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Loadstar Capital K.K. Consolidated Financial Results for the Six Months ended June 30, 2020 (Japanese GAAP)

August 5, 2020

Stock listing: Tokyo Stock Exchange Securities code: 3482
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(Amounts rounded down to the nearest million yen)

1. Consolidated Financial Results for the Six Months ended June 30, 2020 (January 1, 2020 to June 30, 2020)

(1) Consolidated Operating Results

(Percentages indicate year-on-year changes)

| | Net sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of the parent | |
|--------------------------------|-------------|------|------------------|------|-----------------|------|---|------|
| | million yen | % | million yen | % | million yen | % | million yen | % |
| Six months ended June 30, 2020 | 10,107 | 37.5 | 2,972 | 49.6 | 2,792 | 59.0 | 1,832 | 62.7 |
| Six months ended June 30, 2019 | 7,350 | 44.5 | 1,987 | 31.3 | 1,756 | 24.6 | 1,126 | 21.7 |

Note: Comprehensive income: Six months ended June 30, 2020: ¥1,832 million, 62.7%
 Six months ended June 30, 2019: ¥1,126 million, 21.7%

| | Earnings per share | Diluted earnings per share |
|--------------------------------|--------------------|----------------------------|
| | yen | yen |
| Six months ended June 30, 2020 | 95.98 | 95.68 |
| Six months ended June 30, 2019 | 53.00 | 52.51 |

(2) Consolidated Financial Position

| | Total assets | Net assets | Equity-to-asset ratio |
|-------------------|--------------|-------------|-----------------------|
| | million yen | million yen | % |
| June 30, 2020 | 51,559 | 6,817 | 13.2 |
| December 31, 2019 | 44,337 | 7,821 | 17.6 |

Reference: Total equity: June 30, 2020: ¥6,812 million, December 31, 2019: ¥7,820 million

2. Dividends

| | Dividend per share | | | | |
|----------------------|--------------------|--------|--------|----------|-------|
| | End-Q1 | End-Q2 | End-Q3 | Year-end | Total |
| | yen | yen | yen | yen | yen |
| FY2019 | - | 0.00 | - | 14.50 | 14.50 |
| FY2020 | - | 0.00 | | | |
| FY2020 (forecast) | | | - | 16.00 | 16.00 |

Note: Revisions from the latest release of dividend forecasts: None

3. Forecast for the FY2020 (January 1, 2020 to December 31, 2020)

(Percentages indicate year-on-year changes)

| | Net sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of the parent | | Earnings per share |
|--|-------------|--------|------------------|-------|-----------------|-------|---|-------|--------------------|
| | million yen | % | million yen | % | million yen | % | million yen | % | yen |
| | Full year | 16,862 | 11.6 | 4,120 | 12.8 | 3,741 | 14.3 | 2,319 | 11.7 |

Note: Revisions from the latest release of forecasts: None

*Notes

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries causing changes in scope of consolidation): None
- (2) Adoption of special accounting methods and special accounting practices to preparation of quarterly consolidated financial statements: None
- (3) Changes in accounting policy, changes in accounting estimates, and retrospective restatement
 - 1) Changes in accordance with revisions to accounting and other standards: None
 - 2) Changes other than 1) above: None
 - 3) Changes in accounting estimates: None
 - 4) Retrospective restatement: None
- (4) Number of shares issued (common stock)

| | June 30, 2020 | December 31, 2019 |
|---|-----------------------------------|-----------------------------------|
| 1) Number of shares issued (including treasury shares) | 21,444,000 | 21,444,000 |
| 2) Number of shares held in treasury | 5,100,112 | 112 |
| | Six months ended June 30, 2020 | Six months ended June 30, 2019 |
| 3) Average number of shares outstanding during the period | 19,090,042 | 21,252,971 |

*This report is exempt from the quarterly review.

*Appropriate Use of Forecasts and Other Important Information

The above forecasts, which constitute forward-looking statements, are based on information available to the Company as of the date of the release of this document. Loadstar Capital makes no assurances as to the actual results, which may differ materially from the above forecasts due to a range of factors. For information related to the forecast, please refer to "(3) Forecasts on operating performance" on page 3 in section "1. Qualitative Information Regarding Financial Results" in the Appendix.

In addition, the Company has scheduled to hold the quarterly earnings briefing on August 5, 2020 for institutional investors and analysts.

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1. Qualitative Information Regarding Financial Results

(1) Summary of operating performance

In the six months ended June 30, 2020, the Japanese economy slumped due to the decline in consumption and stagnation in corporate activities resulting from the impact of COVID-19. The state of emergency was lifted on the 25th of May 2020, and economic activity has gradually returned, but signs of another expansion of infection have emerged, creating an uncertain short-term economic outlook. Overseas, COVID-19 is more rampant than in Japan, and US-China relations are worsening. Between these and other factors, developments in the global economic downturn require close monitoring.

In the real estate and real estate finance sectors, to which the Group belongs, particularly in the B to B office real estate market, the impact of COVID-19 has been limited, and despite temporary stagnation in real estate-related transactions in the March through May 2020 period, from June onward activity has been returning to pre-COVID-19 levels. Appetite for purchasing properties has not declined, as the Bank of Japan has maintained its monetary easing policy and no significant changes in financial institutions' lending stances have been observed. According to Miki Shoji Co., Ltd.'s latest office building market data (for June 2020), the vacancy rate for existing office buildings in Tokyo's five central wards (Chiyoda-ku, Chuo-ku, Minato-ku, Shinjuku-ku, and Shibuya-ku) has increased slightly to 1.97%, but remains at a low level, while the average rent is ¥22,880 per tsubo, which is a 6.33% year-on-year rise, and represents 78 consecutive months of increases.

Meanwhile, according to Yano Research Institute Ltd.'s "Crowdfunding Market in Japan: Key Research Findings 2018" webpage (published on December 3, 2018) (URL: https://www.yano.co.jp/press-release/show/press_id/2036), the domestic crowdfunding market is expanding at a high growth rate, as the market size in fiscal 2018 is projected to have been ¥204.4 billion, representing a 20.3% increase versus the previous year.

In the lending-type crowdfunding (social lending) sector to which the Group belongs, the Type II Financial Instruments Firms Association, a self-regulatory body, issued rules to abide by in the social lending business last year. This action may increase the transparency of borrower information in the sector, and further, subsequent individual investor demand has remained strong, and the market is believed to be growing steadily.

In this environment, in the Corporate Funding Business, we made progress on sales of Company-owned properties at a faster pace than the annual plan. Also, despite the COVID-19 crisis, we fully showcased our strength—our purchasing capabilities—to the fullest extent and purchased properties, the largest amount since the Company's founding, thereby securing a foundation for earnings for the second half of the fiscal year ending December 31, 2020 and thereafter. In the real estate Crowdfunding Business, the number of investor members and the cumulative investment amount both increased slightly.

As a result of these activities, operating performance in the six months ended June 30, 2020, are as follows.

(Sales)

Net sales in the six months ended June 30, 2020, totaled ¥10,107 million (up 37.5% compared with the previous six months of 2019),

This was mainly due to the increase of real estate investments sales and real estate leasing revenue in the Corporate Funding Business.

Overviews of operating performance by key services are as follows. Because the Group has a single segment, information is categorized by service rather than by segment.

(a) Corporate Funding Business

1) Real estate investment

Real estate investment sales totaled ¥9,138 million (up 42.8%), due to the sale of four properties.

2) Real estate leasing

Although four properties were sold as mentioned above, eight new properties were acquired, resulting in real estate leasing sales of ¥764 million (up 15.1%).

(b) Crowdfunding Business

Sales in the Crowdfunding Business totaled ¥174 million (down 5.8%), as operating loans were ¥5,476 million, due to the fact that real estate transactions were somewhat stagnant as a result of the impact from COVID-19 and new deal originations were carried out in a caution manner.

(c) Other

The total was ¥2 million due to administrative fee revenue, etc.

(Operating Profit)

Operating profit was ¥2,972 million (up 49.6%), due to the increase of sales, etc.

(Ordinary Profit)

Ordinary profit was ¥2,792 million (up 59.0%), due to the increase of operating profit, etc.

(Profit attributable to owners of the parent)

Profit attributable to owners of the parent was ¥1,832 million (up 62.7%), due to the increase of ordinary profit, etc.

(2) Financial Position

(Assets)

As of June 30, 2020, total assets were ¥51,559 million (up 16.3% compared with the end of fiscal 2019). This was mainly due to the acquisition of real estate as inventory.

(Liabilities)

As of June 30, 2020, total liabilities were ¥44,742 million (up 22.5%). This was mainly due to the increase of borrowings.

(Net Assets)

As of June 30, 2020, net assets were ¥6,817 million (down 12.8%). This was due to an increase in retained earnings of ¥1,521 million (an increase of ¥1,832 million due to net income attributable to owners of the parent company and a decrease of ¥310 million yen due to the payment of dividends), and treasury shares increased ¥2,529 million and net assets decreased by the same amount.

(Overview of Cash flows)

As of June 30, 2020, the outstanding balance of cash and cash equivalents (hereinafter, "cash") was ¥6,245 million, a decrease of ¥1,521 million from December 31, 2019.

The cash flows during the six months ended June 30, 2020, and the factors behind these cash flows, are as follows.

(a) Cash flows from operating activities

Net cash used in operating activities was ¥5,993 million. The main sources of operating cash flow were ¥2,647 million from profit before income taxes. On the other hand, major uses of operating cash flow included a ¥9,611 million increase in real estate as inventory resulting from steady up-front investment in property acquisitions, and a ¥1,220 million decrease in deposits received from silent partnership.

(b) Cash flows from investment activities

There was no cash flow from investment activities.

(c) Cash flows from financing activities

Net cash provided by financing activities was ¥4,472 million. This was mainly due to proceeds of ¥13,005 million from long-term borrowings, repayments of ¥5,627 million from long-term borrowings and short-term borrowings, outflows of ¥2,529 million due to the acquisition of treasury shares, and a ¥310 million in outflow due to the payment of dividends.

(3) Forecasts on operating performance

Consolidated operating performance in the six months ended June 30, 2020, basically remained stable as planned and there is no change on the full-year consolidated earnings forecasts since the last announcement.

2. Consolidated Financial Statements and Notes

(1) Consolidated Financial Position

(Millions of yen)

| | As of December 31, 2019 | As of June 30, 2020 |
|---|-------------------------|---------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 7,766 | 6,245 |
| Operating loans | 6,128 | 5,476 |
| Real estate as inventory | 30,045 | 39,425 |
| Other | 106 | 81 |
| Total current assets | 44,048 | 51,228 |
| Non-current assets | | |
| Property, plant and equipment | 61 | 55 |
| Intangible assets | 9 | 8 |
| Investments and other assets | 218 | 267 |
| Total non-current assets | 289 | 331 |
| Total assets | 44,337 | 51,559 |
| Liabilities | | |
| Current liabilities | | |
| Short-term borrowings | 849 | 197 |
| Current portion of long-term borrowings | 1,526 | 3,268 |
| Income taxes payable | 702 | 911 |
| Provision for bonuses | - | 72 |
| Deposits received | 2,038 | 2,427 |
| Other | 409 | 1,072 |
| Total current liabilities | 5,526 | 7,950 |
| Non-current liabilities | | |
| Long-term borrowings | 22,962 | 29,249 |
| Deposits received from silent partnership investors | 7,022 | 5,802 |
| Other | 1,004 | 1,739 |
| Total non-current liabilities | 30,989 | 36,792 |
| Total liabilities | 36,516 | 44,742 |
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 1,402 | 1,402 |
| Capital surplus | 1,392 | 1,392 |
| Retained earnings | 5,025 | 6,547 |
| Treasury shares | (0) | (2,529) |
| Total shareholders' equity | 7,820 | 6,812 |
| Share acquisition rights | 1 | 5 |
| Total net assets | 7,821 | 6,817 |
| Total liabilities and net assets | 44,337 | 51,559 |

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

(Millions of yen)

| | Six months ended June 30, 2019 | Six months ended June 30, 2020 |
|---|-----------------------------------|-----------------------------------|
| Net sales | 7,350 | 10,107 |
| Cost of sales | 4,850 | 6,576 |
| Gross profit | 2,500 | 3,530 |
| Selling, general and administrative expenses | 513 | 558 |
| Operating profit | 1,987 | 2,972 |
| Non-operating income | | |
| Insurance income | 0 | 5 |
| Interest on refund | 1 | 0 |
| Other | 0 | 0 |
| Total non-operating income | 1 | 6 |
| Non-operating expenses | | |
| Interest expenses | 107 | 113 |
| Loss on valuation of derivatives | 53 | 2 |
| Commission expenses | 69 | 64 |
| Other | 2 | 5 |
| Total non-operating expenses | 232 | 186 |
| Ordinary profit | 1,756 | 2,792 |
| Profit before dividend distribution from silent partnerships and income taxes | 1,756 | 2,792 |
| Dividends distribution from silent partnerships | 129 | 145 |
| Profit before income taxes | 1,627 | 2,647 |
| Income taxes - current | 541 | 865 |
| Income taxes - deferred | (40) | (50) |
| Total income taxes | 500 | 814 |
| Profit | 1,126 | 1,832 |
| Profit attributable to non-controlling interests | - | - |
| Profit attributable to owners of the parent | 1,126 | 1,832 |

Consolidated Statements of Comprehensive Income

(Millions of yen)

| | Six months ended June 30, 2019 | Six months ended June 30, 2020 |
|--|-----------------------------------|-----------------------------------|
| Profit | 1,126 | 1,832 |
| Comprehensive income | 1,126 | 1,832 |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of the parent | 1,126 | 1,832 |
| Comprehensive income attributable to non- controlling interests | - | - |

(3) Consolidated Statement of Cash Flows

(Millions of yen)

| | Six months ended June 30, 2019 | Six months ended June 30, 2020 |
|--|-----------------------------------|-----------------------------------|
| Cash flows from operating activities | | |
| Profit before income taxes | 1,627 | 2,647 |
| Depreciation and amortization | 212 | 238 |
| Interest expenses | 107 | 113 |
| Commission expenses | 69 | 64 |
| Decrease (increase) in operating loans receivable | (1,161) | 652 |
| Decrease (increase) in Real estate as inventory | (2,821) | (9,611) |
| Increase (decrease) in deposits received from silent partnership | 1,619 | (1,220) |
| Increase (decrease) in deposits received | (20) | 388 |
| Increase (decrease) in accounts payable-other and accrued expenses | (12) | 32 |
| Increase (decrease) in advances received | (180) | 363 |
| Increase (decrease) in provision for bonuses | 56 | 72 |
| Decrease/increase in consumption taxes receivable/payable | 301 | 304 |
| Increase (decrease) in guarantee deposits received | 332 | 733 |
| Other | (3) | (3) |
| Subtotal | 127 | (5,224) |
| Interest and dividends income received | 0 | 0 |
| Interest expenses paid | (107) | (113) |
| Income taxes paid | (428) | (661) |
| Proceeds from insurance income | 0 | 5 |
| Net cash provided by (used in) operating activities | (407) | (5,993) |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | (1) | - |
| Purchase of intangible assets | (4) | - |
| Proceeds from refund of leasehold and guarantee deposits | 2 | - |
| Net cash provided by (used in) investing activities | (4) | - |
| Cash flows from financing activities | | |
| Net increase (decrease) in short-term borrowings | 95 | (651) |
| Proceeds from long-term borrowings | 6,480 | 13,005 |
| Repayment of long-term borrowings | (4,167) | (4,976) |
| Commission of loans payable | (67) | (64) |
| Proceeds from issuance of shares | 36 | - |
| Cash dividends paid | (201) | (310) |
| Purchase of treasury shares | - | (2,529) |
| Other | - | 0 |
| Net cash provided by (used in) financing activities | 2,175 | 4,472 |
| Effect of exchange rate change on cash and cash equivalents | - | (0) |
| Net increase (decrease) in cash and cash equivalents | 1,764 | (1,521) |
| Cash and cash equivalents at beginning of period | 5,871 | 7,766 |
| Cash and cash equivalents at end of period | 7,635 | 6,245 |

(4) Notes to quarterly consolidated financial statements

(Note on the going-concern assumption)

Not applicable

(Note on significant change in shareholders' equity)

As described below, we acquired the treasury shares from a specified shareholder based on the resolution of the shareholders meeting held on March 31, 2020.

With this acquisition, treasury shares during the six months ended June 30, 2020 increased by ¥2,529 million, and treasury shares totaled ¥2,529 million as of June 30, 2020.

| | | |
|-----|-------------------------|------------------------|
| (1) | Types of shares | Common stock |
| (2) | Total numbers of shares | 5,100,000 |
| (3) | Total amounts of shares | 2,529,600,000 JPY |
| (4) | Date of acquisition | April, 8, 2020 |
| (5) | Method of acquisition | Off-market trading |
| (6) | Trading partner | Renren Lianhe Holdings |

(Segment and other information)

Segment information is omitted here, as all operations of the Group belong to a single segment of real estate related business.