

Consolidated Financial Statements (Japanese Accounting Standards)

November 1, 2013

(For the six months ended September 30, 2013)

Name of Company Listed: **Leopalace21 Corporation**

Stock Listing: Tokyo Stock Exchange

Code Number: 8848

Location of Head Office: Tokyo

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

Representative:

Position: President and CEO

Name: Eisei Miyama

Contact Person:

Position: Executive Officer

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Scheduled Date of Filing of Quarterly Report: November 8, 2013

Scheduled Date of Commencement of Dividend Payments: –

Supplemental Explanatory Material Prepared: Yes

Results Briefing Held: Yes (for investment analysts and institutional investors)

1. Results for the Six Months Ended September 30, 2013 (April 1, 2013 through September 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		Recurring income (loss)		Net income (loss)	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended September 30, 2013	231,673	5.3	5,369	183.0	4,375	–	3,921	–
Six months ended September 30, 2012	219,997	(1.4)	1,897	–	(1,744)	–	(2,258)	–

Note: Comprehensive income: Six months ended September 30, 2013: 8,207 million yen 850.9%;
Six months ended September 30, 2012: 863 million yen –%

	Net income (loss) per share	Diluted net income per share
	Yen	Yen
Six months ended September 30, 2013	18.53	–
Six months ended September 30, 2012	(13.15)	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2013	246,247	66,389	27.0
As of March 31, 2013	261,649	58,151	22.2

Note: Shareholders' equity: As of September 30, 2013: 66,371 million yen; As of March 31, 2013: 58,133 million yen

2. Dividend Status

(Base date)	Dividend per share				
	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	–	0.00	–	–	–
FY ending March 31, 2014 (Forecast)	–	–	–	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
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 that causes 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 September 30, 2013: 217,443,915 shares
 - As of March 31, 2013: 217,443,915 shares
 - (ii) Total treasury stock at term end
 - As of September 30, 2013: 5,831,720 shares
 - As of March 31, 2013: 5,900,320 shares
 - (iii) Average number of outstanding shares during the period
 - For the six months ended September 30, 2013: 211,587,955 shares
 - For the six months ended September 30, 2012: 171,709,877 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 is 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 November 1, 2013.

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1. Qualitative Information on Financial Results for the Six Months Ended September 30, 2013

(1) Analysis of business results

(Million yen)

	Net sales	Operating income	Recurring income (loss)	Net income (loss)
Six months ended September 30, 2013	231,673	5,369	4,375	3,921
Six months ended September 30, 2012	219,997	1,897	(1,744)	(2,258)
Change	11,675	3,472	6,119	6,179

During the first half of the consolidated fiscal year under review, the continuing recovery in the Japanese economy, although moderate, was evidenced primarily by the yen's progressive weakening and the appreciation of stock prices, reflecting the government's economic and monetary policies, as well as signs of a recovery in consumer spending.

In the housing rental industry, new housing starts continued to see year-on-year increases, and the number of vacant houses has also been increasing steadily. To achieve stable occupancy rates against the backdrop of this oversupply in the market, housing supply in selected areas and high-quality housing and services are required.

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 half of the consolidated fiscal year under review, posting net sales of ¥231,673 million (up 5.3% year-on-year), operating income of ¥5,369 million (up 183.0% year-on-year), recurring income of ¥4,375 million (compared to a recurring loss of ¥1,744 million in the same period last year), and net income of ¥3,921 million (compared to a net loss of ¥2,258 million in the same period last year). Net income was in the black for the first time in a first half since the first half ended September 30, 2008.

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)		
	Six months ended September 30, 2012	Six months ended September 30, 2013	change	Six months ended September 30, 2012	Six months ended September 30, 2013	change
Leasing Business	191,545	191,876	331	4,166	6,201	2,035
Construction Business	19,993	30,415	10,422	(596)	970	1,567
Hotels & Resort Business	3,147	3,640	492	(434)	(320)	113
Elderly Care Business	4,732	5,050	317	(303)	(320)	(16)
Others	578	690	111	126	150	23
Adjustments	–	–	–	(1,060)	(1,312)	(251)
Total	219,997	231,673	11,675	1,897	5,369	3,472

(i) Leasing Business

The occupancy rate at the end of the first half of the consolidated fiscal year under review was 84.28% (up 1.15 point from the same period last year), and the average occupancy rate for the period was 83.72% (up 1.19 points from the same period 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 half under review was 547,000 (increasing 1,000 from the end of last fiscal

year), and the number of direct offices was 184 (increasing 2). The number of franchise offices was 172 (decreasing 20).

As a result, net sales amounted to ¥191,876 million (up 0.2% year-on-year), and operating income was ¥6,201 million (up 48.8% year-on-year).

(ii) Construction Business

Orders received during the first half of the consolidated fiscal year under review were ¥46,855 million (up 47.7% year-on-year), and orders received outstanding at the end of the first half of the consolidated fiscal year under review stood at ¥52,804 million (down 3.2% year-on-year).

In the construction business, the Company continued to focus on receiving orders for apartments in areas where solid demand was anticipated, especially in the three metropolitan areas, 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 ¥30,415 million (up 52.1% year-on-year), and operating income was ¥970 million (compared to an operating loss of ¥596 million in the same period of last fiscal year).

(iii) Hotels & Resort Business

Net sales in resort facilities in Guam and hotels in Japan were ¥3,640 million (up 15.7% year-on-year), and operating loss was ¥320 million (improving ¥113 million year-on-year).

(iv) Elderly Care Business

Net sales were ¥5,050 million (up 6.7% year-on-year), and operating loss was ¥320 million (an increase of ¥16 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 ¥690 million (up 19.3% year-on-year), and the operating income was ¥150 million (up 18.9% year-on-year).

(2) Analysis of consolidated financial position

(i) Position of Assets, Liabilities, and Net Assets

	(Million yen)		
	Total Assets	Total Liabilities	Net Assets
As of September 30, 2013	246,247	179,857	66,389
As of March 31, 2013	261,649	203,498	58,151
Change	(15,402)	(23,640)	8,238

Total assets at the end of the first half of the consolidated fiscal year under review declined ¥15,402 million from the end of the previous fiscal year, to ¥246,247 million. This was mainly attributable to an increase of ¥1,942 million in buildings and structures (net) due to the effect of exchange rates, ¥1,357 million in leased assets (net), and decreases of ¥10,698 million in cash and cash equivalents, ¥1,111 million in accounts receivable for completed projects, ¥3,284 million in prepaid expenses, and ¥3,045 million in long-term prepaid expenses.

Total liabilities decreased ¥23,640 million from the end of the previous fiscal year, to ¥179,857 million. This primarily reflected a decrease of ¥6,132 million in accounts payable for completed projects, ¥4,150 million in unpaid expenses, ¥11,181 million in long-term advances received, and ¥2,318 million in reserve for apartment vacancy loss.

As a result, net assets were up ¥8,238 million from the end of the previous fiscal year, to ¥66,389 million, chiefly due to a decrease of ¥4,427 million in negative foreign currency translation adjustments balance and an increase of ¥3,921 million in retained earnings due to the posting of net income. The ratio of shareholders' equity to assets rose 4.8 points from the end the previous fiscal year, to 27.0%.

(ii) Cash Flow Position

Cash flow from operating activities was a net outflow of ¥6,350 million (a decline of ¥6,367 million in net outflow from the same period of the previous fiscal year). This was mainly due to income before taxes and minority interests of ¥4,281 million, a decrease of ¥6,014 million in long-term prepaid expenses, depreciation of ¥2,798 million, and a decrease of ¥1,856 million in accounts receivable, as well as a decrease of ¥11,182 million in advances received and a decrease of ¥9,028 million in accounts payable.

Cash flow from investing activities was a net outflow of ¥1,205 million (a decline of ¥1,084 million in net outflow from the same period of the previous fiscal year). This was primarily due to payments of ¥547 million for the purchase of property, plant and equipment and payments of

¥476 million for the purchase of intangible assets.

Cash flow from financing activities was a net outflow of ¥3,388 million (compared to a net inflow of ¥941 million in the same period of the previous fiscal year). This was chiefly due to the repayment of interest-bearing debt of ¥3,419 million.

As a result, cash and cash equivalents at the end of the first half of the consolidated fiscal year under review stood at ¥45,583 million, an increase of ¥16,604 million from the end of the first half of the previous fiscal year.

(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 first half 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 half under review.

(3) Changes in accounting policy, changes in accounting estimates, restatements

Not applicable

3. Consolidated Financial Statements
(1) Consolidated balance sheets

(Million yen)

	September 30, 2013	March 31, 2013
<Assets>		
Current assets		
Cash and cash equivalents	45,983	56,681
Trade receivables	4,120	4,360
Accounts receivable for completed projects	1,120	2,231
Operating loans	1,691	1,879
Marketable securities	265	504
Payment for construction in progress	454	339
Raw materials and supplies	511	457
Prepaid expenses	9,487	12,772
Deferred tax assets	4,273	4,273
Other accounts receivable	861	1,017
Other	5,438	6,722
Allowance for doubtful accounts	(259)	(346)
Total	73,948	90,896
Fixed assets		
Property, plant and equipment		
Buildings and structures (Net)	56,682	54,740
Land	81,819	80,780
Leased assets (Net)	3,155	1,798
Construction in progress	302	175
Other (Net)	1,483	1,502
Total	143,444	138,997
Intangible assets	6,647	6,613
Investments and other assets		
Investment securities	7,379	7,176
Long-term loans	557	570
Bad debt	1,427	1,900
Long-term prepaid expenses	5,082	8,127
Deferred tax assets	6,664	6,586
Other	3,248	3,339
Allowance for doubtful accounts	(2,192)	(2,606)
Total	22,166	25,094
Total fixed assets	172,258	170,705
Deferred assets	41	48
Total assets	246,247	261,649

(Million yen)

	September 30, 2013	March 31, 2013
<Liabilities>		
Current liabilities		
Accounts payable	2,592	2,670
Accounts payable for completed projects	8,174	14,307
Short-term borrowings	12,940	14,814
Bonds due within one year	560	560
Lease obligations	1,198	1,097
Unpaid expenses	9,101	13,252
Accrued expenses	3	12
Accrued income taxes	549	394
Advances received	42,966	49,036
Customer advances for projects in progress	4,641	3,807
Reserve for employees' bonuses	1,299	—
Reserve for warranty obligations on completed projects	117	71
Reserve for fulfillment of guarantees	447	457
Other	4,028	4,662
Total	88,619	105,144
Long-term liabilities		
Bonds	1,200	1,480
Long-term borrowings	29,300	30,020
Lease obligations	2,378	1,054
Long-term advances received	27,246	32,357
Lease/guarantee deposits received	8,685	8,984
Retirement benefit reserves	8,922	8,634
Reserve for apartment vacancy loss	11,632	13,950
Other	1,872	1,872
Total	91,237	98,353
Total liabilities	179,857	203,498
<Net assets>		
Shareholders' equity		
Common stock	62,867	62,867
Capital surplus	39,400	39,424
Retained earnings	(27,097)	(31,018)
Treasury stock	(4,671)	(4,726)
Total	70,498	66,546
Accumulated other comprehensive income (loss)		
Net unrealized gains on "other securities"	507	648
Translation adjustments	(4,634)	(9,061)
Total	(4,127)	(8,413)
Share subscription rights	18	18
Total net assets	66,389	58,151
Total liabilities and net assets	246,247	261,649

(2) Consolidated statements of operations and consolidated statements of comprehensive income

Consolidated statements of operations

	(Million yen)	
	Six months ended September 30, 2013 (Apr. 2013–Sep. 2013)	Six months ended September 30, 2012 (Apr. 2012–Sep. 2012)
Net sales	231,673	219,997
Cost of sales	199,343	194,156
Gross profit	32,329	25,841
Selling, general and administrative expenses	26,959	23,943
Operating income	5,369	1,897
Non-operating income		
Interest income	22	24
Dividend income	51	29
Consumption tax refund	—	108
Other	111	93
Total	185	254
Non-operating expenses		
Interest expenses	775	718
Commission fee	315	329
Foreign exchange loss	—	2,626
Other	88	221
Total	1,179	3,896
Recurring profit (loss)	4,375	(1,744)
Extraordinary income		
Gain on sales of property, plant and equipment	0	—
Total	0	—
Extraordinary losses		
Loss on disposal of property, plant and equipment	6	19
Impairment loss	87	375
Total	94	395
Loss before taxes and minority interests	4,281	(2,140)
Income taxes	360	118
Net income (loss)	3,921	(2,258)

Consolidated Statements of Comprehensive Income (Loss)

	(Million yen)	
	Six months ended September 30, 2013 (Apr. 2013–Sep. 2013)	Six months ended September 30, 2012 (Apr. 2012–Sep. 2012)
Net income (loss)	3,921	(2,258)
Other comprehensive income (loss)		
Net unrealized gains on “other securities”	(140)	(87)
Translation adjustments	4,426	3,208
Share of other comprehensive income of associates	0	
Total	4,286	3,121
Comprehensive income	8,207	863
(Breakdown)		
Comprehensive income attributable to shareholders of the parent entity	8,207	863

(3) Consolidated cash flow

	September 30, 2013 (Apr. 2013–Sep. 2013)	September 30, 2012 (Apr. 2012–Sep. 2012)
Cash flows from operating activities		
Income before taxes and minority interests	4,281	(2,140)
Depreciation	2,798	2,826
Increase (decrease) in reserve for doubtful accounts	(367)	(68)
Increase (decrease) in reserve for apartment vacancy loss	(2,318)	(3,604)
Increase (decrease) in reserve for disaster losses	—	(12)
Increase (decrease) in reserve for switch to terrestrial digital broadcasts	—	(55)
Interest expense	775	718
Foreign exchange loss (gain)	(6)	2,626
Equity in losses (earnings) of affiliated companies	(0)	4
Loss (gain) on sale of property, plant and equipment	(0)	—
Write-offs of property, plant and equipment	6	19
Impairment loss	87	375
Decrease (increase) in accounts receivable	1,856	1,255
Decrease (increase) in work in process	(128)	331
Decrease (increase) in long-term prepaid expenses	6,014	8,951
Increase (decrease) in accounts payable	(9,028)	(7,315)
Increase (decrease) in customer advances for projects in progress	753	538
Increase (decrease) in advances received	(11,182)	(16,833)
Increase (decrease) in guarantee deposits received	(283)	(621)
Increase (decrease) in accrued consumption taxes	(697)	(312)
Other	2,127	1,597
Subtotal	(5,265)	(11,717)
Interest and dividends received	68	46
Interest paid	(784)	(732)
Income taxes paid	(369)	(315)
Net cash used in operating activities	(6,350)	(12,718)

	September 30, 2013 (Apr. 2013–Sep. 2013)	September 30, 2012 (Apr. 2012–Sep. 2012)
Cash flows from investing activities		
Purchase of property, plant and equipment	(547)	(159)
Proceeds from sale of property, plant and equipment	0	—
Payment for purchase of intangible assets	(476)	(37)
Payment for purchase of investment securities	(106)	(202)
Proceeds from sale of investment securities	7	4
Payment for loans	(6)	(16)
Proceeds from collection of loans	20	25
Payments for time deposits	(100)	—
Other	1	264
Net cash provided by (used in) investing activities	(1,205)	(121)
Cash flows from financing activities		
Proceeds from short-term debt	—	2,386
Repayment of short-term debt	(1,874)	(375)
Repayment of long-term debt	(720)	(1,813)
Payment for redemption of bonds	(280)	(280)
Repayment of finance lease obligations	(544)	(672)
Proceeds from issuance of shares	—	1,656
Proceeds from disposal of treasury stock	30	40
Net cash provided by (used in) financing activities	(3,388)	941
Effect of exchange rate changes on cash and cash equivalents	146	(1)
Net increase (decrease) in cash and cash equivalents	(10,798)	(11,898)
Cash and cash equivalents at beginning of period	56,381	40,877
Cash and cash equivalents at end of period	45,583	28,979

(4) Notes regarding consolidated financial statements for the six months ended September 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 Six Months Ended September 30, 2012 (April 1, 2012 through September 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	191,545	19,993	3,147	4,732	219,418	578	219,997	–	219,997
(2) Inter-segment sales and transfers	178	–	890	–	1,069	38	1,107	(1,107)	–
Total	191,723	19,993	4,038	4,732	220,488	616	221,105	(1,107)	219,997
Segment earnings (or loss)	4,166	(596)	(434)	(303)	2,381	126	2,958	(1,060)	1,897

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 (¥1,060) million includes ¥30 million in inter-segment eliminations, and (¥1,091) 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 Six Months Ended September 30, 2013 (April 1, 2013 through September 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	191,876	30,415	3,640	5,050	230,982	690	231,673	–	231,673
(2) Inter-segment sales and transfers	237	76	1,189	–	1,504	50	1,554	(1,554)	–
Total	192,114	30,492	4,829	5,050	232,486	740	233,227	(1,554)	231,637
Segment earnings (or loss)	6,201	970	(320)	(320)	6,531	150	6,681	(1,312)	5,369

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 (¥1,312) million includes ¥16 million in inter-segment eliminations, and (¥1,328) 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