

English Translation of Original Japanese

This is a translation of the original notice in Japanese. In the event of any discrepancy, the original notice in Japanese shall prevail.

Although the consolidated and non-consolidated financial statements in Japanese were audited, their English translation was not audited.

Securities Code No. 8848

June 5, 2015

To Our Shareholders

Eisei Miyama
President and CEO
Leopalace21 Corporation
2-54-11 Honcho, Nakano-ku, Tokyo

Notice of the 42nd Ordinary General Shareholders' Meeting

You are cordially invited to attend the 42nd Ordinary General Shareholders' Meeting of Leopalace21 Corporation ("the Company"). The meeting will be held as described below.

If you are unable to attend the meeting, you may exercise your voting rights by either of the following methods. Please exercise your voting rights no later than 6:00 p.m. on Thursday, June 25, 2015.

[Exercising your voting rights in writing]

Please refer to pages 3 to 10 of the Reference Materials for the General Shareholders' Meeting, indicate "for" or "against" for each agenda item shown on the enclosed Voting Rights Exercise Form and return it in time for delivery by the deadline mentioned above.

In the event that no indication of "for" or "against" has been made, this shall be treated as the intent of approval.

[Exercising your voting rights via the Internet, etc.]

Please access the Voting Rights Exercise Site (<http://www.evot.jp/>), which is designated by the Company. Enter the "Login ID" and "Temporary Password" noted on the enclosed Voting Rights Exercise Form, refer to pages 3 to 10 of the Reference Materials for the General Shareholders' Meeting or reference materials on the Voting Rights Exercise Site, follow the instructions on the screen, and indicate "for" or "against" for each agenda item.

In addition, if you exercise your voting rights both in writing and via the Internet, the voting via the Internet shall prevail.

Details

1. **Date and Time:** June 26, 2015 (Friday), 10:00 a.m. (Reception will open at 9:00 a.m.)

2. **Place:** Leopalace21 Corporation, Head Office,
Event Hall on B1 floor
2-54-11 Honcho, Nakano-ku, Tokyo

3. **Agenda for the Meeting**

Matters to be reported:

1. Report on the Business Report, Consolidated Financial Statements, and Results of Audit of the Consolidated Financial Statements by the Accounting Auditor and the Audit & Supervisory Board for the 42nd Fiscal Term (from April 1, 2014 to March 31, 2015)
2. Report on Non-consolidated Financial Statements for the 42nd Fiscal Term (from April 1, 2014 to March 31, 2015)

Matters to be resolved:

Proposal No. 1: Reduction in Amount of Legal Capital Surplus and Appropriation of Surplus

Proposal No. 2: Appointment of Nine (9) Directors

Proposal No. 3: Appointment of One (1) Audit & Supervisory Board Member

Note: For those attending the meeting in person, please present the enclosed Voting Rights Exercise Form at the reception desk.

Should any amendments be made to the Reference Materials for the General Shareholders' Meeting, the Business Report, Non-consolidated Financial Statements or Consolidated Financial Statements, such amendments will be posted on the Company website (please refer to the URL below).

Trust banks and other nominee shareholders (including standing proxies) who have applied in advance to use the electronic voting platform operated by ICJ, Inc. (a joint-venture company established by Tokyo Stock Exchange, Inc. and others) may use this platform other than voting via the Internet to electronically exercise voting rights for the Company's General Shareholders' Meeting.

<http://eg.leopalace21.com/>

<p>On the day of the General Shareholders' Meeting, officers and staffs of the Company will be dressed "cool-biz" style, or in suits without neckties, in order to contribute to electricity savings with respect to air-conditioning. We invite all shareholders to dress casually.</p>
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Reference Materials for the General Shareholders' Meeting

Proposal No. 1: Reduction in Amount of Legal Capital Surplus and Appropriation of Surplus

For the purpose of securing a flexible and agile future capital policy and to ensure a system that will enable the Company to quickly resume dividend payments, the Company asks your approval to cover losses on retained earnings brought forward and to reduce the amount of its legal capital surplus and appropriate surpluses.

1. Matters relating to the reduction in amount of legal capital surplus

Pursuant to the provisions of Article 448, Paragraph 1 of the Companies Act, the Company shall reduce the amount of its legal capital surplus by ¥5,071,334,538 from ¥50,306,602,703, and transfer the same amount to other capital surplus. Following the reduction, the legal capital surplus amount shall be ¥45,235,268,165.

2. Matters relating to the appropriation of surplus

Pursuant to the provisions of Article 452 of the Companies Act, the entire amount of other capital surplus following the transfer discussed above in "1." shall be disposed of and transferred to retained earnings brought forward, thereby compensating for losses.

(1) Item and amount of decrease in surplus

Other capital surplus: ¥6,266,172,256

(2) Item and amount of increase in surplus

Retained earnings brought forward: ¥6,266,172,256

3. Effective date for reduction in legal capital surplus and appropriation of surplus

June 26, 2015

Proposal No. 2: Appointment of Nine (9) Directors

The term of office of all seven (7) Directors will expire at the conclusion of this Ordinary General Shareholders' Meeting. The Company wishes to increase the number of Directors by two (2) persons (of which one (1) will be Outside Director) to reinforce the management structure, and therefore proposes the appointment of nine (9) Directors (of which seven (7) are candidates for reappointment).

Candidate number	Name (Date of birth)	Career summary, and positions and duties in the Company (Significant concurrent positions)	Number of the Company's shares held
1	Eisei Miyama (November 13, 1957)	<p>October 1977 Joined Leopalace21 Corporation</p> <p>April 1990 General Manager of the 3rd Sales Department, Leopalace21 Corporation</p> <p>June 1990 Director, Leopalace21 Corporation</p> <p>January 1993 General Manager of the Saitama Sales Department, Leopalace21 Corporation</p> <p>January 1996 Executive Director of Management, Leopalace21 Corporation</p> <p>November 1996 General Manager of the Leasing Business Headquarters, Leopalace21 Corporation</p> <p>April 2003 Senior Managing Director, Leopalace21 Corporation</p> <p>June 2006 General Manager of the Broadband Business Headquarters, Leopalace21 Corporation</p> <p>October 2006 General Manager of the East Japan Sales Headquarters, Leasing Business Headquarters, Leopalace21 Corporation</p> <p>June 2007 General Manager of the Leasing Business Headquarters, Leopalace21 Corporation</p> <p>April 2008 Deputy General Manager of the Sales Headquarters, Leopalace21 Corporation General Manager of the Elderly Care Business Headquarters, Leopalace21 Corporation General Manager of the Hotel Business Headquarters, Leopalace21 Corporation</p> <p>April 2009 Senior Managing Director and Senior Executive Officer, Leopalace21 Corporation General Manager of the Management Planning Headquarters, Leopalace21 Corporation</p> <p>November 2009 General Manager of the Leasing Business Division, Leopalace21 Corporation General Manager of Leopalace Center, Leasing Business Division, Leopalace21 Corporation General Manager of the BB Promotion Department, Leasing Business Division, Leopalace21 Corporation</p> <p>December 2009 Vice President and Representative Director, Leopalace21 Corporation General Manager of the 1st Sales Department, Leasing Business Division, Leopalace21 Corporation</p> <p>February 2010 President and CEO, Leopalace21 Corporation (incumbent) General Manager of the Marketing and Sales Headquarters, Leopalace21 Corporation</p> <p>June 2010 President and CEO, Leopalace21 Corporation (incumbent)</p> <p>Significant concurrent positions Director, Leopalace Guam Corporation</p>	132,200 shares

Candidate number	Name (Date of birth)	Career summary, and positions and duties in the Company (Significant concurrent positions)	Number of the Company's shares held
2	Tadahiro Miyama (January 21, 1966)	<p>September 1985 Joined Leopalace21 Corporation</p> <p>July 1998 General Manager of the Kanagawa Sales Headquarters, Leopalace21 Corporation</p> <p>October 2002 General Manager of the Sales and Marketing General Headquarters, Leopalace21 Corporation</p> <p>June 2003 Director, Leopalace21 Corporation Deputy General Manager of the Sales and Marketing General Headquarters, Leopalace21 Corporation</p> <p>June 2006 Deputy General Manager of the Subcontracting Business Headquarters, Leopalace21 Corporation</p> <p>October 2006 Director and Managing Executive Officer, Leopalace21 Corporation General Manager of the Subcontracting Business Headquarters, Leopalace21 Corporation</p> <p>May 2007 Executive Director of Management, Leopalace21 Corporation</p> <p>June 2007 General Manager of the East Japan Sales Headquarters, Subcontracting Business Headquarters, Leopalace21 Corporation</p> <p>April 2009 Executive Director of Management and Managing Executive Officer, Leopalace21 Corporation General Manager of the Sales and Marketing General Headquarters, Leopalace21 Corporation General Manager of the Subcontracting Business Department, Leopalace21 Corporation General Manager of the Subcontracting Sales Department, Leopalace21 Corporation</p> <p>October 2009 General Manager of the Sales Planning Department, Subcontracting Business Division, Leopalace21 Corporation</p> <p>April 2010 General Manager of the Construction Subcontracting Business Division, Leopalace21 Corporation General Manager of the Eastern Japan Construction Subcontracting Department, the Construction Subcontracting Business Division, Leopalace21 Corporation</p> <p>May 2011 Director and Senior Executive Officer, Leopalace21 Corporation General Manager of the Marketing and Sales Headquarters, Leopalace21 Corporation (incumbent) General Manager of the Leasing Business Division, Leopalace21 Corporation</p> <p>April 2012 General Manager of the Apartment Construction Subcontracting Business Division, Leopalace21 Corporation</p> <p>April 2014 Director and Senior Vice President, Leopalace21 Corporation (incumbent) General Manager of the Corporate Business Promotion Headquarters, Leopalace21 Corporation (incumbent)</p> <p>Significant concurrent positions Director, Leopalace Leasing Corporation Director, PLAZA Guarantee CO., LTD. Director, Asuka SSI President, Leopalace21 Business Consulting (Shanghai) Co., Ltd. President, Leopalace21 (Shanghai) Property Management Co., Ltd. Director, Leopalace21 (Thailand) CO., LTD. Director, LEOPALACE21 VIETNAM CO., LTD. Director, Leopalace21 (Cambodia) Co., Ltd. Director, LEOPALACE21 REAL ESTATE (CAMBODIA) Co., Ltd. Director, Azu Life Care Co., Ltd.</p>	13,300 shares

Candidate number	Name (Date of birth)	Career summary, and positions and duties in the Company (Significant concurrent positions)	Number of the Company's shares held
3	Yuzuru Sekiya (September 1, 1957)	<p>April 1980 Joined The Sumitomo Bank, Limited (now Sumitomo Mitsui Banking Corporation)</p> <p>April 2004 Manager of Tokyo Credit Business Dept. IV, Sumitomo Mitsui Banking Corporation</p> <p>June 2005 General Manager of Kitakyushu Corporate Business Office, Sumitomo Mitsui Banking Corporation</p> <p>April 2008 Head of Credit Monitoring Dept. of Credit Dept. I, Middle Market Banking Unit, Sumitomo Mitsui Banking Corporation</p> <p>April 2010 Joined Leopalace21 Corporation on loan Executive Officer, Leopalace21 Corporation Deputy General Manager of the Management Headquarters, Leopalace21 Corporation</p> <p>June 2010 Director and Executive Officer, Leopalace21 Corporation</p> <p>May 2011 Deputy General Manager of the Business Management Headquarters, Leopalace21 Corporation</p> <p>April 2012 Director and Managing Executive Officer, Leopalace21 Corporation General Manager of the Business Management Headquarters, Leopalace21 Corporation</p> <p>April 2013 General Manager of the General Planning Headquarters, Leopalace21 Corporation Deputy General Manager of the Business Management Headquarters, Leopalace21 Corporation</p> <p>April 2014 Director and Senior Executive Officer, Leopalace21 Corporation (incumbent) General Manager of the Management Planning Headquarters, Leopalace21 Corporation (incumbent)</p> <p>April 2015 General Manager of the Hotel and Resort Business Division, Leopalace21 Corporation (incumbent)</p> <p>Significant concurrent positions Director, Leopalace Guam Corporation</p>	11,100 shares
4	Kazuto Tajiri (August 22, 1952)	<p>April 1975 Joined The Kyowa Bank, Ltd. (now Resona Bank, Limited)</p> <p>October 1998 General Manager of Credit 4th Department, The Kyowa Bank, Ltd. (now Resona Bank, Limited)</p> <p>June 2002 General Manager of Credit 2nd Department, The Asahi Bank, Ltd. (now Resona Bank, Limited)</p> <p>March 2003 General Manager of Credit 2nd Department, Saitama Resona Bank, Limited</p> <p>July 2004 Joined Resona Research Institute Co., Ltd. on loan General Manager of Tokyo Consulting Department</p> <p>June 2008 Executive Officer, Head and General Manager of Tokyo Sales Department, Resona Research Institute Co., Ltd.</p> <p>December 2009 Managing Executive Officer, Head of Tokyo Headquarters, Tokyo Sales Department, Saitama Sales Department and Consulting Department, Resona Research Institute Co., Ltd.</p> <p>April 2013 Joined Leopalace21 Corporation Managing Executive Officer, Leopalace21 Corporation General Manager of the Business Management Headquarters, Leopalace21 Corporation</p> <p>June 2013 Director and Managing Executive Officer, Leopalace21 Corporation (incumbent)</p> <p>April 2014 General Manager of the Management Headquarters, Leopalace21 Corporation (incumbent)</p>	2,400 shares

Candidate number	Name (Date of birth)	Career summary, and positions and duties in the Company (Significant concurrent positions)	Number of the Company's shares held
5	Yoshikazu Miike (July 8, 1957)	<p>April 1976 Joined Sankei Co., Ltd.</p> <p>October 1980 Joined Leopalace21 Corporation</p> <p>April 1999 General Manager of the Sales and Marketing General Headquarters, Leopalace21 Corporation</p> <p>June 1999 Director, Leopalace21 Corporation Deputy General Manager of the Sales and Marketing General Headquarters, Leopalace21 Corporation</p> <p>October 2003 Deputy General Manager of the Leasing Business Headquarters, Leopalace21 Corporation</p> <p>October 2006 Director and Managing Executive Officer, Leopalace21 Corporation (incumbent) Representative in charge of the Kyushu region, West Japan Sales Headquarters, Leasing Business Headquarters, Leopalace21 Corporation</p> <p>June 2007 Representative in charge of the West Japan regions, Leasing Business Headquarters, Leopalace21 Corporation</p> <p>April 2008 Representative in charge of the East Japan regions, Leasing Business Headquarters, Leopalace21 Corporation</p> <p>April 2009 General Manager of the Related Business Headquarters, Leopalace21 Corporation General Manager of the Elderly Care Business Department, Leopalace21 Corporation</p> <p>April 2010 General Manager of the Leasing Business Division, Leopalace21 Corporation General Manager of the Western Japan Leasing and Administration Department, Leasing Business Division, Leopalace21 Corporation</p> <p>May 2011 General Manager of the Related Businesses Division, Leopalace21 Corporation</p> <p>February 2012 General Manager of the Hotel and Resort Business Division, Leopalace21 Corporation</p> <p>April 2012 Deputy General Manager of the Related Businesses Division, Leopalace21 Corporation</p> <p>April 2013 General Manager of the Hotel and Resort Business Division, Leopalace21 Corporation</p> <p>April 2015 Deputy General Manager of Hotel and Resort Business Division, Leopalace21 Corporation (incumbent)</p> <p>Significant concurrent positions Representative Director, WING MATE CO., LTD.</p>	68,100 shares

Candidate number	Name (Date of birth)	Career summary, and positions and duties in the Company (Significant concurrent positions)	Number of the Company's shares held
6	Hiroyuki Harada (January 7, 1955)	<p>April 1980 Joined NISSANSHA INC.</p> <p>January 1985 Joined Leopalace21 Corporation</p> <p>April 1999 General Manager of the Advertising Department, Leopalace21 Corporation</p> <p>October 2004 General Manager of the Personnel Department, Leopalace21 Corporation</p> <p>May 2007 Executive Officer, Leopalace21 Corporation</p> <p>May 2011 General Manager of the General and Legal Affairs Department, Leopalace21 Corporation</p> <p>April 2012 Executive Officer, Leopalace21 Corporation General Manager of the Personnel Department, Leopalace21 Corporation</p> <p>April 2013 Deputy General Manager of the Business Management Headquarters, Leopalace21 Corporation</p> <p>June 2013 Director and Executive Officer, Leopalace21 Corporation (incumbent)</p> <p>January 2014 General Manager of the Work-life Balance Promotion Office, Leopalace21 Corporation (incumbent)</p> <p>April 2014 Deputy General Manager of the Management Headquarters, Leopalace21 Corporation (incumbent)</p> <p>Significant concurrent positions Representative Director, Leopalace Smile Co., Ltd.</p>	6,900 shares
7	New Candidate Hiroshi Takeda (January 1, 1964)	<p>April 1988 Joined Leopalace21 Corporation</p> <p>April 1999 General Manager of the Kinki Sales Headquarters, Leopalace21 Corporation</p> <p>October 2006 Executive Officer, Leopalace21 Corporation</p> <p>June 2007 Director, Leopalace21 Corporation General Manager of the West Japan Sales Headquarters, Subcontracting Business Headquarters, Leopalace21 Corporation</p> <p>April 2009 Director and Executive Officer, Leopalace21 Corporation General Manager of the Sales Planning Department, Subcontracting Business Division, Leopalace21 Corporation</p> <p>April 2010 Director and Executive Officer, Leopalace21 Corporation General Manager of the Western Japan Construction Subcontracting Department, the Construction Subcontracting Business Division, Leopalace21 Corporation General Manager of the Central Japan Construction Subcontracting Department, the Construction Subcontracting Business Division, Leopalace21 Corporation</p> <p>June 2010 Executive Officer, Leopalace21 Corporation</p> <p>May 2011 General Manager of the Asset Management Department, Leasing Business Division, Leopalace21 Corporation</p> <p>April 2012 Executive Officer, Leopalace21 Corporation</p> <p>April 2013 Managing Executive Officer, Leopalace21 Corporation General Manager of the Leasing Business Division, Leopalace21 Corporation (incumbent)</p> <p>April 2014 Senior Executive Officer, Leopalace21 Corporation (incumbent)</p> <p>Significant concurrent positions Director, Leopalace Leasing Corporation Director, PLAZA Guarantee CO., LTD. Director, Asuka SSI</p>	6,200 shares

Candidate number	Name (Date of birth)	Career summary, and positions and duties in the Company (Significant concurrent positions)		Number of the Company's shares held
8	Outside Director Tetsuji Taya (December 14, 1963)	April 1987	Joined The Fuji Bank, Limited (now Mizuho Bank, Ltd.)	2,600 shares
		April 2007	Board Member & Managing Director, Industrial Growth Platform, Inc.	
		September 2009	Representative Director, Industrial Growth Platform, Inc.	
		June 2010	Director, Leopalace21 Corporation (incumbent)	
		March 2011	Board Member & Managing Director, Industrial Growth Platform, Inc. (incumbent)	
		Significant concurrent positions Board Member & Managing Director, Industrial Growth Platform, Inc.		
9	New Candidate Outside Director Yoshiko Sasao (April 2, 1960)	April 1984	Joined Recruit Co., Ltd.	0 shares
		April 2000	Joined RECRUIT STAFFING CO., LTD. on loan	
		April 2004	Joined RECRUIT STAFFING CO., LTD. Manager of Marketing Support 1 Division	
		April 2006	Joined Tokyo Electric Power Company, Incorporated	
		November 2007	Joined TEPCO PARTNERS Co, Inc. on loan Managing Director	
		July 2010	Representative Director, TEPCO PARTNERS Co, Inc. (incumbent)	
		Significant concurrent positions Representative Director, TEPCO PARTNERS Co, Inc.		

Notes:

1. There is no particular conflict of interest between any of the candidates and the Company.
2. Mr. Tetsuji Taya and Ms. Yoshiko Sasao are candidates for Outside Director. They are candidates for independent officer as stipulated in Article 436, Paragraph 2 of the Securities Listing Regulations of Tokyo Stock Exchange, Inc.
3. Mr. Tetsuji Taya and Ms. Yoshiko Sasao will use their abundant knowledge and experience accumulated during their career as well as their keen insight to provide advice on the overall management of the Company and strengthen the monitoring functions of the execution of duties, therefore, we ask for their appointment as Outside Director.
4. Mr. Tetsuji Taya is currently an Outside Director of the Company. His term as an Outside Director will be five years at the conclusion of this General Shareholders' Meeting.
5. In accordance with the provisions of Article 427, Paragraph 1 of the Companies Act, the Company has entered into a limited liability agreement with Mr. Tetsuji Taya limiting his liability for damages under Article 423, Paragraph 1 of the Companies Act, to the minimum limit amount prescribed by laws and regulations. The Company will continue this agreement if his reappointment is approved. We also plan to enter into the said agreement with Ms. Yoshiko Sasao if her appointment as Outside Director is approved and she assumes the office of Outside Director.

Proposal No. 3: Appointment of One (1) Audit & Supervisory Board Member

At the conclusion of this Ordinary General Shareholders' Meeting, the term of office of Audit & Supervisory Board Member Koichi Fujiwara will expire. It is therefore proposed that one (1) Audit & Supervisory Board Member be newly appointed.

The Audit & Supervisory Board has already given consent to this proposal.

The candidate for Audit & Supervisory Board Member is as follows:

Name (Date of birth)	Career summary and positions in the Company (Significant concurrent positions)		Number of the Company's shares held
New Candidate Outside Audit & Supervisory Board Member Takao Yuhara (June 7, 1946)	April 1969	Joined NIPPON CHEMICAL INDUSTRIAL CO., LTD.	0 shares
	May 1971	Joined Sony Corporation	
	June 2003	Corporate Senior Vice President and Group CFO, Corporate Executive Officer, Sony Corporation	
	December 2007	Managing Executive Officer, Zensho Co., Ltd. (now ZENSHO HOLDINGS CO., LTD.)	
	June 2008	Audit & Supervisory Board Member, Ricoh Company, Ltd. (incumbent)	
	May 2011	Managing Executive Director and CFO, Zensho Co., Ltd.	
	June 2013	Audit & Supervisory Board Member, mofiria Corporation (incumbent)	
	June 2014	Auditor, KAMEDA SEIKA CO., LTD. (incumbent)	
	Significant concurrent positions Audit & Supervisory Board Member, Ricoh Company, Ltd. Audit & Supervisory Board Member, mofiria Corporation Auditor, KAMEDA SEIKA CO., LTD.		

Notes:

1. There is no particular conflict of interest between Mr. Takao Yuhara and the Company.
2. Mr. Takao Yuhara is a candidate for Outside Audit & Supervisory Board Member. He is a candidate for independent officer as stipulated in Article 436, Paragraph 2 of the Securities Listing Regulations of Tokyo Stock Exchange, Inc.
3. Mr. Takao Yuhara has a high level of knowledge in many fields based on his abundant experience gained serving as an audit & supervisory board member for multiple companies. The Company has selected him as a candidate for Outside Audit & Supervisory Board Member based on its determination that he will be able to appropriately supervise the Company's management from an objective point of view.
4. If Mr. Takao Yuhara's appointment as Outside Audit & Supervisory Board Member is approved and he assumes the office of Outside Audit & Supervisory Board Member, the Company shall enter into an agreement with him limiting his liability for damages under Article 423, Paragraph 1 of the Companies Act in accordance with the provisions of Article 427, Paragraph 1 of same, whereby the liability limit under said agreement shall be the minimum amount prescribed by laws and regulations.

(Attachments)

BUSINESS REPORT (from April 1, 2014 to March 31, 2015)

Items Regarding Status of Group Operations

Overview of Operations

During the fiscal year under review, although weakness could be seen in individual consumption due to the increase in consumption tax, a continuing recovery in the Japanese economy was evidenced primarily by the improvement in corporate earnings, employment, and income.

In the rental housing industry, new housing starts of leased units declined for the first time in three years (3.1% down year-on-year) due to negative effects of the rush demand before the consumption tax increase although investments as a tax-saving measures ahead of an inheritance tax increase were firm. To achieve stable occupancy rates against the increasing number of vacant houses in the market, housing supply in limited areas and high-quality housing and services are required.

Under these conditions, the Leopalace21 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 fiscal year under review came to ¥483,188 million (up 2.6% year-on-year). Consolidated operating income was ¥14,763 million (up 8.0%), consolidated recurring income was ¥13,424 million (up 16.0%) and consolidated net income was ¥14,507 million (down 4.7%).

On a non-consolidated basis, net sales were ¥484,360 million (up 3.1% year-on-year), operating income was ¥15,595 million (up 17.0%), recurring income was ¥14,546 million (up 28.1%), and net income was ¥15,327 million (up 4.5%).

Leasing Business

The occupancy rate at the end of the fiscal year under review was 89.29% (up 1.82 points from the end of the last fiscal year) and the average occupancy rate for the fiscal year was 86.57% (up 1.99 points from the last fiscal 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 promotion of long-term occupancy by expanding tenant services including “Room Customize” and security system installations. In addition, the Group further strengthened sales targeting corporate clients, captured solid demands of foreign students, and reduced costs by reviewing routine property management tasks.

The number of units under management at the end of the fiscal year under review was 554,000 (an increase of 6,000 from the end of the last fiscal year), and the number of direct offices was 188 (an increase of 4). The number of franchise offices was 141 (a decrease of 23).

As a result of the above, net sales amounted to ¥399,316 million (up 2.7% year-on-year), and operating income was ¥20,532 million (up 31.9% year-on-year).

Construction Business

Orders received during the fiscal year under review were ¥87,395 million (up 7.7% from the last fiscal year) and the orders received outstanding at the end of the fiscal year under review stood at ¥58,136 million (up 30.7% from the end of the last fiscal year).

In the construction business, the Group aimed to improve profitability by focusing apartment supply in the three metropolitan areas where solid leasing demand is anticipated, as well as

installing “non-sound floors” which improve sound insulation and developing products targeting females and young tenants. The Group also expanded construction variations to meet various land usage needs and has begun restructuring construction methods. However, the influence of worker shortage and cost increase in construction materials cannot be avoided.

As a result, net sales came to ¥61,312 million (down 2.9% year-on-year), and operating income was ¥210 million (down 92.9% year-on-year).

Elderly Care Business

Net sales were ¥10,608 million (up 4.3% year-on-year), and operating loss was ¥606 million (an improvement of ¥4 million from the last fiscal year). 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 collaboration with the construction business.

Hotels & Resort Business

Net sales in resort facilities in Guam and hotels in Japan were ¥8,951 million (up 18.2% year-on-year), and the operating loss was ¥1,289 million (a deterioration of ¥170 million from the last fiscal year).

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 ¥2,999 million (up 108.0% year-on-year), and the operating income was ¥31 million (down 77.3% year-on-year).

Issues to Be Addressed

The Group 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 Group aims to develop the leasing business further as a highly profitable business by taking various steps such as strengthening sales to corporate clients, which have strong demand, addressing tenant needs through “Room Customize” and security system installations, strengthening initiatives targeting 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 Group 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 Medium-term Management Plan, the Group 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 group-wide measure, the Group 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.

- 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 show a rising trend while individual clients a declining trend. The Company’s policy is to continue to enhance sales to corporate clients, which have strong demand; however, taking into consideration the fact that corporate clients are easily impacted by economic fluctuations, 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, it is necessary to improve its earnings power in the leasing business and develop new business domains. The Group has already made efforts to increase its earnings power by enhancing tenant services and implementing measures to increase the value of properties, and to develop new business domains by implementing a “leased roof solar power generation project” through a solar power generation company, operating the rental housing management business through a joint venture in South Korea and by launching the agency business for local real estate and the development of service apartments in ASEAN countries. Going forward, the Group will continue to work on developing new business domains, products and services, as well as a new revenue base.

To all shareholders, we sincerely ask for your ongoing support and encouragement into the future.

Capital Investment

The total amount of capital investment carried out by the Group in the fiscal year under review is ¥16,531 million.

The main components of this were ¥765 million on hotel facilities work in connection with the Hotels & Resort Business, ¥11,551 million on solar power generation systems in connection with Other Businesses and ¥2,343 million on construction of an information system in connection with all businesses.

Financing Activities

During the fiscal year under review, the Group procured funds of ¥4,500 million through the issuance of unsecured bonds. In addition, the Group procured ¥6,700 million as a long-term debt from financial institutions to provide the funds required for the solar power generation business.

Major Subsidiaries (as of March 31, 2015)

Company Name	Capital	Voting rights ratio	Primary Areas of Business
Leopalace Leasing Corporation	400 million yen	100.00%	Corporate Housing Management /Real Estate Brokerage Business
PLAZA Guarantee CO., LTD.	50 million yen	100.00%	Rent Payment Guarantee Business
Leopalace21 Business Consulting (Shanghai) Co., Ltd.	5,359 thousand RMB	100.00%	Consulting Business
Leopalace21 (Shanghai) Property Management Co., Ltd.	3,079 thousand RMB	100.00%	Real Estate Agency Business
LEOPALACE21 VIETNAM CO., LTD.	10,787 million VND	100.00%	Real Estate Agency Business
Leopalace21 (Thailand) CO., LTD.	10 million THB	49.00%	Real Estate Agency Business
Leopalace21 (Cambodia) Co., Ltd.	500 thousand USD	100.00%	Real Estate Business
LEOPALACE21 REAL ESTATE (CAMBODIA) Co., Ltd.	5 thousand USD	49.00% (49.00%)	Real Estate Business
Morizou Co., Ltd.	85 million yen	88.20%	Construction Business of Custom-Built Detached Houses
Azu Life Care Co., Ltd.	80 million yen	100.00%	Elderly Care Business
Leopalace Guam Corporation	26,000 thousand USD	100.00%	Hotels & Resort Business
WING MATE CO., LTD.	40 million yen	100.00%	Travel Business
Asuka SSI	1,000 million yen	100.00%	Small-Amount, Short-Term Insurance Business
Leopalace Power Corporation	80 million yen	100.00%	Solar Power Generation Business
Leopalace Energy Corporation	20 million yen	100.00% (100.00%)	Electricity Retail Business
Leopalace Smile Co., Ltd.	10 million yen	100.00%	Clerical Work Outsourcing Service Business

- Notes: 1. Leopalace21 (Shanghai) Property Management Co., Ltd., Leopalace21 (Cambodia) Co., Ltd., LEOPALACE21 REAL ESTATE (CAMBODIA) Co., Ltd. and Leopalace Energy Corporation were newly established in the fiscal year under review. Additionally, the Company purchased shares of WING MATE CO., LTD. and Morizou Co., Ltd. making those companies into consolidated subsidiaries in the fiscal year under review.
2. Although the Company's voting rights ratio with respect to Leopalace21 (Thailand) CO., LTD. and LEOPALACE21 REAL ESTATE (CAMBODIA) Co., Ltd. is no more than 50%, Leopalace21 (Thailand) CO.,

- LTD. and LEOPALACE21 REAL ESTATE (CAMBODIA) Co., Ltd. are deemed subsidiaries because the Company has substantial control of them.
3. WING MATE CO., LTD. and Leopalace Travel, Co., Ltd. implemented an absorption-type merger with an effective date of January 1, 2015, and WING MATE CO., LTD. is the surviving company, and Leopalace Travel, Ltd. was absorbed in the merger.
 4. Figures in parenthesis in the voting rights ratio column indicate indirect ownership ratios, and these are included in the total.

Major Areas of Operation (as of March 31, 2015)

Segment	Areas of Activity
Leasing Business	Leasing and management of apartments, etc., various leasing-related services, broadband service, repair work, corporate housing management business, real estate brokerage business, rent payment guarantee business, consulting business, etc.
Construction Business	Contracted construction work for apartments, etc., contracted installation work for solar power generation systems, etc.
Elderly Care Business	Operation of elderly care facilities
Hotels & Resort Business	Operation of hotel and resort facilities
Other Businesses	Small-amount, short-term insurance, solar power generation, financing activities, clerical work outsourcing service business, etc.

Major Business Locations of the Leopalace Group (as of March 31, 2015)

The Company

Head Office	Nakano-ku, Tokyo
Regional	47 prefectures nationwide
Headquarters	(construction sales: 60 branches; Leopalace centers: 180 branches) Overseas (Leopalace centers: 8 branches [People's Republic of China: 4 branches; South Korea: 3 branches; Taiwan: 1 branch])
Hotels	7 facilities nationwide (Asahikawa, Sapporo, Sendai, Niigata, Nagoya, Okayama, Hakata)
Care Facilities	62 facilities nationwide (Tokyo: 4 facilities; Chiba Prefecture: 17 facilities; Saitama Prefecture: 22 facilities; Kanagawa Prefecture: 3 facilities; Ibaraki Prefecture: 8 facilities; Tochigi Prefecture: 6 facilities; Gunma Prefecture: 2 facilities)

Major Subsidiaries

Leopalace Leasing Corporation	Nakano-ku, Tokyo
PLAZA Guarantee CO., LTD.	Nakano-ku, Tokyo
Leopalace21 Business Consulting (Shanghai) Co., Ltd.	The People's Republic of China
Leopalace21 (Shanghai) Property Management Co., Ltd.	The People's Republic of China
LEOPALACE21 VIETNAM CO., LTD.	The Socialist Republic of Vietnam
Leopalace21 (Thailand) CO., LTD.	The Kingdom of Thailand
Leopalace21 (Cambodia) Co., Ltd.	The Kingdom of Cambodia
LEOPALACE21 REAL ESTATE (CAMBODIA) Co., Ltd.	The Kingdom of Cambodia
Morizou Co., Ltd.	Shibuya-ku, Tokyo
Azu Life Care Co., Ltd.	Nakano-ku, Tokyo
Leopalace Guam Corporation	Guam (a trust territory under the U.S.A.)
WING MATE CO., LTD.	Nakano-ku, Tokyo
Asuka SSI	Nakano-ku, Tokyo
Leopalace Power Corporation	Nakano-ku, Tokyo
Leopalace Energy Corporation	Nakano-ku, Tokyo
Leopalace Smile Co., Ltd.	Nakano-ku, Tokyo

Employees of the Leopalace Group (as of March 31, 2015)

1. Employees of the Leopalace Group

Segment	Number of Employees	
Leasing Business	3,137	[825]
Construction Business	1,732	[48]
Hotels & Resort Business	1,064	[991]
Elderly Care Business	1,050	[140]
Other Businesses	38	[-]
All companies (common)	318	[22]
Total	7,339	[2,026]

Notes: 1. The number of employees represents a number of employees at work, and for the number of temporary employees (casual workers and contract workers), the average annual number is indicated separately in square brackets.

2. The number of employees indicated as all companies (common) is the number belonging to general administrative departments.

2. Employees of the Company

Number of Employees	Change Since Previous FY	Average Age	Average Years of Service
6,149 [1,951]	+368	35 years and 10 months	7 years and 6 months

Note: The number of employees represents a number of employees at work, and for the number of temporary employees (casual workers and contract workers), the average annual number is indicated separately in square brackets.

Major Lenders (as of March 31, 2015)

Lender	Loan Balance at End of this Fiscal Year (millions of yen)
Sumitomo Mitsui Banking Corporation	17,319
Resona Bank, Limited	10,150

Items Regarding Shares of the Company

- **Number of shares authorized** 500,000,000 shares
- **Number of shares outstanding** 267,443,915 shares
- **Number of shareholders** 39,197
- **Major shareholders (top 10 shareholders)**

Shareholder Name	Number of Shares Held (thousands of shares)	Percentage of Outstanding Shares (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	38,281	14.56
The Master Trust Bank of Japan, Ltd. (Trust Account)	16,838	6.40
STATE STREET BANK AND TRUST COMPANY 505225	7,270	2.76
MSIP CLIENT SECURITIES	6,199	2.35
Stockholding Association for Leoplace21's Business Connection	5,721	2.17
Trust & Custody Services Bank, Ltd.	5,669	2.15
Goldman Sachs International	5,653	2.15
BNYM SA/NV FOR BNYM CLIENT ACCOUNT MPCS JAPAN	5,240	1.99
BBH for Fidelity Low-Priced Stock Fund (Principal All Sector Subportfolio)	4,891	1.86
HAYAT	4,394	1.67

- Notes: 1. Although the Company holds 4,569 thousand shares of treasury stock, the Company is excluded from the above major shareholders.
2. Of the shares listed above, those held in trust accounts as part of trust bank operations are as follows:
 Japan Trustee Services Bank, Ltd. (Trust Account) 37,896 thousand shares
 The Master Trust Bank of Japan, Ltd. (Trust Account) 16,668 thousand shares
 Trust & Custody Services Bank, Ltd. 5,632 thousand shares
3. The above shareholding ratios are calculated excluding treasury stock.

- **Shareholder composition**

Financial instruments business operations	3.39%	(9,055 thousand shares)
Financial institutions	25.01%	(66,896 thousand shares)
Foreign corporations	50.65%	(135,458 thousand shares)
Treasury stocks	1.71%	(4,569 thousand shares)
Individuals and other	16.73%	(44,742 thousand shares)
Business corporations and other legal entities	2.51%	(6,721 thousand shares)

Share Subscription Rights and Others

Share subscription rights delivered as consideration for execution of duties and held by officers of the Company as of the final day of the fiscal year under review

Issuance resolution date		June 29, 2009	
Amount to be paid in for share subscription rights		Payment not required	
Value of property to be contributed upon exercise of share subscription rights		¥82,600 per 1 share subscription right (¥826 per share)	
Issue price of shares and amount incorporated into capital in case of issuance due to exercise of share subscription rights		Issue price: ¥1,103; amount incorporated into capital: ¥552	
Exercise period		From August 18, 2011 through June 27, 2019	
Status of officers' holdings	Directors (excluding Outside Directors)	Number of share subscription rights	30 units
		Number of underlying shares	3,000 shares of common stock
		Number of holders	1 person
	Audit & Supervisory Board Members	Number of share subscription rights	60 units
		Number of underlying shares	6,000 shares of common stock
		Number of holders	2 persons

Note: The above share subscription rights are those granted to Directors and Audit & Supervisory Board Members while they were serving at the Company as employees.

Items Regarding Directors/Audit & Supervisory Board Members of the Company

1. Directors and Audit & Supervisory Board Members

(as of March 31, 2015)

Name	Title	Duties in the Company and significant concurrent positions
Eisei Miyama	President and CEO	President and CEO Director, Leopalace Guam Corporation
Tadahiro Miyama	Director	Senior Vice President/General Manager of the Marketing and Sales Headquarters/General Manager of the Corporate Business Promotion Headquarters (concurrent) Director, Leopalace Leasing Corporation Director, PLAZA Guarantee CO., LTD. President, Leopalace21 Business Consulting (Shanghai) Co., Ltd. President, Leopalace21 (Shanghai) Property Management Co., Ltd. Director, Leopalace21 (Thailand) CO., LTD. Director, LEOPALACE21 VIETNAM CO., LTD. Director, Leopalace21 (Cambodia) Co., Ltd. Director, LEOPALACE21 REAL ESTATE (CAMBODIA) Co., Ltd. Director, Azu Life Care Co., Ltd. Director, Asuka SSI
Yuzuru Sekiya	Director	Senior Executive Officer/General Manager of the General Planning Headquarters Director, Leopalace Guam Corporation
Kazuto Tajiri	Director	Managing Executive Officer/General Manager of the Management Headquarters
Yoshikazu Miike	Director	Managing Executive Officer/General Manager of the Hotel and Resort Business Division Director, Leopalace Guam Corporation Representative Director, WING MATE CO., LTD.
Kou Kimura	Director	Managing Executive Officer/Deputy General Manager of the Corporate Business Promotion Headquarters
Hiroyuki Harada	Director	Executive Officer/Deputy General Manager of the Management Headquarters/General Manager of the Work-life Balance Promotion Office (concurrent) Representative Director, Leopalace Smile Co., Ltd.
Tetsuji Taya	Director	Board Member & Managing Director, Industrial Growth Platform, Inc.
Masumi Iwakabe	Standing Audit & Supervisory Board Member	
Mutsuhiro Yamada	Standing Audit & Supervisory Board Member	
Koichi Fujiwara	Audit & Supervisory Board Member	
Masahiko Nakamura	Audit & Supervisory Board Member	Representative, Masahiko Nakamura Certified Tax Accountant Office

Notes: 1. Mr. Tetsuji Taya serves as an Outside Director of the Company.

2. Mr. Koichi Fujiwara and Mr. Masahiko Nakamura serve as Outside Audit & Supervisory Board Members of the Company.

3. Mr. Masahiko Nakamura is certified as a licensed tax accountant, and possesses considerable finance and accounting knowledge.

4. The Company has appointed Mr. Tetsuji Taya, Mr. Koichi Fujiwara and Mr. Masahiko Nakamura as independent officers stipulated by the Tokyo Stock Exchange and has registered with the Stock Exchange accordingly.

5. Effective April 1, 2015, the positions and duties of directors have been changed as follows.

Name	New positions and duties	Former positions and duties
Yuzuru Sekiya	Director and Senior Executive Officer General Manager of the Management Planning Headquarters General Manager of the Hotel and Resort Business Division (concurrent)	Director and Senior Executive Officer General Manager of the Management Planning Headquarters
Yoshikazu Miike	Director and Managing Executive Officer Deputy General Manager of the Hotel and Resort Business Division	Director and Managing Executive Officer General Manager of the Hotel and Resort Business Division

2. Retired Directors and Audit & Supervisory Board Members during the fiscal year under review

Director and Managing Executive Officer, Mr. Kou Kimura ended his position as Director of the Company on March 31, 2015 due to resignation.

3. Directors' and Audit & Supervisory Board Members' Remuneration

Category	Number of Persons	Total Amount
Directors (Outside Directors)	8 (1)	284 million yen (7 million yen)
Audit & Supervisory Board Members (Outside Audit & Supervisory Board Members)	4 (2)	45 million yen (12 million yen)
Total (Outside Directors and Audit & Supervisory Board Members)	12 (3)	329 million yen (20 million yen)

Note: Among the above-mentioned figures, there includes one Director who retired on March 31, 2015.

Items Regarding Outside Officers

1. Significant Concurrent Positions of Outside Officers and Their Relationships with the Company

Title	Name	Significant concurrent positions	Relationships with the Company
Director	Tetsuji Taya	Board Member & Managing Director, Industrial Growth Platform, Inc.	There is no particular conflict of interest with the Company.
Audit & Supervisory Board Member	Koichi Fujiwara	—	—
Audit & Supervisory Board Member	Masahiko Nakamura	Representative, Masahiko Nakamura Certified Tax Accountant Office	There is no particular conflict of interest with the Company.

2. Key Activities in this Fiscal Year

Title	Name	Attendance of the Board of Directors meetings	Attendance of the Audit & Supervisory Board meetings	Key Activities
Director	Tetsuji Taya	16/16	—	Mr. Taya uses his abundant knowledge and experience as well as his insight as a manager to provide advice on the overall management of the Company and to make comments in order to ensure the reasonableness and appropriateness of decision-making by the Board of Directors.
Audit & Supervisory Board Member	Koichi Fujiwara	16/16	9/9	Mr. Fujiwara has advanced knowledge in various fields from his abundant business experience, and provides advice and suggestions.
Audit & Supervisory Board Member	Masahiko Nakamura	16/16	9/9	Mr. Nakamura has abundant experience and expert knowledge as a certified tax accountant. He has objectively conducted proper supervision of the management of the Company.

3. Overview of Limitation of Liability Contracts

In accordance with the provisions of Article 427, Paragraph 1 of the Companies Act, the Company has entered into a limited liability agreement with each Outside Director and Outside Audit & Supervisory Board Member limiting his/her liability for damages under Article 423, Paragraph 1 of the Companies Act, to the minimum limit amount prescribed by laws and regulations.

Status of Accounting Auditor

1. Name of Accounting Auditor

Grant Thornton Taiyo LLC

Note: Grant Thornton Taiyo ASG LLC changed its name to Grant Thornton Taiyo LLC on October 1, 2014.

2. Amount of Accounting Auditor Remuneration in this Fiscal Year

Segment	Amount Paid
Remuneration for services stipulated in Article 2, Paragraph 1 of the Certified Public Accountants Act	92 million yen
Remuneration for services other than practices stipulated in Article 2, Paragraph 1 of the Certified Public Accountants Act	-
Total amount owed to Accounting Auditor by the Company and its subsidiaries in the form of cash or other financial benefit	105 million yen

Notes: 1. In the audit agreement between the Company and the Accounting Auditor, the auditor remuneration pursuant to the Companies Act and the amount of auditor remuneration pursuant to the Financial Instruments and Exchange Act are not separated, and because essentially the two cannot be separated, the above remuneration for services stipulated in Article 2, Paragraph 1 of the Certified Public Accountants Act is the total of the two.

2. Of the Company’s major subsidiaries, Leopalace Guam Corporation uses the accounting audit services (audits pursuant to the provisions in the Companies Act and the Financial Instruments Exchange Act, including overseas laws and regulations corresponding to these acts) of other certified public accountants or audit firms (including those outside Japan that possess certification equivalent to these certifications) other than the Accounting Auditor of the Company.

3. Policy Regarding Discharge or Non-reappointment of Accounting Auditor

In the event that there is an obstacle preventing the Accounting Auditor from performing their duties, the Board of Directors, if it is deemed necessary, may make the dismissal or non-reappointment of the Accounting Auditor the purpose of a general shareholders’ meeting based on approval by the Audit & Supervisory Board or request by the Audit & Supervisory Board.

If the Company’s Audit & Supervisory Board determines that any of the provisions of Article 340, Paragraph 1 of the Companies Act applies with respect to the Accounting Auditor, it shall dismiss the Accounting Auditor based on unanimous approval by the Audit & Supervisory Board Members. In this case, an Audit & Supervisory Board member selected by the Audit & Supervisory Board shall present a report stating the purport of the dismissal of the Accounting Auditor and the reasons for dismissal to the first general shareholders’ meeting convened after the dismissal.

Note: As a result of the “Act for Partial Revision of the Companies Act” (Act No. 90 of 2014) taking effect on May 1, 2015, the organ for deciding on a proposal relating to the dismissal or non-reappointment of the Accounting Auditor has been changed from the Board of Directors to the Audit and Supervisory Board. Note that the above states the policy that existed during the fiscal year under review.

Corporate Structure and Policies

1. Systems for Ensuring Appropriate Business Operations

(1) Systems for Ensuring that Execution of Duties by Directors and Employees is in Compliance with Laws and Regulations, and the Articles of Incorporation

- (a) The Company established the “Corporate Code of Ethics” as part of business development under its corporate philosophy of “Creating New Value.” The President and CEO continuously conveys this spirit to Directors and all employees of the Leopalace21 Group to ensure their thorough awareness that the compliance of laws and regulations and compliance of ethics are cornerstones of corporate activities.
- (b) The Company secures the compliance system through the establishment of the Compliance Committee, in addition to the establishment of the Corporate Code of Ethics and the internal reporting system. Serving as an advisory body for the Board of Directors, the Compliance Committee, for which the President and CEO of the Company presides as chairman, is made up of committee members including lawyers and other external experts. The Compliance Committee proposes measures relating to compliance, such as enhancing educational training and reinforcing the information management system as a part of measures to strengthen corporate governance. The Committee also strengthens monitoring systems in accordance with the Compliance Regulations and makes efforts to identify problems and make improvements.
- (c) The Board of Directors brings in independent Outside Directors as its members and strives to strengthen its oversight function to ensure that decision making and business execution by the Board complies with relevant laws and regulations, and secures transparency and fairness in corporate management.
- (d) The Auditing Department, established as a department directly reporting to the president that oversees the internal control functions and internal audit functions, examines the items to be implemented for business audits and the implementation methods, and if necessary, makes revisions to the auditing methods carried out by the Auditing Department. Moreover, to maintain sound internal controls, the Auditing Council has been established and tasked with monitoring management activities and risk management in order to, while strengthening governance, to ensure that preparation of financial statements is appropriate and in compliance with laws and regulations, to protect the Company’s assets, and to efficiently carry out business activities.
- (e) The General and Legal Affairs Department performs the internal check and balance functions. It also provides guidance on immediately reporting to the General and Legal Affairs Department when a compliance violation is uncovered. In addition, the Company stipulates in a whistleblower protection clause in the Compliance Regulations that an employ who becomes aware of conduct problematic with respect to laws or regulations or the Articles of Incorporation and reports this matter shall not receive unfair treatment.
- (f) The Company strives to develop and improve on an ongoing basis the Compliance Regulations, related individual rules, guidelines and manuals, etc., in order to construct a system to ensure that execution of duties by Directors and employees is in compliance with laws and regulations and the Articles of Incorporation.

(2) Systems for Retaining and Managing Information Relating to Execution of Duties by Directors

The President and CEO shall appoint the Director in charge of the Management Headquarters as the officer in charge of general operations of retaining and managing information relating to execution of duties by Directors. The retention and management of information relating to execution of duties by Directors shall be organized and retained by recording the aforementioned information in writing or on electromagnetic recording media in accordance with the Document Keeping Regulations and the Information Management Regulations.

(3) Regulations and Other Systems of Risk Management

- (a) The Company has established the Risk Management Committee as an advisory body for the Board of Directors to comprehensively identify and manage the risks of the entire Leopalace21 Group. The Chairman of the committee shall be the President and CEO and the members shall include lawyers and other external experts.
- (b) The Risk Management Committee not only develops and improves the Risk Management Regulations, and related individual rules, guidelines, and manuals, etc. and carries out confirmation of the status of the operation of these regulations and rules but also plans training for employees. Each quarterly period, the Director in charge of the Management Planning Headquarters provides a risk management report to the Board of Directors.
- (c) The Auditing Department audits the status of business execution of each department or division and if it uncovers conduct of business execution that poses a risk of loss, the Auditing Department reports the details of such conduct and the degree of loss that may occur, etc. immediately to the President and CEO and the relevant departments.

(4) Systems for Ensuring that Directors Efficiently Execute Their Duties

- (a) The President and CEO shall appoint the Director in charge of the Management Planning Headquarters as the officer in charge of general operations relating to the efficiency of execution of duties by Directors, and perform oversight to ensure the execution of duties is carried out efficiently with respect to the objectives of each department or division based on the Medium-term Management Plan and the Annual Management Plan. The Directors in charge of the respective departments or divisions shall decide on the specific measures that each department or division should implement a system for efficient business execution based on the Management Plans. The officer in charge of general operations shall ensure that each Director in charge of their respective department or division periodically gives a report of the status of business execution to the Board of Directors meetings and the Corporate Management Council meetings, analyze the factors obstructing the measures and the system for efficient business execution, and make improvements based on this.
- (b) The Director in charge of the Management Planning Headquarters shall preside over each committee that executes preliminary examinations for decisions of important matters and performs cross-sectional analysis concerning corporate management issues to identify the issues, and give reports of this information periodically to the Board of Directors meetings and the Corporate Management Council meetings.

(5) Systems for Ensuring Appropriate Execution of Business Operations by the Leopalace Group

- (a) In accordance with the Management Regulations of Subsidiaries and Associates, the management of the Company and its subsidiaries and associates will be supervised by the Director in charge of the Management Planning Headquarters. The Director in charge of the Management Planning Headquarters shall periodically hold liaison meetings with subsidiaries and associates to promote smooth exchange of information and the Group's activities.
- (b) Concerning jurisdiction of authority related to the business operations of subsidiaries and associates, while respecting the autonomy of the respective subsidiary and associate, the Director in charge of the department or section under jurisdiction shall supervise and manage to ensure the construction of a compliance system framework and the establishment of risk management system in line with measures based on Management Plans and efficient business execution. The Director in charge of the department or section under jurisdiction shall periodically give a report of the progress status of the management of the subsidiary or associate to the Board of Directors meetings and the Corporate Management Council meetings.
- (c) The Auditing Department shall periodically or when required, audit the subsidiaries and associates and give a report to the President and CEO and the Auditing Council.

(6) Matters Concerning Employees when Audit & Supervisory Board Members Request the Placement of Said Employees to Assist Duties; Matters Concerning the Independence of Said Employees from the Directors

If the Audit & Supervisory Board Members request the placement of employees to assist their duties, the Board of Directors may nominate a member of the Auditing Department as an employee to assist an Audit & Supervisory Board Member. During the period nominated by the Audit & Supervisory Board Member as the period for required assistance, the right to direct the nominated employee shall be transferred to the Audit & Supervisory Board Member and that employee's independence from the Board of Directors shall be secured.

(7) Systems Whereby Directors and Employees Report to Audit & Supervisory Board Members and Other Systems to Ensure that Audit by the Audit & Supervisory Board Members Is Effectively Conducted

- (a) The Directors and employees shall give reports on matters posing a risk of causing significant damage to the Leopalace21 Group, matters relating to improper conduct or other important matters in accordance with laws and regulations, and internal company regulations such as the Audit & Supervisory Board Regulations, and the Auditing Standards for the Audit & Supervisory Board Members. Moreover, as necessary, the Audit & Supervisory Board Members can request the Directors and Employees to give reports to them.
- (b) The Audit & Supervisory Board Members may attend meetings of the Board of Directors, Corporate Management Council, Compliance Committee, Risk Management Committee and other important meetings, and peruse important documents related to the execution of

business such as internal circulars for management decision. In addition, the Audit & Supervisory Board members shall periodically exchange opinions with the President and CEO and perform monitoring and verification by holding periodic hearings and visits at each department and section.

- (c) The Audit & Supervisory Board Members, while securing effectiveness of audits by independence and authority in accordance with the Audit & Supervisory Board Regulations and the Auditing Standard for Audit & Supervisory Board Members, will work to achieve their own audit results while maintaining close cooperation with the Auditing Department and the Accounting Auditor.

(8) Systems for Ensuring the Reliability of Financial Reporting

For the purpose of securing reliability of financial reporting and effectively and appropriately submitting internal control reports as prescribed by the Financial Instruments and Exchange Act, the Company, under the direction of the President and CEO, shall establish an appropriate internal control system, construct a system by which to operate this system, evaluate continuously whether these mechanisms are functioning properly, and perform necessary rectifications. While doing this, the Company shall ensure compliance under the Financial Instruments and Exchange Act and other relevant corporate laws and regulations.

(9) Systems for Exclusion of Antisocial Forces

- (a) The Company, in addition to clearly stating “Exclusion of Relationship with Antisocial Forces” in the Company’s Corporate Code of Ethics, the Company shall not have any relationship with antisocial forces or groups that pose a threat to public social order and safety, and shall respond to these forces and groups with a resolute attitude.
- (b) In addition to stipulating detailed rules on the exclusion of relationships with antisocial forces and constructing systems under which the Company never accepts improper requests from antisocial forces by appointing an officer in charge of preventing improper requests at each place of business or sales operations, the Company establishes systems for the relevant division or department such as the Risk Management Committee to hold discussions and make responses with external specialist organizations with the General and Legal Affairs Department serving as supervising department.

Note: The above states the system that existed during this fiscal year. However, in accordance with “Act for Partial Revision of the Companies Act” (Act No. 90 of 2014), and “Ministerial Ordinance for Partial Revision of Ordinance for Enforcement of the Companies Act, etc.” (Ministerial Ordinance No. 6 of 2015) coming into effect on May 1, 2015, partial revisions have been made to contents by resolution of the meeting of the Board of Directors held on April 27, 2015. Specifically, the revised content is related to revisions in line with the Group’s current circumstances regarding the system for securing appropriateness of the Group’s business operations and the system relating to audits, and other changes to ensure specific and clear expressions in line with the revisions to laws and regulations. The Company has reported the revised system to the Tokyo Stock Exchange, and it has disclosed it on the Company’s website.

2. Policy on Determination of Dividends from Surplus and Others'

The Leopalace Group acknowledges that the distribution of profit to shareholders is an important management issue.

However, retained earnings are negative on a non-consolidated basis, so it is with deep regret that the Group will pass on the term-end dividend.

The Group will endeavor to recover retained earnings through the establishment of a stable profit structure with the aim of restoring the dividend in the next fiscal year.

Note: The portions of amounts and number of shares stated in this Business Report less than the display unit are omitted (always rounded down).

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET (as of March 31, 2015)

(millions of yen)

ASSETS	
Current assets	102,263
Cash and cash equivalents	75,221
Trade receivables	6,254
Accounts receivable for completed projects	1,714
Operating loans	1,135
Securities	831
Real estate for sale / property inventories	21
Payment for construction in progress	647
Raw materials and supplies	609
Prepaid expenses	3,656
Deferred tax assets	4,447
Other accounts receivable	3,013
Other	4,907
Allowance for doubtful accounts	(199)
Fixed assets	205,887
Property, plant and equipment	169,430
Buildings and structures	59,899
Machinery, equipment, and vehicles	15,115
Land	83,289
Leased assets	7,880
Construction in progress	992
Other	2,253
Intangible assets	8,894
Goodwill	1,684
Other	7,210
Investments and other assets	27,561
Investment securities	6,832
Long-term loans	540
Bad debt	1,297
Long-term prepaid expenses	3,416
Deferred tax assets	14,654
Other	2,905
Allowance for doubtful accounts	(2,085)
Deferred assets	123
Bond issuance cost	123
Total assets	308,274

CONSOLIDATED BALANCE SHEET (as of March 31, 2015) (Continued)

(millions of yen)

Liabilities	
Current liabilities	116,521
Accounts payable	2,803
Accounts payable for completed projects	14,049
Short-term borrowings	60
Current portion of long-term debt	23,005
Bonds due within one year	1,460
Lease obligations	2,355
Accounts payable—other	18,466
Accrued expenses	13
Accrued income taxes	944
Advances received	40,781
Customer advances for projects in progress	6,930
Reserve for warranty obligations on completed projects	404
Reserve for fulfillment of guarantees	700
Asset retirement obligations	41
Other	4,504
Non-current liabilities	65,279
Bonds	3,960
Long-term debt	7,196
Lease obligations	6,450
Long-term advances received	22,198
Lease/guarantee deposits received	8,019
Deferred tax liabilities	253
Reserve for apartment vacancy loss	5,280
Liability for retirement benefit	9,351
Asset retirement obligations	76
Other	2,492
Total liabilities	181,801
Net Assets	
Shareholders' equity	123,550
Common stock	75,282
Capital surplus	51,501
Retained earnings	427
Treasury stock	(3,660)
Accumulated other comprehensive income	2,904
Net unrealized gains on "other securities"	379
Foreign currency translation adjustments	3,545
Remeasurements of defined benefit plans	(1,021)
Share subscription rights	18
Minority interests	0
Total net assets	126,473
Total liabilities and net assets	308,274

CONSOLIDATED STATEMENT OF OPERATIONS (from April 1, 2014 to March 31, 2015)
(millions of yen)

Net sales	483,188
Sales from Leasing Business	399,316
Sales from Construction Business	61,312
Sales from Other Business	22,559
Cost of sales	407,433
Cost of sales from Leasing Business	337,339
Cost of sales from Construction Business	49,605
Cost of sales from Other Business	20,487
Gross profit	75,755
Selling, general and administrative expenses	60,992
Operating profit	14,763
Non-operating income	491
Interest income	40
Dividend income	83
Gain from cancellation of contracted work	14
Foreign exchange gains	52
Gain on adjustment of accounts payable	50
Refunds of fixed asset tax	88
Other	160
Non-operating expenses	1,830
Interest expenses	1,143
Commission fee	461
Equity in losses of affiliated companies	8
Other	216
Recurring profit	13,424
Extraordinary income	6
Gain on sale of property, plant and equipment	6
Extraordinary losses	534
Loss on sale of property, plant and equipment	0
Loss on disposal of property, plant and equipment	309
Impairment loss	224
Income before income taxes	12,896
Income taxes—current	1,016
Income taxes—refund	(0)
Income taxes—deferred	(2,613)
Income before minority interests	14,494
Minority interests	(13)
Net income	14,507

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(from April 1, 2014 to March 31, 2015)

(millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2014	75,282	51,501	(15,788)	(3,660)	107,334
Cumulative effects of changes in accounting policies			1,708		1,708
Restated balance after changes in accounting policies	75,282	51,501	(14,080)	(3,660)	109,042
Change during period					
Net income			14,507		14,507
Acquisition of treasury stock				(0)	(0)
Net change of items other than shareholders' equity					-
Total change during period	-	-	14,507	(0)	14,507
Balance as of March 31, 2015	75,282	51,501	427	(3,660)	123,550

(millions of yen)

	Accumulated other comprehensive income				Share subscription rights	Minority interests	Total net assets
	Net unrealized gains on "other securities"	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance as of April 1, 2014	427	(2,116)	(815)	(2,504)	18	13	104,860
Cumulative effects of changes in accounting policies							1,708
Restated balance after changes in accounting policies	427	(2,116)	(815)	(2,504)	18	13	106,568
Change during period							
Net income							14,507
Acquisition of treasury stock							(0)
Net change of items other than shareholders' equity	(47)	5,662	(205)	5,409	-	(13)	5,396
Total change during period	(47)	5,662	(205)	5,409	-	(13)	19,904
Balance as of March 31, 2015	379	3,545	(1,021)	2,904	18	0	126,473

Notes to Consolidated Financial Statements

1. Important Items That Form the Basis of Preparing Consolidated Financial Statements, etc.

(1) Scope of consolidation

(a) Number of consolidated subsidiaries and names of principal consolidated subsidiaries of Leopalace21 Corporation (the “Company”)

- Number of consolidated subsidiaries: 18
- Principal consolidated subsidiaries: Leopalace Leasing Corporation
Plaza Guarantee CO., LTD.
Leopalace21 Business Consulting (Shanghai) Co., Ltd.
Leopalace21 (Shanghai) Property Management Co., Ltd.
LEOPALACE21 VIETNAM CO., LTD.
Leopalace21 (Thailand) CO., LTD.
Leopalace21 (Cambodia) Co., Ltd.
LEOPALACE21 REAL ESTATE (CAMBODIA) Co., Ltd.
Morizou Co., Ltd.
Azu Life Care Co., Ltd.
Leopalace Guam Corporation
WING MATE CO., LTD.
ASUKA SSI
Leopalace Power Corporation
Leopalace Energy Corporation
Leopalace Smile Co., Ltd.

(b) Status of non-consolidated subsidiaries
Not applicable.

(2) Application of equity method

(a) Numbers of non-consolidated subsidiaries or affiliates accounted for by the equity method and names of principal such companies

- Non-consolidated subsidiaries accounted for by the equity method: Not applicable.
- Number of affiliates accounted for by the equity method: 1
- Name of principal affiliate: Woori & Leo PMC Co., Ltd.

(b) Names, etc. of non-consolidated subsidiaries and affiliates not accounted for by the equity method
Not applicable.

(c) Special note on the application of equity method

As the fiscal year-end of Woori & Leo PMC Co., Ltd. is different from the consolidated balance sheet date, the financial statements of the company as of its fiscal year-end and for its fiscal year are used in the preparation of the Company’s consolidated financial statements.

(3) Changes in the scope of consolidation and application of equity method

(a) Changes in the scope of consolidation

We have included Leopalace21 (Shanghai) Property Management Co., Ltd., Leopalace21 (Cambodia) Co., Ltd., LEOPALACE21 REAL ESTATE (CAMBODIA) Co., Ltd. and Leopalace Energy Corporation, all of which are newly established companies, into the scope of consolidation effective the fiscal year under review.

We have also included Morizou Co., Ltd. and WING MATE CO., LTD., both of which are companies whose shares were newly acquired in the fiscal year under review, into the scope of consolidation.

We have excluded Leopalace Travel Co., Ltd. from the scope of consolidation due to the absorption-type merger conducted in the fiscal year under review in which WING MATE CO., LTD. became the surviving company and Leopalace Travel Co., Ltd. became the disappearing company.

(b) Changes in the scope of application of equity method

We have excluded LIXIL Renewal Corporation from the scope of application of the equity method due to the sale of shares of the company in the fiscal year under review.

(4) Fiscal year ends of consolidated subsidiaries

Among the consolidated subsidiaries, the fiscal year end of Leopalace21 Business Consulting (Shanghai) Co., Ltd., Leopalace21 (Shanghai) Property Management Co., Ltd., LEOPALACE21 VIETNAM CO., LTD., Leopalace21 (Thailand) CO., LTD., Leopalace21 (Cambodia) Co., Ltd., LEOPALACE21 REAL ESTATE (CAMBODIA) Co., Ltd., Leopalace Guam Corporation, Leopalace Guam Distributing Corporation, Leopalace Guam Service Corporation and WING MATE CO., LTD. is December 31 of each year. As the difference between this date and the consolidated balance sheet date is within three months, their financial statements as of December 31 are used in the preparation of the Company's consolidated financial statements.

When significant transactions occur at those subsidiaries between their fiscal year end and the consolidated balance sheet date, these transactions are included in consolidation as necessary.

The fiscal year end of Morizou Co., Ltd. is September 30. Its financial data in the preparation of the Company's consolidated financial statements is based on a provisional closing as of March 31 pursuant to procedures for the fiscal year end closing.

(5) Summary of accounting policies

(a) Valuation bases and methods for significant assets

Securities

Held-to-maturity debt securities are stated at amortized cost (straight-line method).

Other securities

Other securities with available fair market values are stated at fair market value at the end of the fiscal year of each consolidated subsidiaries. Unrealized gains and losses are directly included in net assets. The cost of securities sold is determined by the moving-average method.

Other securities without available fair market values are stated at cost determined by the moving-average method.

Investments securities in investment limited partnerships, etc. are reported using the equity method, based on the latest financial statements available as at the closing dates stipulated by the respective partnership contracts.

Inventories

Primarily stated at cost determined by the specific identification method (figures on the balance sheet are determined based on the method of writing down the book value in accordance with the declining in profitability of assets)

Derivatives

Stated at fair market value

(b) Depreciation and amortization of significant depreciable and amortizable assets

Rental property, plant and equipment of the Company and consolidated subsidiaries in Japan (except for leased assets):

Depreciated by the straight-line method

Useful lives of major assets are as follows:

Buildings and structures: 22–47 years
Property, plant and equipment other than the above of the Company and consolidated subsidiaries in Japan (except for leased assets):

Depreciated by the declining-balance method

However, buildings (excluding accompanying facilities) obtained on or after April 1, 1998 are depreciated by the straight-line method.

Useful lives of major assets are as follows:

Buildings and structures: 15–50 years

Machinery, equipment, and vehicles: 17 years

Tools, furniture and fixtures (Other in property, plant and equipment): 5–10 years

Property, plant and equipment of the consolidated overseas subsidiaries:

Depreciated by the straight-line method based on the local GAAP

Useful lives of major assets are as follows:

Buildings and structures: 30–40 years

Tools, furniture and fixtures (Other in property, plant and equipment): 3–5 years

Intangible assets (except for leased assets):

Amortized by the straight-line method

Useful lives of major assets are as follows:

Software for internal use: 5 years

Leased assets:

Depreciated and amortized by the straight-line method based on the lease term as the useful life and residual value of zero.

Of finance leases that are deemed not to transfer ownership of leased property to the lessee, the leases that existed on or before March 31, 2008 are accounted for by a method similar to that applicable to ordinary rental transactions.

Long-term prepaid expenses:

Evenly amortized mainly over the following period

Prepaid master-lease rents: 3–5 years

(c) Provision of significant allowance and provisions

Allowance for doubtful accounts

The Companies maintain an allowance for doubtful accounts to reserve for potentially uncollectible receivables such as accounts receivable and loans. An estimated uncollectible amount is provided at the amount estimated by either using the historical rate of credit loss in the case of general receivables, or based on individual consideration of collectibility in the case of specific receivables such as highly doubtful receivables.

Reserve for warranty obligations on completed projects

Reserve for warranty obligations on completed projects is provided to reserve for the Company's compensation expenses regarding its execution of warranty obligations under defect liabilities in the future pertaining to completed projects. It is calculated using the percentage of the past execution of warranty obligations on the completed projects.

Reserve for fulfillment of guarantees

In order to provide for losses attributable to its rent payment guarantee business, the Company's consolidated subsidiary, Plaza Guarantee CO., LTD., records the amount of loss expected based on the rate of past guarantee fulfillments.

Reserve for apartment vacancy loss

With regard to the leasing business of the Company, reserve to prepare for the risk of vacancy losses on apartment units managed under master lease agreements is provided according to the projected loss that could occur during a logically predictable period. It is based on estimated losses resulting from current rental income and expected future occupancy rates for each rental property

(d) Recognition of significant revenues and costs

Recognition of net sales of completed construction contracts and cost of sales of completed construction contracts

- a. Construction contracts in which the outcome of the construction activity is deemed certain by the end of the fiscal year under review

Percentage-of-completion method (Progress of construction is estimated based on the method of the ratio of actual cost incurred to total cost.)

- b. Other construction contracts

Completed-contract method

(e) Foreign currency translation of important foreign currency-denominated assets and liabilities into Japanese yen

All monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates as of each balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of operations. The assets and liabilities of overseas subsidiaries are translated into Japanese yen at the current exchange rates as of each balance sheet date, and revenues and expenses are translated into Japanese yen at the average exchange rates of the fiscal year. Foreign currency translation adjustments are included in translation adjustments as a separate component of net assets.

(f) Significant hedge accounting

- (i) Method of hedge accounting

For interest rate swaps, special treatment is applied since the swaps satisfy the requirements for special treatment.

- (ii) Hedging instruments and hedged items

Hedging instruments: Interest rate swaps

Hedged item: Borrowings

- (iii) Hedging policy

For the purpose of avoiding future market interest rate rising risks, the Companies implement hedging within the scope of liabilities to be hedged.

- (iv) Method of assessing hedge effectiveness

An assessment of hedge effectiveness as of the consolidated balance sheet date is not provided because the interest rate swaps satisfy the requirements for special treatment.

(g) Amortization and amortization period of goodwill

Goodwill is equally amortized over the period of the future economic benefits. However, goodwill is amortized in lump-sum when incurred if the amount is minimal.

(h) Other important matters for preparing consolidated financial statements

Recognition of liability for retirement benefit

To prepare for employees' retirement benefits, liability for retirement benefit is recorded at the amount

remaining after deducting pension assets from retirement benefit obligations based on estimated amounts at the end of the fiscal year under review.

Past service costs are amortized by the straight-line method over a specified period (5 years) within the average remaining service years of employees at the time of accrual.

Actuarial differences, which are prorated according to the straight-line method over a specified period (5 years) within the average remaining service years of employees at the time of accrual in each fiscal year, are amortized starting in the next fiscal year of the respective accruals.

Unrecognized actuarial differences and unrecognized past service costs are posted, factoring in tax effects, as remeasurements of defined benefit plans in accumulated other comprehensive income under net assets.

In the calculation of retirement benefit obligations, the method of attributing expected retirement benefits to the period up to the fiscal year under review is the benefit formula basis.

Accounting for national and local consumption taxes

National and local consumption taxes are excluded from transaction amounts. However, ASUKA SSI, a consolidated subsidiary, includes national and local consumption taxes in operating expenses and general and administrative expenses.

The nondeductible portion of consumption taxes related to fixed assets is recorded as long-term prepaid expenses and amortized evenly over 5 years.

Interest capitalization

Leopalace Guam Corporation capitalized interest paid on borrowings for real estate development business for the development period into acquisition cost of property, plant and equipment.

Capitalized interests included in carrying amount of property, plant and equipment of Leopalace Guam Corporation were ¥2,260 million as of March 31, 2015.

2. Changes in Accounting Policies

Application of Accounting Standard for Retirement Benefits, etc.

With regard to the “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26, May 17, 2012) and the “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, March 26, 2015), the provisions of the main clauses of Paragraph 35 of the Accounting Standard for Retirement Benefits and Paragraph 67 of the Guidance on Accounting Standard for Retirement Benefits were adopted effective the fiscal year under review, and the Company reviewed its calculation method for retirement benefit obligations and service costs. Accordingly, the Company changed its method of attributing expected benefits to periods from the straight-line basis to the benefit formula basis as well as the method for determining the discount rate from one that uses a discount rate based on a period approximate to the expected average remaining service lives of employees to one that uses plural discount rates reflecting respective estimated timing.

The application of the Accounting Standard for Retirement Benefits and its Guidance by the Company is subject to the tentative treatment provided for in Paragraph 37 of the Accounting Standard for Retirement Benefits. Consequently, the effects of the changes in the calculation methods for retirement benefit obligations and service costs have been added to or deducted from retained earnings as of April 1, 2014.

Consequently, as of April 1, 2014, liability for retirement benefit decreased by ¥1,708 million and retained earnings increased by the same amount. The effect on operating profit, recurring profit and income before income taxes for the fiscal year under review is immaterial.

3. Changes in Presentation

Consolidated Statement of Operations

“Gain on adjustment of accounts payable,” which was included in “Other” under non-operating income in the previous fiscal year, is posted as a separate item in the fiscal year under review because its monetary significance increased.

“Gain on adjustment of accounts payable” in the previous fiscal year was ¥5 million.

4. Notes to Consolidated Balance Sheet

(1) Assets pledged as collateral and secured liabilities:

(a) Assets pledged as collateral

Cash and cash equivalents	¥17 million
Buildings and structures	¥26,199 million
Land	¥71,777 million
Investment securities	¥76 million
Others in investments and other assets (Membership right)	¥420 million
Total	¥98,490 million

(b) Secured liabilities:

Current portion of long-term debt	¥22,270 million
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(c) Securities and investment securities which have been deposited with the Legal Affairs Bureau:

Deposit for operation stipulated in Building Lots and Buildings Transaction Business Act	¥54 million
Deposit for housing construction warranty against defects	¥891 million
Deposit for housing sale warranty against defects	¥115 million
Advanced payment certificate in accordance with Payment Services Act	¥920 million

(2) Accumulated depreciation of property, plant and equipment	¥92,084 million
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(3) Reduction entry amount deducted from the acquisition cost of property, plant and equipment:

Machinery, equipment, and vehicles	¥155 million
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(4) Liabilities on guarantee

Liabilities on guarantee for financial institutions for customers who have a housing loan	¥898 million
Liabilities on guarantee for financial institutions for customers who have a membership loan	¥15 million

5. Notes to Consolidated Statement of Operations

Impairment loss

The Companies recognized impairment loss on the following asset groups for the fiscal year ended March 31, 2015.

Purpose	Category	Location	Impairment loss (millions of yen)
Rental assets (Apartment buildings and others, 23 units)	Buildings and structures	Kawaguchi-shi, Saitama, etc.	1
	Land		160
Hotels	Buildings and structures	Yokkaichi-shi, Mie	58
	Land		3
Total			224

The Companies recognized each property in domestic rental assets as a unit and grouped overseas assets by managerial accounting segmentation.

For the fiscal year under review, the Companies wrote down book value of the rental assets whose profitability decreased seriously due to the slump in the rental income market and continuous decline in land prices, to recoverable amounts and recognized the reduction as impairment loss. In addition, the Companies wrote down book values of the hotels in Japan whose sale had been decided, to recoverable amounts and recognized the reduction as impairment loss.

Recoverable amounts of rental assets were measured at their values in use or their net realizable values in sale. Value in use was computed by discounting its future cash flows at 4.9%, while net realizable value in sale was determined based on publicly appraised value.

6. Notes to Consolidated Statement of Changes in Net Assets

(1) Number of issued shares

Class of shares	April 1, 2014	Increase	Decrease	March 31, 2015
Common stock	267,443,915 shares	–	–	267,443,915 shares

(2) Number of shares of treasury stock

Class of shares	April 1, 2014	Increase	Decrease	March 31, 2015
Common stock	4,569,210 shares	220 shares	–	4,569,430 shares

Note: The increase of 220 shares in the total number of shares of common stock in treasury was due to purchase of shares less than one unit.

(3) Dividends of surplus

(a) Cash dividends paid

Not applicable.

(b) Dividend payments whose record date is in the fiscal year under review but whose effective date is in the following fiscal year

Not applicable.

(4) Share subscription rights as of March 31, 2015

	Share subscription rights as stock options
Class of shares subject to share subscription rights	Common stock
Number of shares subject to share subscription rights	65,000 shares
Unexercised share subscription rights	¥18 million

7. Financial Instruments

(1) Status of financial instruments

(a) Policy for financial instruments

The Companies are mainly involved in raising funds (mostly bank borrowing and corporate bond issuance) needed for capital investment to carry out the leasing business and the construction business. Temporary excess funds are invested in highly secure financial assets, and short-term working capital is raised by borrowing from the bank.

The Companies conduct derivative transactions primarily for the purpose of avoiding interest rate and exchange rate risks, and has a policy not to conduct speculative trading.

(b) Nature of financial instruments and risks arising therefrom

Operating receivables such as trade receivables and accounts receivable for completed projects are exposed to credit risk.

Foreign currency denominated debts and credits originated in conjunction with overseas business development are exposed to exchange risk.

Securities and investment securities are mainly held-to-maturity securities and shares of the companies with which the Company has a business relationship, and those securities are exposed to market risk.

Almost all accounts payable and accounts payable for completed projects which are operating payables are scheduled to be paid within one year.

Borrowings, bonds, and lease obligations related to finance lease transactions are mainly for the purpose of raising funds necessary for investment in facilities, and the longest repayment date is 16 years subsequent to fiscal year end.

Derivative transactions the Companies use are interest rate swaps with the purpose of avoiding risks of future fluctuations in interest rate for borrowings. Interest rate swaps adopted by the Company are exposed to the risk of changes in market interest rates. For details of hedging instruments, hedged items, hedging policies, assessment of hedge effectiveness of hedge accounting, please refer to “1. Notes to Important Items That Form the Basis of Preparing Consolidated Financial Statements, etc., (5) Summary of accounting policies, (f) Significant hedge accounting.”

(c) Risk management for financial instruments

Credit risk management for operating receivables and loans outstanding follows the “Receivables management rules.” While each business division manages the extension of credit to its customers, it is also organized for early detection and loss reduction of accounts where collection is doubtful due to worsening credit or similar problems.

Regarding securities and investment securities, the Company periodically investigates and understands the share price and the financial condition of the share issuing organization. In addition, for items other than held-to-maturity securities, the Company considers the relationship with the trading partner companies and constantly re-evaluates its holdings.

The basic policy on derivatives trading is determined by the board of directors, and the execution and administration of derivatives transactions are conducted in accordance with the Company’s “Derivatives Trading Management Rules.” The derivatives trading management situation is periodically reported to the board of directors for comprehensive risk management. We believe that we have little credit risk associated with nonfulfillment of contracts by counterparties because we enter into derivative contracts only with domestic financial institutions with high credit ratings.

Operating payables and borrowings are exposed to liquidity risk, but this risk is monitored by various means such as the preparation of a monthly financial plan by each company in the Companies.

(d) Supplementary explanations on fair value of financial instruments

Fair value of financial instruments are measured based on the quoted market price, or reasonably assessed value if a quoted market price is not available.

Fair value of financial instruments for which quoted market price is not available is calculated based on changeable factors, and the value might differ if different assumptions are used.

The contracted amounts for “Derivatives” in “(2) Fair value of financial instruments” below should not be, in themselves, considered indicative of the volume of market risk associated with the derivatives.

(2) Fair value of financial instruments

The carrying amount on the consolidated balance sheet and fair value of financial instruments as of March 31, 2015 as well as the differences between these values are described below. Financial instruments whose fair values appear to be extremely difficult to determine are not included in the table.

(millions of yen)

	Carrying amount	Fair value	Difference
(1) Cash and cash equivalents	75,221	75,221	–
(2) Trade receivables and accounts receivable for completed projects	7,969	7,969	–
(3) Securities and investment securities			
(a) Held-to-maturity debt securities	1,442	1,460	17
(b) “Other securities”	3,042	3,042	–
(4) Operating loans	1,135		
Allowance for doubtful accounts (*1)	(105)		
Net	1,030	1,242	212
(5) Long-term loans	540		
Allowance for doubtful accounts (*1)	(94)		
Net	445	445	–
(6) Bad debt	1,297		
Allowance for doubtful accounts (*1)	(1,297)		
Net	–	–	–
Total assets	89,152	89,382	229
(1) Accounts payable and accounts payable for completed projects	16,852	16,852	–
(2) Short-term borrowings	60	60	–
(3) Bonds (*2)	5,420	5,423	3
(4) Long-term debt (*2)	30,202	30,239	37
(5) Lease obligations	8,805	8,772	(32)
Total liabilities	61,339	61,347	8
Derivatives	–	–	–

(*1) Operating loans, long-term loans and bad debts have deductions of their respective allowance for doubtful accounts, which are recorded separately.

(*2) As of March 31, 2015, current portion of long-term debt of ¥23,005 million and bonds due within one year of ¥1,460 million are included in long-term debt and bonds, respectively.

Note 1: Matters concerning the calculation method for the fair value of financial instruments, and matters concerning securities and derivatives

Assets

(1) Cash and cash equivalents, (2) Trade receivables and accounts receivable for completed projects

These assets are stated at carrying amount as they are settled in the short-term and their fair values approximate their carrying amount.

(3) Securities and investment securities

Shares are stated at the stock exchange quoted price; bonds are stated at either the stock exchange quoted price or the price presented by transacting financial institutions.

Information on securities by holding purpose is shown below.

(a) Held-to-maturity debt securities

The carrying amount on the consolidated balance sheet and fair value of held-to-maturity debt securities by type as well as the differences between these values are described below.

(millions of yen)

	Type	Carrying amount	Fair value	Difference
Debt securities whose fair value exceeds their carrying amount	(1) Government and municipal bonds	1,442	1,460	17
	(2) Corporate bonds	—	—	—
	(3) Others	—	—	—
	Subtotal	1,442	1,460	17
Debt securities whose carrying amount exceeds their fair value	(1) Government and municipal bonds	—	—	—
	(2) Corporate bonds	—	—	—
	(3) Others	—	—	—
	Subtotal	—	—	—
Total		1,442	1,460	17

(b) Other securities

The carrying amount on the consolidated balance sheet and fair value of other securities by type as well as the differences between these values are described below.

(millions of yen)

	Type	Carrying amount	Fair value	Difference
Securities whose carrying amount exceeds their acquisition cost	(1) Stock	979	460	519
	(2) Bonds			
	(a) Government and municipal bonds	1,855	1,825	30
	(b) Corporate bonds	—	—	—
	(c) Others	—	—	—
	(3) Others	—	—	—
	Subtotal	2,834	2,285	549
Securities whose acquisition cost exceeds their carrying amount	(1) Stock	—	—	—
	(2) Bonds			
	(a) Government and municipal bonds	208	208	(0)
	(b) Corporate bonds	—	—	—
	(c) Others	—	—	—
	(3) Others	—	—	—
	Subtotal	208	208	(0)
	Total	3,042	2,493	549

(4) Operating loans

The fair value of operating loans is stated at the net present value, which is calculated by discounting the principal with interest by the discount rate (i.e. the estimated interest rate for new transaction).

(5) Long-term loans, (6) Bad debt

The fiscal year-end outstanding balances are calculated mainly using expected future cash flows of the potentially recoverable principal and interest.

Liabilities

(1) Accounts payable and accounts payable for completed projects

These liabilities are stated at carrying amount as they are settled in the short-term and their fair values approximate their carrying amount.

(2) Short-term borrowings, (4) Long-term debt, (5) Lease obligations

These liabilities are stated at the net present value, which is calculated by discounting the principal with interest by the discount rate (i.e. the estimated interest rate for new borrowings or lease transaction).

(3) Bonds

Bonds issued by the Company are privately offered, and their fair value is stated at the net present value, which is calculated by discounting the principal with interest by the discount rate (i.e. the current market interest rate in consideration of residual value and credit risk).

Derivatives trading

(1) Derivatives to which hedge accounting is not applied

Not applicable.

(2) Derivatives to which hedge accounting is applied

(millions of yen)

Method of hedge accounting	Transaction	Hedged item	Contract amount, etc.	Due after 1 year	Fair value
Exceptional treatment for interest rate swaps	Interest rate swaps Floating rate receipt/ Fixed rate payment	Long-term debt	233	133	(Note)

(Note) Interest rate swaps that qualify for the exceptional treatment are accounted for with the long-term debt, and their fair value is included in the fair value of the long-term debt.

Note 2: Financial instruments whose fair value appear to be extremely difficult to determine

(millions of yen)

	Carrying amount
Other securities	
(1) Unlisted shares	1,137
(2) Unlisted bonds	
Subordinate corporate bonds	824
(3) Others	
Subordinate beneficiary rights of loans and accounts receivable in trust	891
Contributions to investment limited partnership and limited liability companies	209
Total	3,062

As they have no market value, and as it is understood that it is extremely difficult to estimate their future cash flow, the above financial instruments are not included in "Assets: (3) (b) Other securities."

Note 3: The scheduled redemption amount of monetary claims and investment securities with maturity subsequent to fiscal year end

(millions of yen)

	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	75,221	—	—	—
Trade receivables and accounts receivable for completed projects	7,969	—	—	—
Securities and investment securities				
Held-to-maturity debt securities	—	900	500	—
Other securities with maturities	831	1,309	—	1,715
Operating loans	211	728	161	33
Long-term loans	16	32	19	471
Bad debt	—	—	—	1,297
Total	84,250	2,970	681	3,517

Note 4: Scheduled repayment amount of loans payable and other interest-bearing debt subsequent to fiscal year end

(millions of yen)

	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Short-term borrowings	60	–	–	–
Bonds	1,460	3,960	–	–
Long-term debt	23,005	2,528	4,054	613
Lease obligations	2,355	6,445	4	–
Total	26,880	12,934	4,058	613

8. Rental Properties

The Company possesses rental apartments in major cities and regions throughout Japan. Also, Leopalace Guam Corporation as a subsidiary possesses rental housing within resorts, and Plaza Guarantee CO., LTD. as a subsidiary possesses buildings for rent. For the year ended March 31, 2015, income arising from these rental properties was ¥4,266 million, and impairment loss was ¥161 million.

Also, the changes in the carrying amount on the consolidated balance sheet of rental properties during the fiscal year under review, and the fair value as of March 31, 2015 were as follows:

(millions of yen)

Carrying amount			Fair value as of March 31, 2015
Balance as of April 1, 2014	Increase/decrease	Balance as of March 31, 2015	
64,030	(210)	63,819	65,435

- Notes:
1. Carrying amount recorded on the consolidated balance sheet is the amount after deducting accumulated depreciation and accumulated impairment loss from acquisition cost.
 2. The main decrease for the fiscal year under review was impairment loss of ¥161 million.
 3. Fair value as of the end of the fiscal year under review is calculated by the Company mainly based on “Real-estate appraisal standards.”

9. Per Share Information

- | | |
|---|--------|
| 1. Net assets per share of common stock | ¥481.5 |
| 2. Net income per share of common stock | ¥55.19 |

10. Events after the Reporting Period

Not applicable.

11. Other Notes

Business Combination

Business Combination by Acquisition

Acquisition of shares of WING MATE CO., LTD.

(1) Overview of business combination

(a) Name and business activities of the acquired company

Name of acquired company: WING MATE CO., LTD.

Business activities: Travel agency business

(b) Main reasons for business combination

WING MATE CO., LTD. is a travel agency mainly engaged in arrangement of overseas business trips for corporations and business travel management and having approximately 1,300 corporate clients including government and municipal offices. Meanwhile in the Company's leasing business, the number of units under lease contracts with corporations accounts for a little over 50% of the total number of units under lease contracts, and the Company provides rental housing and various related services for approximately 45,000 corporations all over Japan.

The purpose of this business combination, that is, making WING MATE CO., LTD. a member of the Leopalace21 Group, is to start arrangement of overseas business trips and business travel management as additional service for corporations and to acquire opportunities to provide rental housing to corporate clients of WING MATE CO., LTD.

(c) Date of business combination

October 31, 2014

(d) Legal form of business combination

Acquisition of shares

(e) Name of company after business combination

Unchanged

(f) Voting right ratio acquired

100%

(g) Main grounds for determining acquiring company

The Company acquired the shares in exchange for cash.

(2) Period of business results of acquired company included in consolidated financial statements

Business results of the acquired company were not included in the consolidated financial statements because the balance sheet date of the acquired company is December 31 and the deemed acquisition date was December 31, 2014.

(3) Acquisition cost of the acquired company and components thereof

Consideration for acquisition	Fair market value of common stock of WING MATE CO., LTD. that were acquired on the business combination date	¥65 million
Expenses directly required for acquisition	Advisory fees, etc.	¥16 million
Acquisition cost		¥81 million

(4) Amount of goodwill recognized, reason for recognition of goodwill, and method and period for amortization of goodwill

(a) Amount of goodwill recognized ¥4 million

(b) Reason for recognition of goodwill

The acquisition cost exceeded the net assets at fair value at the time of acquisition.

(c) Method and period for amortization of goodwill

Amortization in lump-sum

Acquisition of shares of Morizou Co., Ltd.

(1) Overview of business combination

(a) Name and business activities of the acquired company

Name of acquired company: Morizou Co., Ltd.

Business activities: Design, construction and supervision for custom-built houses

(b) Main reasons for business combination

Morizou Co., Ltd. is engaged in design, construction and supervision of custom-built houses in the Kanto and Chubu Regions. Meanwhile, in the Company's construction business, the Company has been entrusted to build custom-built houses for 26,000 land owners all over Japan.

The Company and Morizou Co., Ltd. formed a business alliance in April 2014, and since then we have provided jointly developed products to markets. The purpose of this business combination is to further strengthen the tie between the Leopalace 21 Group and Morizou by forming a capital tie-up, and to aim at further development of both companies.

(c) Date of business combination

March 30, 2015

(d) Legal form of business combination

Acquisition of shares

(e) Name of company after business combination

Unchanged

(f) Voting right ratio acquired

88.2%

(g) Main grounds for determining acquiring company

The Company acquired the shares in exchange for cash.

(2) Period of business results of acquired company included in consolidated financial statements

Business results of the acquired company were not included in the consolidated financial statements for the fiscal year under review because the deemed acquisition date was March 31, 2015.

(3) Acquisition cost of the acquired company and components thereof

Consideration for acquisition	Fair market value of common stock of Morizou Co., Ltd. that were acquired on the business combination date	¥1,676 million
Expenses directly required for acquisition	Advisory fees, etc.	¥8 million
Acquisition cost		¥1,685 million

(4) Amount of goodwill recognized, reason for recognition of goodwill, and method and period for amortization of goodwill

(a) Amount of goodwill recognized ¥1,684 million

Because the specification of identifiable assets and liabilities as of the date of the business combination is as yet unfinished at the end of the fiscal year under review, the Company has used a provisional accounting treatment based on the reasonable information available at that time.

(b) Reason for recognition of goodwill

Goodwill was recognized by reasonably estimating future excess earning power expected from future business development.

(c) Method and period for amortization of goodwill

Equally amortized over 10 years

Transaction under Common Control

Absorption-type merger between consolidated subsidiaries

Overview of transaction

(1) Names and business activities of the companies involved

(a) Surviving company

Name of company: WING MATE CO., LTD.

Business activities: Travel agency business

(b) Merged company

Name of company: Leopalace Travel Co., Ltd.

Business activities: Travel agency business

(c) Date of business combination

January 1, 2015

(d) Legal form of business combination

Absorption-type merger where WING MATE CO., LTD. was the surviving company and Leopalace Travel Co., Ltd. was the absorbed company.

(e) Name of company after business combination

WING MATE CO., LTD.

(f) Other information

The Company aims to develop the travel agency business targeting broader customers than in the existing business targeting existing customers of the Group by integrating management resources of two domestic consolidated subsidiaries engaged in hotel and resort-related businesses in the Group. The Company also aims to strengthen its sales channels concerning Guam resorts and hotels in Japan, enhance services to corporate clients through the business travel management and seek synergies with the overseas business.

(2) Overview of accounting treatment adopted

The transaction was accounted for as a transaction under common control in accordance with the “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, December 26, 2008) and “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, Dec. 26, 2008).

NON-CONSOLIDATED FINANCIAL STATEMENTS

NON-CONSOLIDATED BALANCE SHEET (as of March 31, 2015)

(millions of yen)

ASSETS	
Current assets	104,390
Cash and cash equivalents	68,503
Trade receivables	5,335
Accounts receivable for completed projects	1,927
Operating loans	1,135
Securities	831
Real estate for sale / property inventories	21
Payment for construction in progress	581
Supplies	424
Prepaid expenses	3,497
Deferred tax assets	4,196
Other accounts receivable	1,780
Deposits paid	3,765
Short-term loans receivable from subsidiaries and affiliates	12,086
Other	498
Allowance for doubtful accounts	(194)
Fixed assets	180,412
Property, plant and equipment	110,139
Buildings	27,266
Structures	245
Machinery and equipment	210
Vehicles	0
Tools, furniture and fixtures	1,877
Land	72,640
Leased assets	7,862
Construction in progress	35
Intangible assets	7,004
Investments and other assets	63,267
Investment securities	5,240
Stocks of subsidiaries and affiliates	39,030
Long-term loans	775
Bad debt	1,297
Long-term prepaid expenses	2,936
Deferred tax assets	13,884
Other	2,072
Allowance for doubtful accounts	(1,968)
Deferred assets	123
Bond issuance cost	123
Total assets	284,927

NON-CONSOLIDATED BALANCE SHEET (as of March 31, 2015) *(Continued)*

(millions of yen)

Liabilities	
Current liabilities	112,737
Accounts payable	2,771
Accounts payable for completed projects	14,552
Current portion of long-term debt	22,470
Bonds due within one year	1,460
Lease obligations	2,350
Accounts payable—other	16,039
Accrued income taxes	863
Advances received	40,802
Customer advances for projects in progress	6,359
Deposits received	4,509
Reserve for warranty obligations on completed projects	404
Other	153
Non-current liabilities	54,935
Bonds	3,960
Long-term debt	700
Lease obligations	6,435
Long-term advances received	22,198
Lease/guarantee deposits received	8,007
Retirement benefit reserves	8,293
Reserve for apartment vacancy loss	5,280
Other	60
Total liabilities	167,672
Net Assets	
Shareholders' equity	116,857
Common stock	75,282
Capital surplus	51,501
Legal capital surplus	50,306
Other capital surplus	1,194
Retained earnings	(6,266)
Other retained earnings	(6,266)
Retained earnings brought forward	(6,266)
Treasury stock	(3,660)
Valuation and translation adjustments	379
Net unrealized gains on "other securities"	379
Share subscription rights	18
Total net assets	117,254
Total liabilities and net assets	284,927

NON-CONSOLIDATED STATEMENT OF OPERATIONS**(from April 1, 2014 to March 31, 2015)**

	(millions of yen)
Net sales	484,360
Sales from Leasing Business	397,912
Sales from Construction Business	73,378
Sales from Other Business	13,069
Cost of sales	407,639
Cost of sales from Leasing Business	336,350
Cost of sales from Construction Business	60,154
Cost of sales from Other Business	11,134
Gross profit	76,720
Selling, general and administrative expenses	61,124
Operating profit	15,595
Non-operating income	742
Interest and dividend income	337
Foreign exchange gains	86
Other	318
Non-operating expenses	1,791
Interest expenses	1,135
Commission fee	445
Other	211
Recurring profit	14,546
Extraordinary income	3
Gain on sale of property, plant and equipment	3
Extraordinary losses	527
Loss on sale of property, plant and equipment	0
Loss on disposal of property, plant and equipment	302
Impairment loss	224
Income before income taxes	14,022
Income taxes—current	943
Income taxes—deferred	(2,248)
Net income	15,327

NON-CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
(from April 1, 2014 to March 31, 2015)

(millions of yen)

	Shareholders' equity							
	Common stock	Capital surplus			Retained earnings		Treasury stock	Total shareholders' equity
		Legal capital surplus	Other capital surplus	Total capital surplus	Other retained earnings	Total retained earnings		
Balance as of April 1, 2014	75,282	50,306	1,194	51,501	(23,302)	(23,302)	(3,660)	99,821
Cumulative effects of changes in accounting policies					1,708	1,708		1,708
Restated balance after changes in accounting policies	75,282	50,306	1,194	51,501	(21,593)	(21,593)	(3,660)	101,529
Change during period								
Net income					15,327	15,327		15,327
Acquisition of treasury stock							(0)	(0)
Net change of items other than shareholders' equity								
Total change during period	–	–	–	–	15,327	15,327	(0)	15,327
Balance as of March 31, 2015	75,282	50,306	1,194	51,501	(6,266)	(6,266)	(3,660)	116,857

(millions of yen)

	Valuation and translation adjustments		Share subscription rights	Total net assets
	Net unrealized gains on "other securities"	Total valuation and translation adjustments		
Balance as of April 1, 2014	427	427	18	100,266
Cumulative effects of changes in accounting policies				1,708
Restated balance after changes in accounting policies	427	427	18	101,975
Change during period				
Net income				15,327
Acquisition of treasury stock				(0)
Net change of items other than shareholders' equity	(47)	(47)	–	(47)
Total change during period	(47)	(47)	–	15,279
Balance as of March 31, 2015	379	379	18	117,254

Notes to Non-consolidated Financial Statements

1. Significant Accounting Policies

(1) Valuation bases and methods for assets

Securities

Shares of subsidiaries and affiliates

Stated at cost by the moving-average method

Other securities

Other securities with available fair market values are stated at fair market value at the end of the fiscal year. Unrealized gains and losses are directly included in net assets. The cost of securities sold is determined by the moving-average method.

Other securities without available fair market values are stated at cost determined by the moving-average method.

Investments securities in investment limited partnerships, etc. are reported using the equity method, based on the latest financial statements available as at the closing dates stipulated by the respective partnership contracts.

Inventories

Primarily stated at cost determined by the specific identification method (figures on the balance sheet are determined based on the method of writing down the book value in accordance with the declining in profitability of assets)

(2) Depreciation and amortization of fixed assets

Rental property, plant and equipment (except for leased assets)

Depreciated by the straight-line method

Useful lives of major assets are as follows:

Buildings: 22–47 years

Property, plant and equipment other than the above (except for leased assets):

Depreciated by the declining-balance method

However, buildings (excluding accompanying facilities) obtained on or after April 1, 1998 are depreciated by the straight-line method.

Useful lives of major assets are as follows:

Buildings: 15–50 years

Tools, furniture and fixtures: 5–10 years

Intangible assets (except for leased assets):

Amortized by the straight-line method

Useful lives of major assets are as follows:

Software for internal use: 5 years

Leased assets:

Depreciated and amortized by the straight-line method based on the lease term as the useful life and residual value of zero.

Of finance leases that are deemed not to transfer ownership of leased property to the lessee, the leases that existed on or before March 31, 2008 are accounted for by a method similar to that applicable to ordinary rental transactions.

Long-term prepaid expenses:

Evenly amortized mainly over the following period

Prepaid master-lease rents: 3–5 years

(3) Accounting for deferred assets

Bond issuance cost

Evenly amortized over the redemption period

(4) Provision of allowance and provisions

Allowance for doubtful accounts

The Companies maintain an allowance for doubtful accounts to reserve for potentially uncollectible receivables such as accounts receivable and loans. An estimated uncollectible amount is provided at the amount estimated by either using the historical rate of credit loss in the case of general receivables, or based on individual consideration of collectibility in the case of specific receivables such as highly doubtful receivables..

Reserve for warranty obligations on completed projects

Reserve for warranty obligations on completed projects is provided to reserve for the Company's compensation expenses regarding its execution of warranty obligations under defect liabilities in the future pertaining to completed projects. It is calculated using the percentage of the past execution of warranty obligations on the completed projects.

Retirement benefit reserves

To prepare for employees' retirement benefits, retirement benefit reserves are provided for based on projected retirement benefit obligations as of the balance sheet date.

Actuarial differences, which are prorated according to the straight-line method over a specified period (5 years) within the average remaining service years of employees at the time of accrual in each fiscal year, are amortized starting in the next fiscal year of the respective accruals.

Past service costs are amortized by the straight-line method over a specified period (5 years) within the average remaining service years of employees at the time of accrual.

Reserve for apartment vacancy loss

With regard to the leasing business of the Company, reserve to prepare for the risk of vacancy losses on apartment units managed under master lease agreements is provided according to the projected loss that could occur during a logically predictable period. It is based on estimated losses resulting from current rental income and expected future occupancy rates for each rental property

(5) Recognition of significant revenues and costs

Recognition of net sales of completed construction contracts and cost of sales of completed construction contracts

(a) Construction contracts in which the outcome of the construction activity is deemed certain by the end of the fiscal year under review

Percentage-of-completion method (Progress of construction is estimated based on the method of the ratio of actual cost incurred to total cost.)

(b) Other construction contracts

Completed-contract method

(6) Foreign currency translation of important foreign currency-denominated assets and liabilities into Japanese yen

All monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates as of each balance sheet date. The foreign exchange gains and losses from translation are recognized in the statement of operations.

(7) Other important matters for preparing non-consolidated financial statements

Accounting for national and local consumption taxes

National and local consumption taxes are excluded from transaction amounts. The nondeductible portion of consumption taxes related to fixed assets is recorded as long-term prepaid expenses and amortized evenly over 5 years.

2. Changes in Accounting Policies

Application of Accounting Standard for Retirement Benefits, etc.

With regard to the “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26, May 17, 2012) and the “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, March 26, 2015), the provisions of the main clauses of Paragraph 35 of the Accounting Standard for Retirement Benefits and Paragraph 67 of the Guidance on Accounting Standard for Retirement Benefits were adopted effective the fiscal year under review, and the Company reviewed its calculation method for retirement benefit obligations and service costs. Accordingly, the Company changed its method of attributing expected benefits to periods from the straight-line basis to the benefit formula basis as well as the method for determining the discount rate from one that uses a discount rate based on a period approximate to the expected average remaining service lives of employees to one that uses plural discount rates reflecting respective estimated timing of benefit payment.

The application of the Accounting Standard for Retirement Benefits and its Guidance by the Company is subject to the tentative treatment provided for in Paragraph 37 of the Accounting Standard for Retirement Benefits. Consequently, the effects of the changes in the calculation methods for retirement benefit obligations and service costs have been added to or deducted from retained earnings brought forward as of April 1, 2014.

Consequently, as of April 1, 2014, retirement benefit reserves decreased by ¥1,708 million and retained earnings brought forward increased by the same amount. The effect on operating profit, recurring profit and income before income taxes for the fiscal year under review is immaterial.

3. Notes to Non-consolidated Balance Sheet

(1) Assets pledged as collateral and secured liabilities:

(a) Assets pledged as collateral:

Cash and cash equivalents	¥17 million
Buildings	¥26,032 million
Structures	¥166 million
Land	¥71,777 million
Investment securities	¥76 million
Others in investments and other assets (Membership right)	¥420 million
Total	¥98,490 million

(b) Secured liabilities:

Current portion of long-term debt	¥22,270 million
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(c) Investment securities which have been deposited with the Legal Affairs Bureau:

Deposit for operation stipulated in Building Lots and Buildings	
Transaction Business Act	¥54 million
Deposit for housing construction warranty	¥891 million
Deposit for housing defect warranty	¥115 million
Advanced payment certificate in accordance with Payment Services	
Act	¥920 million

(2) Accumulated depreciation of property, plant and equipment	¥53,300 million
(3) Liabilities on guarantee	
Liabilities on guarantee for financial institutions for customers who have a housing loan	¥898 million
Liabilities on guarantee for financial institutions for customers who have a membership loan	¥15 million
Liabilities on guarantee for borrowings of subsidiaries	¥6,700 million
Liabilities on guarantee for lease contracts of subsidiaries	¥10 million
Liabilities on guarantee for suppliers of subsidiaries	¥1 million
(4) Monetary claims and liabilities to subsidiaries and affiliates	
Short-term monetary claims	¥12,841 million
Long-term monetary claims	¥238 million
Short-term monetary liabilities	¥799 million
Long-term monetary liabilities	¥4 million

4. Notes to Non-consolidated Statement of Operations

(1) Transactions with subsidiaries and affiliates

Sales to subsidiaries and affiliates	¥16,185 million
Purchases, etc. from subsidiaries and affiliates	¥14,682 million
Non-operating transactions	¥389 million

(2) Impairment loss

The Companies recognized impairment loss on the following assets and asset groups for the year ended March 31, 2015.

Purpose	Category	Location	Impairment loss (millions of yen)
Rental assets (Apartment buildings and others, 23 units)	Buildings	Kawaguchi-shi, Saitama, etc.	1
	Land		160
Hotels	Buildings	Yokkaichi-shi, Mie	58
	Land		3
Total			224

The Company recognized each property as a unit.

For the fiscal year under review, the Company wrote down book value of the rental assets whose profitability decreased seriously due to the slump in the rental income market and continuous decline in land prices, to recoverable amounts and recognized the reduction as impairment loss. In addition, the Companies wrote down book values of the hotels in Japan whose sale had been decided, to recoverable amounts and recognized the reduction as impairment loss.

Recoverable amounts of rental assets were measured at their values in use or their net realizable values in sale. Value in use was computed by discounting its future cash flows at 4.9%, while net realizable value in sale was determined based on publicly appraised value.

5. Notes to Non-consolidated Statement of Changes in Net Assets

Number of shares of treasury stock

Class of shares	April 1, 2014	Increase	Decrease	March 31, 2015
Common stock	4,569,210 shares	220 shares	–	4,569,430 shares

Note: The increase of 220 shares in the total number of shares of common stock in treasury was due to purchase of shares less than one unit.

6. Tax Effect Accounting

Significant components of deferred tax assets and liabilities

(millions of yen)

Deferred tax assets:	
Loss carried forward for tax purposes	26,377
Impairment loss	11,027
Retirement benefit reserves	2,685
Reserve for apartment vacancy loss	1,730
Advances from customers for rent income	1,387
Loss on devaluation of fixed assets	1,295
Loss on devaluation of stock	1,136
Bonuses payable	788
Allowance for doubtful accounts	612
Deposits received	432
Loss on devaluation of real estate for sale / property inventories	384
Software	270
Reserve for warranty obligations on completed projects	133
Asset retirement obligations	120
Sales promotion cost	120
Depreciation	115
Accrued enterprise tax	109
Bad debt loss	80
Accounts payable—other	79
Sales discount for construction contracts	18
Low-value assets	13
Others	316
<hr/> Sub-total	<hr/> 49,236
Less: valuation allowance	(30,947)
<hr/> Total deferred tax assets	<hr/> 18,289
<hr/>	
Deferred tax liabilities:	
Non-current asset retirement expenses	(6)
Adjustment of gain/loss on transfer (buildings)	(20)
Net unrealized gain on other securities	(181)
<hr/> Total deferred tax liabilities	<hr/> (208)
<hr/> Net deferred tax assets	<hr/> 18,080

7. Related Party Transactions

(1) Affiliates, etc.

(millions of yen)

Attribute	Name	Percentage of share ownership	Relation	Transaction	Transaction amount	Account	Balance as of March 31, 2015
Subsidiary	Leopalace Power Corporation	Direct 100.0%	Installment of solar power systems on a contract basis	Lending of funds	7,220	Short-term loans receivable from subsidiaries and affiliates	11,820

Notes: 1. Transaction conditions and policies to decide transaction conditions

When lending funds to Leopalace Power Corporation, interest rates are decided taking into account the market rate of interest and others.

2. Consumption taxes were not included in the transaction amount above.

(2) Directors and major individual shareholders

(millions of yen)

Attribute	Name	Percentage of share ownership	Relation	Transaction	Transaction amount	Account	Balance as of March 31, 2015
Close relative of director	Toshiko Miyoshi	—	—	Leasing of land and buildings	26	—	—

Notes: 1. Toshiko Miyoshi is a close relative of Tadahiro Miyama, Director of the Company.

2. Transaction conditions and policies to decide transaction conditions

Rental prices and other conditions for leasing of land and buildings are the same as for transactions with third parties.

3. Consumption taxes were not included in the transaction amount above.

8. Per Share Information

Net assets per share	¥445.98
Net income per share	¥58.31

9. Events after the Reporting Period

Not applicable.

10. Matters Regarding Company Subject to Consolidated Dividend Regulations

Not applicable.