Consolidated Financial Statements (Japanese Accounting Standard)

May 11, 2012

(For the year ended March 31, 2012)

Name of Company Listed: **Leopalace21 Corporation**
Code Number: 8848
(URL: http://eg.leopalace21.com)
Representative: Position: President and CEO
Name of Contact Person: Position: General Manager

Stock Listing: Tokyo Stock Exchange
Location of Head Office: Tokyo

Name: Eisei Miyama
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Scheduled Date of Annual Meeting of Stockholders: June 28, 2012
Scheduled Date of Commencement of Dividend Payments: –
Supplemental Explanatory Material Prepared: Yes
Results Briefing Held: Yes (for investment analysts and institutional investors)

Scheduled Date of Filing of Securities Report: June 28, 2012

1. Results for the Fiscal Year Ended March 31, 2012 (April 1, 2011 through March 31, 2012)

(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, 2012	**459,436**	**(5.2)**	**4,585**	**–**	**2,349**	**–**	**1,588**	**–**
FY ended March 31, 2011	484,390	(21.9)	(23,607)	–	(31,808)	–	(40,889)	–

Note: Comprehensive income (loss): As of March 31, 2012: 687 million yen; As of March 31, 2011: (39,868) million yen

	Net income (loss) per share	Diluted net income per share	Return on equity	Recurring income (loss)/ Total capital	Operating income (loss) / Net sales
	Yen	Yen	%	%	%
FY ended March 31, 2012	**9.40**	**9.40**	**4.8**	**0.8**	**1.0**
FY ended March 31, 2011	(261.03)	–	(78.7)	(9.2)	(4.9)

Reference: Equity in earnings of affiliates in FY ended March 31, 2012: (663) million yen, FY ended March 31, 2011: (268) million yen.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Equity per share
	Million yen	Million yen	%	Yen
FY ended March 31, 2012	**264,783**	**33,831**	**12.8**	**199.73**
FY ended March 31, 2011	298,274	33,040	11.1	195.91

Reference: Shareholders' equity: As of March 31, 2012: 33,804 million yen; As of March 31, 2011: 33,025 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, 2012	**(3,174)**	**(3,537)**	**7,245**	**40,877**
FY ended March 31, 2011	(28,337)	13,143	(15,890)	40,492

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, 2011	–	0.00	–	0.00	0.00	–	–	–
FY ended March 31, 2012	**–**	**0.00**	**–**	**0.00**	**0.00**	**–**	**–**	**–**
FY ending March 31, 2013 (Estimated)	–	0.00	–	0.00	0.00		–	

3. Estimation of Business Results for the Fiscal Year Ending March 31, 2013 (April 1, 2012 through March 31, 2013)

(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, 2012	219,600	(1.5)	(1,600)	—	(2,600)	—	(2,900)	—	(17.13)
FY ending March 31, 2013	463,900	1.0	8,000	74.4	6,100	159.6	5,500	246.1	32.50

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 financial statements (Changes in important items concerning preparation of financial statements)

(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

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

(i) Total number of outstanding shares at term end (Includes treasury stock)
As of March 31, 2012: 175,443,915 shares, As of March 31, 2011: 175,443,915 shares
(ii) Total treasury stock at term end
As of March 31, 2012: 6,190,520 shares, As of March 31, 2011: 6,867,850 shares
(iii) Average number of outstanding shares during the period
As of March 31, 2012: 168,995,991 shares, As of March 31, 2010: 156,648,594 shares

(Reference) Summary of Non-Consolidated Financial Statements

1. Results of the Fiscal Year Ended March 31, 2012 (April 1, 2011 through March 31, 2012)

(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, 2012	**453,304**	**(5.2)**	**4,283**	**–**	**2,132**	**–**	**1,391**	**–**
FY ended March 31, 2011	478,109	(22.3)	(23,857)	–	(30,596)	–	(39,814)	–

	Net income (loss) per share	Diluted net income per share
	Yen	Yen
FY ended March 31, 2012	**8.23**	**8.23**
FY ended March 31, 2011	(254.17)	–

(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
FY ended March 31, 2012	**264,016**	**35,389**	**13.4**	**208.93**
FY ended March 31, 2011	296,846	33,849	11.4	200.70

Reference: Shareholders' equity: As of March 31, 2012: 35,362 million yen, As of March 31, 2011: 33,833 million yen

2. Estimation of Non-consolidated Business Results for the Fiscal Year Ending March 31, 2013 (April 1, 2012 through March 31, 2013)

(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, 2012	216,400	(1.7)	(2,900)	—	(3,100)	—	(18.32)
FY ending March 31, 2013	457,100	0.8	4,900	129.8	4,400	216.2	26.00

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.

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1. Business Results During the current fiscal year under review, the Japanese economy showed a gradual recovery trend from the economic

(1) Analysis of Business Results

(Million yen)

	Net sales	Operating income (loss)	Recurring income (loss)	Net income (loss)
FY ended March 31, 2012	459,436	4,585	2,349	1,588
FY ended March 31, 2011	484,390	(23,607)	(31,808)	(40,889)
change	(24,954)	28,193	34,158	42,478

During the current fiscal year under review, the Japanese economy showed a gradual recovery trend from the economic slowdown caused by the Great East Japan Earthquake but the downturn in the overseas economy against the backdrop of the European sovereign debt crisis and higher crude oil prices and their impact on foreign exchange rates and share prices means that the outlook for the future remains unclear. In the housing industry, new housing starts during fiscal year 2011 increased by 2.7% year-on-year but, looking at rental housing only, starts fell by 0.7% year-on-year, the third consecutive annual decline.

In this environment, net sales in the construction business recorded a significant decline due to measures for curbing apartment supply as a result of the shift to the leasing business, but the Group sought to secure sales in its leasing business by increasing various ancillary revenues. Further, occupancy rates recovered as the result of strengthened corporate sales along with thorough cost cutting measures, which brought the Group its first profit in three years.

As a result, consolidated net sales for the fiscal year under review were ¥459,436 million (down 5.2% year-on-year). Consolidated operating income came to ¥4,585 million (compared to a consolidated operating loss of ¥23,607 million in the previous fiscal year) due to a ¥13,398 reversal in the reserve for apartment vacancy loss. Consolidated recurring income was ¥2,349 million (compared to a consolidated recurring loss of ¥31,808 million in the previous fiscal year) due to the posting of interest paid and other financial expenses of ¥2,008 million while consolidated net income was ¥1,588 million (compared to a consolidated net loss of ¥40,889 million in the previous fiscal year) after posting an asset impairment loss of ¥2,610 million.

Further, on a non-consolidated base, net sales were ¥453,304 million (down 5.2% year-on-year), operating income was ¥4,283 million (compared to an operating loss of ¥23,857 million in the previous fiscal year), recurring income was ¥2,132 million (compared to a recurring loss of ¥30,596 million in the previous fiscal year) and net income was ¥1,391 million (compared to a net loss of ¥39,814 million in the previous fiscal year).

(Actual figures by segment)

(Million yen)

	Net sales			Operating Income (loss)		
	FY ended March 31, 2011	FY ended March 31, 2012	change	FY ended March 31, 2011	FY ended March 31, 2012	change
Leasing Division	356,606	380,307	23,701	(30,094)	5,248	35,343
Apartment Construction Subcontracting Division	107,821	62,913	(44,907)	11,971	4,309	(7,661)
Hotels & Resort Division	6,491	6,228	(263)	(1,974)	(1,663)	311
Elderly Care Division	7,785	8,845	1,059	(1,509)	(855)	654
Others	5,686	1,142	(4,544)	287	(37)	(325)
Adjustments	–	–	–	(2,286)	(2,415)	(128)
Total	484,390	459,436	(24,954)	(23,607)	4,585	28,193

(i) Leasing Business

There were 556,000 units under management at the end of the fiscal year under review (down 15,000 units from last fiscal year), the occupancy rate was 83.40% (down 0.29 points from last fiscal year) and the average occupancy rate for the fiscal year under review was 81.16% (up 1.07 points from last fiscal year). This is mainly due to an increased number of contact points for attracting clients as the result of the expansion of franchise offices (Leopalace Partners) and, in addition to strengthening corporate sales, controlling the number of units under management by supplying apartments in areas that are expected to see stable tenant demand.

In the leasing business, the Company continued to focus on expanding franchise offices and acquiring corporate contracts. It also took other actions, such as expanding auxiliary income (maintenance service for buildings, household appliances and electronics and broadband maintenance service, etc.), improving product value, rent per apartment and occupancy rate by installing apartment security and other systems, reviewing the master lease rent based on market rents, and reducing costs through the review of programmed property management services.

The number of direct offices at the end of this fiscal year was 167 (increasing 3), and the number of franchise offices was 190 (increasing 69).

As a result of the above, net sales amounted to ¥380,307 million (up 6.6% year on year), and operating income was ¥5,248 million (compared to operating loss amounted to ¥30,094 million in the previous fiscal year).

(ii) Apartment Construction Subcontracting Business

Orders received during the consolidated fiscal year were ¥50,019 million (down 37.7% from the previous fiscal year) and the orders received outstanding at the end of the fiscal year under review stood at ¥54,498 million (down 54.7% from the previous fiscal year). Regarding order figures for the fiscal year under review, cancellations during the period were not subtracted from orders received but were recorded after being subtracted from the orders received outstanding (If cancellations had been subtracted from orders received, consolidated orders received for the fiscal year under review would have been -¥5,299 million).

In the apartment construction subcontracting business, the Company focused its activities to win orders 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, as well as the installation of a solar power system, etc. that would increase product value.

The Company meanwhile took steps to reduce costs by lowering material procurement costs and reviewing the deployment of offices and personnel. The number of offices at the end of the subject fiscal year was 51 (down 24 from the end of the previous fiscal year).

As a result, net sales came to ¥62,913 million (down 41.7% year on year), and operating income was ¥4,309 million (down 64.0%).

(iii) Hotels & Resort t Business

Net sales in resort facilities in Guam and hotels in Japan were ¥6,228 million (down 4.1% year on year), and the operating loss was ¥1,663 million (increasing ¥311 million in loss)

(iv) Elderly Care Business

Net sales were ¥8,845 million (improving 13.6% year on year), and operating loss was ¥855 million (improving ¥654 million).

(v) Other Businesses

In other businesses such as the small-claims and short-term insurance business, the finance business and the residential sales business, net sales were ¥1,142 million (down 79.9% year on year), and the operating loss was ¥37 million (compared to operating income amounted to ¥287 million in the previous fiscal year) .

(Outlook for the next fiscal year)

	Net sales	Operating income	Recurring income	Net income
FY ended March 31, 2012 (Actual)	459,436	4,585	2,349	1,588
FY ended March 31, 2013 (Estimated)	463,900	8,000	6,100	5,500
change	4,463	3,414	3,750	3,911

During the fiscal year under review, the leasing business became profitable and, with the stock business at its core, a shift to stable profitability has been realized. In the next fiscal year, we expect an increase in both sales and earnings compared to the previous consolidated fiscal year as this profitability is strengthened and expanded.

In addition, the Group has prepared a medium-term management plan for the fiscal years ending March 2013 through March 2015, which is being announced separately today.

(2) Analysis of consolidated financial position

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

(Million yen)

	Total Assets	Total liabilities	Net Assets
As of December 31, 2012	264,783	230,951	33,831
As of December 31, 2011	298,274	265,233	33,040
change	(33,490)	(34,281)	790

Total assets at the end of the subject fiscal year declined ¥33, 490 million from the end of the previous fiscal year, to ¥264,783 million. This was mainly attributable to decreases in prepaid expenses of ¥4,880 million, buildings and structures of ¥4,074 million, land of ¥2,745 million, and long-term prepaid expenses of ¥15,927 million.

Total liabilities decreased ¥34,281 million from the end of the previous fiscal year, to ¥230,951 million. This primarily reflected an increase in interest-bearing debt of ¥7,795 million, and Long-term advances received of ¥7,078 million, and decreases in advances received of ¥18,080 million, reserve for apartment vacancy loss of ¥13,398 million, and lease/guarantee deposits received of ¥16,181 million.

Net assets increased ¥790 million from the end of the previous fiscal year, to ¥33,831 million, chiefly due to an increase of ¥950 million in the negative balance of foreign currency translation adjustments and an increase of ¥1, 588 million in retained earnings because of the posting of a net income. The ratio of shareholders' equity to assets rose 1.7 points from the end of the previous fiscal year, to 12.8%.

(ii) Cash flow position

Cash flow from operating activities was a net outflow of ¥3,174 million (a decline of ¥25,162 million net outflow from the last consolidated fiscal year). This was mainly due to a decline of long-term prepaid expenses to ¥20,616 million while the reserve for apartment vacancy loss declined to ¥13,398 million and a decline in guarantee deposits received to ¥16,385 million.

Cash flow from investing activities was a net outflow of ¥3,537 million, (compared to a net inflow of ¥13,143 million in the last consolidated fiscal year). This is mainly due to payment for the purchase of property, plant and equipment and intangible assets of ¥816 million, payments for time deposits of ¥419 million (after deducting revenue from expiring time deposits) and other payments (long-term specified trusts, etc.) of ¥2,289 million.

Cash flow from financing activities was a net inflow of ¥7,245 million (compared to a net outflow of ¥15,890 million in the previous consolidated fiscal year). This is mainly due to net proceeds from borrowing of ¥8,415 million (after deducting loan repayments and redemption of corporate bonds) and repayment of finance lease obligations of ¥1,261 million.

As a result, cash and cash equivalents at the end of the consolidated fiscal year under review was ¥40,877 million, an increase of ¥385 million from the previous consolidated fiscal year.

(Reference) Trends in cash flow indicators

	FY ended March 31, 2009	FY ended March 31, 2010	FY ended March 31, 2011	FY ended March 31, 2012
Equity ratio (%)	31.3	17.9	11.1	12.8
Market price based equity ratio (%)	18.9	18.6	6.2	18.0
Ratio of cash flow to interest bearing debt (year)	0.6	–	–	–
Interest coverage ratio (ratio)	51.3	–	–	–

Equity ratio: Shareholders equity/assets

Market price based equity ratio: Market capitalization/assets

Ratio of cash flow to interest bearing debt: Interest bearing debt/cash flow

Interest coverage ratio: Cash flow/interest paid

(Note 1) Ratios are calculated on the basis of consolidated financial data.

(Note 2) Market capitalization is calculated as closing price at the end of the fiscal year x shares outstanding at the end of the fiscal year (excluding treasury stock).

(Note 3) Cash flow is cash flow from operations from the Consolidated Statements of Cash Flow. Interest bearing debt is all of the debt noted on the Consolidated Balance Sheets on which interest is being paid. Further, interest paid is the amount of interest paid as stated in Consolidated Statements of Cash Flow.

(Note 4) The ratio of cash flow to interest bearing debt and the interest coverage ratio for the fiscal years ended March 2010, March 2011 and March 2012 are not shown because cash flow from operating activities was negative in those years.

(iii) Events that could have a significant impact on the Company's management

The Leopalace Group recorded operating losses and net losses for the previous two consecutive fiscal years but, by steadily implementing management reforms, operating income of ¥4,585 million and net income of ¥1,588 million were recorded for the consolidated fiscal year under review as the foundation has been built for a business structure that can be a stable source of profit for the leasing business, the Group's stock business. As a result of this, it has been judged that the events that could have a significant impact on company management have been resolved.

(3) Fundamental Policy on the Distribution of Earnings and Dividends for the Fiscal Year Under Review and Next Fiscal Year

The Leopalace Group acknowledges that the distribution of profit to shareholders is an important management issue. However, retained earnings are negative so it is with deep regret that the Group will pass on the term-end dividend. The Group also plans to pass on its dividends for the next fiscal year but will endeavor to recover retained earnings through a stable profit structure with the aim of restoring the dividend.

(4) 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 as 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 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. 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.

10. 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.

2. Management Policy

(1) Fundamental Policy of Company Management

Following the corporate mission of "Creating New Value," the Company aims to i. Create new value that is unique to the Company through the teamwork of all employees taking part in planning with flexible ideas and drive while steadily focusing on the needs of the present day. ii. By making our clients' happiness our happiness, to continue growth as a company that is always evolving its products, service and technology. iii. As a leading company in the industry, to create new value for all of society by contributing to the creation of an affluent society with a pleasant lifestyle.

(2) Management Indicator Goals

Management indicator goals for the fiscal year ending March 2013 are net sales of ¥464,000 million, net income of ¥5,800 million and an average occupancy rate for the period of 83.04%.

(3) Company Management Strategy for the Medium- Long-Term

The Company has devised a fundamental policy for driving the “shift to a stable profit structure by striking a balance between the profit of the construction business and the leasing business” in its Medium-Term Management Plan (three years from the fiscal year ending March 2013 to the fiscal year ending March 2015) in which a stable profit structure is centered on its stock business (leasing business).

In the leasing business, the Company aims to take various measures to a greater degree than before to improve occupancy rates, to optimize rents paid to owners and to improve the value of the rental units to establish a profit structure and to further develop as a highly profitable business. In the construction business, the Company will seek a new foundation for profit through the diversification of the units it supplies. In corporate management, the General Planning Office will be elevated to the General Planning Headquarters and will strengthen its growth strategy policy proposing capabilities. Further, while preserving and continuing its low-cost structure, the Company will strategically invest in costs that are necessary for the expansion of future sales and earnings (personnel, advertising and publicity and sales promotions).

(4) Issues to be Addressed by the Company

・Increase Individual Clients

Regarding the Company’s units under management, corporate customers are in a rising trend while individual clients are in a declining trend. The Company’s policy is to continue to strengthen its positive corporate sales but, taking into consideration that corporate clients are easily impacted by economic cycles, from the perspective of assuring stable sales and earnings, the handling of individual clients should be enhanced by opening new stores, expanding the sales network, and implementing advertising and sales campaigns for individual clients and students.

・Develop High Value-Added Products

In order to expand the Group’s sales and earnings in the future, it is necessary to develop new, high value-added products to develop new customers and new businesses. The Company has already increased the value of its units by installing home security systems and solar power generating systems and the Company will endeavor to create products and services that appeal to both its clients and its tenants to create a new foundation for sales and earnings.

3. Consolidated Financial Statements
(1) Consolidated Balance Sheets

(Million yen)

	March 31, 2012	March 31, 2011
<Assets>		
Current assets		
Cash and cash equivalents	41,477	40,674
Trade receivables	4,541	6,259
Accounts receivable for completed projects	1,004	2,117
Operating loans	2,419	4,311
Marketable securities	9	–
Real estate for sale/property inventories	13	13
Real estate for sale in process	–	104
Payment for construction in progress	620	586
Raw materials and supplies	491	457
Prepaid expenses	18,997	23,878
Deferred tax assets	3,093	3,712
Other accounts receivable	1,152	1,234
Other	9,685	11,872
Allowance for doubtful accounts	(446)	(1,005)
Total	**83,061**	**94,219**
Fixed assets		
Property, plant and equipment		
Buildings and structures	106,865	108,931
Accumulated depreciation	(51,748)	(49,739)
Net	55,116	59,191
Land	82,105	84,851
Leased assets	6,842	6,237
Accumulated depreciation	(3,935)	(2,727)
Net	2,906	3,510
Construction in progress	27	66
Other	13,663	13,892
Accumulated depreciation	(11,807)	(11,227)
Net	1,856	2,665
Total	**142,013**	**150,284**
Intangible assets		
Other	7,079	7,588
Total	**7,079**	**7,588**
Investments and other assets		
Investment securities	6,489	6,534
Long-term loans	588	601
Bad debt	2,837	4,452
Long-term prepaid expenses	18,295	34,222
Deferred tax assets	3,318	2,269
Other	4,428	3,102
Allowance for doubtful accounts	(3,390)	(5,077)
Total	**32,567**	**46,105**
Total fixed assets	**181,659**	**203,979**
Deferred assets		
Bond issuance cost	61	75
Total	**61**	**75**
Total assets	**264,783**	**298,274**

(Million yen)

	March 31, 2012	March 31, 2011
<Liabilities>		
Current liabilities		
Accounts payable	2,791	2,699
Accounts payable for completed projects	13,313	12,634
Short-term borrowings	38,904	22,690
Current portion of long-term loans payable	6,800	11,811
Bonds due within one year	560	560
Lease obligations	1,348	1,230
Unpaid expenses	14,208	11,685
Accrued expenses	5	4
Accrued income taxes	324	426
Advances received	79,073	97,154
Customer advances for projects in progress	2,957	4,055
Reserve for warranty obligations on completed projects	56	133
Provision for fulfillment of guarantees	390	135
Provision for disaster losses	50	1,189
Provision for switch to terrestrial digital broadcasts	122	1,188
Asset retirement obligations	27	30
Other	5,360	6,090
Total	**166,295**	**173,719**
Long-term liabilities		
Bonds	2,040	2,600
Long-term debt	–	2,227
Lease obligations	2,000	2,738
Retirement benefit reserves	8,041	7,873
Provision for apartment vacancy loss	19,207	32,605
Lease/guarantee deposits received	9,853	26,035
Asset retirement obligations	50	47
Long-term advances received	21,908	14,830
Long-term accounts payable	9	1,210
Other	1,545	1,344
Total	**64,656**	**91,513**
Total liabilities	**230,951**	**265,233**
<Net assets>		
Shareholders' equity		
Common stock	56,562	56,562
Capital surplus	33,883	34,334
Retained earnings	(44,963)	(46,552)
Treasury stock	(4,959)	(5,502)
Total	**40,523**	**38,842**
Accumulated other comprehensive income (loss)		
Net unrealized gains on "other securities"	249	204
Deferred gains or losses on hedges	–	(3)
Translation adjustments	(6,968)	(6,018)
Total	**(6,719)**	**(5,817)**
Share subscription rights	**26**	**15**
Total net assets	**33,831**	**33,040**
Total liabilities and net assets	**264,783**	**298,274**

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

Consolidated Statements of Operations

(Million yen)

	March 31, 2012 (April 2011–March 2012)	March 31, 2011 (April 2010–March 2011)
Net sales		
Sales from Leasing Division	380,307	356,606
Sales from Apartment Construction Subcontracting Division	62,913	107,821
Sales from Other Division	16,215	19,963
Total	**459,436**	**484,390**
Cost of sales		
Cost of sales from Leasing Division	342,131	357,130
Cost of sales from Apartment Construction Subcontracting Division	46,147	71,425
Cost of sales from Other Division	15,293	19,836
Total	**403,572**	**448,392**
Gross profit	**55,864**	**35,998**
Selling, general and administrative expenses		
Advertising expenses	2,615	3,303
Sales commission expense	2,025	2,300
Transfer to allowance for bad debt	531	539
Directors' compensation	233	287
Salary and bonuses	21,744	24,426
Provision for retirement bonuses	828	1,172
Rent expense	2,860	3,471
Depreciation and amortization	1,783	1,920
Taxes and public charges	3,400	3,474
Other	15,254	18,708
Total	**51,278**	**59,605**
Operating income (loss)	**4,585**	**(23,607)**
Non-operating income		
Interest income	50	60
Dividend income	59	53
Gain on sale of investment securities	–	64
Gain from cancellation of contracted work	50	49
Rent income	–	83
Gain on bad debt recovered	418	–
Gain on adjustment of accounts payable	411	–
Other	294	366
Total	**1,284**	**678**
Non-operating expenses		
Interest expenses	1,375	1,626
Commission fee	632	926
Equity in losses of affiliated companies	663	268
Foreign exchange loss	580	5,561
Loss on sales of investment securities	–	121
Other	268	376
Total	**3,520**	**8,880**
Recurring income (loss)	**2,349**	**(31,808)**

(Million yen)

	March 31, 2012 (April 2011–March 2012)	March 31, 2011 (April 2010–March 2011)
Extraordinary income		
Gain on sale of property, plant and equipment	1	2,046
Reversal of allowance for doubtful receivables	—	254
Reversal of allowance for employees' bonuses	—	2,605
Reversal of share subscription rights	1	82
Reversal of allowance for disaster losses	319	—
Reversal of allowance for switch to terrestrial digital broadcasts	221	—
Reversal of allowance for retirement benefits for directors	1,185	—
Total	**1,729**	**4,988**
Extraordinary losses		
Loss on sale of property, plant and equipment	0	14
Loss on disposal of property, plant and equipment	111	101
Impairment loss	2,610	2,227
Loss on sale of investment securities	—	51
Transfer to allowance for bad debt	—	356
Loss on cancellation of structured deposits	—	753
Disaster loss	4	1,262
Expenses for switch to terrestrial digital broadcasts	—	339
Provision of reserve for switch to terrestrial digital broadcasts	—	1,188
Other	—	0
Total	**2,726**	**6,297**
Income (loss) before taxes and minority interests	**1,352**	**(33,117)**
Income tax—current	205	207
Income tax– refund	(13)	(19)
Income taxes—deferred	(428)	7,583
Total	**(236)**	**7,771**
Net income (loss)	**1,588**	**(40,889)**

Consolidated Statements of Comprehensive Income (Loss)

(Million yen)

	March 31, 2012 (April 2011–March 2012)	March 31, 2011 (April 2010–March 2011)
Net income (loss)	1,588	(40,889)
Other comprehensive income (loss)		
Net unrealized gains on “other securities”	45	79
Translation adjustments	(950)	939
Share of other comprehensive income of associates	3	2
Total	**(901)**	**1,021**
Comprehensive income (loss)	687	(39,868)
(Breakdown)		
Comprehensive income (loss) attributable to shareholders of the parent entity	687	(39,868)

(3) Consolidated Statements of Changes in Net Assets

(Million yen)

	March 31, 2012 (April 2011–March 2012)	March 31, 2011 (April 2010–March 2011)
Shareholders' equity:		
Share capital:		
Balance at the previous year-end	55,562	55,640
Change in the fiscal year:		
Issuance of new shares	—	922
Total	**—**	**922**
Balance at the current year-end	56,562	56,562
Capital surplus:		
Balance at the previous year-end	34,334	33,894
Change in the fiscal year:		
Issuance of new shares	—	922
Disposal of treasury stock	(450)	(481)
Total	**(450)**	**440**
Balance at the current year-end	33,883	34,334
Retained earnings:		
Balance at the previous year-end	(46,552)	(5,663)
Change in the fiscal year:		
Net income (loss)	1,588	(40,889)
Total	**1,588**	**(40,889)**
Balance at the current year-end	(44,963)	(46,552)
Treasury stock, at cost:		
Balance at the previous year-end	(5,502)	(6,142)
Change in the fiscal year:		
Purchase of treasury stock	(0)	(0)
Disposal of treasury stock	542	640
Total	**542**	**640**
Balance at the current year-end	(4,959)	(5,502)
Total shareholders' equity:		
Balance at the previous year-end	38,842	77,728
Change in the fiscal year:		
Issuance of new shares	—	1,844
Net loss	1,588	(40,889)
Purchase of treasury stock	(0)	(0)
Disposal of treasury stock	92	158
Total	**1,681**	**(38,886)**
Balance at the current year-end	40,523	38,842

(Million yen)

	March 31, 2012 (April 2011–March 2012)	March 31, 2011 (April 2010–March 2011)
Accumulated other comprehensive income (Loss):		
Net unrealized holding gain on securities:		
Balance at the previous year-end	204	124
Change in the fiscal year:		
Net changes of items other than shareholders' equity	45	79
Total	**45**	**79**
Balance at the current year-end	249	204
Deferred gains or losses on hedges:		
Balance at the previous year-end	(3)	(5)
Change in the fiscal year:		
Net changes in items other than shareholders' equity	3	2
Total	**3**	**2**
Balance at the current year-end	—	(3)
Translation adjustments:		
Balance at the previous year-end	(6,018)	(6,957)
Change in the fiscal year:		
Net changes of items other than shareholders' equity	(950)	939
Total	**(950)**	**939**
Balance at the current year-end	(6,968)	(6,018)
Total accumulated other comprehensive income (loss):		
Balance at the previous year-end	(5,817)	(6,838)
Change in the fiscal year:		
Net changes of items other than shareholders' equity	(901)	1,021
Total	**(901)**	**1,021**
Balance at the current year-end	(6,719)	(5,817)
Subscription rights to shares:		
Balance at the previous year-end	15	88
Change in the fiscal year:		
Net changes of items other than shareholders' equity	11	(73)
Total	**11**	**(73)**
Balance at the current year-end	26	15
Total net assets:		
Balance at the previous year-end	33,040	70,979
Change in the fiscal year:		
Issuance of new shares	—	1,844
Net loss	1,588	(40,889)
Purchase of treasury stock	(0)	(0)
Disposal of treasury stock	92	158
Net changes of items other than shareholders' equity	(890)	947
Total	**790**	**(37,938)**
Balance at the current year-end	33,831	33,040

(4) Consolidated Statements of Cash Flows

(Million yen)

	March 31, 2012 (April 2011–March 2012)	March 31, 2011 (April 2010–March 2011)
Cash flows from operating activities		
Income (loss) before taxes and minority interests	1,352	(33,117)
Depreciation	6,046	6,451
Increase (decrease) in allowance for doubtful accounts	328	385
Increase (decrease) in provision for apartment vacancy loss	(13,398)	877
Increase (decrease) in retirement benefit reserves for directors	(1,185)	–
Increase (decrease) in allowance for disaster losses	(819)	–
Increase (decrease) in allowance for switch to terrestrial digital broadcasts	(844)	–
Interest and dividend income	(110)	(114)
Interest expense	1,375	1,626
Foreign exchange loss (gain)	580	5,561
Equity in losses (earnings) of affiliated companies	663	268
Loss (gain) on sale of property, plant and equipment	(1)	(2,031)
Write-offs of property, plant and equipment	111	101
Impairment loss	2,610	2,227
Disaster loss	4	1,262
Reversal of allowance for disaster losses	(319)	—
Expenses for switch to terrestrial digital broadcasts	—	339
Provision of reserve for switch to terrestrial digital broadcasts	—	1,188
Reversal of allowance for switch to terrestrial digital broadcasts	(221)	—
Loss (gain) on sale of investment securities	—	108
Decrease (increase) in accounts receivable	3,867	7,820
Decrease (increase) in real estate for sale	104	3,837
Decrease (increase) in work in process	(33)	550
Decrease (increase) in long-term prepaid expenses	20,616	20,253
Increase (decrease) in accounts payable	3,483	(31,706)
Increase (decrease) in customer advances for projects in progress	(1,098)	(5,370)
Increase (decrease) in advances received	(11,006)	13,440
Increase (decrease) in guarantee deposits received	(16,385)	(19,691)
Increase (decrease) in accrued consumption taxes	(1,081)	2,518
Other	4,136	(1,992)
Subtotal	(1,221)	(25,204)
Interest and dividends received	97	113
Interest paid	(1,482)	(1,616)
Income taxes paid	(567)	(1,629)
Net cash used in operating activities	**(3,174)**	**(28,337)**

(Million yen)

	March 31, 2012 (April 2011–March 2012)	March 31, 2011 (April 2010–March 2011)
Cash flows from investing activities		
Purchase of property, plant and equipment	(578)	(1,353)
Proceeds from sale of property, plant and equipment	12	12,742
Payment for purchase of intangible assets	(238)	(1,897)
Payment for purchase of investment securities	(110)	(20)
Proceeds from sale of investment securities	60	993
Payment for loans	(33)	(68)
Proceeds from collection of loans	58	218
Payments for time deposits	(800)	(3,713)
Proceeds from withdrawal of time deposits	380	6,575
Other	(2,289)	(332)
Net cash provided by (used in) investing activities	**(3,537)**	**13,143**
Cash flows from financing activities		
Proceeds from short-term debt	16,839	16,500
Repayment of short-term debt	(625)	(3,529)
Repayment of long-term debt	(7,238)	(29,003)
Repayment of finance lease obligations	(1,261)	(1,198)
Payment for redemption of bonds	(560)	(560)
Proceeds from issuance of shares	—	1,741
Proceeds from disposal of treasury stock	91	158
Payment for purchase of treasury stock	(0)	(0)
Net cash provided by (used in) financing activities	**7,245**	**(15,890)**
Effect of exchange rate changes on cash and cash equivalents	**(147)**	**(455)**
Net increase (decrease) in cash and cash equivalents	**385**	**(31,539)**
Cash and cash equivalents at beginning of period	**40,492**	**72,031**
Cash and cash equivalents at end of period	**40,877**	**40,492**

(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 Consolidated Financial Statements

(Items regarding equity-in-earnings affiliates)

Beginning with the current fiscal year under review, LIXIL RENEWAL Corporation is included as an equity-in-earnings affiliate following a new acquisition of shares.

In addition, with the exception of what is noted above, as there have been no significant changes from the most recent financial report (published June 29, 2011), we have abbreviated this disclosure.

(7) Additional Information

(Application of Accounting Standards for Accounting Changes and Error Corrections)

From the beginning of the current fiscal year under review, the Company is applying Accounting Standards for Accounting Changes and Error Corrections (ASBJ Statement No. 24, December 4, 2009) and Guidance on the Accounting Standards for Accounting Changes and Error Corrections (ASBJ Guidance No. 24, December 4, 2009) to accounting changes and the correction of past errors.

(Impact of Change in the Corporate Tax Rate)

The “Act for Partial Revision of the Income Tax Act etc. for the Purpose of Creating Taxation System Responding to Changes in Economic and Social Structures” (Act No.114 of 2011) and the “Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction Following the Great East Japan Earthquake” (Act No.117 of 2011) were promulgated on December 2, 2011 and beginning with consolidated fiscal years starting on April 1, 2012 or later, the corporate tax rate will be lowered and the Special Corporation Reconstruction Tax will be imposed. As a result, the effective statutory tax rate used in the calculation of deferred tax assets and deferred tax liabilities will be temporarily cut from 40.69% to 38.01% beginning with the consolidated fiscal year stared on April 1, 2012 through the consolidated fiscal year starting on April 1, 2014 and, beginning with the consolidated fiscal year starting on April 1, 2015, the effective statutory tax rate will be temporarily cut to 35.64%. As a result of these tax rate changes, net deferred tax assets will decline by ¥620 million while adjusted corporate tax will increase by ¥639 million and net unrealized gains on other securities will increase by ¥19 million.

(8) Segment Information

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

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

(Million yen)

	Reportable Segment					Others (Note 1)	Total	Adjustments (Note 2)	Consolidated Total (Note 3)
	Leasing Division	Apartment Construction Subcontracting Division	Hotels & Resort Division	Elderly Care Division	Segment Total				
Net sales									
(1) Sales to customers	356,606	107,821	6,491	7,785	478,704	5,686	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	7,785	480,852	5,721	486,573	(2,182)	484,390
Segment earnings (or loss)	(30,094)	11,971	(1,974)	(1,509)	(21,607)	287	(21,320)	(2,286)	(23,607)
Segment assets	156,271	22,068	45,728	2,297	226,366	5,412	231,779	66,494	298,274
Other items									
Depreciation	2,670	422	1,918	70	5,803	37	5,120	1,330	6,451
Increase in property, plant and equipment, and intangible assets	384	94	405	15	900	46	946	2,635	3,582

Fiscal Year ended March 31, 2012 (April 1, 2011 through March 31, 2012)

(Million yen)

	Reportable Segment					Others (Note 1)	Total	Adjustments (Note 2)	Consolidated Total (Note 3)
	Leasing Division	Apartment Construction Subcontracting Division	Hotels & Resort Division	Elderly Care Division	Segment Total				
Net sales									
(1) Sales to customers	380,307	62,913	6,228	8,845	458,294	1,142	459,436	–	459,436
(2) Inter-segment sales and transfers	427	–	1,217	–	1,645	60	1,705	(1,705)	–
Total	380,735	62,913	7,445	8,845	459,939	1,202	461,141	(1,705)	459,436
Segment earnings (or loss)	5,248	4,309	(1,663)	(855)	7,039	(37)	7,001	(2,415)	4,585
Segment assets	131,746	16,129	42,095	2,299	192,271	4,370	196,642	68,140	264,783
Other items									
Depreciation	2,661	250	1,803	66	4,782	47	4,829	1,217	6,046
Increase in property, plant and equipment, and intangible assets	755	8	381	0	1,145	44	1,189	293	1,483

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 residential sales business.

2. Breakdown of adjustments is as follows.

Segment earnings (or loss) (Million yen)

	FY ended March 31, 2011	FY ended March 31, 2012
Inter-segment eliminations	46	20
Corporate expenses*	(2,333)	(2,435)
Total	(2,286)	(2,415)

*Corporate expenses consist mainly of general administrative expenses for administrative departments that are not part of reportable segments.

Segment assets (Million yen)

	FY ended March 31, 2011	FY ended March 31, 2012
Surplus operating funds, Long-term investment capital, and Assets which do not belong to reportable segments	66,494	68,140

Increase in property, plant and equipment, and intangible assets (Million yen)

	FY ended March 31, 2011	FY ended March 31, 2012
Capital investments which do not belong to reportable segments	2,635	293

3. Segment profit (loss) is adjusted to the operating loss figure on the Consolidated Statements of Operations.