Consolidated Financial Statements (Japanese Accounting Standards)

February 8, 2013

(For the nine months ended December 31, 2012)

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: General Manager Name: Bunya Miyao
Telephone: +81-3-5350-0216

Scheduled Date of Filing of Quarterly Report: February 14, 2013
Scheduled Date of Commencement of Dividend Payments: –
Supplemental Explanatory Material Prepared: Yes
Results Briefing Held: None

1. Results for the Nine Months Ended December 31, 2012 (April 1, 2012 through December 31, 2012)

(1) Consolidated financial results (cumulative)

(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	%
Nine months ended December 31, 2012	**329,834**	**(0.8)**	**5,029**	**302.8**	**5,843**	**–**	**5,045**	**–**
Nine months ended December 31, 2011	332,450	(6.9)	1,248	–	(2,578)	–	(2,061)	–

Note: Comprehensive income (loss) Nine months ended December 31 2012: 2,574 million yen, –%;
Nine months ended December 31, 2011: (1,014) million yen, –%;

	Net income (loss) per share	Diluted net income per share
	Yen	Yen
Nine months ended December 31, 2012	**29.10**	**29.09**
Nine months ended December 31, 2011	(12.20)	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Equity per share
	Million yen	Million yen	%	Yen
As of December 31, 2012	**233,518**	**40,145**	**17.2**	**218.66**
As of March 31, 2012	264,783	33,831	12.8	199.73

Note: Shareholders' equity: As of December 31, 2012: 40,121 million yen; As of March 31, 2012: 33,804 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, 2012	–	0.00	–	0.00	0.00
FY ending March 31, 2013	–	0.00	–	–	–
FY ending March 31, 2013 (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, 2013 (April 1, 2012 through March 31, 2013)

(Amounts less than one million yen are omitted)
(Percentages represent changes compared with the previous full-year)

	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, 2013	463,900	1.0	8,000	74.4	6,100	159.6	5,500	246.1	30.81

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.: Yes

  (ii) Changes in accounting policies other than (i) above: None

  (iii) Changes in accounting estimates: Yes

  (iv) Restatements: None

(4) Total number of outstanding shares (Common stock)

  (i) Total number of outstanding shares at term end (Include treasury stock)
    As of December 31, 2012: 189,443,915 shares
    As of March 31, 2012: 175,443,915 shares

  (ii) Total treasury stock at term end
    As of December 31, 2012: 5,953,820 shares
    As of March 31, 2012: 6,190,520 shares

  (iii) Average number of outstanding shares during the period
    For the nine months ended December 31, 2012: 173,384,776 shares
    For the nine months ended December 31, 2011: 168,925,434 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 Leopalace21 has judged to be reasonable. Readers should be aware that a variety of factors might cause actual results to differ significantly from these forecasts.

Concerning assumptions of business forecasts and note on the proper use of these forecasts, see page 5. “1.Qualitative Information on Financial Results for the Nine Months Ended December 31, 2012 (3) Qualitative information on consolidated results forecasts.”

(Expected net income per share)

Expected net income per share was calculated by including the increase in the number of shares due to the exercise of stock acquisition rights from January 11, 2013 to February 4, 2013 after the end of the third quarter of the fiscal year under review.

(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 February 8, 2013.

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1. Qualitative Information on Financial Results for the Nine Months Ended December 31, 2012

(1) Qualitative information on consolidated business results

(Million yen)

	Nine months ended December 31, 2011	Nine months ended December 31, 2012	change
Net sales	332,450	329,834	(2,616)
Operating income	1,248	5,029	3,780
Recurring loss	(2,578)	5,843	8,421
Net loss	(2,061)	5,045	7,106

During the cumulative third quarter of the fiscal year under review, the future of the Japanese economy remained uncertain, primarily due to slower growth in the global economy and the prolonged appreciation of the yen. However, the yen began weakening and stock prices rose toward the end of 2012 based on expectations for the new administration's economic policies. In the housing industry, new housing starts for rental housing increased 13.1% year on year, with a recovery trend continuing, albeit moderately.

Under these conditions, the Leopalace Group made it its basic policy to "establish a system of stable profitability, with balanced income between the leasing business and the construction business" in the new medium-term management plan, and implemented various measures mainly in the leasing business, for the current fiscal year, the first year of the new medium-term management plan, to make it the year of "creating a foundation for new growth."

As a result, during the cumulative third quarter under review, the Company posted net sales of ¥329,834 million (down 0.8% year on year), operating income of ¥5,029 million (up 302.8% year on year), mainly due to an improvement of income and expenditures in the leasing business, recurring income of ¥5,843 million (compared to a recurring loss of ¥2,578 in the same period of the previous fiscal year), mainly due to the recording of unrealized foreign exchange gains, and net income of ¥5,045 million (compared to a net loss of ¥2,061 in the same period last year), mainly due to the recording of impairment loss, achieving profitability in the cumulative third quarter for the first time in four years.

The business performance of the Group tends to be subject to seasonal fluctuations. This reflects the facts that many of the contract agreements in the construction business are those that require the completion of the apartment in the fourth quarter, the peak season for demand for moving into apartments, and that the number of units under management increases with the completion of apartments in the leasing business.

(Million yen)

	Net sales			Operating Income (loss)		
	Nine months ended December 31, 2011	Nine months ended December 31, 2012	change	Nine months ended December 31, 2011	Nine months ended December 31, 2012	change
Leasing Business	279,840	286,266	6,426	2,971	8,276	5,305
Construction Business	40,859	30,741	(10,118)	1,697	(617)	(2,314)
Hotels & Resort Business	4,339	4,839	499	(1,151)	(682)	469
Elderly Care Business	6,581	7,116	535	(589)	(477)	112
Others	829	869	40	112	145	33
Adjustments	–	–	–	(1,790)	(1,615)	174
Total	332,450	329,834	(2,616)	1,248	5,029	3,780

(i) Leasing Business

The occupancy rate at the end of the third quarter of the consolidated fiscal year under review was 82.29% (up 1.75 points from the same term last year) and the average occupancy rate for the nine months was 82.51% (up 1.81 points from the same term last year).

In the leasing business, to ensure stable occupancy rates, in addition to strengthening Leopalace Partners stores and corporate sales and taking steps to raise the value of property by installing security systems, "Room-Customize" was introduced as a new service in May of last year. This service aims at expanding the number of female tenants and encourages long-term tenancies. In addition, the Company continues to adjust rents paid based on market rents, and to cut costs by reviewing routine property management tasks such as cleaning and patrolling.

The number of units under management at the end of the third quarter under review was 546,000 (decreasing 9,000 from the end of the previous fiscal year), and the number of direct offices was 180 (increasing 13). The number of franchise offices was 195 (increasing 5).

As a result of the above, net sales amounted to ¥286,266 million (up 2.3% year-on-year), and operating income was ¥8,276 million (up 178.5% year-on-year) due to 6,271 million in the reversal of the reserve for apartment vacancy loss.

(ii) Construction Business

Orders received in the cumulative third quarter under review were ¥49,674 million (up 33.8% year on year), and orders received outstanding were ¥53,908 million (down 36.9%). The method for recording orders received changed at the end of the previous fiscal year so, with respect to orders received for the same period of the previous fiscal year, the figures for orders received for the same period of the previous fiscal year reflect that change for comparison.

In the construction business, the Company focused its activities to provide apartments in areas where solid demand for apartments was anticipated, aiming to contribute to higher income in the leasing business. It also promoted sales of built-for-sale products that did not have an impact on the number of units supplied, and buildings such as elderly care facilities and stores, as well as the installation of a solar power system, etc. that would increase product value.

As a result, net sales came to ¥30,741 million (down 24.8% year on year), and operating loss was ¥617 million (compared to operating income amounted to ¥1,697 million in the same period of the previous fiscal year).

(iii) Hotels and Resort Business

Net sales in resort facilities in Guam and hotels in Japan were ¥4,839 million (up 11.5% year on year), and the operating loss was ¥682 million (improving ¥469 million).

(iv) Elderly Care Business

Net sales were ¥7,116 million (improving 8.1% year on year), and operating loss was ¥477 million (improving ¥112 million).

(v) Other Businesses

In other businesses such as the small-claims and short-term insurance business, the residential sales business, and the finance business, net sales were ¥869 million (up 4.9% year on year), and the operating income was ¥145 million (improving 29.9%) .

(2) Qualitative information on consolidated financial position

(Million yen)

	As of March 2012	As of December 31, 2012	change
Total Assets	264,783	233,518	(31,265)
Total Liabilities	230,951	193,372	(37,579)
Net Assets	33,831	40,145	6,314

Total assets at the end of the third quarter under review declined ¥31,265 million from the end of the previous fiscal year, to ¥233,518 million. This was mainly attributable to decreases of ¥8,594 million in cash and cash equivalents, ¥4,526 million in prepaid expenses, ¥2,708 million in other (deposits paid, etc.) current assets, ¥2,175 million in buildings and structures (net) and ¥8,719 million in long-term prepaid expenses.

Total liabilities decreased ¥37,579 million from the end of the previous fiscal year, to ¥193,372 million. This primarily reflected increases of ¥2,498 million in customer advances for projects in progress and ¥1,031 million in allowance for employees' bonuses as well as decreases of ¥5,807 in accounts payable for completed projects, ¥5,321 million in unpaid expenses, ¥20,745 million in advances received and long-term advances received, and ¥6,271 million in reserve for apartment vacancy loss.

Net assets were up ¥6,314 million from the end of the previous fiscal year, to ¥40,145 million, chiefly due to an increase of ¥2,250 million in the negative balance in the foreign translation adjustments, an increase of ¥3,503 million in common stock and capital surplus as a result of the exercise of stock acquisition rights, and an increase of ¥5,045 million in retained earnings due to the posting of net income. The ratio of shareholders' equity to assets rose 4.4 points from the end of the previous fiscal year, to 17.2%.

(3) Qualitative information on consolidated results forecast

Consolidated results forecasts announced in the consolidated financial statements published on May 11, 2012 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 third quarter under review

Not applicable

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

(Calculation of tax expenses)

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 third quarter under review.

As taxable income is not expected to arise in the current consolidated fiscal year, the amount equivalent to three quarters of the estimated annual amount of corporate inhabitant tax on per capita basis is recorded as tax expenses for the cumulative third quarter under review.

(3) Changes in accounting policies and changes, revisions and restatement of accounting estimates

Changes in accounting policy that is difficult to differentiate from changes in accounting estimates

(Changes in the depreciation method)

The Company and certain of its domestic subsidiaries, due to a revision of the Corporation Tax Act, from the first quarter of the consolidated fiscal year under review, with regard to tangible fixed assets acquired on or after April 1, 2012, have changed the depreciation method based on the revised Corporation Tax Act.

The impact of this change on the profit and loss of the cumulative third quarter of the consolidated fiscal year under review is minimal.

(4) Additional Information

(Changes in methods of presentation)

With respect to advances received, such as rent, although the entire amount was given in the past by including it in “advances received” under “current liabilities,” the Company decided in the third quarter under review to show the portion corresponding to over a year by including it in “long-term advances received” under “long-term liabilities” and the portion corresponding to a year or less by including it in “advances received” under “current liabilities.”

The classification above applies in the wake of building a system that makes advances received, such as rent, correspond more accurately to the lease period information of the lease agreements in the third quarter under review. This allows the Company to present more clearly the characteristics and the transaction reality of the Company’s leasing business that receives rent, etc. over a long period of time, such as monthly usage fees, as advances received.

To reflect this change in presentation methods, the Company has reclassified its consolidated financial statements for the previous fiscal year.

As a result, the ¥79,073 million yen shown in “advances received” under “current liabilities” and the ¥21,908 million shown in “long-term advances received” under “long-term liabilities” in consolidated balance sheets for the previous fiscal year have been reclassified into ¥58,301 million yen in “advances received” and ¥42,680 million yen in “long-term advances received.”

3. Consolidated Financial Statements
(1) Consolidated Balance Sheets

(Million yen)

	December 31, 2012	March 31, 2012
<Assets>		
Current assets		
Cash and cash equivalents	32,883	41,477
Trade receivables	3,445	4,541
Accounts receivable for completed projects	1,085	1,004
Operating loans	1,995	2,419
Marketable securities	499	9
Real estate for sale/property inventories	—	13
Payment for construction in progress	795	620
Raw materials and supplies	448	491
Prepaid expenses	14,471	18,997
Deferred tax assets	3,093	3,093
Other accounts receivable	648	1,152
Other	6,976	9,685
Allowance for doubtful accounts	(329)	(446)
Total	**66,014**	**83,061**
Fixed assets		
Property, plant and equipment		
Buildings and structures (Net)	52,941	55,116
Land	81,503	82,105
Leased assets (Net)	2,083	2,906
Construction in progress	37	27
Other (Net)	1,500	1,856
Total	**138,066**	**142,013**
Intangible assets	6,611	7,079
Investments and other assets		
Investment securities	6,154	6,489
Long-term loans	575	588
Bad debt	2,584	2,837
Long-term prepaid expenses	9,575	18,295
Deferred tax assets	3,339	3,318
Other	3,666	4,428
Allowance for doubtful accounts	(3,121)	(3,390)
Total	**22,774**	**32,567**
Total fixed assets	**167,452**	**181,659**
Deferred assets	51	61
Total assets	**233,518**	**264,783**

(Million yen)

	December 31, 2012	March 31, 2012
<Liabilities>		
Current liabilities		
Accounts payable	2,792	2,791
Accounts payable for completed projects	7,506	13,313
Short-term borrowings	45,902	45,705
Bonds due within one year	560	560
Lease obligations	1,215	1,348
Unpaid expenses	8,886	14,208
Accrued expenses	49	5
Accrued income taxes	224	324
Advances received	47,400	58,301
Customer advances for projects in progress	5,456	2,957
Allowance for employees' bonuses	1,031	—
Reserve for warranty obligations on completed projects	60	56
Reserve for fulfillment of guarantees	393	390
Reserve for disaster losses	27	50
Reserve for switch to terrestrial digital broadcasts	65	122
Asset retirement obligations	29	27
Other	3,781	5,360
Total	**125,382**	**145,524**
Long-term liabilities		
Bonds	1,760	2,040
Lease obligations	1,250	2,000
Retirement benefit reserves	8,526	8,041
Reserve for apartment vacancy loss	12,935	19,207
Lease/guarantee deposits received	9,118	9,853
Asset retirement obligations	54	50
Long-term advances received	32,835	42,680
Long-term accounts payable	2	9
Other	1,505	1,545
Total	**67,990**	**85,427**
Total liabilities	**193,372**	**230,951**
<Net assets>		
Shareholders' equity		
Common stock	58,314	56,562
Capital surplus	34,895	33,883
Retained earnings	(39,308)	(44,963)
Treasury stock	(4,769)	(4,959)
Total	**49,131**	**40,523**
Accumulated other comprehensive income (loss)		
Net unrealized gains on "other securities"	209	249
Translation adjustments	(9,219)	(6,968)
Total	(9,010)	**(6,719)**
Share subscription rights	23	**26**
Total net assets	40,145	**33,831**
Total liabilities and net assets	**233,518**	**264,783**

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

Consolidated Statements of Operations

(Million yen)

	Nine months ended December 31, 2012 (Apr. 2012–Dec. 2012)	Nine months ended December 31, 2011 (Apr. 2011–Dec. 2011)
Net sales	**329,834**	**332,450**
Cost of sales	**288,699**	**295,434**
Gross profit	**41,134**	**37,015**
Selling, general and administrative expenses	**36,105**	**35,767**
Operating income	**5,029**	**1,248**
Non-operating income		
Interest income	34	37
Gain on sales of investment securities	5	–
Foreign exchange income	2,246	–
Gain on bad debt recovered	—	418
Gain on adjustment of accounts payable	—	411
Consumption tax refund	108	–
Other	185	323
Total	**2,580**	**1,190**
Non-operating expenses		
Interest expenses	1,075	988
Commission fee	439	474
Foreign exchange loss	—	3,167
Equity in losses of affiliated companies	2	190
Other	249	196
Total	**1,766**	**5,017**
Recurring income (loss)	**5,843**	**(2,578)**
Extraordinary income		
Gain on sale of property, plant and equipment	—	0
Gain on liquidation of subsidiaries	70	—
Reversal of reserve for disaster loss	3	—
Reversal of reserve for accrued retirement benefit for directors	—	1,185
Total	73	**1,185**
Extraordinary losses		
Loss on sale of property, plant and equipment	—	0
Loss on disposal of property, plant and equipment	28	55
Impairment loss	641	77
Disaster loss	—	4
Total	**669**	**137**
Income (loss) before income tax	**5,246**	**(1,529)**
Income taxes	201	531
Net Income (loss)	**5,045**	**(2,061)**

Consolidated Statements of Comprehensive Income

(Million yen)

	Nine months ended December 31, 2012 (Apr. 2012–Dec. 2012)	Nine months ended December 31, 2011 (Apr. 2011–Dec. 2011)
Net Income (loss)	**5,045**	**(2,061)**
Other comprehensive income		
Net unrealized gains on “other securities”	(40)	(132)
Foreign currency translation adjustments	(2,205)	1,176
Share of other comprehensive income of associates	—	3
Total	(2,290)	**1,047**
Comprehensive income (loss)	2,754	(1,014)
(Breakdown)		
Comprehensive income (loss) attributable to shareholders of the parent entity	2,754	(1,014)

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

There are no relevant items.

(4) Note Regarding Significant Changes in Shareholders' Equity

The Company, during the cumulative third quarter of the consolidated fiscal year under review, increased common stock and capital reserve by ¥1,751 million respectively due to the exercise of all the 1st series of stock acquisition rights. Accordingly, common stock was ¥58,314 million and capital reserve was ¥33,338 million at the end of the cumulative third quarter of the consolidated fiscal year under review.

(5) Segment Information

Segment Information by Business Type

i Nine Months Ended December 31, 2011 (April 1, 2011 through December 31, 2011)
Operation Revenue and Earnings (or Loss) 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	279,840	40,859	4,339	6,581	331,620	829	332,450	–	332,450
(2) Inter-segment sales and transfers	265	–	1,043	–	1,309	45	1,354	(1,354)	–
Total	280,106	40,859	5,383	6,581	332,930	874	333,805	(1,354)	332,450
Segment profit (loss)	2,971	1,697	(1,151)	(589)	2,927	112	3,039	(1,790)	1,248

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, residential sales business and financing businesses.

2. The segment profit (loss) adjustment of (¥1,790) million includes ¥8 million in inter-segment eliminations, and (¥1,799) 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 profit (loss) is adjusted to the operating income figure on the Consolidated Statements of Operations.

ii Nine Months Ended December 31, 2012 (April 1, 2012 through December 31, 2012)
Operation Revenue and Earnings (or Loss) 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	286,266	30,741	4,839	7,116	328,964	869	329,834	—	329,834
(2) Inter-segment sales and transfers	285	—	1,402	—	1,687	57	1,744	(1,744)	—
Total	286,552	30,741	6,241	7,116	330,651	927	331,578	(1,744)	329,834
Segment profit (loss)	8,276	(617)	(682)	(477)	6,499	145	6,644	(1,615)	5,029

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, residential sales business and financing businesses.

2. The segment profit (loss) adjustment of (¥1,615) million includes ¥45 million in inter-segment eliminations, and (¥1,661) 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 profit (loss) is adjusted to the operating income figure on the Consolidated Statements of Operations.

(6) Major Subsequent Events

(Capital increase due to the exercise of stock acquisition rights)

After the third quarter under review ended, all the second series of stock acquisition rights (14,000 thousand rights) were exercised from January 11, 2013 to February 4, 2013. The outline of the exercise of stock acquisition rights is as follows:

(1) Class and number of shares issued: 14,000,000 shares of common stock
(2) Common stock increased: ¥2,101 million
(3) Capital surplus increased: ¥2,101 million