Consolidated Financial Statements (Japanese Accounting Standard)

May 13, 2011

(For the year ended March 31, 2011)

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
Name of Contact Person: Position: General Manager Name: Masumi Iwakabe
Telephone: +81-3-5350-0216

Scheduled Date of Annual Meeting of Stockholders: June 29, 2011
Scheduled Date of Filing of Securities Report: June 29, 2011
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 Fiscal Year Ended March 31, 2011 (April 1, 2010 through March 31, 2011)

(1) Consolidated financial results

(Amounts less than one million yen are omitted)
(The percentage figures indicate rate of gain or loss compared with the previous FY)

	Net sales		Operating income (loss)		Recurring income (loss)		Net income (loss)	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY ended March 31, 2011	**484,390**	**(21.9)**	**(23,607)**	**–**	**(31,808)**	**–**	**(40,889)**	**–**
FY ended March 31, 2010	620,376	(15.4)	(29,727)	–	(33,831)	–	(79,075)	–

Note: Comprehensive income (loss): As of March 31, 2011: (39,868) million yen; As of March 31, 2010: (75,740) million yen

	Net income (loss) per share	Diluted net income (loss) per share	Return on equity	Recurring income (loss)/ Total capital	Operating income (loss) / Net sales
	Yen	Yen	%	%	%
FY ended March 31, 2011	**(261.03)**	**–**	**(78.7)**	**(9.2)**	**(4.9)**
FY ended March 31, 2010	(521.91)	–	(72.8)	(7.8)	(4.8)

Reference: Equity in earnings of affiliates in FY ended March 31, 2011: (268) million yen, FY ended March 31, 2010: 145 million yen.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Equity per share
	Million yen	Million yen	%	Yen
As of March 31, 2011	**298,274**	**33,040**	**11.1**	**195.91**
As of March 31, 2010	396,511	70,979	17.9	466.76

Reference: Shareholders' equity: As of March 31, 2011: 33,025 million yen; As of March 31, 2010: 70,890 million yen

(3) Consolidated cash flows

(Amounts less than one million yen are omitted)

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of year
	Million yen	Million yen	Million yen	Million yen
FY ended March 31, 2011	**(28,337)**	**13,143**	**(15,890)**	**40,492**
FY ended March 31, 2010	(12,990)	(8,889)	15,281	72,031

2. Dividend Status

	Dividend per share					Total cash dividends (annual)	Dividend payout ratio (consolidated)	Dividend on equity ratio (consolidated)
(Base date)	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	End of FY	Annual			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
FY ended March 31, 2010	–	0.00	–	0.00	0.00	–	–	–
FY ended March 31, 2011	**–**	**0.00**	**–**	**0.00**	**0.00**	**–**	**–**	**–**
FY ending March 31, 2012 (Estimated)	–	0.00	–	0.00	0.00		–	

3. Estimation of Business Results for the Fiscal Year Ending March 31, 2012 (April 1, 2011 through March 31, 2012)

(The percentage figures for full year indicate rate of gain or loss compared with the previous FY, while those for the interim period indicate rate of gain or loss compared with the same term in the previous FY)

	Net sales		Operating income (loss)		Recurring income (loss)		Net income (loss)		Net income (loss) per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Six months ending September 30, 2011	233,400	(6.0)	(7,400)	—	(8,000)	—	(6,800)	—	(40.86)
FY ending March 31, 2012	499,900	3.2	3,200	—	1,800	—	3,000	—	17.99

4. Other

(1) Changes in major subsidiaries during the FY (Change in specific subsidiaries as a result of a change in the scope of consolidation): None

(2) Changes in accounting principles, procedures or reporting methods used in preparation of these quarterly financial statements (Changes in important items concerning preparation of these quarterly financial statements)

(i) Changes accompanying revision of accounting standards, etc.: Yes

(ii) Changes other than (i) above: None

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

(i) Total number of outstanding shares at term end (Includes treasury stock)

As of March 31, 2011: 175,443,915 shares

As of March 31, 2010: 159,543,915 shares

(ii) Total treasury stock at term end

As of March 31, 2011: 6,867,850 shares

As of March 31, 2010: 7,667,387 shares

(iii) Average number of outstanding shares during the period

As of March 31, 2011: 156,648,594 shares

As of March 31, 2010: 151,511,656 shares

Note: The figure for treasury stock includes 2,298,900 shares held in the employee shareholder company trust account at the end of the subject fiscal year.

(Reference) Summary of Non-Consolidated Financial Statements

1. Results of the Fiscal Year Ended March 31, 2011 (April 1, 2010 through March 31, 2011)

(1) Non-consolidated financial results (Amounts less than one million yen are omitted)

	Net sales		Operating income (loss)		Recurring income (loss)		Net income (loss)	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY ended March 31, 2011	478,109	**(22.3)**	**(23,857)**	**–**	**(30,596)**	**–**	**(39,814)**	**–**
FY ended March 31, 2010	615,367	(15.4)	(28,448)	–	(32,825)	–	(78,736)	–

	Net income (loss) per share	Diluted net income (loss) per share
	Yen	Yen
FY ended March 31, 2011	**(254.17)**	**–**
FY ended March 31, 2010	(519.68)	–

(2) Non-consolidated financial position (Amounts less than one million yen are omitted)

	Total assets	Net assets	Equity ratio	Equity per share
	Million yen	Million yen	%	Yen
As of March 31, 2011	**296,846**	**33,849**	**11.4**	**200.70**
As of March 31, 2010	395,539	71,654	18.1	471.21

Reference: Shareholders' equity: As of March 31, 2011: 33,833 million yen, As of March 31, 2010: 71,565 million yen

2. Estimation of Non-consolidated Business Results for the Fiscal Year Ending March 31, 2012 (April 1, 2011 through March 31, 2012)

(The percentage figures for full year represent the change compared with the previous FY, while those for the interim period represent the change compared with the same term in the previous FY)

	Net sales		Recurring income (loss)		Net income (loss)		Net income (loss) per share
	Million yen	%	Million yen	%	Million yen	%	Yen
Six months ending September 30, 2011	229,900	(6.3)	(8,100)	—	(6,900)	—	(41.20)
FY ending March 31, 2012	491,800	2.9	600	—	1,800	—	11.14

Indication regarding the status of auditing:

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

Explanation on the proper use of the business forecasts, and other special notices:

The business forecasts and other forward-looking statements contained in this statement are determined based on information available to the Company at the time of disclosure. Actual results may vary from forecast figures due to a variety of factors.

Business and Other Risks

Listed below are the principal risks that we believe could affect the Leopalace21 Group's business performance and financial position. However, this list is not all-inclusive and does not cover all the risks that could affect Group businesses. All forward-looking statements included herein reflect the judgment of the Leopalace21 Group management as of the end of the consolidated fiscal term under review.

1. Revenue-related Risk

Leopalace21 apartments are primarily utilized by single persons, and corporate contracts typically involve short-term leases of apartments for use as company dormitories by workers travelling on company business. As a result, changes in the performance of the overall economy and corporate business results could affect employment rates or the demand for business trips, and this could negatively impact occupancy rates at the Company's apartments.

In addition, we have included in our forecasts all contracted orders for apartment construction, however the possibility that the client may not be able to obtain the necessary financing or loans from a financial institution is an important risk factor. Changes in the willingness of financial institutions to provide credit, changes in the assessed value of real estate to be used as collateral, and fluctuations in interest rates could affect Company revenues and adversely affect the Company's business results.

2. Cost of Sales

Based on the Company's apartment construction contract, the Company concludes a master lease agreement with apartment owners to lease back the constructed apartment for a period of time and at a rent level that are both fixed at the time the contract is concluded. Therefore, fluctuations in the amount of rental income received from tenants during the contract period could adversely affect the Company's profitability.

3. Profit

The Leopalace21 Group includes overseas subsidiaries involved in the hotel and resort business, and as a result our business results may be affected by exchange rate fluctuations. Our consolidated subsidiary Leopalace Guam Corporation has borrowed funds in the form of yen-denominated loans from Leopalace21 for the purpose of acquiring facilities and equipment. Because the value of this debt is calculated each year as of the date of account settlement, the Company is subject to foreign exchange gain or loss. Therefore it is possible that future fluctuations in exchange rates could affect the Group's business performance and financial position.

4. Risks Associated with Tangible Fixed Assets and Real Estate Held for Resale

Impairment losses or appraisal losses due to declines in the current market value of marketable securities, property for sale, fixed assets, or other assets could adversely affect the Company's business performance as well its financial position. Moreover, with regard to the Company's hotel and resort related businesses, there will be a continuing need for regular investments in facility replacement and renewal. As a result, changes in depreciation expenses could have an effect on the Company's business performance.

5. Loan Losses, and Provision for Bad Debt

The Company conducts financing activities, and carries on its books a balance for operating loans receivable comprising apartment construction loans and real estate equity loans. The Company also may guarantee the housing loans and membership fee loans offered to its customers by financial institutions. Apartment and other loans where repayment has become doubtful are accounted for separately as doubtful receivables (tangible), and a provision is made for bad debt in each such case; however, our business results could be affected if amounts of uncollectible debt should increase, or if we should be obliged to honor claims pertaining to these loan guarantees.

6. Provision for Apartment Vacancy Loss

In order to prepare for a risk of losses due to an increase in apartment vacancies, Leopalace21 has established a "Provision for apartment vacancy loss" reserve fund equal to the amount of loss that may be expected to be incurred during a reasonably estimable period. The amount of this provision is based on the rent levels set for individual leased units, the number of households, and occupancy rate forecasts calculated for each apartment building. Should any of these figures fall below the estimated values it could become necessary to increase the amount of the reserve, and this could adversely affect the results of the Company's leasing business.

7. Leasehold Deposits and Guarantee Deposits

Leopalace21 has long-term deposits from property owners held as an advance for apartment repair and renovation. These consist mainly of deposits received from property owners as a portion of future repair and renovation expenses, following the dissolution of Leopalace21 Owners Mutual Insurance Association. Leopalace21 makes a concerted effort as a leasing business operator to ensure the soundness of the apartment maintenance structure, through which properties fully leased from the owner are operated and maintained. However, an unexpected, large-scale repair or renovation could have an impact on Leopalace21's financial position.

Leopalace21 also has deposits for Leopalace Resort memberships related to the Guam resort business, most of which date to the opening of the resort complex in July 1993. The Leopalace21 Group works to increase member usage by improving facilities and member services, but should there be an unexpected number of requests for reimbursement of these deposits, this could have an impact on Leopalace21's financial position.

8. Financial Covenants

Financial covenants have been set on the numerous loan agreements that Leopalace21 has concluded with financial institutions. Accordingly, should consolidated or non-consolidated net assets, consolidated or non-consolidated interest-bearing debt, non-consolidated operating income, or consolidated free cash flow (total of cash flow from operating activities and cash flow from investing activities) fall below the prescribed limits of a financial covenant, there is a possibility that the Company, at the behest of the financial institution, could forfeit the benefit of the term for the subject loan. Further, should the Company violate the conditions of a financial covenant, there is a possibility that the Company could also forfeit the benefit of the term for corporate bonds or other borrowings.

Leopalace21 is improving its business performance through the execution of the business plan, and continually implements to the best of its ability measures to avoid violating these financial covenants and the resulting forfeiture of the benefit of the term. However, should the Company forfeit the benefit of the term for its loans, this could have a major impact on the Company's operating performance.

9. Events that Significantly Impact the Company's Management

The Leopalace21 Group recorded an operating loss of ¥23,607 million for the subject fiscal year (¥29,727 million in the previous fiscal year), and a net loss of ¥40,889 million (¥79,075 million in the previous fiscal year).

The measures the Company is implementing to mitigate the events that significantly impact the Company's management, and its strategic measures for improvement, are as follows.

Organizational reforms

- To help support reconstruction efforts in the Tohoku region damaged by the March 11 earthquake and tsunami, and to handle project planning and public relations work on a company wide basis, we have established a new "General Planning Office".
- We have established a new "Asset Management Department" to oversee relations with tenants and owners.
- We have established a new "Partners Sales Department" to promote expansion of our Leopalace Partners program, and to upgrade the skills of partner offices.
- We have established a Project Management Department within the Apartment Construction Subcontracting Business Office to integrate the entire process from marketing through construction of new supply.
- To improve the functions and efficiency of back office functions, the Head Office Management Department has been integrated into the "Business Management Headquarters".

Improving Profitability of the Leasing Business

- We will aim to improve vacancy rates by expanding and strengthening Leopalace Partner offices, and by focusing on attracting more corporate clients.
- We will promote installation of home security systems and solar power systems to better meet client needs while also increasing profitability.
- We will try to improve earnings by revising rates for propane, regular cleaning services, garbage self-collection, and septic tank maintenance.

Selling and General Administrative Expenses

- We will continue to review the need for office locations and staffing assignments with an eye to improving operational efficiency, and we will try to reduce land and house rents, and labor costs.
- We will work to develop more cost-efficient strategies with regard to advertising and publicity, promotional costs, and general overhead expenses.

10. Information Leaks

The Leopalace21 Group holds a great deal of information, including personal information obtained through the consent of, or as a result of non-disclosure agreements with, client companies. To control information security, the Company has drawn up the required information security guidelines, and set up a Compliance Committee to thoroughly educate our executive officers and employees about information security issues. Nevertheless, in the unlikely event that a leak of information of some type should occur, there is a possibility that the Group's reputation could be damaged, and that business performance might be affected.

11. Other Risks

The Group is aware that it incurs a variety of risks in the course of promoting its businesses, and it attempts to prevent, distribute or avoid risk whenever possible. Nevertheless, the Group's business performance and financial position may be affected by changes in economic conditions, the real estate market, the financial and stock markets, legal regulations, natural disasters, and a variety of other factors.

1. Consolidated Balance Sheets

(Million yen)

	March 31, 2011	March 31, 2010
<Assets>		
Current assets		
Cash and cash equivalents	40,674	72,431
Trade receivables	6,259	8,179
Accounts receivable for completed projects	2,117	4,736
Operating loans	4,311	5,482
Marketable securities	–	10
Real estate for sale/property inventories	13	1,371
Real estate for sale in process	104	2,584
Payment for construction in progress	586	1,184
Raw materials and supplies	457	593
Prepaid expenses	23,878	27,894
Deferred tax assets	3,712	6,142
Other accounts receivable	1,234	3,207
Other	11,872	13,493
Allowance for doubtful accounts	(1,005)	(896)
Total	**94,219**	**146,416**
Fixed assets		
Property, plant and equipment		
Buildings and structures	108,931	112,741
Accumulated depreciation	(49,739)	(49,303)
Net	59,191	63,437
Land	84,851	96,293
Leased assets	6,237	5,923
Accumulated depreciation	(2,727)	(1,546)
Net	3,510	4,376
Construction in progress	66	3,367
Other	13,892	13,881
Accumulated depreciation	(11,227)	(10,624)
Net	2,665	3,256
Total	**150,284**	**170,731**
Intangible assets		
Other	7,588	6,385
Total	**7,588**	**6,385**
Investments and other assets		
Investment securities	6,534	6,930
Long-term loans	601	1,101
Bad debt	4,452	5,203
Long-term prepaid expenses	34,222	51,242
Deferred tax assets	2,269	7,482
Other	3,102	5,894
Allowance for doubtful accounts	(5,077)	(4,966)
Total	**46,105**	**72,889**
Total fixed assets	**203,979**	**250,006**
Deferred assets		
Bond issuance cost	75	89
Total	**75**	**89**
Total assets	**298,274**	**396,511**

(Million yen)

	March 31, 2011	March 31, 2010
<Liabilities>		
Current liabilities		
Accounts payable	2,699	2,704
Accounts payable for completed projects	12,634	43,375
Short-term borrowings	22,690	9,719
Current portion of long-term loans payable	11,811	20,280
Bonds due within one year	560	560
Lease obligations	1,230	1,196
Unpaid expenses	11,685	10,440
Accrued expenses	4	4
Accrued income taxes	426	1,594
Advances received	97,154	98,543
Customer advances for projects in progress	4,055	9,425
Allowance for employees' bonuses	–	3,065
Reserve for warranty obligations on completed projects	133	326
Provision for fulfillment of guarantees	135	–
Provision for disaster losses	1,189	–
Provision for switch to terrestrial digital broadcasts	1,188	–
Asset retirement obligations	30	40
Other	6,090	7,134
Total	**173,719**	**208,410**
Long-term liabilities		
Bonds	2,600	3,160
Long-term debt	2,227	22,761
Lease obligations	2,738	3,639
Retirement benefit reserves	7,873	7,306
Provision for apartment vacancy loss	32,605	31,728
Lease/guarantee deposits received	26,035	46,104
Asset retirement obligations	47	61
Long-term advances received	14,830	–
Long-term accounts payable	1,210	1,185
Other	1,344	1,174
Total	**91,513**	**117,121**
Total liabilities	**265,233**	**325,532**
<Net assets>		
Shareholders' equity		
Common stock	56,562	55,640
Capital surplus	34,334	33,894
Retained earnings	(46,552)	(5,663)
Treasury stock	(5,502)	(6,142)
Total	**38,842**	**77,728**
Accumulated other comprehensive income (loss)		
Net unrealized gains on "other securities"	204	124
Deferred gains or losses on hedges	(3)	(5)
Translation adjustments	(6,018)	(6,957)
Total	**(5,817)**	**(6,838)**
Share subscription rights	**15**	**88**
Total net assets	**33,040**	**70,979**
Total liabilities and net assets	**298,274**	**396,511**

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

Consolidated Statements of Operations

(Million yen)

	March 31, 2011 (April 2010–March 2011)	March 31, 2010 (April 2009–March 2010)
Net sales		
Sales from Apartment Construction Subcontracting Division	107,821	237,062
Sales from Leasing Division	*1 356,606	342,316
Sales from Other Division	19,963	40,997
Total	**484,390**	**620,376**
Cost of sales		
Cost of sales from Apartment Construction Subcontracting Division	71,425	173,229
Cost of sales from Leasing Division	357,130	353,373
Cost of sales from Other Division	19,836	44,146
Total	**448,392**	**570,749**
Gross profit	**35,998**	**49,626**
Selling, general and administrative expenses		
Advertising expenses	3,303	6,686
Sales commission expense	2,300	4,440
Transfer to allowance for bad debt	539	1,373
Directors’ compensation	287	513
Salary and bonuses	24,426	29,393
Provision for accrued bonuses	–	1,608
Provision for retirement bonuses	1,172	1,672
Provision for accrued retirement benefit for directors	–	30
Rent expense	3,471	4,609
Depreciation and amortization	1,920	1,816
Taxes and public charges	3,474	3,967
Other	18,708	23,240
Total	**59,605**	**79,354**
Operating income (loss)	**(23,607)**	**(29,727)**
Non-operating income		
Interest income	60	131
Dividend income	53	44
Gain on sale of investment securities	64	1
Equity in earnings of affiliated companies	–	145
Gain from cancellation of contracted work	49	105
Rent income	83	137
Other	366	331
Total	**678**	**897**
Non-operating expenses		
Interest expenses	1,626	1,196
Commission fee	926	841
Equity in losses of affiliated companies	268	–
Foreign exchange loss	5,561	2,468
Loss on sales of investment securities	121	–
Other	376	494
Total	**8,880**	**5,000**
Recurring income (loss)	**(31,808)**	**(33,831)**

(Million yen)

	March 31, 2011 (April 2010–March 2011)	March 31, 2010 (April 2009–March 2010)
Extraordinary income		
Gain on sale of property, plant and equipment	2,046	130
Reversal of allowance for doubtful receivables	254	1,632
Reversal of allowance for retirement benefits for directors	—	92
Reversal of allowance for employees' bonuses	2,605	—
Reversal of share subscription rights	82	—
Total	**4,988**	**1,855**
Extraordinary losses		
Loss on sale of property, plant and equipment	14	226
Loss on disposal of property, plant and equipment	101	842
Impairment loss	2,227	3,237
Loss on sale of investment securities	51	—
Transfer to allowance for bad debt	356	72
Reversal of provision for apartment vacancy loss	—	10,342
Business structure improvement expenses	—	29,855
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	413
Loss on cancellation of structured deposits	753	—
Disaster loss	1,262	—
Expenses for switch to terrestrial digital broadcasts	339	—
Provision of reserve for switch to terrestrial digital broadcasts	1,188	—
Other	0	559
Total	**6,297**	**45,551**
Income (loss) before taxes and minority interests	**(33,117)**	**(77,526)**
Income tax－current	207	329
Income tax– refund	(19)	—
Income taxed－previous period	—	1,358
Income taxes－deferred	7,583	(139)
Total	**7,771**	**1,548**
Net income (loss)	**(40,889)**	**(79,075)**

Consolidated Statements of Comprehensive Income (Loss)

(Million yen)

	March 31, 2011 (April 2010–March 2011)	March 31, 2010 (April 2009–March 2010)
Net income (loss)	(40,889)	—
Other comprehensive income (loss)		
Net unrealized gains on "other securities"	79	—
Translation adjustments	939	—
Share of other comprehensive income of associates	2	—
Total	**1,021**	**—**
Comprehensive income (loss)	(39,868)	—
(Breakdown)		
Comprehensive income (loss) attributable to shareholders of the parent entity	(39,868)	—

3. Consolidated Statements of Changes in Net Assets

(Million yen)

	March 31, 2011 (April 2010–March 2011)	March 31, 2010 (April 2009–March 2010)
Shareholders' equity:		
Share capital:		
Balance at the previous year-end	55,640	55,640
Change in the fiscal year:		
Issuance of new shares	922	—
Total	922	—
Balance at the current year-end	56,562	55,640
Capital surplus:		
Balance at the previous year-end	33,894	34,104
Change in the fiscal year:		
Issuance of new shares	922	—
Disposal of treasury stock	(481)	(210)
Total	440	(210)
Balance at the current year-end	34,334	33,894
Retained earnings:		
Balance at the previous year-end	(5,663)	73,412
Change in the fiscal year:		
Net income (loss)	(40,889)	(79,075)
Total	(40,889)	(79,075)
Balance at the current year-end	(46,552)	(5,663)
Treasury stock, at cost:		
Balance at the previous year-end	(6,142)	(6,541)
Change in the fiscal year:		
Purchase of treasury stock	(0)	(0)
Disposal of treasury stock	640	399
Total	640	399
Balance at the current year-end	(5,502)	(6,142)
Total shareholders' equity:		
Balance at the previous year-end	77,728	156,616
Change in the fiscal year:		
Issuance of new shares	1,844	—
Net loss	(40,889)	(79,075)
Purchase of treasury stock	(0)	(0)
Disposal of treasury stock	158	188
Total	(38,886)	(78,887)
Balance at the current year-end	38,842	77,728

(Million yen)

	March 31, 2011 (April 2010–March 2011)	March 31, 2010 (April 2009–March 2010)
Accumulated other comprehensive income (Loss):		
Net unrealized holding gain on securities:		
Balance at the previous year-end	124	17
Change in the fiscal year:		
Net changes of items other than shareholders' equity	79	107
Total	79	107
Balance at the current year-end	204	124
Deferred gains or losses on hedges:		
Balance at the previous year-end	(5)	(7)
Change in the fiscal year:		
Net changes in items other than shareholders' equity	2	2
Total	2	2
Balance at the current year-end	(3)	(5)
Translation adjustments:		
Balance at the previous year-end	(6,957)	(10,183)
Change in the fiscal year:		
Net changes of items other than shareholders' equity	939	3,225
Total	939	3,225
Balance at the current year-end	(6,018)	(6,957)
Total accumulated other comprehensive income (loss):		
Balance at the previous year-end	(6,838)	(10,173)
Change in the fiscal year:		
Net changes of items other than shareholders' equity	1,021	3,335
Total	1,021	3,335
Balance at the current year-end	(5,817)	(6,838)
Subscription rights to shares:		
Balance at the previous year-end	88	—
Change in the fiscal year:		
Net changes of items other than shareholders' equity	(73)	88
Total	(73)	88
Balance at the current year-end	15	88
Total net assets:		
Balance at the previous year-end	70,979	146,442
Change in the fiscal year:		
Issuance of new shares	1,844	—
Net loss	(40,889)	(79,075)
Purchase of treasury stock	(0)	(0)
Disposal of treasury stock	158	188
Net changes of items other than shareholders' equity	947	3,424
Total	(37,938)	(75,463)
Balance at the current year-end	33,040	70,979

4. Consolidated Statements of Cash Flows

(Million yen)

	March 31, 2011 (April 2010–March 2011)	March 31, 2010 (April 2009–March 2010)
Cash flows from operating activities		
Income (loss) before taxes and minority interests	(33,117)	(77,526)
Depreciation	6,451	6,295
Increase (decrease) in allowance for doubtful accounts	385	(133)
Increase (decrease) in retirement benefit reserves for directors	–	(96)
Increase (decrease) in provision for apartment vacancy loss	877	27,108
Interest and dividend income	(114)	(176)
Interest expense	1,626	1,196
Foreign exchange loss (gain)	5,561	2,468
Equity in losses (earnings) of affiliated companies	268	(145)
Loss (gain) on sale of property, plant and equipment	(2,031)	96
Write-offs of property, plant and equipment	101	842
Impairment loss	2,227	3,237
Disaster loss	1,262	—
Expenses for switch to terrestrial digital broadcasts	339	—
Provision of reserve for switch to terrestrial digital broadcasts	1,188	
Loss (gain) on sale of investment securities	108	(1)
Business structure reform expenses	—	29,855
Decrease (increase) in accounts receivable	7,820	(991)
Decrease (increase) in real estate for sale	3,837	24,221
Decrease (increase) in work in process	550	3,537
Decrease (increase) in long-term prepaid expenses	20,253	9,348
Increase (decrease) in accounts payable	(31,706)	(15,357)
Increase (decrease) in customer advances for projects in progress	(5,370)	(5,410)
Increase (decrease) in advances received	13,440	621
Increase (decrease) in guarantee deposits received	(19,691)	(4,869)
Increase (decrease) in accrued consumption taxes	2,518	(1,870)
Other	(1,992)	176
Subtotal	(25,204)	2,424
Interest and dividends received	113	183
Interest paid	(1,616)	(1,212)
Income taxes paid	(1,629)	(14,386)
Net cash used in operating activities	**(28,337)**	(12,990)

(Million yen)

	March 31, 2011 (April 2010–March 2011)	March 31, 2010 (April 2009–March 2010)
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,353)	(5,734)
Proceeds from sale of property, plant and equipment	12,742	1,536
Payment for purchase of intangible assets	(1,897)	(3,697)
Payment for purchase of investment securities	(20)	(836)
Proceeds from sale of investment securities	993	125
Payment for loans	(68)	(110)
Proceeds from collection of loans	218	5
Payments for time deposits	(3,713)	–
Proceeds from withdrawal of time deposits	6,575	–
Other	(332)	(177)
Net cash provided by (used in) investing activities	**13,143**	(8,889)
Cash flows from financing activities		
Proceeds from short-term debt	16,500	37,799
Repayment of short-term debt	(3,529)	(28,080)
Proceeds from long-term debt	–	38,000
Repayment of long-term debt	(29,003)	(35,347)
Repayment of finance lease obligations	(1,198)	(906)
Proceeds from issuance of bonds	—	3,907
Payment for redemption of bonds	(560)	(280)
Proceeds from issuance of shares	1,741	—
Proceeds from disposal of treasury stock	158	188
Payment for purchase of treasury stock	(0)	(0)
Dividend payments	—	
Net cash provided by (used in) financing activities	**(15,890)**	15,281
Effect of exchange rate changes on cash and cash equivalents	**(455)**	254
Net increase (decrease) in cash and cash equivalents	**(31,539)**	(6,344)
Cash and cash equivalents at beginning of period	**72,031**	78,375
Cash and cash equivalents at end of period	**40,492**	72,031

5. Notes Regarding the Premise of the Company as a Going Concern

There are no relevant items.

6. Significant Items Fundamental to the Preparation of the Consolidated Financial Statements

(Accounting Standards for Significant Provisions)

- Provision for bonuses
  Because the bonus system was revised from the subject fiscal year so that the bonus payment period matched the fiscal period, the Company will not record a provision for bonuses from the subject fiscal year.
- Provision for fulfillment of guarantees
  The Company's consolidated subsidiary Plaza Guarantee Co., Ltd., to provide for losses attributable to its lease guarantee business, is recording the amount of loss expected based on the rate of past guarantee fulfillments.
- Provision for disaster losses
  The Company, to provide for restoration costs and other losses stemming from the Great East Japan Earthquake, is recording the anticipated amount for such losses.
- Provision of reserve for switch to terrestrial digital broadcasts
  The Company, in accordance with the switchover to terrestrial digital broadcasts, is now able to accurately project purchase costs for applicable equipment, and to estimate the total cost, and is recording the anticipated amount for such work.

Disclosures other than the above have been omitted, as there have been no significant changes since the Company's most recent securities report (submitted on June 28, 2010)

7. Notes to Consolidated Financial Statements

Items related to consolidated statements of operations

Fiscal Year ended March 31, 2010 (Apr. 2009–Mar. 2010)	Fiscal Year ended March 31, 2011 (Apr. 2010–Mar. 2011)
—	*1 During the fiscal year under review, the Company revised its system of budgeting for future expenses incurred for repair and refurbishment of furniture and electrical appliances provided in apartments managed by the Company. In accordance with this revision, an amount for maintenance services for furniture and electrical appliances, which previously was recorded on an ongoing basis, is recorded as a lump-sum special service contract fees applicable to services provided during the subject period. For the fiscal year under review, the Company included ¥9,141 million in Leasing Business sales. For the fiscal year ending March 2012 and beyond, for the amount of these special service contract fees the Company will record in its consolidated financial statement advances received (¥9,023 million for the portion within one year) and long-term advances received (¥14,830 million for the portion beyond one year).

8. Segment Information

Segment Information by Business Type

Fiscal Year ended March 31, 2010 (April 1, 2009 through March 31, 2010)

(Million yen)

	Apartment Construction Subcontracting Division	Leasing Division	Hotel Resort Division	Residential Sales Division	Other Division	Total	Eliminations/ Unallocated	Consolidated
Net sales and operating income (loss) Net sales								
(1) Sales to customers	237,062	342,316	6,734	24,643	9,619	620,376	—	620,376
(2) Inter-segment sales and transfers	—	397	2,972	—	35	3,406	(3,406)	—
Total	237,062	342,713	9,706	24,643	9,655	623,782	(3,406)	620,376
Operating expense	207,317	390,589	11,030	28,000	13,075	650,014	90	650,104
Operating income (loss)	29,744	(47,875)	(1,324)	(3,356)	(3,419)	(26,231)	(3,496)	(29,727)
II. Assets, Depreciation, Impairment losses and Capital expenditures								
Assets	30,735	183,177	55,911	3,996	10,019	283,840	112,671	396,511
Depreciation	1,033	1,983	1,967	2	105	5,092	1,203	6,295
Impairment losses	—	2,941	261	—	35	3,237	—	3,237
Capital expenditures	41	1,580	3,070	2	1,494	6,189	5,182	11,372

Notes: 1. The above segments are defined according to our own internal management system.

2. Segments and business content

(1) Apartment Construction Subcontracting Division-------Contract apartment construction
(2) Leasing Division ---Apartment leasing, management, related services, repairs, company housing services, and broadband business
(3) Hotel Resort Division---Hotel and resort management, sales of resort club memberships, etc.
(4) Residential Sales Division----------------------------------Sales of residential houses, etc.
(5) Other Division---Silver business, financing, small-claims and short-term insurance businesses

3. Major items and amounts included in “Eliminations/unallocated” are as follows.

(Million yen)

	FY ended March 31, 2010	Main component
Operating expenses unable to be allocated included in “Eliminations/unallocated”	3,587	Management expenses of the General Affairs Department of the Company submitting the consolidated financial statements.
Amount of corporate assets included in “Eliminations/unallocated”	112,671	Surplus funds under management at submitting company (Cash and deposits, marketable securities, etc.), long-term investment funds (investment securities, etc.), and assets related to management operations.

4. Changes in Reportable Segments

From the subject fiscal year ended March 31, 2010, to properly reflect the current status of business content following changes in the business management structure, the domestic hotel business that had been included in the Leasing Division segment was moved to the Hotel Resort Division segment, and the broadband business that had been included in the Other Division segment was moved to the Leasing Division segment.

As a result of this change, compared to the previous method, sales for the subject fiscal year increased ¥12,333 million in the Leasing Division segment and ¥2,218 million in the Hotel Resort Division segment, and decreased ¥14,552 million in the Other Division segment. Operating expenses increased ¥9,327 million in the Leasing Division segment, and decreased ¥2,423 million in the Hotel Resort Division segment, and ¥11,751 million in the Other Division segment.

5. Changes in accounting policies

(Fiscal Year ended March 31, 2010)

Accounting Standards for Construction Contracts

Effective from the subject fiscal year, the Company applied the “Accounting Standards for Construction Contracts” (ASBJ Statement No. 15, issued on December 27, 2007) and the “Guidance on Application of Accounting Standards for Construction Contracts” (ASBJ Guidance No. 18, issued on December 27, 2007). As a result of this change, sales and operating income in the Apartment Construction Subcontracting Division increased by ¥6,349 million and ¥1,614 million, respectively, compared with the application of the previous accounting method.

Changes in Cost Accounting Method of Contracted Work

The Company revised the cost accounting method in the subject fiscal year, and changed the method of recognizing the indirect expenses related to contracted works that are incurred during the subject fiscal year to the one that recognizes it as cost related to completed works for the subject fiscal year as incurred. As a result of this change, operating expenses decreased by ¥619 million and the operating income increased by the same amount in the Apartment Construction Subcontracting Division, compared with the application of the previous accounting method.

Accounting standard with regard to asset retirement obligations

With effect from subject fiscal year, the Company adopted the Accounting Standards for Asset Retirement Obligations (ASBJ Statement No. 18, issued on March 31, 2008), and Guidance on Accounting Standards for Asset Retirement Obligations (ASBJ Statement No. 21, issued on March 31, 2008). As a result of this change, operating expenses increased by ¥45 million in the Apartment Construction Subcontracting Division, ¥14 million in the Leasing Division, ¥2 million in the Hotel Resort Division, ¥0 million in the Residential Sales Division, ¥2 million in the Other Division, and ¥0 million in “Elimination or Corporate” and operating losses increased by the same amounts.

Segment Information

Fiscal Year ended March 31, 2011 (April 1, 2010 through March 31, 2011)

1. Overview of Reportable Segments

The Leopalace21 Group’s reportable segments allow it to acquire financial data separated into the various components of the Company. The scope of the segments is reviewed on a regular basis in order to allow the Board of Directors to determine the allocation of management resources, and evaluate earnings performance.

Leopalace21 has four reportable segments, the Leasing Division, Apartment Construction Subcontracting Division, Hotel Resort Division and Residential Sales Division.

The Leasing Division operations comprise the leasing and management of apartment buildings and other properties, repair work, broadband Internet service, rent guarantee, and the company residence agency business. The Apartment Construction Subcontracting Division constructs apartments and other buildings on a contract basis. The Hotel Resort Division operates hotels and resort facilities, and sells resort memberships. The Residential Sales Division sells residential homes and other properties.

2. Calculation Methods for Sales and Profit, as well as Losses, Assets, Liabilities and other Items by Reportable Segment

The accounting methods for reported business segments are basically the same as that presented in “Significant Items Fundamental to the Preparation of the Consolidated Financial Statements.” Figures for reported segment profit are on an operating profit basis. Internal sales and transfers between segments are based on prevailing market prices.

3. Information Regarding Sales and Profit, as well as Losses, Assets, Liabilities and other Items by Reportable Segment

Fiscal year ended March 31, 2010 (April 1, 2009 through March 31, 2010)

(Million yen)

	Reportable Segment					Other (Note 1)	Total	Adjustment (Note 2)	Amount on Consolidated Statements of Operations (Note 3)
	Leasing Division	Apartment Construction Subcontracting Division	Hotel Resort Division	Residential Sales Division	Total				
Net sales									
(1) Sales to customers	342,316	237,062	6,734	24,643	610,756	9,619	620,376	–	620,376
(2) Inter-segment sales and transfers	397	–	2,972	–	3,370	35	3,406	(3,406)	–
Total	342,713	237,062	9,706	24,643	614,126	9,655	623,782	(3,406)	620,376
Segment earnings (or loss)	(47,875)	29,744	(1,324)	(3,356)	(22,811)	(3,419)	(26,231)	(3,496)	(29,727)
Segment assets	183,177	30,735	55,911	3,996	273,820	10,019	283,840	112,671	396,511
Other items									
Depreciation	1,983	1,033	1,967	2	4,986	105	5,092	1,203	6,295
Increase in property, plant and equipment, and intangible assets	1,580	41	3,070	2	4,694	1,494	6,189	5,182	11,372

Fiscal year ended March 31, 2011 (April 1, 2010 through March 31, 2011)

(Million yen)

	Reportable Segment					Other (Note 1)	Total	Adjustment (Note 2)	Amount on Consolidated Statements of Operations (Note 3)
	Leasing Division	Apartment Construction Subcontracting Division	Hotel Resort Division	Residential Sales Division	Total				
Net sales									
(1) Sales to customers	356,606	107,821	6,491	4,688	475,607	8,783	484,390	–	484,390
(2) Inter-segment sales and transfers	451	–	1,696	–	2,147	35	2,182	(2,182)	–
Total	357,057	107,821	8,187	4,688	477,755	8,818	486,573	(2,182)	484,390
Segment earnings (or loss)	(30,094)	11,971	(1,974)	219	(19,878)	(1,442)	(21,320)	(2,286)	(23,607)
Segment assets	150,082	3,551	34,402	120	188,155	7,222	195,378	102,895	298,274
Other items									
Depreciation	2,670	422	1,918	–	5,012	108	5,120	1,330	6,451
Increase in property, plant and equipment, and intangible assets	384	94	405	–	884	61	946	2,635	3,582

Notes: 1. The “Other” classification is the business segment not included in reported segments, and comprises such businesses as the silver business, small-claims and short-term insurance, financing businesses.

2. Breakdown of adjustments is as follows.

Segment earnings (or loss) (Million yen)

	FY ended March 31, 2010	FY ended March 31, 2011
Inter-segment eliminations	90	46
Corporate expenses*	(3,587)	(2,333)
Total	(3,496)	(2,286)

*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.