

Consolidated Financial Statements

May 14, 2010

(For the year ended March 31, 2010)

Name of Company Listed: **Leopalace21 Corporation**

Code Number: 8848

(URL: <http://www.leopalace21.co.jp>)

Representative:

Position: President and CEO

Name of Contact Person:

Position: General Manager

Stock Listing: Tokyo Stock Exchange

Location of Head Office: Tokyo

Name: Eisei Miyama

Name: Masumi Iwakabe

Telephone: +81-3-5350-0216

Scheduled Date of Annual Meeting of Stockholders: June 25, 2010

Scheduled Date of Filing of Securities Report: June 28, 2010

Scheduled Date of Commencement of Dividend Payments: —

1. Results of the Fiscal Year Ended March 31, 2010 (April 1, 2009 through March 31, 2010)

(1) Consolidated financial results

(Amounts less than one million yen are omitted)

(% shown indicate rate of gain or loss compared with the previous FY)

	Net sales		Operating income (loss)		Recurring income (loss)		Net income (loss)	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY ended March 31, 2010	620,376	(15.4)	(29,727)	—	(33,831)	—	(79,075)	—
FY ended March 31, 2009	733,235	9.0	50,156	(29.8)	46,785	(23.1)	9,951	—

	Net income (loss) per share	Diluted net income (loss) per share	Return on equity	Recurring income (loss) / Total capital	Operating income (loss) / Net sales
	Yen	Yen	%	%	%
FY ended March 31, 2010	(521.91)	—	(72.8)	(7.8)	(4.8)
FY ended March 31, 2009	63.54	—	6.4	9.7	6.8

Reference: Equity in earnings of affiliates in FY ended March 31, 2010: 145 million yen, FY ended March 31, 2009: 324 million yen.

(2) Consolidated financial position

(Amounts less than one million yen are omitted)

	Total assets	Net assets	Equity ratio	Equity per share
	Million yen	Million yen	%	Yen
As of March 31, 2010	396,511	70,979	17.9	466.76
As of March 31, 2009	467,300	146,442	31.3	967.40

Reference: Shareholders' equity: As of March 31, 2010: 70,890 million yen, As of March 31, 2009: 146,442 million yen.

(3) Consolidated cash flows

(Amounts less than one million yen are omitted)

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of year
	Million yen	Million yen	Million yen	Million yen
FY ended March 31, 2010	(12,990)	(8,489)	15,281	72,431
FY ended March 31, 2009	62,843	(10,048)	(33,885)	78,375

2. Dividend Status

(Base date)	Dividend per share					Total cash dividends (annual)	Dividend payout ratio (consolidated)	Dividend on equity ratio (consolidated)
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	End of FY	Annual			
FY ended March 31, 2009	Yen	Yen	Yen	Yen	%	Million yen	%	%
	—	30.00	—	0.00	30.00	4,781	47.2	3.0
FY ended March 31, 2010	—	0.00	—	0.00	0.00	—	—	—
FY ending March 31, 2011 (Estimated)	—	0.00	—	0.00	0.00		—	

3. Estimation of Business Results for the Fiscal Year Ending March 31, 2011 (April 1, 2010 through March 31, 2011)

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

	Net sales		Operating income		Recurring income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Six months ending September 30, 2010	277,200	(10.7)	2,000	—	1,000	—	800	—	5.27
FY ending March 31, 2011	564,700	(9.0)	5,300	—	3,400	—	3,000	—	19.75

4. Other

- (1) Changes in major subsidiaries during the FY (Change in specific subsidiaries as a result of a change in the scope of consolidation): None
- (2) Changes in accounting principles, procedures or reporting methods used in preparation of Financial Statements (changes in important items concerning preparation of Financial Statements)
 - (i) Changes accompanying revision of accounting standards, etc.: Yes
 - (ii) Changes other than (1) above: Yes
- (3) Total number of outstanding shares (common stock)
 - (i) Total number of outstanding shares at term end (including treasury stock)
As of March 31, 2010: 159,543,915 shares, As of March 31, 2009: 159,543,915 shares
 - (ii) Total treasury stock at term end
As of March 31, 2010: 7,667,387 shares, As of March 31, 2009: 8,165,714 shares

(Reference) Summary of Non-Consolidated Financial Statements

1. Results of the Fiscal Year Ended March 31, 2010 (April 1, 2009 through March 31, 2010)

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

	Net sales		Operating income (loss)		Recurring income (loss)		Net income (loss)	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY ended March 31, 2010	615,367	(15.4)	(28,448)	—	(32,825)	—	(78,736)	—
FY ended March 31, 2009	727,316	9.1	51,381	(27.6)	48,823	(21.0)	9,116	(188.1)

	Net income (loss) per share	Diluted net income per share
	Yen	Yen
FY ended March 31, 2010	(519.68)	—
FY ended March 31, 2009	58.21	—

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

	Total assets	Net assets	Equity ratio	Equity per share
	Million yen	Million yen	%	Yen
As of March 31, 2010	395,539	71,654	18.1	471.21
As of March 31, 2009	469,632	150,053	32.0	991.25

Reference: Shareholders' equity: As of March 31, 2010: 71,565 million yen, As of March 31, 2009: 150,053 million yen.

2. Estimation of Non-consolidated Business Results for the Fiscal Year Ending March 31, 2011 (April 1, 2010 through March 31, 2011)

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

	Net sales		Operating income		Recurring income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Six months ending September 30, 2010	274,500	(10.9)	1,900	—	900	—	800	—	5.27
FY ending March 31, 2011	559,300	(9.1)	5,100	—	3,200	—	2,900	—	19.09

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

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

Business and Other Risks

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

1. Revenue related risk

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

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

2. Cost of sales

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

3. Profit

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

4. Risks associated with tangible fixed assets and real estate held for resale

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

5. Loan Losses, and Provision for Bad Debt

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

6. Provision for apartment vacancy loss

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

7. Leasehold Deposits and Guarantee Deposits

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

impact on Leopalace21's financial position.

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

8. Information Leaks

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

9. Other Risks

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

1. Consolidated Balance Sheets

(Million yen)

	March 31, 2010	March 31, 2009
<Assets>		
Current assets		
Cash and cash equivalents	72,431	78,375
Trade receivable	8,179	6,793
Accrued receivables for completed projects	4,736	2,678
Operating loans	5,482	10,043
Marketable securities	10	153
Real estate for sale / property inventories	1,371	7,560
Real estate for sale in process	2,584	21,266
Payout for construction in progress	1,184	14,925
Raw materials and supplies	593	597
Prepaid expenses	27,894	27,671
Deferred tax assets	6,142	8,046
Other accounts receivable	3,207	2,596
Other	13,493	12,778
Allowance for doubtful accounts	(896)	(1,472)
Total	146,416	192,015
Fixed assets		
Property, plant and equipment		
Buildings and structures	112,741	112,757
Accumulated depreciation	(49,303)	(46,227)
Net	63,437	66,529
Land	96,293	114,914
Leased assets	5,923	3,989
Accumulated depreciation	(1,546)	(491)
Net	4,376	3,498
Construction in progress	3,367	2,884
Other	13,881	13,087
Accumulated depreciation	(10,624)	(9,570)
Net	3,256	3,516
Total	170,731	191,343
Intangible assets		
Other	6,385	3,027
Total	6,385	3,027
Investments and other assets		
Investment securities	6,930	6,103
Long-term loans	1,101	995
Bad debt	5,203	4,563
Long-term prepaid expenses	51,242	61,132
Deferred tax assets	7,482	5,474
Other	5,894	8,123
Allowance for doubtful accounts	(4,966)	(5,483)
Total	72,889	80,909
Total fixed assets	250,006	275,280
Deferred assets		
Business establishment expenses	—	4
Bond issuance cost	89	—
Total	89	4
Total assets	396,511	467,300

(Million yen)

	March 31, 2010	March 31, 2009
<Liabilities>		
Current liabilities		
Accounts payable	2,704	3,586
Accounts payables for completed projects	43,375	59,000
Short-term borrowings	30,000	17,492
Bonds due within one year	560	—
Lease obligations	1,196	792
Unpaid expenses	10,440	11,187
Accrued expenses	4	19
Accrued income taxes	1,594	13,258
Advances received	98,543	97,945
Customer advances for projects in progress	9,425	14,835
Allowance for employees' bonuses	3,065	3,759
Reserve for warranty obligations on completed projects	326	1,123
Asset retirement obligations	40	—
Other	7,134	8,429
Total	208,410	231,432
Long-term liabilities		
Bonds	3,160	—
Long-term debt	22,761	22,897
Lease obligations	3,639	3,006
Retirement benefit reserves	7,306	6,193
Retirement benefit reserves for directors	—	1,281
Provision for apartment vacancy loss	31,728	4,620
Long-term lease/guarantee deposits received	46,104	50,870
Asset retirement obligations	61	—
Long-term accounts payable	1,185	—
Other	1,174	555
Total	117,121	89,425
Total liabilities	325,532	320,857
<Net assets>		
Shareholders' equity		
Common stock	55,640	55,640
Capital surplus	33,894	34,104
Retained earnings	(5,663)	73,412
Treasury stock	(6,142)	(6,541)
Total	77,728	156,616
Valuation and translation adjustments		
Net unrealized gains on "other securities"	124	17
Deferred gains or losses on hedges	(5)	(7)
Translation adjustments	(6,957)	(10,183)
Total	(6,838)	(10,173)
Share subscription rights	88	—
Minority interests	—	—
Total net assets	70,979	146,442
Total liabilities and net assets	396,511	467,300

2. Consolidated Statements of Operations

(Million yen)

	March 31, 2010 (April 2009–March 2010)	March 31, 2009 (April 2008–March 2009)
Net sales		
Sales from Apartment Construction Subcontracting Division	237,062	359,154
Sales from Leasing Division	342,316	334,560
Sales from Other Division	40,997	39,519
Total	620,376	733,235
Cost of sales		
Cost of sales from Apartment Construction Subcontracting Division	173,229	249,563
Cost of sales from Leasing Division	353,373	290,423
Cost of sales from Other Division	44,146	49,847
Total	570,749	589,833
Gross profits	49,626	143,401
Selling, general and administrative expenses		
Advertising expenses	6,686	8,115
Sales commission expense	4,440	3,306
Transfer to allowance for bad debt	1,373	3,518
Directors' compensation	513	555
Salary and bonuses	29,393	35,242
Provision for accrued bonuses	1,608	2,292
Provision for retirement bonuses	1,672	1,382
Provision for accrued retirement benefit for directors	30	140
Rent expense	4,609	5,398
Depreciation and amortization	1,816	1,939
Taxes and public charges	3,967	3,651
Other	23,240	27,700
Total	79,354	93,244
Operating income (loss)	(29,727)	50,156
Non-operating income		
Interest income	131	120
Dividend income	44	175
Gain on sale of investment securities	1	–
Equity in earnings of affiliates	145	324
Gain from cancellation of contracted work	105	100
Rent income	137	–
Other	331	547
Total	897	1,269
Non-operating expenses		
Interest expenses	1,196	1,224
Commission expense	841	780
Foreign exchange loss	2,468	1,876
Other	494	758
Total	5,000	4,640
Recurring income (loss)	(33,831)	46,785

(Million yen)

	March 31, 2010 (April 2009–March 2010)	March 31, 2009 (April 2008–March 2009)
Extraordinary income		
Gain on sale of property, plant and equipment	130	0
Reversal of allowance for doubtful receivables	1,632	296
Reversal of allowance for retirement benefits for directors	92	—
Reversal of provision for accrued rent on master lease properties	—	399
Total	1,855	695
Extraordinary losses		
Loss on sale of property, plant and equipment	226	0
Loss on disposal of property, plant and equipment	842	162
Loss on devaluation of real estate for sale	—	2,560
Impairment loss	3,237	2,807
Loss on devaluation of investment securities	—	3,405
Transfer to allowance for bad debt	72	786
Reversal of provision for apartment vacancy loss	10,342	4,313
Business structure improvement expenses	29,855	—
Loss on adjustment for changes of accounting standard for asset retirement obligations	413	—
Other	559	—
Total	45,551	14,035
Income (loss) before taxes and minority interests	(77,526)	33,446
Income tax—current	329	21,502
Income tax—refund	—	(0)
Income taxed—previous period	1,358	(0)
Income taxes—deferred	(139)	1,992
Total	1,548	23,494
Net income	(79,075)	9,951

3. Consolidated Statements of Changes in Net Assets

(Million yen)

	March 31, 2010 (April 2009–March 2010)	March 31, 2009 (April 2008–March 2009)
Shareholders' equity:		
Share capital:		
Balance at the previous year-end	55,640	55,640
Change in the fiscal year:		
Total	—	—
Balance at the current year-end	55,640	55,640
Capital surplus:		
Balance at the previous year-end	34,104	34,104
Change in the fiscal year:		
Disposal of treasury stock	(210)	—
Total	(210)	—
Balance at the current year-end	33,894	34,104
Retained earnings:		
Balance at the previous year-end	73,412	76,211
Change in the fiscal year:		
Cash dividends	—	(12,750)
Net income (loss)	(79,075)	9,951
Total	(79,075)	(2,798)
Balance at the current year-end	(5,663)	73,412
Treasury stock, at cost:		
Balance at the previous year-end	(6,541)	(98)
Change in the fiscal year:		
Purchase of treasury stock	(0)	(6,443)
Disposal of treasury stock	399	—
Total	399	(6,443)
Balance at the current year-end	(6,142)	(6,541)
Total shareholders' equity:		
Balance at the previous year-end	156,616	165,858
Change in the fiscal year:		
Cash dividends	—	(12,750)
Net income	(79,075)	9,951
Purchase of treasury stock	(0)	(6,443)
Disposal of treasury stock	188	—
Total	(78,887)	(9,241)
Balance at the current year-end	77,728	156,616

(Million yen)

	March 31, 2010 (April 2009–March 2010)	March 31, 2009 (April 2008–March 2009)
Valuation and translation adjustments:		
Net unrealized holding gain on securities:		
Balance at the previous year-end	17	89
Change in the fiscal year:		
Net changes of items other than shareholders' equity	107	(72)
Total	107	(72)
Balance at the current year-end	124	17
Deferred gains or losses on hedges:		
Balance at the previous year-end	(7)	–
Change in the fiscal year:		
Net changes in items other than shareholders' equity	2	(7)
Total	2	(7)
Balance at the current year-end	(5)	(7)
Translation adjustments:		
Balance at the previous year-end	(10,183)	(762)
Change in the fiscal year:		
Net changes of items other than shareholders' equity	3,225	(9,420)
Total	3,225	(9,420)
Balance at the current year-end	(6,957)	(10,183)
Total valuation and translation adjustments:		
Balance at the previous year-end	(10,173)	(672)
Change in the fiscal year:		
Net changes of items other than shareholders' equity	3,335	(9,500)
Total	3,335	(9,500)
Balance at the current year-end	(6,838)	(10,173)
Subscription rights to shares:		
Balance at the previous year-end	–	–
Change in the fiscal year:		
Net changes of items other than shareholders' equity	88	–
Total	88	–
Balance at the current year-end	88	–
Minority interests:		
Balance at the previous year-end	–	4,970
Change in the fiscal year:		
Net changes of items other than shareholders' equity	–	(4,970)
Total	–	(4,970)
Balance at the current year-end	–	–
Total net assets:		
Balance at the previous year-end	146,442	170,155
Change in the fiscal year:		
Cash dividends	–	(12,750)
Net income (loss)	(79,075)	9,951
Purchase of treasury stock	(0)	(6,443)
Disposal of treasury stock	188	–
Net changes of items other than shareholders' equity	3,424	(14,470)
Total	(75,463)	(23,712)
Balance at the current year-end	70,979	146,442

4. Consolidated Statements of Cash Flows

(Million yen)

	March 31, 2010 (April 2009–March 2010)	March 31, 2009 (April 2008–March 2009)
Cash flows from operating activities		
Net income before taxes and adjustments	(77,526)	33,446
Depreciation expenses	6,295	5,782
Increase (decrease) in allowance for doubtful accounts	(133)	3,637
Increase (decrease) in retirement benefit reserves for directors	(96)	(310)
Increase (decrease) in provision for apartment vacancy loss	27,108	4,620
Interest and dividend income	(176)	(296)
Interest expense	1,196	1,224
Foreign exchange loss (gain)	2,468	1,876
Equity in losses (earnings) of affiliated companies	(145)	(324)
Loss (gain) on sale of property, plant and equipment	96	0
Write-offs of property, plant and equipment	842	162
Loss on devaluation of real estate for sale	—	2,560
Impairment loss	3,237	2,807
Loss (gain) on sale of investment securities	(1)	—
Loss (gain) on devaluation of investment securities	—	3,405
Business structure reform expenses	29,855	—
Decrease (increase) in accounts receivable	(991)	35,868
Decrease (increase) in real estate for sale	24,221	4,941
Decrease (increase) in work in process	3,537	(3,133)
Decrease (increase) in long-term prepaid expenses	9,348	(10,854)
Increase (decrease) in accounts payable	(15,357)	(26,860)
Increase (decrease) in customer advances for projects in progress	(5,410)	(6,916)
Increase (decrease) in advances received	621	(505)
Increase (decrease) in guarantee deposits received	(4,869)	31,180
Increase (decrease) in accrued consumption taxes	(1,870)	1,549
Other	176	2,489
Subtotal	2,424	86,350
Interest and dividends received	183	603
Interest paid	(1,212)	(1,225)
Income taxes paid	(14,386)	(22,884)
Net cash provided by (used in) operating activities	(12,990)	62,843

(Million yen)

	March 31, 2010 (April 2009–March 2010)	March 31, 2009 (April 2008–March 2009)
Cash flows from investing activities		
Payment for purchase of property, plant and equipment	(5,734)	(5,374)
Proceeds from sale of property, plant and equipment	1,536	227
Payment for purchase of intangible assets	(3,697)	(2,443)
Payment for purchase of investment securities	(836)	(498)
Proceeds from sale of investment securities	125	79
Payment for loans	(110)	(536)
Proceeds from collection of loans	5	301
Other	222	(1,803)
Net cash used in (provide by) investing activities	(8,489)	(10,048)
Cash flows from financing activities		
Proceeds from short-term debt	37,799	29,000
Repayment of short-term debt	(28,080)	(29,000)
Proceeds from long-term debt	38,000	18,000
Repayment of long-term debt	(35,347)	(22,226)
Repayment of finance lease obligations	(906)	(400)
Proceeds from issuance of bonds	3,907	–
Payment for redemption of bonds	(280)	(5,094)
Refund of amount invested by minority interests	–	(4,970)
Proceeds from disposal of treasury stock	188	–
Payment for purchases of treasury stock	(0)	(6,443)
Dividends paid for shareholders	–	(12,750)
Net cash provided by (used in) financing activities	15,281	(33,885)
Effect of exchange rate changes on cash and cash equivalents	254	(1,498)
Net increase (decrease) in cash and cash equivalents	(5,944)	17,410
Cash and cash equivalents at beginning of period	78,375	60,965
Cash and cash equivalents at end of period	72,431	78,375

4. Segment Information

Our business results for each segment by business category are discussed below.

Fiscal Year Ended March 31, 2009 (April 1, 2008 through March 31, 2009)

(Million yen)

	Apartment Construction Subcontracting Division	Leasing Division	Hotel Resort Division	Residential Sales Division	Other Division	Total	Eliminations/ Unallocated	Consolidated
Net sales and operating income (loss)								
Net sales								
(1) Sales to customers	359,154	334,560	5,610	11,468	22,440	733,235	—	733,235
(2) Inter-segment sales and transfers	—	216	4,605	—	—	4,821	(4,821)	—
Total	359,154	344,776	10,216	11,468	22,440	738,056	(4,821)	733,235
Operating expenses	289,042	336,315	11,021	22,133	24,605	683,117	(39)	683,078
Operating income (loss)	70,112	(1,538)	(805)	(10,664)	(2,164)	54,938	(4,782)	50,156
II. Assets, Depreciation, Impairment losses and Capital expenditures	41,899	214,657	43,266	28,906	17,668	346,398	120,901	467,300
Assets	536	2,863	1,657	10	295	5,362	419	5,782
Depreciation	—	2,807	—	—	—	2,807	—	2,807
Impairment losses	—	—	—	—	—	—	—	—
Capital expenditures	278	5,379	489	5	1,446	7,598	4,154	11,753

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

(Million yen)

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

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

2. Segments and business content

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

businesses

3. Major items and amounts included in "Elimination or Corporate" are as follows.

(Million yen)

	FY ended March 31, 2009	FY ended March 31, 2010	Main component
Operating expenses unable to be allocated included in "eliminations/unallocated"	4,992	3,587	Management expenses of the General Affairs Department of the Company submitting the consolidated financial statements.
Amount of corporate assets included in "Elimination or Corporate"	120,901	112,671	Surplus funds under management at submitting company (Cash and deposits, marketable securities, etc.), long-term investment funds (investment securities, etc.), and assets related to management operations.

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

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

Segment information for the previous fiscal year as per the business classifications used during the subject fiscal year are as follows.

Fiscal Year Ended March 31, 2009 (April 1, 2008 through March 31, 2009)

(Million yen)

	Apartment Construction Subcontracting Division	Leasing Division	Hotel Resort Division	Residential Sales Division	Other Division	Total	Eliminations/ Unallocated	Consolidated
Net sales and operating income (loss)								
Net sales								
(1) Sales to customers	359,154	345,914	8,004	11,468	8,692	733,235	—	733,235
(2) Inter-segment sales and transfers	—	216	4,605	—	—	4,821	(4,821)	—
Total	359,154	346,130	12,609	11,468	8,692	738,056	(4,821)	733,235
Operating expenses	289,042	347,108	13,081	22,133	11,751	683,117	(39)	683,078
Operating income (loss)	70,112	(977)	(472)	(10,664)	(3,059)	54,938	(4,782)	50,156
II. Assets, Depreciation, Impairment losses and								
Capital expenditures	41,899	205,737	53,710	28,906	16,144	346,398	120,901	467,300
Assets	536	2,651	2,079	10	84	5,362	419	5,782
Depreciation	—	2,807	—	—	—	2,807	—	2,807
Impairment losses	—	—	—	—	—	—	—	—
Capital expenditures	278	6,457	505	5	351	7,598	4,154	11,753

5. Changes in accounting policies

(Previous consolidated fiscal year)

1. Accounting Standard for Measurement of Inventories

With effect from this fiscal year, the Company applied the Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9, issued on July 5, 2006). As a result of these changes, operating expenses increased by ¥8,664 million and the operating loss increased by the same amount in the Residential Sales Division, compared with the application of the previous accounting method.

2. Provision for apartment vacancy loss

With effect from this fiscal year, to provide against losses on vacant units under master contracts, Leopalace21 changed its method for recording allowance for loss on vacant units to the amount of loss reasonably expected to be incurred during the

estimable period, based on the predetermined lease rates of individual leased units and occupancy rate. As a result of this change, operating expenses increased by ¥245 million and the operating loss increased by the same amount in the Leasing Division, compared with the application of the previous accounting method.

(Subject consolidated fiscal year)

1. Accounting Standards for Construction Contracts

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

2. Changes in Cost Accounting Method of Contracted Work

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

3. Accounting standard with regard to asset retirement obligations

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