FPG
Financial Products Group

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Company: Financial Products Group Co., Ltd.
Representative: Hisanaga Tanimura, CEO & Founder
(Code 7148 on the First Section of the Tokyo Stock Exchange)
Inquiries: Yusuke Tsubouchi,
General Manager of Accounting Dept.1
(TEL. +81-3-5288-5691)

Notice of Impact on Our Company by Voluntary Administration Application of Air Mauritius Limited (Progress of Disclosure)

As announced on April 24, 2020 in the "Notice of Impact on Our Company by Voluntary Administration Application of Air Mauritius Limited" and on April 27, 2020 in the "Notice of the Postponement of Announcement of Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending September 2020", Financial Products Group Co., Ltd. (FPG) has put off the announcement of the second quarter financial results of the fiscal year ending September 2020 in order to consider accounting treatment for equity underwritten related to operating lease business (the Lease Business) of Air Mauritius Limited (AML) applying for voluntary administration based on the Mauritius Insolvency Act.

FPG has decided the accounting treatment for equity underwritten and announced the second quarter financial results of the fiscal year ending September 2020 today. The outline of the accounting treatment is discribed as follows.

1. Outline of Accounting Treatment

FPG temporarily acquired equity interest of a silent partnership in the lease business, in which AML is the lessee, on the assumption that it will be transferred to investors, and FPG recorded 4,296 million yen as a "Equity underwritten" on the consolidated balance sheet in first quarter financial results for September 2020.

Although the Lease Business is operated by FPG's subsidiaries (FLIP No. 243, FLIP No. 244, FLIP No. 245) as silent partnership operators. As the profit and loss of the Lease Business will be attributed to investors, not FPG by transferring the equity interest in the silent partnership to investors, a subsidiary which conducts the Leasing Business is made a non-consolidated subsidiary as a subsidiary which may substantially mislead judgment of interested parties based on "Regulations Concerning the Terminology, Forms and Preparation Method of Quarterly Consolidated Financial Statements" (August 10, 2007 Cabinet Office Ordinance No. 64), Article 5, Paragraph 1, Item 2.

However, FPG has decided to hold the equity interest of the silent partnership for the time being due to the application for voluntary management for AML. As a result, the profit and income of the Lease Business will be attributable to FPG, so judging that the above clause does not apply, FPG has decided to make subsidiaries our consolidated subsidiaries. The profits and losses and assets and liabilities of the Lease Business conducted by the subsidiaries will be reflected in the consolidated financial statements of FPG.

Although the application for voluntary management for AML was made in April 2020, the impact of the event should be reflected in the second quarter financial results as a modified subsequent event, so the accounting treatment for recording the equity interest in the silent partnership as "Equity underwritten" would be changed as of the end of March 2020. FPG has decided that the profit and loss of the Lease Business and the valuation loss of aircraft that have occurred up to that point are recorded in Cost of sales as valuation loss of "Equity underwritten", and the assets and liabilities of the lease business as of the end of March will be reflected in the consolidated financial statements by consolidating the subsidiaries from the end of March 2020.

As a result, in the second quarter results, FPG has recorded a valuation loss of 527 million yen in Cost of sales, and consolidated assets of 17,299 million yen (of which, Aircraft for sales 16,665 million yen) and liabilities of 17,295 million yen.

2. Impact on consolidated financial results for the fiscal year ending September 30, 2020

Regarding the impact on the consolidated financial results forecast, please refer to "Notice of Differences between Financial Results Forecast and Actual Financial Results for the Second Quarter, and Revision to Full-year Financial Results Forecast" announced today.