

# Consolidated Financial Statements (Japanese Accounting Standards)

August 2, 2013

(For the three months ended June 30, 2013)

Name of Company Listed: **Leopalace21 Corporation**

Code Number: 8848

(URL: <http://eg.leopalace21.com>)

Representative:

Contact Person:

Position: President and CEO

Position: Executive Officer

Stock Listing: Tokyo Stock Exchange

Location of Head Office: Tokyo

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Supplemental Explanatory Material Prepared: Yes

Results Briefing Held: None

Scheduled Date of Commencement of Dividend Payments: –

## 1. Results for the Three Months Ended June 30, 2013 (April 1, 2013 through June 30, 2013)

### (1) Consolidated financial results

(Amounts less than one million yen are omitted)  
(Percentages represent changes from the same period last year)

	Net sales		Operating income (loss)		Recurring income (loss)		Net income (loss)	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
<b>Three months ended June 30, 2013</b>	<b>114,876</b>	<b>7.9</b>	<b>2,009</b>	<b>–</b>	<b>1,541</b>	<b>–</b>	<b>1,371</b>	<b>–</b>
Three months ended June 30, 2012	106,449	0.9	(1,421)	–	(3,683)	–	(4,009)	–

Note: Comprehensive income (loss): Three months ended June 31, 2013: 3,842 million yen –%;  
Three months ended June 30, 2012: (730) million yen –%

	Net income (loss) per share	Diluted net income (loss) per share
	Yen	Yen
<b>Three months ended June 30, 2013</b>	<b>6.48</b>	<b>–</b>
Three months ended June 30, 2012	(23.67)	–

### (2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Equity per share
	Million yen	Million yen	%	Yen
<b>As of June 30, 2013</b>	<b>254,016</b>	<b>62,012</b>	<b>24.4</b>	<b>293.00</b>
As of March 31, 2013	261,649	58,151	22.2	274.80

Note: Shareholders' equity: As of June 30, 2013: 61,994 million yen; As of March 31, 2013: 58,133 million yen

## 2. Dividend Status

	Dividend per share					
	(Base date)	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	End of FY	Annual
		Yen	Yen	Yen	Yen	Yen
FY ended March 31, 2013		–	0.00	–	0.00	0.00
FY ending March 31, 2014		–	–	–	–	–
FY ending March 31, 2014 (Forecast)		–	0.00	–	0.00	0.00

Note: Restatement of most recent dividend forecast (Y/N): None

## 3. Estimation of Business Results for the Fiscal Year Ending March 31, 2014 (April 1, 2013 through March 31, 2014)

(Amounts less than one million yen are omitted)  
(Percentages represent changes compared with the previous full-year and six-month period results, respectively)

	Net sales		Operating income		Recurring income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Six months ending September 30, 2013	227,100	3.2	4,700	147.7	3,700	–	3,100	–	14.65
FY ending March 31, 2014	467,400	2.9	14,100	90.2	12,200	10.0	11,000	(17.5)	51.99

Note: Restatement of most recent consolidated business results forecasts (Y/N): None

#### 4. Other

- (1) Changes in major subsidiaries during the period (Change in specific subsidiaries as a result of a change in the scope of consolidation):  
None
- (2) Use of accounting procedures specific to the preparation of quarterly financial statements: Yes
- (3) Changes in accounting policies, changes in accounting estimates, restatements
  - (i) Changes in accounting policies accompanying revision of accounting standards, etc.: None
  - (ii) Changes in accounting policies other than (i) above: None
  - (iii) Changes in accounting estimates: None
  - (iv) Restatements: None
- (4) Total number of outstanding shares (Common stock)
  - (i) Total number of outstanding shares at term end (Includes treasury stock)
    - As of June 30, 2013: 217,443,915 shares
    - As of March 31, 2013: 217,443,915 shares
  - (ii) Total treasury stock at term end
    - As of June 30, 2013: 5,859,920 shares
    - As of March 31, 2013: 5,900,320 shares
  - (iii) Average number of outstanding shares during the period
    - For the three months ended June 30, 2013: 211,569,319 shares
    - For the three months ended June 30, 2012: 169,355,756 shares

#### Indication regarding the status of quarterly review procedures:

These financial statements are not subject to quarterly review procedures under the Financial Instruments and Exchange Act. The review of these financial statements in accordance with the Financial Instruments and Exchange Act completed at the time of disclosure.

#### Note on the proper use of the business forecasts contained in this report, and other disclaimers:

##### (Note on the business forecasts and other forward-looking statements)

The business forecasts and other forward-looking statements contained in this report are based on information currently available to the Company and on certain assumptions that Leoplace21 has judged to be reasonable. Readers should be aware that a variety of factors might cause actual results to differ significantly from these forecasts.

##### (Method for the acquisition of supplemental explanatory material)

Supplemental Explanatory Material on quarterly financial statements is scheduled to be posted on the Company's homepage on August 2, 2013.

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## 1. Qualitative Information on Financial Results for the Three Months Ended June 30, 2013

### (1) Qualitative information on consolidated business results

(Million yen)

	Net sales	Operating income (loss)	Recurring income (loss)	Net income (loss)
Three months ended June 30, 2013	114,876	2,009	1,541	1,371
Three months ended June 30, 2012	106,449	(1,421)	(3,683)	(4,009)
change	8,426	3,430	5,225	5,380

During the first quarter of the consolidated fiscal year under review, the Japanese economy recovered moderately, reflecting a correction of the strong yen and higher stock prices due to the monetary policy, but the future of the economy remained uncertain.

In the housing industry, although new housing starts continued to recover, the housing rental market has been saturated. To achieve stable occupancy rates, businesses needed to provide high-quality housing and services.

Under these conditions, the Leopalace Group positions the fiscal year under review, the second year of the new medium-term management plan, as a year to reach a new growth stage. Based on the foundations built in the previous fiscal year, the Group sought to maximize profits by making its properties under management more competitive and enhancing tenant services.

As a result, the Group achieved increases both in sales and profit in the first quarter of the consolidated fiscal year under review, posting net sales of ¥114,876 million (up 7.9% year-on-year), operating income of ¥2,009 million (compared to an operating loss of ¥1,421 million in the same period of the previous fiscal year), recurring income of ¥1,541 million (compared to a recurring loss of ¥3,683 million in the same period last year), and net income of ¥1,371 million (compared to a net loss of ¥4,009 million in the same period last year). Net income was in the black for the first time in a first quarter since the first quarter ended June 30, 2007.

The Group's construction business has many building construction contracts stipulating completion in the fourth quarter, which is when demand for rental apartments is busiest. In the leasing business, the number of apartments under management is increasing as apartments are completed so seasonal fluctuations put a preponderance of earnings into the fourth quarter.

Business performance by segment is as follows:

(Million yen)

	Net sales			Operating Income (loss)		
	Three months ended June 30, 2012	Three months ended June 30, 2013	change	Three months ended June 30, 2012	Three months ended June 30, 2013	change
Leasing Business	96,097	96,142	45	922	2,680	1,758
Construction Business	5,910	13,874	7,964	(1,551)	89	1,640
Hotels & Resort Business	1,816	2,037	221	(116)	66	182
Elderly Care Business	2,340	2,477	136	(187)	(196)	(8)
Others	285	343	58	66	84	17
Adjustments	–	–	–	(555)	(714)	(159)
Total	106,449	114,876	8,426	(1,421)	2,009	3,430

#### (i) Leasing Business

The occupancy rate at the end of the first quarter of the consolidated fiscal year under review was 83.69% (up 1.00 point from the same quarter last year), and the average occupancy rate for the period was 83.56% (up 1.34 points from the same quarter last year).

In the leasing business, the Company strove to achieve stable occupancy rates and encouraged long-term tenancies by promoting corporate sales in all industries, keeping tenants from leaving its properties through active proposals of relocation, providing a variety of apartments in the "Room-Customize" service, and increasing apartment buildings with security systems installed. The Company continued to adjust rents paid based on market rents and to cut costs by reviewing routine property management tasks.

The number of units under management at the end of the first quarter under review was 546,000 (increasing 600 from the end of last fiscal year), and the number of direct offices was 184 (rising 2). The number of franchise offices was 179 (decreasing 13).

As a result, net sales amounted to ¥96,142 million (an increase of ¥45 million from the same quarter of the previous fiscal year), and

operating income was ¥2,680 million (up 190.6% year-on-year).

(ii) Construction Business

Orders received during the first quarter of the consolidated fiscal year under review were ¥24,062 million (up 52.8% from the same quarter of the previous fiscal year), and orders received outstanding at the end of the first quarter of the consolidated fiscal year under review stood at ¥50,069 million (down 14.6% from the end of the same quarter of the previous fiscal year).

In the construction business, the Company continued to focus on receiving orders for apartments in areas where solid demand was anticipated, prioritizing increasing profitability in the leasing business. Meanwhile, the Company promoted installation of solar power systems and construction of buildings other than apartment buildings, including elderly care facilities and stores. The Company also strove to enhance product capabilities, for example by installing a non-sound system to enhance noise insulation significantly in the standard specifications.

As a result, net sales came to ¥13,874 million (up 134.8% year-on-year), and operating income was ¥89 million (compared to an operating loss of ¥1,551 million in the same quarter of the previous fiscal year).

(iii) Hotels & Resort Business

Net sales in resort facilities in Guam and hotels in Japan were ¥2,037 million (up 12.2% year-on-year), and operating income was ¥66 million (compared to operating loss of ¥116 million in the same period last year).

(iv) Elderly Care Business

Net sales were ¥2,477 million (up 5.8% year-on-year), and operating loss was ¥196 million (an increase of ¥8 million in loss year-on-year).

(v) Other Businesses

In other businesses such as the small-claims and short-term insurance business, the finance business, and the solar power generation business, net sales were ¥343 million (up 20.5% year-on-year), and the operating income was ¥84 million (up 26.5%).

(2) Qualitative information on consolidated financial position

(Million yen)

	Total Assets	Total liabilities	Net Assets
As of June 30, 2013	254,016	192,003	62,012
As of March 31, 2013	261,649	203,498	58,151
change	(7,633)	(11,495)	3,861

Total assets at the end of the first quarter of the consolidated fiscal year under review declined ¥7,633 million from the end of the previous fiscal year, to ¥254,016 million. This was mainly attributable to an increase of ¥1,387 million in buildings and structures (net) due to the effect of exchange rates and decreases of ¥5,603 million in cash and cash equivalents, ¥1,603 million in prepaid expenses, and ¥1,823 million in long-term prepaid expenses.

Total liabilities decreased ¥11,495 million from the end of the previous fiscal year, to ¥192,003 million. This primarily reflected an increase of ¥1,474 million in customer advances for projects in progress and decreases of ¥3,390 million in accounts payable for completed projects, ¥2,148 million in unpaid expenses, ¥6,391 million in advances received and long-term advances received, and ¥1,224 million in reserve for apartment vacancy loss.

As a result, net assets were up ¥3,861 million from the end of the previous fiscal year, to ¥62,012 million, chiefly due to a decrease of ¥2,747 million in negative foreign currency translation adjustments balance and an increase of ¥1,371 million in retained earnings due to the posting of net income. The ratio of shareholders' equity to assets rose 2.2 points from the end the previous fiscal year, to 24.4%.

(3) Qualitative information on consolidated results forecasts

Consolidated results forecasts announced in the consolidated financial statements published on May 10, 2013 remain unchanged.

The results forecasts are the estimates of the Company based on information available at the time of announcement of this document. Actual results may differ materially from these forecasts due to various factors.

## **2. Matters Relating to Summary Information (notes)**

(1) Changes in significant subsidiaries during the cumulative third quarter under review

Not applicable

(2) Application of accounting methods specific to the preparation of quarterly consolidated financial statements

Tax expenses are calculated by multiplying net income before income taxes by a reasonably estimated effective tax rate, after applying the tax effect accounting to net income before income taxes for the consolidated fiscal year that includes the first quarter under review.

(3) Changes in Accounting Policy, Changes in Accounting Estimates, Restatements

Not applicable

**3. Consolidated Financial Statements**  
**(1) Consolidated Balance Sheets**

(Million yen)

	June 30, 2013	March 31, 2013
<b>&lt;Assets&gt;</b>		
<b>Current assets</b>		
Cash and cash equivalents	51,078	56,681
Trade receivables	4,335	4,360
Accounts receivable for completed projects	2,890	2,231
Operating loans	1,772	1,879
Marketable securities	305	504
Payment for construction in progress	740	339
Raw materials and supplies	490	457
Prepaid expenses	11,168	12,772
Deferred tax assets	4,273	4,273
Other accounts receivable	813	1,017
Other	5,656	6,722
Allowance for doubtful accounts	(323)	(346)
<b>Total</b>	<b>83,201</b>	<b>90,896</b>
<b>Fixed assets</b>		
Property, plant and equipment		
Buildings and structures (Net)	56,127	54,740
Land	81,334	80,780
Leased assets (Net)	1,750	1,798
Construction in progress	257	175
Other (Net)	1,530	1,502
<b>Total</b>	<b>141,000</b>	<b>138,997</b>
Intangible assets	6,459	6,613
Investments and other assets		
Investment securities	7,143	7,176
Long-term loans	563	570
Bad debt	1,465	1,900
Long-term prepaid expenses	6,304	8,127
Deferred tax assets	6,738	6,586
Other	3,348	3,339
Allowance for doubtful accounts	(2,253)	(2,606)
<b>Total</b>	<b>23,309</b>	<b>25,094</b>
<b>Total fixed assets</b>	<b>170,769</b>	<b>170,705</b>
<b>Deferred assets</b>	<b>44</b>	<b>48</b>
<b>Total assets</b>	<b>254,016</b>	<b>261,649</b>

(Million yen)

	June 30, 2013	March 31, 2013
<b>&lt;Liabilities&gt;</b>		
<b>Current liabilities</b>		
Accounts payable	2,814	2,670
Accounts payable for completed projects	10,916	14,307
Short-term borrowings	14,814	14,814
Bonds due within one year	560	560
Lease obligations	992	1,097
Unpaid expenses	11,103	13,252
Accrued expenses	295	12
Accrued income taxes	215	394
Advances received	45,450	49,036
Customer advances for projects in progress	5,281	3,807
Reserve for employees' bonuses	882	—
Reserve for warranty obligations on completed projects	89	71
Reserve for fulfillment of guarantees	439	457
Other	3,816	4,662
<b>Total</b>	<b>97,672</b>	<b>105,144</b>
<b>Long-term liabilities</b>		
Bonds	1,480	1,480
Long-term borrowings	30,020	30,020
Lease obligations	1,088	1,054
Long-term advances received	29,552	32,357
Lease/guarantee deposits received	8,859	8,984
Retirement benefit reserves	8,754	8,634
Reserve for apartment vacancy loss	12,725	13,950
Other	1,849	1,872
<b>Total</b>	<b>94,331</b>	<b>98,353</b>
<b>Total liabilities</b>	<b>192,003</b>	<b>203,498</b>
<b>&lt;Net assets&gt;</b>		
<b>Shareholders' equity</b>		
Common stock	62,867	62,867
Capital surplus	39,410	39,424
Retained earnings	(29,647)	(31,018)
Treasury stock	(4,694)	(4,726)
<b>Total</b>	<b>67,936</b>	<b>66,546</b>
<b>Accumulated other comprehensive income (loss)</b>		
Net unrealized gains on "other securities"	372	648
Translation adjustments	(6,314)	(9,061)
<b>Total</b>	<b>(5,941)</b>	<b>(8,413)</b>
<b>Share subscription rights</b>	18	18
<b>Total net assets</b>	<b>62,012</b>	<b>58,151</b>
<b>Total liabilities and net assets</b>	<b>254,016</b>	<b>261,649</b>



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

(Million yen)

	Three months ended June 30, 2013 (Apr. 2013–Jun. 2013)	Three months ended June 30, 2012 (Apr. 2012–Jun. 2012)
<b>Net sales</b>	<b>114,876</b>	<b>106,449</b>
<b>Cost of sales</b>	<b>99,455</b>	<b>95,794</b>
<b>Gross profit</b>	<b>15,420</b>	<b>10,655</b>
<b>Selling, general and administrative expenses</b>	<b>13,410</b>	<b>12,076</b>
<b>Operating income (loss)</b>	<b>2,009</b>	<b>(1,421)</b>
<b>Non-operating income</b>		
Interest income	9	9
Dividend income	43	19
Other	39	45
<b>Total</b>	<b>92</b>	<b>74</b>
<b>Non-operating expenses</b>		
Interest expenses	382	360
Commission fee	122	207
Foreign exchange loss	3	1,619
Other	53	150
<b>Total</b>	<b>560</b>	<b>2,337</b>
<b>Recurring profit (loss)</b>	<b>1,541</b>	<b>(3,683)</b>
<b>Extraordinary income</b>		
Gain on sales of property, plant and equipment	0	—
<b>Total</b>	<b>0</b>	<b>—</b>
<b>Extraordinary losses</b>		
Loss on disposal of property, plant and equipment	3	17
Impairment loss	27	252
<b>Total</b>	<b>30</b>	<b>269</b>
<b>Loss before taxes and minority interests</b>	<b>1,510</b>	<b>(3,953)</b>
<b>Income taxes</b>	<b>139</b>	<b>55</b>
<b>Net income (loss)</b>	<b>1,371</b>	<b>(4,009)</b>

**Consolidated Statements of Comprehensive Income (Loss)**

(Million yen)

	Three months ended June 30, 2013 (Apr. 2013–Jun. 2013)	Three months ended June 30, 2012 (Apr. 2012–Jun. 2012)
Net income (loss)	1,371	(4,009)
Other comprehensive income (loss)		
Net unrealized gains on “other securities”	(275)	(45)
Translation adjustments	2,747	3,324
Share of other comprehensive income of associates	0	—
<b>Total</b>	<b>2,471</b>	<b>3,279</b>
Comprehensive income (loss)	3,842	(730)
(Breakdown)		
Comprehensive income (loss) attributable to shareholders of the parent entity	3,842	(730)

### (3) Notes Regarding Consolidated Financial Statements for the Three Months Ended June 30, 2013

#### (Notes Regarding the Premise of the Company as a Going Concern)

There are no relevant items.

#### (Note Regarding Significant Changes in Shareholders' Equity)

There are no relevant items

#### (Segment Information)

##### i Three Months Ended June 30, 2012 (April 1, 2012 through June 30, 2012)

##### 1. Sales and Profit, as well as Losses by Reportable Segment

(Million yen)

	Reportable Segment					Others (Note 1)	Total	Adjustments (Note 2)	Consolidated Total (Note 3)
	Leasing Business	Construction Business	Hotels & Resort Business	Elderly Care Business	Segment Total				
Net sales									
(1) Sales to customers	96,097	5,910	1,816	2,340	106,164	285	106,449	–	106,449
(2) Inter-segment sales and transfers	77	–	342	–	420	19	439	(439)	–
Total	96,174	5,910	2,159	2,340	106,585	304	106,889	(439)	106,449
Segment earnings (or loss)	922	(1,551)	(116)	(187)	(932)	66	(866)	(555)	(1,421)

Notes: 1. The "Others" classification is the business segment not included in reportable segments, and comprises such businesses as the small-claims and short-term insurance business, and financing businesses.

2. The segment earnings (or loss) adjustment of (¥555) million includes ¥12 million in inter-segment eliminations, and (¥567) million in corporate expenses not allocated to reportable segments. Corporate expenses consist mainly of general administrative expenses for administrative departments that are not part of reportable segments.

3. Segment earnings (or loss) are adjusted to the operating loss figure on the Consolidated Statements of Operations.

##### ii Three Months Ended June 30, 2013 (April 1, 2013 through June 30, 2013)

##### 1. Sales and Profit, as well as Losses by Reportable Segment

(Million yen)

	Reportable Segment					Others (Note 1)	Total	Adjustments (Note 2)	Consolidated Total (Note 3)
	Leasing Business	Construction Business	Hotels & Resort Business	Elderly Care Business	Segment Total				
Net sales									
(1) Sales to customers	96,142	13,874	2,037	2,477	114,532	343	114,876	–	114,876
(2) Inter-segment sales and transfers	112	76	573	–	763	25	788	(788)	–
Total	96,255	13,951	2,611	2,477	115,295	369	115,664	(788)	114,876
Segment earnings (or loss)	2,680	89	66	(196)	2,639	84	2,724	(714)	2,009

Notes: 1. The "Others" classification is the business segment not included in reportable segments, and comprises such businesses as the small-claims and short-term insurance business, financing businesses and solar power generation business.

2. The segment earnings (or loss) adjustment of (¥714) million includes (¥5) million in inter-segment eliminations, and (¥709) million in corporate expenses not allocated to reportable segments. Corporate expenses consist mainly of general administrative expenses for administrative departments that are not part of reportable segments.

3. Segment earnings (or loss) are adjusted to the operating income figure on the Consolidated Statements of Operation