Consolidated Financial Statements (Japanese Accounting Standard)

May 9, 2014

(For the year ended March 31, 2014)

Name of Company Listed: **Leopalace21 Corporation**
Code Number: 8848
(URL: http://eg.leopalace21.com)
Stock Listing: Tokyo Stock Exchange
Location of Head Office: Tokyo

Representative: Position: President and CEO Name: Eisei Miyama
Name of Contact Person: Position: Executive Officer Name: Bunya Miyao
Telephone: +81-3-5350-0216

Scheduled Date of Annual Meeting of Stockholders: June 27, 2014
Scheduled Date of Filing of Securities Report: June 27, 2014
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, 2014 (April 1, 2013 through March 31, 2014)

(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		Recurring income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY ended March 31, 2014	**471,089**	**3.7**	**13,673**	**84.4**	**11,574**	**4.4**	**15,229**	**14.2**
FY ended March 31, 2013	454,222	(1.1)	7,413	61.7	11,091	372.1	13,335	739.2

Note: Comprehensive income (loss): As of March 31, 2014: 21,950 million yen; As of March 31, 2013: 11,641 million yen

	Net income per share	Diluted net income per share	Return on equity	Recurring income / Total capital	Operating income / Net sales
	Yen	Yen	%	%	%
FY ended March 31, 2014	**67.17**	**–**	**18.7**	**4.2**	**2.9**
FY ended March 31, 2013	74.50	74.48	29.0	4.2	1.6

Reference: Equity in earnings of affiliates in FY ended March 31, 2014: 2 million yen, FY ended March 31, 2013: (0) million yen.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Equity per share
	Million yen	Million yen	%	Yen
FY ended March 31, 2014	**287,459**	**104,860**	**36.5**	**398.78**
FY ended March 31, 2013	261,649	58,151	22.2	274.80

Reference: Shareholders' equity: As of March 31, 2014: 104,829 million yen; As of March 31, 2013: 58,133 million yen

(3) Consolidated cash flows

	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, 2014	**15,584**	**(6,929)**	**8,848**	**74,150**
FY ended March 31, 2013	6,069	(6)	9,148	56,381

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, 2013	–	0.00	–	0.00	0.00	–	–	–
FY ended March 31, 2014	**–**	**0.00**	**–**	**0.00**	**0.00**	**–**	**–**	**–**
FY ending March 31, 2015 (Estimated)	–	0.00	–	0.00	0.00		–	

3. Estimation of Business Results for the Fiscal Year Ending March 31, 2015 (April 1, 2014 through March 31, 2015)

(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		Recurring income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Six months ending September 30, 2014	233,600	0.8	4,000	(25.5)	3,500	(20.0)	3,000	(23.5)	11.41
FY ending March 31, 2015	493,500	4.8	14,500	6.0	13,000	12.3	12,000	(21.2)	45.65

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.: Yes
(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, 2014: 267,443,915 shares, As of March 31, 2013: 217,443,915 shares
(ii) Total treasury stock at term end
As of March 31, 2014: 4,569,210 shares, As of March 31, 2013: 5,900,320 shares
(iii) Average number of outstanding shares during the period
As of March 31, 2014: 226,724,158 shares, As of March 31, 2013: 179,002,153 shares

(Reference) Summary of Non-Consolidated Financial Statements

1. Results of the Fiscal Year Ended March 31, 2014 (April 1, 2013 through March 31, 2014)

(1) Non-consolidated financial results (The percentage figures indicate rate of gain or loss compared with the previous FY)

	Net sales		Operating income		Recurring income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY ended March 31, 2014	**469,665**	**4.8**	**13,332**	**96.7**	**11,352**	**20.4**	**14,664**	**24.3**
FY ended March 31, 2013	448,266	(1.1)	6,776	58.2	9,426	342.1	11,798	747.9

	Net income per share	Diluted net income per share
	Yen	Yen
FY ended March 31, 2014	**64.68**	—
FY ended March 31, 2013	65.91	65.90

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Equity per share
	Million yen	Million yen	%	Yen
FY ended March 31, 2014	**278,223**	**100,266**	**36.0**	**381.36**
FY ended March 31, 2013	260,883	60,265	23.1	284.80

Reference: Shareholders' equity: As of March 31, 2014: 100,248 million yen, As of March 31, 2013: 60,247 million yen

2. Estimation of Non-consolidated Business Results for the Fiscal Year Ending March 31, 2015 (April 1, 2014 through March 31, 2015)

(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		Net income		Net income per share
	Million yen	%	Million yen	%	Million	%	Yen
Six months ending September 30, 2014	235,500	3.2	3,500	(8.4)	3,000	(12.3)	11.41
FY ending March 31, 2015	491,500	4.6	13,000	14.5	12,000	(18.2)	45.65

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:

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

The business forecasts and other forward-looking statements contained in this report are based on information currently available to the Company and on certain assumptions that Leopalace21 has judged to be reasonable. Readers should be aware that a variety of factors might cause actual results to differ significantly from these forecasts.

Concerning assumptions of business forecasts and note on the proper use of these forecasts, see page 4. "1. Business Results (1) Analysis of Business Results."

【Table of Content of material】

1. Business Results

(1) Analysis of Business Results

(Million yen)

	Net sales	Operating income	Recurring income	Net income
FY ended March 31, 2014	471,089	13,673	11,574	15,229
FY ended March 31, 2013	454,222	7,413	11,091	13,335
change	16,867	6,259	483	1,894

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

In the housing rental industry, due to last minute surge in demand before increase in taxation, new housing starts increased for the second consecutive year (up 15.3% year-on-year) and the number of vacant houses has also been increasing steadily. To achieve stable occupancy rates against the backdrop of this oversupply in the market, housing supply in selected areas and high-quality housing and services are required.

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

As a result, consolidated net sales for the fiscal year under review came to ¥471,089 million (up 3.7% year-on-year). Consolidated operating income was ¥13,673 million (up 84.4%), consolidated recurring income was ¥11,574 million (up 4.4%) and consolidated net income was ¥15,229 million (up 14.2%).

On a non-consolidated basis, net sales were ¥469,665 million (up 4.8% year-on-year), operating income was ¥13,332 million (up 96.7%), recurring income was ¥11,352 million (up 20.4%), and net income was ¥14,664 million (up 24.3%) achieving increase in income and profit in both consolidate and non-consolidate basis.

(Actual figures by segment)

(Million yen)

	Net sales			Operating Income (loss)		
	FY ended March 31, 2013	FY ended March 31, 2014	change	FY ended March 31, 2013	FY ended March 31, 2014	change
Leasing Business	383,574	388,768	5,194	8,687	15,567	6,880
Construction Business	53,369	63,135	9,766	2,747	2,954	206
Hotels & Resort Business	6,657	7,571	913	(1,005)	(1,118)	(112)
Elderly Care Business	9,482	10,171	689	(742)	(610)	131
Others	1,137	1,442	304	35	137	102
Adjustments	—	—	—	(2,308)	(3,256)	(948)
Total	454,222	471,089	16,867	7,413	13,673	6,259

(i) Leasing Business

The occupancy rate at the end of the consolidated fiscal year under review was 87.47% (up 2.66 points from the end of last fiscal year) and the average occupancy rate for the fiscal year under review was 84.58% (up 1.64 points from last fiscal year).

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

The number of units under management at the end of the consolidated fiscal year under review was 548,000 (increasing 2,000 from the end of last fiscal year), and the number of direct offices was 184 (increasing 2). The number of franchise offices was 164 (decreasing 28).

As a result of the above, net sales amounted to ¥388,768 million (up 1.4% year-on-year), and operating income was ¥15,567 million (up 79.2% year-on-year).

(ii) Construction Business

Orders received during the consolidated fiscal year under review were ¥81,139 million (up 11.1% from last fiscal year) and the orders received outstanding at the end of the consolidated fiscal year under review stood at ¥44,469 million (down 6.3% from last fiscal year).

In the construction business, the Company continued to focus on receiving orders for apartments in areas where solid demand was anticipated, especially in the three metropolitan areas, prioritizing increasing profitability in the leasing business. Meanwhile, the Company promoted installation of solar power systems and construction of buildings other than apartment buildings, including elderly care facilities and stores. The Company also strove to enhance product capabilities, for example by installing a non-sound system to enhance noise insulation significantly in the standard specifications. As a result, net sales came to ¥63,135 million (up 18.3% year-on-year), and operating income was ¥2,954 million (up 7.5%).

(iii) Hotels & Resort t Business

Net sales in resort facilities in Guam and hotels in Japan were ¥7,571 million (up 13.7% year-on-year), and the operating loss was ¥1,118 million (increasing ¥112 million in loss).

(iv) Elderly Care Business

Net sales were ¥10,171 million (up 7.3% year-on-year), and operating loss was ¥610 million (improving ¥131 million).

(v) Other Businesses

In other businesses such as the small-claims and short-term insurance business, the finance business, and the solar power generation business, net sales were ¥1,442 million (up 26.7% year-on-year), and the operating income was ¥137 million (up 290.4% year-on-year).

(Outlook for the next fiscal year)

In the next fiscal year, the Company will strengthen our competitiveness by taking in our core business as the base, expanding elderly care business by cooperating with construction business and full-scale initiation of solar power generation business and overseas business.

As for the consolidated business results of the fiscal year ending March 2015, we expect sales of 493,500 million (up 4.8% year-on-year), operating income of 14,500 million (up 6.0%), recurring income of 13,000 million (up 12.3%), and net income of 12,000 million (down 21.2%).

(2) Analysis of Consolidated Financial Position
(i) Position of Assets, Liabilities, and Net assets

(Million yen)

	Total Assets	Total liabilities	Net Assets
As of March 31, 2014	287,459	182,598	104,860
As of March 31, 2013	261,649	203,498	58,151
change	25,809	(20,900)	46,709

Total assets at the end of the fiscal year under review increased ¥25,809 million from the end of the previous fiscal year, to ¥287,459 million. This was mainly attributable to a decrease of ¥6,092 million in prepaid expenses and ¥4,407 million in long-term prepaid expenses and increase of ¥18,085 million in cash and cash equivalents, ¥13,505 million in tangible fixed assets and ¥5,439 million in deferred tax assets.

Total liabilities decreased ¥20,900 million from the end of the previous fiscal year, to ¥182,598 million. This primarily reflected an increase of ¥2,749 million in unpaid expenses and ¥1,434 million of customer advances for projects in progress. In addition, a decrease of ¥11,799 million in interest-bearing debt, ¥8,714 million in long and short-term advances received and ¥4,597 million in reserve for apartment vacancy loss lead to this result.

Net assets were up ¥46,709 million from the end of the previous fiscal year, to ¥104,860 million, chiefly due to an increase of ¥24,830 million in common stock and capital surplus via issuance of new shares, a decrease of ¥6,944 million in negative foreign currency translation adjustments balance and an increase of ¥15,229 million in retained earnings due to the posting of net income. The ratio of shareholders' equity to assets rose 14.3 points from the end of the previous fiscal year, to 36.5%.

(ii) Cash flow position

Cash flow from operating activities was a net inflow of ¥15,584 million (an increase of ¥9,515 million in net inflow from the previous fiscal year). This was mainly due to a decrease of ¥8,718 million in advances received and ¥4,597 million in reserve for apartment vacancy loss, as well as a decrease of ¥10,067 million in long-term prepaid expenses, ¥5,993 million of depreciation and ¥10,781 million of income before taxes and minority interests.

Cash flow from investing activities was a net outflow of ¥6,929 million (an increase of ¥6,923 million in net outflow from the previous fiscal year). This was primarily due to payments for the purchase of property, plant and equipment of ¥6,444 million.

Cash flow from financing activities was a net inflow of ¥8,848 million (a decline of ¥3 million in net inflow from the previous fiscal year). This was chiefly due to the repayment of interest-bearing debt of ¥16,588 million and proceeds from the issuance of shares of ¥24,708 million.

As a result, cash and cash equivalents at the end of the consolidated fiscal year under review stood at ¥74,150 million, an increase of ¥17,768 million from the end of the previous fiscal year.

(Reference) Trends in cash flow indicators

	FY ended March 31, 2010	FY ended March 31, 2011	FY ended March 31, 2012	FY ended March 31, 2013	FY ended March 31, 2014
Equity ratio (%)	17.9	11.1	12.8	22.2	36.5
Market price based equity ratio (%)	18.6	6.2	18.0	32.2	45.3
Ratio of cash flow to interest-bearing debt (year)	–	–	–	8.1	2.4
Interest coverage ratio (ratio)	–	–	–	4.7	9.8

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

(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. 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.

4. Loan Losses, and Reserve 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 reserve 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.

5. Reserve for Apartment Vacancy Loss

In order to prepare for a risk of losses due to an increase in apartment vacancies, Leopalace21 has established a "Reserve 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 reserve 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.

6. 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.

7. 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 violate the conditions 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 corporate bonds or other borrowings, which could have an impact on the Company's operating performance.

8. 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.

9. 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) Revision of the Medium-Term Management Plan

The Company has been promoting its business in accordance with the Medium-Term Management Plan "Creating Future" (fiscal year ended March 31, 2013 – fiscal year ending March 31, 2015), which we announced on May 11, 2012. However, current economic trends and the business environment surrounding the Group have changed since the time of the announcement of the Medium-Term Management Plan. Accordingly, we reviewed the existing Medium-Term Management Plan prior to the end of the plan in the fiscal year ending March 31, 2015 and disclosed a new Medium-Term Management Plan "Expanding Value" (fiscal year ending March 31, 2015 – fiscal year ending March 31, 2017 (plan)) on May 9, 2014.

(3)Management Indicator Goals

The Company has set its financial targets for the fiscal year ending March 31, 2017, the final year of its new Medium-Term Management Plan, at ¥540 billion for net sales, ¥22.0 billion for operating income, ¥19.0 billion for net income, 12.3% for ROE, and 6.0% for ROA.

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

The Company aims to build solid management strength based on its fundamental policy of "focusing on core businesses and challenging itself with new business fields" as established in its New Medium-Term Management Plan.

The Company aims to develop the leasing business further as a highly profitable business by taking various steps such as improving strong corporate sales, addressing tenant needs through "Room Customize" and the installation of security systems, strengthening efforts for foreign students who demonstrate solid demand, expanding its sales network through new store openings, and reducing costs by reviewing routine property management tasks.

In the construction business, the Company will seek a new profit foundation through measures such as supplying apartments in urban areas where a high occupancy rate is expected, offering advanced new products, building high-quality apartments by paying attention to earthquake protection and sound insulation, etc., and expanding the number of orders received for business buildings such as elderly care and commercial facilities and built-to-order houses. In the new Medium-Term Management Plan, the Company positions the elderly care business as a growth strategy area and will endeavor to promote the opening of care facilities through collaboration with the construction business. As a company-wide measure, the Company will also maintain a low cost structure while strategically investing in the costs (personnel, advertising, and sales promotion expenses) necessary to expand future sales and earnings.

(5) Issues to be Addressed by the Company

・ Acquisition of individual clients and the promotion of long-term occupancy

With respect to the tenants in the Company's properties under management, corporate clients constitute a rising trend while individual clients constitute a declining trend. The Company's policy is to continue to enhance strong corporate sales; however, taking into consideration the fact that corporate clients are easily impacted by economic cycles, from the perspective of assuring stable sales and earnings, the Company will also strengthen its efforts to take in individual clients and promote long-term occupancy through measures such as implementing advertising and sales campaigns for individual clients, expanding its sales network through new store openings, and providing a variety of services for tenants.

・ Improving earnings power and developing new businesses

For the Group to grow sustainably, improving its earnings power in the leasing business and developing new business domains will be necessary. Although the Company has already made efforts to increase its earnings power by enhancing tenant services and implementing measures to increase the value of properties, in addition to implementing a "leased roof solar power generation business" through a solar power generation company, operating the rental housing management business through a joint venture in South Korea and the local real estate agency business in Thailand and Vietnam, the Company will continue to work on developing new business fields, products and services, as well as its revenue base.

3. Consolidated Financial Statements
(1) Consolidated Balance Sheets

(Million yen)

	March 31, 2014	March 31, 2013
<Assets>		
Current assets		
Cash and cash equivalents	※5 74,767	56,681
Trade receivables	5,490	4,360
Accounts receivable for completed projects	1,651	2,231
Operating loans	1,429	1,879
Marketable securities	※5 350	504
Payment for construction in progress	501	339
Raw materials and supplies	464	457
Prepaid expenses	6,679	12,772
Deferred tax assets	4,147	4,273
Other accounts receivable	1,584	1,017
Other	5,479	6,722
Allowance for doubtful accounts	(221)	(346)
Total	102,324	90,896
Fixed assets		
Property, plant and equipment		
Buildings and structures	※5 121,075	※5 111,349
Accumulated depreciation	(64,001)	(56,609)
Net	※5 57,073	※5 54,740
Land	※5 81,800	※5 80,780
Leased assets	11,470	6,832
Accumulated depreciation	(6,302)	(5,034)
Net	5,167	1,798
Construction in progress	3,712	175
Other	※1 18,171	※1 13,349
Accumulated depreciation	(13,422)	(11,846)
Net	※1 4,748	※1 1,502
Total	152,503	138,997
Intangible assets		
Other	6,601	6,613
Total	6,601	6,613
Investments and other assets		
Investment securities	※2,※5 7,257	※2,※5 7,176
Long-term loans	562	570
Bad debt	※3 1,420	※3 1,900
Long-term prepaid expenses	3,719	8,127
Deferred tax assets	12,152	6,586
Others	※5 3,037	※5 3,339
Allowance for doubtful accounts	(2,153)	(2,606)
Total	25,996	25,094
Total fixed assets	185,100	170,705
Deferred assets		
Bond issuance cost	34	48
Total	34	48
Total assets	287,459	261,649

(Million yen)

	March 31, 2014	March 31, 2013
<Liabilities>		
Current liabilities		
Accounts payable	2,685	2,670
Accounts payable for completed projects	12,128	14,307
Short-term borrowings	—	※5 11,874
Current portion of long-term loans payable	※5 2,940	※5 2,940
Bonds due within one year	560	560
Lease obligations	1,575	1,097
Unpaid expenses	16,001	13,252
Accrued expenses	2	12
Accrued income taxes	998	394
Advances received	45,051	49,036
Customer advances for projects in progress	5,242	3,807
Reserve for warranty obligations on completed projects	231	71
Reserve for fulfillment of guarantees	582	457
Asset retirement obligations	42	37
Other	4,517	4,625
Total	92,560	105,144
Long-term liabilities		
Bonds	920	1,480
Long-term debt	※5 27,077	※5 30,020
Lease obligations	4,154	1,054
Long-term advances received	27,628	32,357
Lease/guarantee deposits received	8,492	8,984
Deferred tax liabilities	135	—
Retirement benefit reserves	—	8,634
Reserve for apartment vacancy loss	9,352	13,950
Retirement benefit liabilities	10,050	—
Asset retirement obligations	43	49
Other	2,182	1,823
Total	90,037	98,353
Total liabilities	182,598	203,498
<Net assets>		
Shareholders' equity		
Common stock	75,282	62,867
Capital surplus	51,501	39,424
Retained earnings	(15,788)	(31,018)
Treasury stock	(3,660)	(4,726)
Total	107,334	66,546
Accumulated other comprehensive income		
Net unrealized gains on "other securities"	427	648
Foreign currency translation adjustments	(2,116)	(9,061)
Remeasurements of defined benefit plans	(815)	—
Total	(2,504)	(8,413)
Share subscription rights	18	18
Minority Interests	13	—
Total net assets	104,860	58,151
Total liabilities and net assets	287,459	261,649

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

Consolidated Statements of Operations

(Million yen)

	March 31, 2014 (April 2013–March 2014)	March 31, 2013 (April 2012–March 2013)
Net sales		
Sales from Leasing Business	388,768	383,574
Sales from Construction Business	63,135	53,369
Sales from Other Business	19,185	17,278
Total	471,089	454,222
Cost of sales		
Cost of sales from Leasing Business	335,167	340,546
Cost of sales from Construction Business	48,905	40,271
Cost of sales from Other Business	17,437	15,690
Total	401,510	396,508
Gross profit	69,579	57,713
Selling, general and administrative expenses		
Advertising expenses	3,291	2,905
Sales commission expense	3,038	2,242
Transfer to reserve for bad debt	(22)	125
Directors' compensation	341	240
Salary and bonuses	24,590	21,742
Reserve for retirement bonuses	835	846
Rent expense	2,329	2,424
Depreciation and amortization	1,605	1,570
Taxes and public charges	3,117	2,988
Other	16,776	15,212
Total	55,906	50,299
Operating income	13,673	7,413
Non-operating income		
Interest income	45	50
Dividend income	64	43
Gain from cancellation of contracted work	18	37
Gain on sale of investment securities	―	5
Foreign exchange income	10	5,592
Consumption tax refund	―	108
Equity in earnings of affiliated companies	2	―
Other	160	197
Total	301	6,036
Non-operating expenses		
Interest expenses	1,574	1,423
Commission fee	550	548
Equity in losses of affiliated companies	―	0
Other	274	386
Total	2,399	2,358
Recurring income	11,574	11,091

(Million yen)

	March 31, 2014 (April 2013–March 2014)	March 31, 2013 (April 2012–March 2013)
Extraordinary income		
Gain on sale of property, plant and equipment	※1 0	—
Gain on liquidation of subsidiaries	—	70
Reversal of reserve for disaster loss	—	※2 3
Reversal of reserve for switch to terrestrial digital broadcasts	—	※3 64
Total	0	138
Extraordinary losses		
Loss on sale of property, plant and equipment	※4 1	—
Loss on disposal of property, plant and equipment	※5 13	※5 85
Impairment loss	※6 778	※6 2,172
Total	793	2,258
Income before taxes and minority interests	10,781	8,971
Income tax－current	768	313
Income tax– refund	(31)	(6)
Income taxes－deferred	(5,181)	(4,670)
Total	(4,444)	(4,364)
Income before minority interests	15,226	13,335
Minority stockholders loss	(3)	—
Net income	15,229	13,335

Consolidated Statements of Comprehensive Income

(Million yen)

	March 31, 2014 (April 2013–March 2014)	March 31, 2013 (April 2012–March 2013)
Income before minority interests	15,226	13,335
Other comprehensive income (loss)		
Net unrealized gains on "other securities"	(220)	398
Translation adjustments	6,943	(2,092)
Share of other comprehensive income of associates	1	0
Total	※ 6,723	※ (1,693)
Comprehensive income	21,950	11,641
(Breakdown)		
Comprehensive income attributable to shareholders of the parent entity	21,953	11,641
Comprehensive income attributable to minority interests	(3)	—

(3) Consolidated Statements of Changes in Net Assets

March 31, 2013 (April 2012–March 2013)

(Million yen)

	Shareholders' Equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance at the previous year-end	56,562	33,883	(44,963)	(4,959)	40,523
Change in the fiscal year					
Issuance of new shares	6,304	6,304			12,608
Net income			13,335		13,335
Disposal of treasury stock		(154)		232	78
Decrease of decrease in affiliated companies		(609)			(609)
Increase of decrease in affiliated companies			609		609
Net unrealized gains on “other securities”					
Total	6,304	5,540	13,944	232	26,022
Balance at the current year-end	62,867	39,424	(31,018)	(4,726)	66,546

	Accumulated other comprehensive income				Share subscription rights	Total Asset
	Net unrealized gains on "other securities"	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total		
Balance at the previous year-end	249	(6,968)	–	(6,719)	26	33,831
Change in the fiscal year						
Issuance of new shares						12,608
Net income						13,335
Disposal of treasury stock						78
Decrease of decrease in affiliated companies						(609)
Increase of decrease in affiliated companies						609
Net unrealized gains on “other securities”	398	(2,092)	–	(1,693)	(8)	(1,702)
Total	398	(2,092)	–	(1,693)	(8)	24,319
Balance at the current year-end	648	(9,061)	–	(8,413)	18	58,151

March 31, 2014 (April 2013–March 2014)

(Million yen)

	Shareholders' Equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance at the previous year-end	62,867	39,424	(31,018)	(4,726)	66,546
Change in the fiscal year					
Issuance of new shares	12,415	12,415			24,830
Net income			15,229		15,229
Disposal of treasury stock				(0)	(0)
Decrease of decrease in affiliated companies		(338)		1,066	728
Increase of decrease in affiliated companies					
Net unrealized gains on “other securities”	12,415	12,076	15,229	1,066	40,787
Total	75,282	51,501	(15,788)	(3,660)	107,334

	Accumulated other comprehensive income				Share subscription rights	Total Asset	Share subscription rights
	Net unrealized gains on "other securities"	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total			
Balance at the previous year-end	648	(9,061)	―	(8,413)	18	―	58,151
Change in the fiscal year							
Issuance of new shares							24,830
Net income							15,229
Disposal of treasury stock							(0)
Decrease of decrease in affiliated companies							728
Increase of decrease in affiliated companies	(220)	6,944	(815)	5,908	―	13	5,921
Net unrealized gains on “other securities”	(220)	6,944	(815)	5,908	―	13	46,709
Total	427	(2,116)	(815)	(2,504)	18	13	104,860

(4) Consolidated Statements of Cash Flows

(Million yen)

	March 31, 2014 (April 2013–March 2014)	March 31, 2013 (April 2012–March 2013)
Cash flows from operating activities		
Income before taxes and minority interests	10,781	8,971
Depreciation	5,993	5,683
Increase (decrease) in reserve for doubtful accounts	(269)	(97)
Increase (decrease) in reserve for apartment vacancy loss	(4,597)	(5,256)
Increase (decrease) in reserve for disaster losses	–	(20)
Increase (decrease) in reserve for switch to terrestrial digital broadcasts	–	(57)
Interest and dividend income	(110)	(93)
Interest expense	1,574	1,423
Foreign exchange loss (gain)	(10)	(5,592)
Equity in losses (earnings) of affiliated companies	(2)	0
Loss (gain) on sale of property, plant and equipment	(0)	–
Write-offs of property, plant and equipment	13	85
Impairment loss	778	2,172
Reversal of reserve for disaster losses	–	(3)
Reversal of reserve for switch to terrestrial digital broadcasts	–	(64)
Loss (gain) on sale of investment securities	–	(5)
Decrease (increase) in accounts receivable	(193)	(102)
Decrease (increase) in real estate for sale	–	13
Decrease (increase) in work in process	(161)	280
Decrease (increase) in long-term prepaid expenses	10,067	16,299
Increase (decrease) in accounts payable	(2,513)	(503)
Increase (decrease) in customer advances for projects in progress	1,346	850
Increase (decrease) in advances received	(8,718)	(19,587)
Increase (decrease) in guarantee deposits received	(533)	(1,033)
Increase (decrease) in accrued consumption taxes	(519)	74
Other	4,628	4,302
Subtotal	17,557	7,740
Interest and dividends received	98	80
Interest paid	(1,584)	(1,297)
Income taxes paid	(486)	(454)
Net cash used in operating activities	15,584	6,069

(Million yen)

	March 31, 2014 (April 2013–March 2014)	March 31, 2013 (April 2012–March 2013)
Cash flows from investing activities		
Purchase of property, plant and equipment	(5,480)	(707)
Proceeds from sale of property, plant and equipment	3	—
Payment for purchase of intangible assets	(963)	(183)
Payment for purchase of investment securities	(216)	—
Proceeds from sale of investment securities	20	84
Payment for loans	(15)	(21)
Proceeds from collection of loans	36	38
Payments for time deposits	(700)	(300)
Proceeds from withdrawal of time deposits	400	600
Other	(13)	482
Net cash provided by (used in) investing activities	(6,929)	(6)
Cash flows from financing activities		
Proceeds from short-term debt		2,608
Repayment of short-term debt	(11,874)	(29,637)
Proceeds from long-term debt	—	32,267
Repayment of long-term debt	(2,942)	(6,800)
Repayment of finance lease obligations	(1,210)	(1,358)
Payment for redemption of bonds	(560)	(560)
Proceeds from issuance of shares	24,708	12,551
Proceeds from disposal of treasury stock	728	78
Payment for purchase of treasury stock	(0)	—
Net cash provided by (used in) financing activities	8,848	9,148
Effect of exchange rate changes on cash and cash equivalents	265	292
Net increase (decrease) in cash and cash equivalents	17,768	15,503
Cash and cash equivalents at beginning of period	56,381	40,877
Cash and cash equivalents at end of period	※ 74,150	※ 56,381

(5) Notes Regarding Consolidated Financial Statements

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

There are no relevant items.

(Significant Items Fundamental to the Preparation of Consolidated Financial Statements)

・ Matters relating to the scope of consolidation

From this fiscal year under review, recently established LEOPALACE21 VIETNAM CO.,LTD., Leopalace21 (Thailand) CO.,LTD. and Azu Life Care Co.,Ltd. were included in the scope of consolidation.

・Matters relating to business year of consolidated subsidiary

The settling day of LEOPALACE21 VIETNAM CO.,LTD. and Leopalace21 (Thailand) CO.,LTD. is December 31 and since the margin between the consolidated settlement day is less than or equal to three months, the financial statements as of December 31 is applied to the consolidated financial statement.

The disclosure of matters other than the above is omitted, as there are no significant changes from the statement in the most recent annual securities report (submitted on June 27, 2013).

(Changes in Accounting Policies)

(Application of accounting policies related to retirement benefits)

The Company has applied the "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26 released May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 released May 17, 2012) since the end of the subject fiscal year (excluding section 35 of the "Accounting Standard for Retirement Benefits" and section 67 of the "Guidance on Accounting Standard for Retirement Benefits"). The accounting method has been changed to recording the amount remaining after deducting pension assets from projected benefit obligations as retirement benefit liabilities, and unrecognized actuarial differences and unrecognized past service costs are recorded as retirement benefit liabilities.

Application of accounting policies related to retirement benefits is in accordance to the transitional measures stated in section 37 of the "Accounting Standard for Retirement Benefits." As of the end of the subject fiscal year, the effected amount due to the change is recorded as remeasurements of defined benefit plans under other comprehensive income.

As a result, 10,050 million yen has been recorded as retirement benefit liabilities, and cumulative amount of other comprehensive income has decreased 815 million yen.

Also, net assets per share has decreased 3.10 yen.

(Segment Information)

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

Fiscal Year ended March 31, 2013 (April 1, 2012 through March 31, 2013)

(Million yen)

	Reportable Segment					Others (Note 1)	Total	Adjustments (Note 2)	Consolidated Total (Note 3)
	Leasing Business	Construction Business	Hotels & Resort Business	Elderly Care Business	Segment Total				
Net sales									
(1) Sales to customers	383,574	53,369	6,657	9,482	453,084	1,137	454,222	—	454,222
(2) Inter-segment sales and transfers	483	388	1,865	—	2,736	76	2,812	(2,812)	—
total	384,057	53,758	8,522	9,482	455,820	1,214	457,034	(2,812)	454,222
Segment earnings (or loss)	8,687	2,747	(1,005)	(742)	9,686	35	9,722	(2,308)	7,413
Segment assets	107,726	15,850	43,692	2,192	169,462	4,379	173,841	87,808	261,649
Other items									
Depreciation	2,593	199	1,707	67	4,567	52	4,620	1,063	5,683
Increase in property, plant and equipment, and intangible assets	112	7	183	29	332	280	613	566	1,180

Fiscal Year ended March 31, 2014 (April 1, 2013 through March 31, 2014)

(Million yen)

	Reportable Segment					Others (Note 1)	Total	Adjustments (Note 2)	Consolidated Total (Note 3)
	Leasing Business	Construction Business	Hotels & Resort Business	Elderly Care Business	Segment Total				
Net sales									
(1) Sales to customers	388,768	63,135	7,571	10,171	469,647	1,442	471,089	—	471,089
(2) Inter-segment sales and transfers	592	6,684	2,505	—	9,782	106	9,889	(9,889)	-
total	389,360	69,820	10,077	10,171	479,430	1,548	480,978	(9,889)	471,089
Segment earnings (or loss)	15,567	2,954	(1,118)	(610)	16,792	137	16,929	(3,256)	13,673
Segment assets	98,315	16,121	50,710	2,371	167,519	10,662	178,181	109,277	287,459
Other items									
Depreciation	2,578	175	1,857	40	4,652	157	4,809	1,184	5,993
Increase in property, plant and equipment, and intangible assets	4,698	52	437	37	5,225	6,785	12,011	2,703	14,714

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, residential sales business, and the solar power generation business.

2. Breakdown of adjustments is as follows.

Segment earnings (or loss) (Million yen)

	FY ended March 31, 2013	FY ended March 31, 2014
Inter-segment eliminations	(37)	(641)
Corporate expenses*	(2,270)	(2,614)
Total	(2,308)	(3,256)

*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, 2013	FY ended March 31, 2014
Surplus operating funds, Long-term investment capital, and Assets which do not belong to reportable segments	87,808	109,277

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

	FY ended March 31, 2013	FY ended March 31, 2014
Capital investments which do not belong to reportable segments	566	2,703

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