

Consolidated Financial Statements (Japanese Accounting Standard)

August 1, 2014

(For the three months ended June 30, 2014)

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

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

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 Scheduled Date of Commencement of Dividend Payments: –

Scheduled Date of Filing of Quarterly Report: August 8, 2014
 Supplemental Explanatory Material Prepared: Yes
 Results Briefing Held: None

1. Results for the Fiscal Three Months Ended June 30, 2014 (April 1, 2014 through June 30, 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 same period last year)

	Net sales		Operating income		Recurring income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three month ended June 30, 2014	115,626	0.7	2,394	19.1	2,175	41.1	2,048	49.4
Three months ended June 30, 2013	114,876	7.9	2,009	–	1,541	–	1,371	–

Note: Comprehensive income: As of June 30, 2014: 1,126 million yen (-70.7%); As of June 30, 2013: 3,842 million yen (-%)

	Net income per share	Diluted net income per share
	Yen	Yen
Three months ended June 30, 2014	7.79	–
Three months ended June 30, 2013	6.48	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Equity per share
	Million yen	Million yen	%	Yen
As of June 30, 2014	275,321	107,695	39.1	409.59
As of March 31, 2014	287,459	104,860	36.5	398.78

Reference: Shareholders' equity: As of June 30, 2014: 107,669 million yen; As of March 31, 2014: 104,829 million yen

2. Dividend Status

(Base date)	Dividend per share				
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	End of FY	Annual
	Yen	Yen	Yen	Yen	Yen
FY ended March 31, 2014	–	0.00	–	0.00	0.00
FY ending March 31, 2015	–	–	–	–	–
FY ending March 31, 2015 (Estimated)	–	0.00	–	0.00	0.00

Note: Restatement of most recent dividend forecast (Y/N): None

3. Estimation of Business Results for the Fiscal Year Ending March 31, 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	233,500	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

Note: Restatement of most recent consolidated business results forecasts (Y/N): None

4. Other

- (1) Changes in major subsidiaries during the period (Change in specific subsidiaries as a result of a change in the scope of consolidation):
None
- (2) Use of accounting procedures specific to the preparation of quarterly financial statements: Yes
- (3) Changes in accounting policies, changes in accounting estimates, restatements
 - (i) Changes in accounting policies accompanying revision of accounting standards, etc.: Yes
 - (ii) Changes in accounting policies other than (i) above: None
 - (iii) Changes in accounting estimates: None
 - (iv) Restatements: None
- (4) Total number of outstanding shares (Common stock)
 - (i) Total number of outstanding shares at term end (Includes treasury stock)
As of June 30, 2014: 267,443,915 shares, As of March 31, 2014: 267,443,915 shares
 - (ii) Total treasury stock at term end
As of June 30, 2014: 4,569,210 shares, As of March 31, 2014: 4,569,210 shares
 - (iii) Average number of outstanding shares during the period
For the three months ended June 30, 2014: 262,874,705 shares
For the three months ended June 30, 2013: 211,569,319 shares

Indication regarding the status of quarterly review procedures:

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

Note on the proper use of the business forecasts contained in this report, and other disclaimers:

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

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

(Method for the acquisition of supplemental explanatory material)

Supplemental Explanatory Material on quarterly financial statements is scheduled to be posted on the Company's homepage on August 1, 2014.

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1. Qualitative Information on Financial Results for the Three Months Ended June 30, 2014

(1) Qualitative information on consolidated business results

	Net sales	Operating income	Recurring income	Net income
Three month ended June 30, 2014	115,626	2,394	2,175	2,048
Three months ended June 30, 2013	114,876	2,009	1,541	1,371
change	750	384	634	677

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

In the rental housing industry, new housing starts are exceeding the same period last year; however, the number of vacant houses has also been steadily increasing. 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 aims to build solid management strength focusing on the core businesses, made up of leasing and construction, based on the Medium-term Management Plan "EXPANDING VALUE" announced in May 2014. In addition, the Group aims to establish new businesses that will contribute to future growth.

As a result, consolidated net sales for the first quarter of the fiscal year under review came to ¥115,626 million (up 0.7% year-on-year). Consolidated operating income was ¥2,394 million (up 19.1%), consolidated recurring income was ¥2,175 million (up 41.1%) and consolidated net income was ¥2,048 million (up 49.4%).

The Group's construction business has many building construction contracts stipulating completion in the fourth quarter, which is when demand for rental apartments is highest. In the Leasing business, the number of apartments under management is increasing as apartments are completed so seasonal fluctuations put a preponderance of earnings into the fourth quarter.

(Actual figures by segment)

	Net sales			Operating income (loss)		
	Three month ended June 30, 2013	Three months ended June 30, 2014	change	Three month ended June 30, 2013	Three month ended June 30, 2014	change
Leasing Business	96,142	98,530	2,387	2,680	4,090	1,409
Construction Business	13,874	11,457	(2,417)	89	(882)	(971)
Elderly Care Business	2,477	2,599	122	(196)	(132)	64
Hotels & Resort Business	2,037	2,386	348	66	196	130
Others	343	652	308	84	158	73
Adjustments	-	-	-	(714)	(1,036)	(321)
Total	114,876	115,626	750	2,009	2,394	384

(i) Leasing Business

The occupancy rate at the end of the first quarter of the consolidated fiscal year under review was 85.96% (up 2.27 points from the same quarter last year) and the average occupancy rate for the period was 86.00% (up 2.44 points from the same quarter last year).

In the leasing business, to establish stable profits led by occupancy improvement, the Group implemented measures such as tenant recruitment utilizing direct leasing offices, franchises, and local real estate brokers, as well as expanding tenant services including “Room Customize” and security system installations. In addition, the Group further strengthened sales against corporate and foreign clients as well as reduced costs by reviewing routine property management tasks.

The number of units under management at the end of the first quarter of the consolidated fiscal year under review was 550,000 (increasing 1,000 from the end of last fiscal year), and the number of direct offices was 187 (increasing 3). The number of franchise offices was 152 (decreasing 12).

As a result of the above, net sales amounted to ¥98,530 million (up 2.5% year-on-year), and operating income was ¥4,090 million (up 52.6% year-on-year).

(ii) Construction Business

Orders received during the first quarter of the consolidated fiscal year under review were ¥18,769 million (down 22.0% from the same quarter of the previous fiscal year) and the orders received outstanding at the end of the first quarter of the consolidated fiscal year under review stood at ¥46,743 million (down 6.6% from the end of the same quarter of the previous fiscal year).

In the construction business, the Group 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 ¥11,457 million (down 17.4% year-on-year), and operating loss was ¥882 million (compared to an operating income of ¥89 million in the same quarter of the previous fiscal year).

(iii) Elderly Care Business

Net sales were ¥2,599 million (up 4.9% year-on-year), and operating loss was ¥132 million (improving ¥64 million). In the elderly care business, which was positioned as growth strategy area in the medium-term management plan, the Group will open new facilities in the collaboration with construction business.

(iv) Hotels & Resort Business

Net sales in resort facilities in Guam and hotels in Japan were ¥2,386 million (up 17.1% year-on-year), and the operating income was ¥196 million (up 195.7% year-on-year).

(v) Other Businesses

In other businesses such as the small-claims and short-term insurance business, the solar power generation business, and the finance business, net sales were ¥652 million (up 89.8% year-on-year), and the operating income was ¥158 million (up 87.2% year-on-year).

(2) Qualitative information on consolidated financial position

(Million yen)

	Total assets	Total liabilities	Net assets
As of June 30, 2014	275,321	167,625	107,695
As of March 31, 2014	287,459	182,598	104,860
change	(12,137)	(14,973)	(2,835)

Total assets at the end of the first quarter of the fiscal year under review decreased ¥12,137 million from the end of the previous fiscal year, to ¥275,321 million. This was mainly attributable to an increase of ¥4,122 million in machinery, equipment, and vehicles related to solar power generation business. In addition, a

decrease of ¥9,862 million in cash and cash equivalents, ¥985 million in trade receivables, ¥1,086 million in prepaid expenses and ¥1,535 million in construction in progress lead to this result.

Total liabilities decreased ¥14,973 million from the end of the previous fiscal year, to ¥167,625 million. This primarily reflected an decrease of ¥5,291 million in accounts payable for completed projects, ¥1,617 million in unpaid expenses, ¥5,742 million in long and short term advances received and ¥1,546 million in retirement benefit liabilities.

Net assets were up ¥2,835 million from the end of the previous fiscal year, to ¥107,695 million, chiefly due to an increase of ¥947 million in negative foreign currency translation adjustments balance, and at the same time an increase of ¥3,756 million in retained earnings, which was caused by net income and application of accounting policies related to retirement benefits. The ratio of shareholders' equity to assets rose 2.6 points from the end of the previous fiscal year, to 39.1%.

(3) Qualitative information on consolidated results forecast

Consolidated results forecasts announced in the consolidated financial statements published on May 9, 2014 remain unchanged.

The results forecasts are the estimates of the Company based on information available at the time of announcement of this document.

Actual results may differ materially from these forecasts due to various factors.

2. Matters Relating to Summary Information (notes)

(1) Changes in significant subsidiaries during the cumulative first quarter under review

Not applicable

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

Tax expenses are calculated by multiplying net income before income taxes by a reasonably estimated effective tax rate, after applying the tax effect accounting to net income before income taxes for the consolidated fiscal year that includes the first quarter under review.

(3) Changes in Accounting Policy, Changes in Accounting Estimates, Restatements

(Changes in Accounting Policies)

(Application of accounting policies related to retirement benefits)

The Company has applied section 35 of the "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012) and section 67 of the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012) since the end of the subject first quarter. Calculation methods of retirement benefit obligations and service costs have been revised, and the attribution method for projected retirement benefits has been changed from the service period basis to the projected benefit method. Also, the method of determining discount rates has been changed from a method utilizing the discount rate based on an approximation of average remaining years of service of employees to a method utilizing multiple discount rates corresponding to each payment possibility period of retirement benefits.

In accordance to the transitional measures stated in section 37 of the "Accounting Standard for Retirement Benefits," the effected amount due to changes in the calculation method of retirement benefit obligations and service costs are included in retained earnings as of the end of the subject first quarter.

As a result, liability for retirement benefit has decreased ¥1,708 million and retained earnings has increased by the same amount as of the end of the subject first quarter. Effect on operating income, recurring income, and income before taxes and minority interests is insignificant.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Million yen)

	June 30, 2014	March 31, 2014
<Assets>		
Current assets		
Cash and cash equivalents	64,904	74,767
Trade receivables	4,504	5,490
Accounts receivable for completed projects	917	1,651
Operating loans	1,345	1,429
Marketable securities	466	350
Payment for construction in progress	630	501
Raw materials and supplies	466	464
Prepaid expenses	5,593	6,679
Deferred tax assets	4,147	4,147
Other accounts receivable	1,306	1,584
Other	4,757	5,479
Allowance for doubtful accounts	(212)	(221)
Total	88,827	102,324
Fixed assets		
Property, plant and equipment		
Buildings and structures (Net)	55,972	57,073
Machinery, equipment, and vehicles (Net)	8,073	3,950
Land	81,597	81,800
Leased assets (Net)	5,766	5,167
Construction in progress	2,177	3,712
Other (Net)	823	797
Total	154,410	152,503
Intangible assets	6,649	6,601
Investments and other assets		
Investment securities	7,129	7,257
Long-term loans	555	562
Bad debt	1,424	1,420
Long-term prepaid expenses	3,221	3,719
Deferred tax assets	12,272	12,152
Others	3,014	3,037
Allowance for doubtful accounts	(2,214)	(2,153)
Total	25,402	25,996
Total fixed assets	186,463	185,100
Deferred assets	30	34
Total assets	275,321	287,459

(Million yen)

	June 30, 2014	March 31, 2014
<Liabilities>		
Current liabilities		
Accounts payable	2,648	2,685
Accounts payable for completed projects	6,836	12,128
Short-term borrowings	2,940	2,940
Bonds due within one year	560	560
Lease obligations	1,731	1,575
Unpaid expenses	14,383	16,001
Accrued expenses	217	2
Accrued income taxes	280	998
Advances received	41,507	45,051
Customer advances for projects in progress	4,825	5,242
Reserve for employees' bonuses	905	—
Reserve for warranty obligations on completed projects	267	231
Reserve for fulfillment of guarantees	589	582
Other	3,905	4,560
Total	81,599	92,560
Long-term liabilities		
Bonds	920	920
Long-term debt	27,077	27,077
Lease obligations	4,680	4,154
Long-term advances received	25,430	27,628
Lease/guarantee deposits received	8,373	8,492
Deferred tax liabilities	135	135
Reserve for apartment vacancy loss	8,751	9,352
Retirement benefit liabilities	8,504	10,050
Other	2,151	2,226
Total	86,025	90,037
Total liabilities	167,625	182,598
<Net assets>		
Shareholders' equity		
Common stock	75,282	75,282
Capital surplus	51,501	51,501
Retained earnings	(12,031)	(15,788)
Treasury stock	(3,660)	(3,660)
Total	111,091	107,334
Accumulated other comprehensive income (loss)		
Net unrealized gains on "other securities"	418	427
Foreign currency translation adjustments	(3,064)	(2,116)
Remeasurements of defined benefit plans	(775)	(815)
Total	(3,421)	(2,504)
Share subscription rights	18	18
Minority Interests	8	13
Total net assets	107,695	104,860
Total liabilities and net assets	275,321	287,459

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

Consolidated Statements of Operations

(Million yen)

	Three months ended June 30, 2014 (Apr. 2014–Jun. 2014)	Three months ended June 30, 2013 (Apr. 2013–Jun. 2013)
Net sales	115,626	114,876
Cost of sales	98,574	99,455
Gross profit	17,051	15,420
Selling, general and administrative expenses	14,657	13,410
Operating income	2,394	2,009
Non-operating income		
Interest income	8	9
Dividend income	62	43
Property tax refund	99	—
Other	41	39
Total	211	92
Non-operating expenses		
Interest expenses	289	382
Commission fee	111	122
Other	29	56
Total	430	560
Recurring profit	2,175	1,541
Extraordinary income		
Gain on sales of property, plant and equipment	—	0
Total	—	0
Extraordinary losses		
Loss on disposal of property, plant and equipment	29	3
Impairment loss	70	27
Total	100	30
Income before taxes and minority interests	2,075	1,510
Income taxes	31	139
Income before minority interests	2,043	1,371
Minority stockholders loss	(4)	—
Net income (loss)	2,048	1,371

Consolidated Statements of Comprehensive Income

(Million yen)

	Three months ended June 30, 2014 (Apr. 2014–Jun. 2014)	Three months ended June 30, 2013 (Apr. 2013–Jun. 2013)
Income before minority interests	2,043	1,371
Other comprehensive income (loss)		
Net unrealized gains on “other securities”	(9)	(275)
Translation adjustments	(947)	2,747
Remeasurements of defined benefit plans	40	—
Share of other comprehensive income of associates	(0)	0
Total	(916)	2,471
Comprehensive income	1,126	3,842
(Breakdown)		
Comprehensive income attributable to shareholders of the parent entity	1,131	3,842
Comprehensive income attributable to minority interests	(4)	—

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

There are no relevant items.

(Note Regarding Significant Changes in Shareholders' Equity)

There are no relevant items

(Segment Information)

i Three Months Ended June 30, 2013(April 1, 2013 through June 30, 2013)

1. Sales and Profit, as well as Losses by Reportable Segment

(Million yen)

	Reportable Segment					Others (Note 1)	Total	Adjustments (Note 2)	Consolidated Total (Note 3)
	Leasing Business	Construction Business	Elderly Care Business	Hotels & Resort Business	Segment Total				
Net sales									
(1) Sales to customers	96,142	13,874	2,477	2,037	114,532	43	114,876	–	114,876
(2) Inter-segment sales and transfers	112	76	–	573	763	25	788	(788)	–
Total	96,255	13,951	2,477	2,611	115,295	369	115,664	(788)	114,876
Segment earnings (or loss)	2,680	89	(196)	66	2,639	84	2,724	(714)	2,009

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, solar power generation business and financing businesses.

2. The segment earnings (or loss) adjustment of (¥714) million includes (¥5) million in inter-segment eliminations, and (¥709) million in corporate expenses not allocated to reportable segments. Corporate expenses consist mainly of general administrative expenses for administrative departments that are not part of reportable segments.

3. Segment earnings (or loss) are adjusted to the operating loss figure on the Consolidated Statements of Operations.

ii Three Months Ended June 30, 2014 (April 1, 2014 through June 30, 2014)

1. Sales and Profit, as well as Losses by Reportable Segment

(Million yen)

	Reportable Segment					Others (Note 1)	Total	Adjustments (Note 2)	Consolidated Total (Note 3)
	Leasing Business	Construction Business	Elderly Care Business	Hotels & Resort Business	Segment Total				
Net sales									
(1) Sales to customers	98,530	11,457	2,599	2,386	114,973	652	115,626	–	115,626
(2) Inter-segment sales and transfers	123	3,155	–	707	3,986	31	4,018	(4,018)	–
Total	98,653	14,613	2,599	3,093	118,960	683	119,644	(4,018)	115,626
Segment earnings (or loss)	4,090	(882)	(132)	196	3,272	158	3,430	(1,036)	2,394

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, solar power generation business and financing businesses.

2. The segment earnings (or loss) adjustment of (¥1,036) million includes (¥307) million in inter-segment eliminations, and (¥728) million in corporate expenses not allocated to reportable segments. Corporate expenses consist mainly of general administrative expenses for administrative departments that are not part of reportable segments.

3. Segment earnings (or loss) are adjusted to the operating income figure on the Consolidated Statements of Operation.