business segment. A number of organizations made announcements concerning the probable causes of this sharp increase in the price of electricity. According to the Ministry of Economy, Trade and Industry, the primary causes are a big increase in demand for electricity due to several cold waves and limitations on the output of liquefied natural gas (LNG) power plants due to a decline in the inventory of LNG, which was partially the result of problems involving gas liquefaction plants. According to a Comprehensive Renewable Energy Regulations Inspection Task Force, the problem began with restrictions of an unusually magnitude and length on LNG and petroleum, which account for a large share of electricity generated in Japan. This situation created a big gap at JEPX between the volume of bids to buy and sell electricity, resulting in an unprecedented surge in the price of electricity.

Reference: “Interim Report on Examination of Tight Supply and Demand Balance of Electricity and the Price Surge in the Wholesale Electricity Market during Fiscal 2020 Winter” page 3

The 36th Electricity and Gas Basic Policy Subcommittee, Electricity and Gas Industry Committee, the Advisory Committee for Natural Resources and Energy (June 15, 2021)

Agency for Natural Resources and Energy, the Ministry of Economy, Trade and Industry
https://www.meti.go.jp/shingikai/enecho/denryoku_gas/denryoku_gas/pdf/036_04_03.pdf

Reference: “Recommendations for Power System Restructuring” page 4 (April 27, 2021)

The 8th Comprehensive Renewable Energy Regulations Inspection Task Force, Cabinet Office
<https://www8.cao.go.jp/kisei-kaikaku/kisei/conference/energy/20210427/210427energy07.pdf>

The high cost of wholesale electricity significantly raised the cost of electricity purchased by HOPE. As a result, January 2021 imbalance fees (see note) were about 6,500 million yen, including taxes. Due to the loss in the fourth quarter (April to June 2021) of the current fiscal year, we used a third-party allotment of stock and other measures to procure funds. These activities were announced in a press release titled “Notice of Sale of Stock Through a Third-party Allotment, and Issuance of Ninth Share Acquisition Rights with Exercise Price Adjustment Clause and Unsecured Bonds (Japanese version only).” In addition, energy business earnings were expected to recover in the spring, which is normally a profitable season of the year for this business. However, the cost of electricity on the JEPX remained high in the fourth quarter and the energy business was still unable to produce the level of earnings that we had anticipated.

HOPE has several core strengths. One is the expertise to reproduce new businesses in a broad range of fields based on a large number of relationships with local governments established over many years of business operations and legal frameworks consisting of new and amended laws and regulations. Another is the expertise to easily reproduce business expansion in the local government business domain. Our objective is to use these two strengths for growth of the three existing businesses and creation of new businesses. Making advertising a profit-generating business is one goal. We are continuing to improve profitability by making changes to achieve the proper size of this business and working on reducing over the next several years the high percentage of fiscal

year earnings of this business in the fourth quarter. These steps are aimed at making this business more cost efficient and receiving higher rates for advertising services. In the energy business, which we position as a driver of growth, our goals are more growth in the scale of this business and consistent profitability. Our short and medium-term strategy has two elements. First is to continue existing measures for growth centered on using competitive bids to capture new contracts. Second is to reduce vulnerability to the price volatility risk concerning the cost of electricity we purchase. This involves achieving the most suitable combination of fixed-price procurement using one-to-one transactions and the purchase of electricity at current market prices on the JEPX. However, the sharp increase in the price of electricity on the JEPX forced us to alter this strategy. In the Jichitai Works business (former media business), the market for promotions targeting local governments still has much potential for more public-private sector collaboration and measures to become more competitive. 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 HOPE 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 the fiscal year ended June 30, 2021, net sales were 34,617 million yen. The operating loss was 6,897 million yen, the ordinary loss was 6,937 million yen, and there was a loss attributable to owners of parent of 6,963 million yen.

Note: An imbalance fee is paid when a company selling electricity is unable to supply the required amount of electricity over any 30-minute period and must purchase electricity from a utility to cover the shortfall. This fee is included in the cost of sales of the energy business.

Business segment performance was as follows.

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. The Smart Creation service jointly produces with local governments Machilet publications for residents at no cost and sells advertising space in these publications to companies. During the current fiscal year, there were measures to achieve the proper size of the Machilet service. Machilet, which is the primary medium of the advertising business, is operating in all areas of Japan while concentrating on six themes: marriage, raising children, senior nursing care, measures involving vacant houses, end-of-life messages, and condolence messages.

An advertising business for the Japan Meteorological Agency website is a prime example of the operations of the Smart Resource service in the fourth quarter of the current fiscal year. This business provides its own advertisement distribution system that was developed jointly with Geniee, Inc. based on a business alliance with this company. We plan to expand this system to make it possible to offer this advertisement distribution service to local governments throughout Japan.

We started providing the Smart FR (“Financial Resources”) Consulting service during the current fiscal year. This service encompasses consulting for every step from assistance for attracting advertisements to the creation and utilization of media. Our goal is to use this new service to take the advertising business beyond simply providing assistance for advertisements in order to be a source of a broad range of ideas and support concerning advertisements to secure financial resources. Smart FR Consulting was launched in June 2021 and we have received a consultation contract from the city of Fukuoka.

Segment sales were 1,719 million yen and segment profit was 328 million yen.

2) Energy Business

This business, which uses the Genewat brand for the retail of electricity, has 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. On October 22, 2020, Hope Energy, Inc. was established as a wholly owned subsidiary of HOPE and started business operations on April 1, 2021. As was explained earlier, the sharp increase in the cost of purchasing electricity due to the higher cost of electricity on the JEPX had a significant negative impact on the energy business. After this spike in the cost of electricity had largely ended, we established measures for the stability of energy business earnings, stronger governance and other revisions to the framework for operating this business. In the fourth quarter, which is normally a time when there is a small number of electricity contracts submitted for bids, the energy business submitted 55 successful bids.

The fourth quarter is usually a period when the energy business can easily be profitable because prices on the JEPX are normally low. As a result, we expected the earnings of this business to recover in the fourth quarter. Unfortunately, contrary to our outlook, the price of electricity on the JEPX remained high during the fourth quarter and earnings were below our forecast.

Segment sales were 32,665 million yen and the segment loss was 6,926 million yen.

3) Media Business

The media business was renamed the Jichitai Works business in July 2021. This business has distributed the Jichitai Works magazine for three and a half years, steadily raising awareness of this publication among local government employees. We decided to change the name of this business in order to clearly represent the concept of this business as a next step. In addition to this magazine, the Jichitai Works brand will be used for a variety of services for collaboration between HOPE and local governments. The new concept for the Jichitai Works brand is “invigoration for experiences and people concerning local government jobs.”

One element of the Jichitai Works business is extensive activities for B-to-G solutions aimed at matching the needs of local governments and companies. These activities leverages our relationships with local governments. This business also includes the Jichitai Works magazine, which contains ideas, examples of local government innovations and other useful information for government employees. In June of the fourth quarter, this business started the Jichitai Works Free Name Card service. We started this service in response to the results of a survey showing that a large number of local government employees pay for making their own name cards. Providing name cards at no charge provides another channel of communications with local government employees. This is expected to speed up progress involving our government employee platform concept.

In June 2021, we established a business alliance with CHANGE Inc., which provides assistance for the physician and pharmacist recruiting service of the M3 Group. This service helps local governments recruit health care professionals needed to provide COVID-19 vaccinations in areas other than Japan’s major metropolitan areas. Furthermore, this collaboration utilizes our B-to-G solutions that are backed by our many relationships with local governments. Since starting this program, we have helped six local governments recruit physicians (as of June 21, 2021), mainly in locations with a shortage of health care professionals. These activities are playing a role in raising the percentage of regions other than major cities in Japan that are served by a physician recruiting network.

Segment sales were 228 million yen and segment profit was 58 million yen.

4) Other businesses

Other businesses include Machihiro, Jichitai Works HA×SH and other services that are not part of the reportable segments. In prior years, Jichitai Works HA×SH was included in the media business. Beginning with the fiscal year that ended in June 2021, this activity is included in this category because Jichitai Works HA×SH is still in the investment phase.

Segment sales were 3 million yen and the segment loss was 47 million yen.

(2) Financial Position

Assets

Total assets amounted to 10,941 million yen at the end of the current fiscal year. Current assets amounted to 10,356 million yen. Major items are cash and deposits of 1,932 million yen, notes and accounts receivable-trade of 7,338 million yen, merchandise and finished goods of 427 million yen, and other under current assets of 459 million yen. Non-current assets amounted to 584 million yen. Major items are other under intangible assets of 55 million yen and leasehold and guarantee deposits of 458 million yen.

Liabilities

Liabilities totaled 13,424 million yen. Current liabilities amounted to 12,841 million yen. Major items are accounts payable-trade of 11,294 million yen, short-term borrowings of 950 million yen, and current portion of long-term borrowings of 366 million yen. Non-current liabilities amounted to 582 million yen. Major items are bonds payable of 100 million yen and long-term borrowings of 482 million yen.

Net assets

At the end of the current fiscal year, there were negative net assets of 2,482 million yen because of loss attributable to owners of parent of 6,963 million yen as described above. Shareholders' equity was negative 2,515 million yen and major items include share capital of 1,959 million yen, capital surplus of 1,913 million yen and retained earnings of negative 6,317 million yen.

(3) Cash flows

Cash and cash equivalents (hereinafter "net cash") as of the end of the current fiscal year amounted to 1,921 million yen. The cash flow components and the main reasons for changes are as described below.

Cash flows from operating activities

Net cash used in operating activities totaled 2,847 million yen. The main factors include loss before income taxes of 6,937 million yen, an increase of 3,709 million yen in trade receivables, a decrease of 601 million yen in accrued consumption taxes and income taxes paid of 428 million yen, while there were a decrease of 181 million yen in sales deposit and an increase of 8,546 million yen in trade payables.

Cash flows from investing activities

Net cash provided by investing activities totaled 4 million yen. This was mainly due to proceeds from sale of investment securities of 25 million yen, while there were purchase of property, plant and equipment of 8 million yen and purchase of intangible assets of 12 million yen.

Cash flows from financing activities

Net cash provided by financing activities totaled 3,475 million yen. This was mainly due to a net increase of 517 million yen in short-term borrowings, proceeds from long-term borrowings of 200 million yen, proceeds from issuance of shares of 500 million yen, and proceeds from issuance of shares resulting from exercise of share acquisition rights of 2,777 million yen, while there were repayments of long-term borrowings of 411 million yen and dividends paid of 89 million yen.

(4) Outlook

The economic outlook in Japan continues to be uncertain because of the drop in social and economic activities caused by COVID-19. 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.

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. 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 our corporate philosophy accompanied by the growth of corporate value.

In the fiscal year ending on June 30, 2022, we forecast a 0.7% increase in net sales to 34,850 million yen, operating profit of 479 million yen (operating loss of 6,897 million yen in the current fiscal year), ordinary profit of 424 million yen (ordinary loss of 6,937 million yen in the current fiscal year), and profit attributable to owners of parent of 398 million yen (loss attributable to owners of parent of 6,963 million yen in the current fiscal year).

Assumptions of the cost of sales in the energy business, which will significantly affect our sales and earnings, are as follows.

These forecasts for the cost of purchasing electricity on the JEPX are weighted averages using expected prices and the level of purchases in each area of Japan.

Forecast for market prices (Yen, including tax)	2021						2022					
	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.
	9.82	10.69	9.50	8.09	8.30	9.84	11.07	8.39	7.47	7.28	7.65	7.75

The pandemic is still restricting economic activity in Japan. The effects of this crisis on the balance between the supply and demand for electricity on the JEPX may cause changes in the cost of electricity. This forecast is based on the premise that the pandemic will have an effect on the electricity prices throughout the fiscal year ending in June 2022.

In the energy business, in accordance with the renewable energy feed-in tariff system in Japan, fees received from customers were classified as sales and payments to the cost adjustment organization (same as fees received) were recognized as cost of sales in prior years. After applying Accounting Standard for Revenue Recognition (ASBJ Statement No. 29) from the first quarter of the fiscal year ending on June 30, 2022, we will switch from this gross recognition method to net recognition for using the netting method in paragraph 47 of this accounting standard. As a result, only the difference between fees received and payments made will be recognized. The application of the Accounting Standard for Revenue Recognition will have no effect on earnings at all levels. Sales, cost of sales and gross profit for the three prior fiscal years when using the netting method are as follows.

(Thousands of yen)

	Net sales	Cost of sales	Gross profit
FY6/19			
Amount before adjustment	3,862,460	2,822,717	1,039,742
Change	(208,157)	(208,157)	-
Amount after adjustment	3,654,302	2,614,560	1,039,742
FY6/20			
Amount before adjustment	14,407,904	12,146,393	2,261,511
Change	(1,937,180)	(1,937,180)	-
Amount after adjustment	12,470,724	10,209,212	2,261,511
FY6/21			
Amount before adjustment	34,850,086	40,460,891	(5,843,486)
Change	(6,171,149)	(6,171,149)	-
Amount after adjustment	28,446,255	34,289,742	(5,843,486)

2. Basic Approach to the Selection of Accounting Standards

All of the operations of HOPE 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)
Assets	
Current assets	
Cash and deposits	1,932,991
Notes and accounts receivable-trade	7,338,876
Merchandise and finished goods	427,497
Work in process	1,717
Supplies	193
Prepaid expenses	14,230
Advance payments to suppliers	185,594
Other	459,813
Allowance for doubtful accounts	(4,012)
Total current assets	<u>10,356,902</u>
Non-current assets	
Property, plant and equipment	
Buildings	9,895
Accumulated depreciation	(5,903)
Buildings, net	<u>3,992</u>
Vehicles	1,630
Accumulated depreciation	(1,191)
Vehicles, net	<u>438</u>
Tools, furniture and fixtures	35,700
Accumulated depreciation	(21,218)
Tools, furniture and fixtures, net	<u>14,481</u>
Total property, plant and equipment	<u>18,912</u>
Intangible assets	
Software	27,958
Other	55,922
Total intangible assets	<u>83,881</u>
Investments and other assets	
Investment securities	6,447
Distressed receivables	11,864
Deferred tax assets	17,241
Leasehold and guarantee deposits	458,279
Other	19
Allowance for doubtful accounts	(11,864)
Total investments and other assets	<u>481,986</u>
Total non-current assets	<u>584,781</u>
Total assets	<u>10,941,683</u>

	(Thousands of yen)
	FY6/21
	(As of Jun. 30, 2021)
Liabilities	
Current liabilities	
Accounts payable-trade	11,294,233
Short-term borrowings	950,000
Current portion of long-term borrowings	366,952
Accounts payable-other	30,745
Accrued expenses	119,088
Advances received	71,367
Deposits received	8,535
Other	666
Total current liabilities	12,841,589
Non-current liabilities	
Bonds payable	100,000
Long-term borrowings	482,658
Total non-current liabilities	582,658
Total liabilities	13,424,247
Net assets	
Shareholders' equity	
Share capital	1,959,676
Capital surplus	1,913,476
Retained earnings	(6,317,367)
Treasury shares	(70,902)
Total shareholders' equity	(2,515,115)
Accumulated other comprehensive income	
Valuation difference on available-for-sale securities	504
Total accumulated other comprehensive income	504
Share acquisition rights	32,047
Total net assets	(2,482,563)
Total liabilities and net assets	10,941,683

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

	(Thousands of yen)
	FY6/21
	(Jul. 1, 2020 – Jun. 30, 2021)
Net sales	34,617,405
Cost of sales	40,460,891
Gross loss	(5,843,486)
Selling, general and administrative expenses	1,053,572
Operating loss	(6,897,058)
Non-operating income	
Interest income	22
Dividend income	6
Penalty income	3,774
Subsidy income	1,532
Gain on sale of investment securities	16,067
Other	642
Total non-operating income	22,045
Non-operating expenses	
Interest expenses	11,176
Commission expenses	3,530
Loss on sale of investment securities	1,763
Share issuance costs	43,782
Other	1,999
Total non-operating expenses	62,252
Ordinary loss	(6,937,265)
Loss before income taxes	(6,937,265)
Income taxes-current	27,989
Income taxes-deferred	(2,127)
Total income taxes	25,861
Loss	(6,963,126)
Loss attributable to owners of parent	(6,963,126)

Consolidated Statement of Comprehensive Income

	(Thousands of yen)
	FY6/21
	(Jul. 1, 2020 – Jun. 30, 2021)
Loss	(6,963,126)
Other comprehensive income	
Valuation difference on available-for-sale securities	2,388
Total other comprehensive income	2,388
Comprehensive income	(6,960,738)
Comprehensive income attributable to	
Comprehensive income attributable to owners of parent	(6,960,738)
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			(6,963,126)		(6,963,126)
Purchase of treasury shares				(75)	(75)
Net changes in items other than shareholders' equity					
Total changes during period	1,644,527	1,644,527	(7,052,794)	(75)	(3,763,814)
Balance at end of period	1,959,676	1,913,476	(6,317,367)	(70,902)	(2,515,115)

	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				(6,963,126)
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	(3,742,384)
Balance at end of period	504	504	32,047	(2,482,563)

(4) Consolidated Statement of Cash Flows

	(Thousands of yen)
	FY6/21
	(Jul. 1, 2020 – Jun. 30, 2021)
Cash flows from operating activities	
Loss before income taxes	(6,937,265)
Depreciation	17,524
Share-based payment expenses	4,406
Increase (decrease) in allowance for doubtful accounts	3,276
Share issuance costs	43,782
Interest and dividend income	(28)
Interest expenses	11,176
Loss (gain) on valuation of investment securities	204
Decrease (increase) in trade receivables	(3,709,430)
Decrease (increase) in inventories	83,793
Decrease (increase) in advance payments to suppliers	48,222
Decrease(increase) in sales deposit	181,714
Increase (decrease) in trade payables	8,546,791
Increase (decrease) in accrued expenses	(69,237)
Increase (decrease) in advances received	9,828
Decrease/increase in consumption taxes receivable/payable	(601,184)
Other, net	(43,016)
Subtotal	(2,409,442)
Interest and dividends received	29
Interest paid	(12,258)
Income taxes refund (paid)	(428,964)
Other, net	3,315
Net cash provided by (used in) operating activities	(2,847,320)
Cash flows from investing activities	
Payments into time deposits	(11,016)
Proceeds from withdrawal of time deposits	11,015
Purchase of property, plant and equipment	(8,720)
Purchase of intangible assets	(12,176)
Purchase of investment securities	(282)
Proceeds from sale of investment securities	25,027
Proceeds from collection of long-term loans receivable from employees	202
Proceeds from refund of leasehold and guarantee deposits	8
Net cash provided by (used in) investing activities	4,057

	(Thousands of yen)
	FY6/21
	(Jul. 1, 2020 – Jun. 30, 2021)
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)
Proceeds from issuance of bonds	600,000
Redemption of bonds	(600,000)
Proceeds from issuance of shares	500,182
Payments for issuance of shares	(43,782)
Proceeds from issuance of share acquisition rights	25,919
Proceeds from issuance of shares resulting from exercise of share acquisition rights	2,777,582
Purchase of treasury shares	(75)
Dividends paid	(89,492)
Net cash provided by (used in) financing activities	3,475,382
Net increase (decrease) in cash and cash equivalents	632,118
Cash and cash equivalents at beginning of period	1,289,856
Cash and cash equivalents at end of period	1,921,974

(5) Notes to Consolidated Financial Statements

Going Concern Assumption

There are reasons for significant doubts concerning the going concern assumption due to consistently negative cash flows in prior years. In addition, due to a very large increase in the JEPX price of electricity between the middle of December 2020 and late January 2021, there was a 6,897 million yen operating loss, 6,937 million yen ordinary loss and 6,963 million yen loss attributable to owners of parent in the current fiscal year. Furthermore, net assets were negative 2,482 million yen at the end of June 2021.

HOPE, which is a company that prepares consolidated financial statements, is taking the following actions to end these problems.

1. Stabilize earnings of business operations

(1) Management of risk involving volatility of market prices

The HOPE Group has no electricity generation facilities and therefore purchases most of the electricity sold to its customers by using the JEPX. As a result, this business is vulnerable to changes in the cost of electricity. Many actions have been taken in order to reduce exposure to this price volatility risk. Major initiatives include establishing new risk management policies and adjusting the amount of electricity purchased by using the JEPX and one-to-one transactions for each area and season.

(2) Payment in installments of the January 2021 imbalance fees associated with the insufficient supply of electricity

On January 29, 2021, the Ministry of Economy, Trade and Industry announced that companies meeting certain requirements will be allowed to pay January 2021 imbalance fees in equal installments over a period of up to five months. (On March 19, 2021, the ministry increased the maximum number of these installments from five to nine.) HOPE applied for the use of this installment payment program and, after receiving permission from every electricity distribution company involved, made the first of nine equal installment payments in April 2021.

2. Stabilize cash flows

(1) Financial covenants

HOPE has received the agreement of financial institutions to not exercise the acceleration clause, which would require the immediate repayment of all applicable debt if HOPE is unable to fulfill the obligations of its debt covenants.

(2) Procurement of funds

HOPE is maintaining sound relationships with financial institutions, primarily its main banks, and management believes these institutions will continue to provide assistance. Furthermore, HOPE received proceeds of approximately 2 billion yen due to the May 17, 2021 sale of stock through a third-party allotment and the exercise of the issued Ninth Share Acquisition Rights with an exercise price adjustment clause. We will continue to consider many methods for procuring funds.

The goal of these actions is the stabilization of the earnings of business operations and of cash flows. However, we are only at the beginning of these actions. Moreover, there is a limit to the degree to which we can reduce our vulnerability to the volatility of the price of electricity. Consequently, there are significant uncertainties concerning the going concern assumption at this time.

The going concern assumption was used as the basis for the consolidated financial statements and these statements do not reflect the significant uncertainties concerning this assumption.

Segment and Other Information

Segment information

1. Overview of reportable segment

(1) Method for identifying reportable segments

Segments used for financial reporting are HOPE'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.

There are three reportable segments: advertising, energy, and media, which are based on HOPE's core advertising, energy, and media businesses.

(2) Information related to changes in reportable segments, etc.

Change in method for measuring profit (loss) of reportable segments

Beginning in FY6/21, the standards used for the allocation of corporate expenses have been revised for the purpose of more accurately showing the actual profitability of each segment.

(3) 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	Genewat
Media	Jichitai Works, B-to-G solutions

2. 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)

(Thousands of yen)

	Reportable segment				Other	Total	Adjustment	Amounts shown on consolidated financial statements
	Advertising	Energy	Media	Subtotal				
Net sales								
External sales	1,719,457	32,665,811	228,944	34,614,213	3,191	34,617,405	-	34,617,405
Inter-segment sales and transfers	-	-	-	-	-	-	-	-
Total	1,719,457	32,665,811	228,944	34,614,213	3,191	34,617,405	-	34,617,405
Segment profit (loss)	328,200	(6,926,499)	58,425	(6,539,872)	(47,821)	(6,587,693)	(309,364)	(6,897,058)
Segment assets	800,142	7,654,992	64,005	8,519,140	24	8,519,165	2,422,518	10,941,683
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.

2. 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.

3. Segment profit (loss) is adjusted to be consistent with operating loss shown on the consolidated statement of income.

4. Segment liabilities are not presented as they are not used for making decisions about allocation of management resources and evaluating results of operations.

Additional Information

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

HOPE started preparing the consolidated financial statements from the fiscal year ended June 30, 2021. Basis of preparation of the consolidated financial statements is as follows.

1. Matters concerning the scope of consolidation

Number of consolidated subsidiaries: 1

Name of principal consolidated subsidiary: HOPE ENERGY, INC.

2. Matters concerning application of the equity method

Not applicable.

3. Matters concerning accounting period of consolidated subsidiary

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

4. Accounting standards

(1) Valuation criteria and methods for marketable securities

Other securities

Securities with market quotations

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

Securities without market quotations

Stated at cost by the moving-average method.

(2) Valuation criteria and methods for inventories

a. 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).

b. 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).

(3) Depreciation and amortization methods for non-current 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.

(4) 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.

(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.

(6) Other significant accounting policies in the preparation of consolidated financial statements

Accounting for consumption taxes

National and local consumption taxes are accounted by the tax-exclusion method. Non-deductible national and local consumption taxes are charged to expenses for the fiscal year when they were incurred.

Per-share Information

(Yen)

	FY6/21 (Jul. 1, 2020 – Jun. 30, 2021)
Net assets per share	(324.46)
Net loss per share	(1,106.57)
Diluted net income per share	-

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)
Total net assets	(2,482,563)
Amount deducted from total net assets	(32,047)
[of which share acquisition rights]	[(32,047)]
Net assets at the end of the fiscal year applicable to common shares	(2,514,610)
Number of common shares at the end of the fiscal year used for the calculation of net assets per share (shares)	7,750,119

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

(Thousands of yen, unless otherwise stated)

	FY6/21 (Jul. 1, 2020 – Jun. 30, 2021)
Net loss per share	
Loss attributable to owners of parent	(6,963,126)
Amount not attributable to common shareholders	-
Loss attributable to owners of parent applicable to common shares	(6,963,126)
Average number of common shares outstanding during the period (shares)	6,292,514
Diluted net income per share	
Adjustment to profit attributable to owners of parent	-
Increase in the number of common shares (shares)	503,548
[of which share acquisition rights (shares)]	[503,548]
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)

Material Subsequent Events

The Board of Directors of HOPE approved a resolution on August 11, 2021 to conclude an absorption-type split agreement with Hope Energy, Inc., a wholly owned subsidiary of HOPE, to succeed the electricity retail sales business operated by HOPE to Hope Energy, Inc. on December 1, 2021 (tentative). For more details, please refer to “Notice of Company Split (Absorption-type Split) (Japanese version only),” which was announced today (August 11, 2021).

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.