Consolidated Financial Statements (Japanese Accounting Standard)

May 13, 2016

(For the year ended March 31, 2016)

Name of Company Listed: **Leopalace21 Corporation** Stock Listing: Tokyo Stock Exchange
Code Number: 8848 URL: http://eg.leopalace21.com/ Location of Head Office: Tokyo
Representative: Position: President and CEO Name: Eisei Miyama
Name of Contact Person: Position: Executive Officer Name: Bunya Miyao Telephone: +81-3-5350-0216
Scheduled Date of Filing of Securities Report (Japanese only): June 29, 2016
Scheduled Date of Commencement of Dividend Payments: June 29, 2016
Supplemental Explanatory Material Prepared: Yes Results Briefing Held: Yes

1. Results for the Fiscal Year ended March 31, 2016 (April 1, 2015 through March 31, 2016)

(1) Consolidated financial results (Amounts less than one million yen are omitted)
(The percentage figures indicate rate of gain or loss compared with the same period last year)

	Net sales		Operating profit		Recurring profit		Net income attributable to shareholders of the parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY ended March 31, 2016	511,424	5.8	20,996	42.2	19,820	47.6	19,432	33.9
FY ended March 31, 2015	483,188	2.6	14,763	8.0	13,424	16.0	14,507	-4.7

(Note) Comprehensive income as of March 31, 2016: 19,716 million yen (-0.9%); as of March 31, 2015: 19,904 million yen (-9.3%)

	Net income per share	Diluted net income per share	Return on equity	Recurring income / Total capital	Operating income / Net sales
	Yen	Yen	%	%	%
FY ended March 31, 2016	73.92	–	14.3	6.2	4.1
FY ended March 31, 2015	55.19	–	12.5	4.5	3.1

(Reference) Equity in earnings of affiliates in FY ended March 31, 2016: (9) million yen, FY ended March 31, 2015: (8) million yen.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Equity per share
	Million yen	Million yen	%	Yen
As of March 31, 2016	326,890	146,211	44.7	556.06
As of March 31, 2015	308,274	126,473	41.0	481.05

(Reference) Shareholders' equity as of March 31, 2016: 146,173 million yen; as of March 31, 2015: 126,455 million yen

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of year
	Million yen	Million yen	Million yen	Million yen
FY ended March 31, 2016	22,104	(11,087)	1,374	86,826
FY ended March 31, 2015	15,715	(17,550)	1,747	74,504

2. Dividend Status

	Dividend per share					Total cash dividends (annual)	Dividend payout ratio (consolidated)	Dividend on equity ratio (consolidated)
	End of Q1	End of Q2	End of Q3	End of FY	Annual			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
FY ended March 31, 2015	–	0.00	–	0.00	0.00	–	–	–
FY ended March 31, 2016	–	0.00	–	10.00	10.00	2,628	13.5	1.9
FY ending March 31, 2017 (Estimate)	–	10.00	–	12.00	22.00		31.3	

3. Estimation of Consolidated Business Results for the Fiscal Year ending March 31, 2017 (April 1, 2016 through March 31, 2017)

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

	Net sales		Operating profit		Recurring profit		Net income attributable to shareholders of the parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Six months ending September 30, 2016	253,500	0.5	10,000	-3.9	9,800	1.6	8,500	3.5	32.33
FY ending March 31, 2017	528,000	3.2	22,500	7.2	21,500	8.5	18,500	-4.8	70.38

4. Other

(1) Changes in major subsidiaries during the subject period (change in specific subsidiaries resulting in a change in the scope of consolidation): None

(2) Changes in accounting principles, procedures or reporting methods used in preparation of financial statements
- (i) Changes in accounting policies accompanying revision of accounting standards, etc.: Yes
- (ii) Changes in accounting policies other than (i) above: None
- (iii) Changes in accounting estimates: None
- (iv) Restatements: None

(Note) For details, please refer to pg.20 "4. Consolidated Financial Statements (5) Notes Regarding Consolidated Financial Statements (Changes in Accounting Policies)"

(3) Total number of outstanding shares (common stock)
- (i) Total number of outstanding shares at term end (including treasury stock)
  As of March 31, 2016: 267,443,915 shares, As of March 31, 2015: 267,443,915 shares
- (ii) Total treasury stock at term end
  As of March 31, 2016: 4,569,520 shares, As of March 31, 2015: 4,569,430 shares
- (iii) Average number of outstanding shares during the period
  As of March 31, 2016: 262,874,470 shares, As of March 31, 2015: 262,874,579 shares

(Reference) Summary of Non-Consolidated Financial Statements

1. Results of the Fiscal Year Ended March 31, 2016 (April 1, 2015 through March 31, 2016)

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

	Net sales		Operating income		Recurring income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY ended March 31, 2016	495,146	2.2	20,444	31.1	19,825	36.3	19,422	26.7
FY ended March 31, 2015	484,360	3.1	15,595	17.0	14,546	28.1	15,327	4.5

	Net income per share	Diluted net income per share
	Yen	Yen
FY ended March 31, 2016	73.88	–
FY ended March 31, 2015	58.31	–

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Equity per share
	Million yen	Million yen	%	Yen
As of March 31, 2016	294,962	136,732	46.3	520.07
As of March 31, 2015	284,927	117,254	41.1	445.98

(Reference) Shareholders' equity as of March 31, 2016: 136,714 million yen; as of March 31, 2015: 117,236 million yen

2. Estimation of Non-consolidated Business Results for the Fiscal Year Ending March 31, 2017 (April 1, 2016 through March 31, 2017)

(The percentage figures for full year represent the change compared with the previous FY, while those for the interim period represent the change compared with the same term in the previous FY)

	Net sales		Recurring profit		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Yen
Six months ending September 30, 2016	244,000	-0.7	8,900	-7.9	7,600	-6.8	28.91
FY ending March 31, 2017	510,000	3.0	21,500	8.4	18,900	-2.7	71.90

*Indication regarding the status of auditing:

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

*Explanation on the proper use of the business forecasts, and other special notices:

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

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

For assumptions of business forecasts and notes on the proper use of these forecasts, please refer to pg. 5 "1. Business Results (1) Analysis of Business Results (Outlook for the next fiscal year).

(Method for the acquisition of supplemental explanatory material)

Supplemental Explanatory Material on quarterly financial statements is scheduled to be posted on the Company's web site on May 13, 2016.

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1. Business Results
(1) Analysis of Business Results

(Million yen)

	Net sales	Operating profit	Recurring profit	Net income attributable to shareholders of the parent
FY ended March 31, 2016	511,424	20,996	19,820	19,432
FY ended March 31, 2015	483,188	14,763	13,424	14,507
Difference	28,236	6,233	6,396	4,924

During the subject year, the domestic economy showed gradual progression supported by improvements in corporate earnings, employment, income, and individual consumption, despite prospects being uncertain due to the downturn in the Chinese economy as well as the drastic appreciation of the yen.

In the rental housing industry, recovery from the negative effects of the consumption tax increase has progressed, and new housing starts of leased units has improved for the first time in two years (up 7.1% year-on-year). On the other hand, while the number of vacant houses continues to increase and recovery in nationwide demand becomes difficult, achieving stable occupancy rates requires constructing apartments in areas with high demand, in addition to providing high-quality products and services that meet tenants' needs.

Under these conditions, the Leopalace21 Group (the "Group") aims to achieve targets of the Medium-term Management Plan "EXPANDING VALUE," which is in its second year, by building a solid management structure focusing on the core businesses, made up of Leasing and Construction. 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 511,424 million yen (up 5.8% year-on-year). Operating profit was 20,996 million yen (up 42.2% year-on-year), recurring profit was 19,820 million yen (up 47.6% year-on-year), and net income attributable to shareholders of the parent was 19,432 million yen (up 33.9% year-on-year).

On a non-consolidated basis, net sales were 495,146 million yen (up 2.2% year-on-year), operating income was 20,444 million yen (up 31.1%), recurring income was 19,825 million yen (up 36.3%), and net income was 19,422 million yen (up 26.7%).

(Actual figures by segment) (Million yen)

	Net sales			Operating profit		
	FY ended March 31, 2015	FY ended March 31, 2016	Difference	FY ended March 31, 2015	FY ended March 31, 2016	Difference
Leasing Business	399,316	410,552	11,235	20,532	22,760	2,228
Construction Business	61,312	74,160	12,847	210	3,339	3,128
Elderly Care Business	10,608	10,798	190	(606)	(1,354)	(748)
Hotels & Resort Business	8,951	11,427	2,476	(1,289)	(697)	591
Others	2,999	4,485	1,485	31	337	306
Adjustments	—	—	—	(4,116)	(3,388)	727
Total	483,188	511,424	28,236	14,763	20,996	6,233

(i) Leasing Business

The occupancy rate at the end of the fiscal year was 90.53% (up 1.24 points from the end of the previous fiscal year) and the average occupancy rate for the period was 87.95% (up 1.38 points year-on-year).

In the Leasing Business, to establish stable profits led by occupancy improvement, the Group implemented measures to promote longer rent periods such as expanding tenant services including "Room Customize" and providing a website for tenants, as well as further strengthening sales for female and corporate customers by security system installations. In addition, the Group aims to increase foreign tenants by refining customer support.

The number of units under management at the end of the fiscal year was 561,000 (increasing 7,000 from the end of the previous fiscal year), the number of direct offices was 189 (increasing 1 from the end of the previous fiscal year), and the number of franchise offices was 130 (decreasing 11 from the end of the previous fiscal year).

As a result, net sales amounted to 410,552 million yen (up 2.8% year-on-year), and operating profit was 22,760 million yen (up 10.9% year-on-year).

(ii) Construction Business

Orders received during the subject year were 86,439 million yen (down 1.1% year-on-year) and the orders received outstanding stood at 66,347 million yen (up 14.1% from the end of the previous fiscal year).

In the Construction Business, the Group focused on supplying apartments in metropolitan areas where solid leasing demand is anticipated, as well as providing high quality products with earthquake-resistant and better sound insulation. In addition, the Group implemented a new brand attempting to strengthen product competitiveness and refresh the image of tenants, expanded construction variations based on “ideal land use”, and has begun reconsidering suppliers and its product prices to improve profitability.

As a result, net sales came to 74,160 million yen (up 21.0% year-on-year), and operating profit was 3,339 million yen (up 3,128 million yen year-on-year).

(iii) Elderly Care Business

Net sales were 10,798 million yen (up 1.8% year-on-year), and operating loss was 1,354 million yen (increasing loss of 748 million yen year-on-year).

(iv) Hotels & Resort Business

Net sales of the resort facilities in Guam and hotels in Japan were 11,427 million yen (up 27.7% year-on-year), and operating loss was 697 million yen (decreasing loss of 591 million yen year-on-year).

(v) Other Businesses

In Other Businesses such as the small-claims and short-term insurance business, the solar power generation business, and the finance business, net sales were 4,485 million yen (up 49.5% year-on-year), and operating profit was 337 million yen (up 979.3% year-on-year).

(Outlook for the next fiscal year)

In the next fiscal year, the Group will strengthen competitiveness mainly in the core business, as well as expand elderly care facilities in cooperation with the Construction Business, and continue to construct and manage serviced apartments and offices in the ASEAN region.

As for the consolidated business results of the fiscal year ending March 2017, we expect sales of 528,000 million yen (up 3.2% year-on-year), operating profit of 22,500 million yen (up 7.2%), recurring profit of 21,500 million yen (up 8.5%), and net income attributable to shareholders of the parent of 18,500 million yen (down 4.8%).

(2) Analysis of Consolidated Financial Position

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

(Million yen)

	Assets	Liabilities	Net assets
As of March 31, 2016	326,890	180,679	146,211
As of March 31, 2015	308,274	181,801	126,473
Difference	18,616	(1,122)	19,738

Total assets at the end of the fiscal year increased 18,616 million yen from the end of the previous fiscal year to 326,890 million yen. This was mainly attributable to an increase of 12,821 million yen in cash and cash equivalents, 3,291 million yen in deferred tax assets, 1,536 million yen in leased assets (net), 1,452 million yen in construction in progress, and 1,397 million yen in investment securities, despite a decrease of 1,383 million yen in other accounts receivable and 1,919 million yen in buildings and structures (net).

Total liabilities decreased 1,122 million yen from the end of the previous fiscal year to 180,679 million yen. This primarily reflected a decrease of 17,823 million yen in short-term interest-bearing debt, 5,327 million yen in long and short term advances received, 1,903 million yen in customer advances for projects in progress, and 1,855 million yen in accounts payable for completed projects, despite an increase in long-term interest-bearing debt of 24,159 million yen due to the issuance of corporate bonds and 1,974 million yen in accrued income taxes.

Net assets increased 19,738 million yen from the end of the previous fiscal year to 146,211 million yen, chiefly due to a recording of 19,432 million yen in net income attributable to shareholders of the parent. The ratio of shareholders’ equity to assets rose 3.7 points from the end of the previous fiscal year, to 44.7%.

(ii) Cash flow position

Cash flow from operating activities was a net inflow of 22,104 million yen (an increase of 6,389 million yen in net inflow from the previous fiscal year). This was mainly due to 19,061 million yen of income before taxes and minority interests, and 9,614 million yen of depreciation, despite a decrease in advances received of 5,386 million yen and a decrease in accounts payable of 2,701 million yen.

Cash flow from investing activities was a net outflow of 11,087 million yen (a decrease of 6,462 million yen in net outflow from the previous fiscal year). This was primarily due to payments for the purchase of property, plant and equipment of 9,053 million yen.

Cash flow from financing activities was a net inflow of 1,374 million yen (a decrease of 373 million yen in net inflow from the previous fiscal year). This was chiefly due to proceeds from the issuance of bonds of 18,227 (after deduction of bonds redemption), despite a repayment of debt and finance lease obligations of 16,875 million yen (after deduction of proceeds from debt).

As a result, cash and cash equivalents at the end of the consolidated fiscal year under review stood at 86,826 million yen, an increase of 12,321 million yen from the end of the previous fiscal year.

(Reference) Trends in cash flow indicators

	FY ended March 31, 2012	FY ended March 31, 2013	FY ended March 31, 2014	FY ended March 31, 2015	FY ended March 31, 2016
Equity ratio (%)	12.8	22.2	36.5	41.0	44.7
Market price based equity ratio (%)	18.0	32.2	45.3	53.6	54.7
Ratio of cash flow to interest-bearing debt (year)	—	8.1	2.4	2.8	2.3
Interest coverage ratio (ratio)	—	4.7	9.8	13.8	23.6

Equity ratio: Shareholders' equity/assets

Market price based equity ratio: Market capitalization/assets

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

Interest coverage ratio: Cash flow/interest paid

(Note 1) Ratios are calculated based on consolidated financial data.

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

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

(Note 4) The ratio of cash flow to interest-bearing debt and the interest coverage ratio for the fiscal years ended March 2012 is not shown because cash flow from operating activities was negative in that particular year.

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

To increase shareholders' value, the Company will not only distribute profit earned from business measures in the form of dividends, but will maximize mid- to long-term corporate value and increase EPS (earnings per share) through investments in matters such as real estate, overseas businesses, mergers and acquisitions, IT, and research and development. Concerning the dividend payout ratio, the Company will set a medium-term goal of 30% (in respect to consolidated net income), in addition to maintaining a stable dividend.

For the subject fiscal year, the Company plans to pay a year-end dividend of 10 yen, the first dividend in seven years.

For the next fiscal year, the Company plans a mid-term dividend of 10 yen, a year-end dividend of 12 yen, with a total of 22 yen.

(4) Business and Other Risks

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

1. Revenue-related Risk

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

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

2. Cost of Sales

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

3. Risks Associated with Tangible Fixed Assets and Real Estate Held for Resale

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

4. Loan Losses, and Reserve for Bad Debt

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

5. Reserve for Apartment Vacancy Loss

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

6. Leasehold Deposits and Guarantee Deposits

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

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

7. Financial Covenants

Financial covenants have been set on the numerous loan agreements that Leopalace21 has concluded with financial institutions. Accordingly, should consolidated or non-consolidated net assets, consolidated or non-consolidated interest-bearing debt, non-consolidated operating income violate the conditions of a financial covenant, there is a possibility that the Company, at the behest of the financial institution, could forfeit the benefit of the term for corporate bonds or other borrowings, which could have an impact on the Company's operating performance.

8. Information Leaks

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

9. Other Risks

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

2. Management Policy

(1) Fundamental Policy of Company Management

Following the corporate mission of "Creating New Value," the Company aims to i). create new value unique to the Company through the teamwork of all employees coming up with flexible ideas while focusing on the needs of the present day; ii). continue growth as a company by evolving its products, services, and technology, making the customers' happiness our happiness; and iii). create new value for society by contributing to the creation of an affluent society, as a leading company in the industry.

(2) Management Indicator Goals

The Company has set its financial targets for the fiscal year ending March 31, 2017 at 528,000 million yen for net sales, 22,500 million yen for operating profit, and 18,500 million yen for net income attributable to shareholders of the parent company.

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

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

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

In the Construction Business, the Company will seek a new profit foundation through measures such as supplying apartments in urban areas where a high occupancy rate is expected, offering advanced new products, building high-quality apartments by paying attention to earthquake protection and sound insulation, etc., and expanding the number of orders received for buildings other than apartments such as elderly care, commercial facilities, and built-to-order houses.

During the Medium-Term Management Plan, the Company positions the Elderly Care Business as a growth strategy area and will endeavor to promote the opening of care facilities in cooperation with the Construction Business. As a company-wide measure, the Company will also maintain a low cost structure while strategically investing in costs (personnel, advertising, and sales promotion expenses) necessary to expand future sales and earnings.

(4) Issues to be Addressed by the Group

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

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

・Improving earnings power and developing new businesses

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

3. Basic Approach to Selection of Accounting Standards

The Group has been preparing its consolidated financial statements based on the Japanese Accounting Standard by taking into account the comparability of the consolidated financial statements between terms and between companies.

Moreover, the Group has adopted a policy of giving appropriate consideration to the application of the International Financial Reporting Standards (IFRS) by primarily taking into account the progress of the ratio of foreign shareholders and the trends of domestic companies in the same industry.

4. Consolidated Financial Statements
(1) Consolidated Balance Sheets

(Million yen)

	March 31, 2016	March 31, 2015
<Assets>		
Current assets		
Cash and cash equivalents	88,043	75,221
Trade receivables	6,779	6,254
Accounts receivable for completed projects	1,992	1,714
Operating loans	885	1,135
Securities	880	831
Real estate for sale	21	21
Payment for construction in progress	785	647
Raw materials and supplies	588	609
Prepaid expenses	2,847	3,656
Deferred tax assets	5,659	4,447
Other accounts receivable	1,630	3,013
Others	4,283	4,907
Allowance for doubtful accounts	(212)	(199)
Total current assets	**114,185**	**102,263**
Non-current assets		
Property, plant, and equipment		
Buildings and structures	130,653	130,100
Accumulated depreciation	(72,673)	(70,200)
Net	57,979	59,899
Machinery, equipment, and vehicles	23,369	20,259
Accumulated depreciation	(7,264)	(5,143)
Net	16,105	15,115
Land	84,241	83,289
Leased assets	17,663	14,809
Accumulated depreciation	(8,246)	(6,928)
Net	9,417	7,880
Construction in progress	2,444	992
Others	11,850	12,065
Accumulated depreciation	(10,001)	(9,811)
Net	1,848	2,253
Total property, plant, and equipment	**172,036**	**169,430**
Intangible fixed assets		
Goodwill	1,530	1,684
Others	7,804	7,210
Total intangible fixed assets	**9,334**	**8,894**
Investments and other assets		
Investment securities	8,230	6,832
Long-term loans	544	540
Bad debts	1,256	1,297
Long-term prepaid expenses	3,686	3,416
Deferred tax assets	16,734	14,654
Others	2,232	2,905
Allowance for doubtful accounts	(2,023)	(2,085)
Total investments and other assets	**30,661**	**27,561**
Total non-current assets	**212,033**	**205,887**

	March 31, 2016	March 31, 2015
Deferred assets		
Allowance for doubtful accounts	671	123
Total deferred assets	**671**	**123**
Total assets	**326,890**	**308,274**

(Million yen)

	March 31, 2016	March 31, 2015
<Liabilities>		
Current liabilities		
Accounts payable	2,606	2,803
Accounts payable for completed projects	12,193	14,049
Short-term borrowings	265	60
Long-term debt due within one year	1,412	23,005
Bonds due within one year	4,326	1,460
Lease obligations	3,054	2,355
Accounts payable-other	19,229	18,466
Accrued expenses	5	13
Accrued income taxes	2,919	944
Advances received	38,701	40,781
Customer advances for projects in progress	5,026	6,930
Reserve for warranty obligations on completed projects	447	404
Reserve for fulfillment of guarantees	860	700
Asset retirement obligations	34	41
Others	4,301	4,504
Total current liabilities	**95,384**	**116,521**
Non-current liabilities		
Bonds	20,001	3,960
Long-term debt	14,106	7,196
Lease obligations	7,659	6,450
Long-term advances received	18,950	22,198
Lease/guarantee deposits received	7,516	8,019
Deferred tax liabilities	208	253
Reserve for apartment vacancy loss	3,802	5,280
Liability for retirement benefit	10,224	9,351
Asset retirement obligations	69	76
Others	2,754	2,492
Total non-current liabilities	**85,294**	**65,279**
Total liabilities	**180,679**	**181,801**
<Net assets>		
Shareholders' equity		
Common stock	75,282	75,282
Capital surplus	45,235	51,501
Retained earnings	26,125	427
Treasury stock	(3,660)	(3,660)
Total shareholders' equity	**142,982**	**123,550**
Accumulated other comprehensive income		
Net unrealized gains on "other securities"	435	379
Foreign currency translation adjustments	3,651	3,545
Remeasurements of defined benefit plans	(895)	(1,021)
Total accumulated other comprehensive income	**3,190**	**2,904**
Share subscription rights	18	18
Non-controlling interests	20	0
Total net assets	**146,211**	**126,473**
Total liabilities and net assets	**326,890**	**308,274**

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

Consolidated Statements of Operations

(Million yen)

	FY ended March 31, 2016 (Apr. 2015–Mar. 2016)	FY ended March 31, 2015 (Apr. 2014–Mar. 2015)
Net sales		
Sales from Leasing Business	410,552	399,316
Sales from Construction Business	74,160	61,312
Sales from Other Business	26,712	22,559
Total net sales	**511,424**	**483,188**
Cost of sales		
Cost of Leasing Business	344,246	337,339
Cost of Construction Business	54,236	49,605
Cost of Other Business	24,122	20,487
Total cost of sales	**422,604**	**407,433**
Gross profit	**88,820**	**75,755**
Selling, general, and administrative expenses		
Advertising expenses	3,786	3,657
Sales commission expense	2,688	2,725
Transfer to reserve for bad debt	59	(36)
Directors' compensation	474	409
Salary and bonuses	31,436	27,297
Retirement benefit cost	1,182	960
Rent expense	2,709	2,425
Depreciation and amortization	1,981	1,765
Taxes and public charges	4,521	4,227
Other	18,984	17,561
Total selling, general, and administrative expenses	**67,823**	**60,992**
Operating profit	**20,996**	**14,763**
Non-operating income		
Interest income	43	40
Dividend income	77	83
Valuation gains of investment securities	77	—
Foreign exchange gain	—	52
Gain from amortization of deposits payable	102	—
Compensation income	61	—
Refunds of fixed asset tax	—	88
Other	153	225
Total non-operating income	**517**	**491**
Non-operating expenses		
Interest expenses	944	1,143
Commission fee	171	461
Foreign exchange losses	267	—
Equity in losses of affiliated companies	9	8
Other	300	216
Total non-operating expenses	**1,693**	**1,830**
Recurring profit	**19,820**	**13,424**

(Million yen)

	FY ended March 31, 2016 (Apr. 2015–Mar. 2016)	FY ended March 31, 2015 (Apr. 2014–Mar. 2015)
Extraordinary income		
Gain on sales of property, plant and equipment	26	6
Total extraordinary income	**26**	**6**
Extraordinary losses		
Loss on sale of property, plant and equipment	1	0
Loss on retirement of property, plant and equipment	147	309
Loss on evaluation of investment securities	19	—
Impairment loss	616	224
Total extraordinary losses	**785**	**534**
Income before taxes and other adjustments	**19,061**	**12,896**
Income taxes－current	2,999	1,016
Income taxes – refund	(19)	(0)
Income taxes – deferred	(3,347)	(2,613)
Total income taxes	**(368)**	**(1,597)**
Income before minority interests	**19,429**	**14,494**
Minority stockholders' loss	**(2)**	**(13)**
Net income	**19,432**	**14,507**

Consolidated Statements of Comprehensive Income

(Million yen)

	FY ended March 31, 2016 (Apr. 2015–Mar. 2016)	FY ended March 31, 2015 (Apr. 2014–Mar. 2015)
Net income	**19,429**	**14,494**
Other comprehensive income		
Net unrealized gains on “other securities”	55	(47)
Translation adjustments	107	5,660
Remeasurements of defined benefit plans	125	(205)
Share of other comprehensive income of associates	(1)	2
Total other comprehensive income	**286**	**5,409**
Comprehensive income	**19,716**	**19,904**
(Breakdown)		
Comprehensive income attributable to shareholders of the parent	19,718	19,917
Comprehensive income attributable to non-controlling interests	(2)	(13)

(3) Consolidated Statements of Changes in Net Assets

Fiscal year ended March 31, 2015 (April 2014–March 2015)

(Million yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance at the previous year-end	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 in the fiscal year					
Deficit disposition					—
Net income			14,507		14,507
Acquisition of treasury stock				(0)	(0)
Disposal of treasury stock					—
Changes in items other than shareholders' equity (net)					
Total change in the fiscal year	—	—	14,507	(0)	14,507
Balance at the current year-end	75,282	51,501	427	(3,660)	123,550

	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			
Balance at the previous year-end	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 in the fiscal year							
Deficit disposition							—
Net income							14,507
Acquisition of treasury stock							(0)
Disposal of treasury stock							—
Changes in items other than shareholders' equity (net)	(47)	5,662	(205)	5,409	—	(13)	5,396
Total change in the fiscal year	(47)	5,662	(205)	5,409	—	(13)	19,904
Balance at the current year-end	379	3,545	(1,021)	2,904	18	0	126,473

Fiscal year ended March 31, 2016 (April 2015–March 2016)

(Million yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance at the previous year-end	75,282	51,501	427	(3,660)	123,550
Cumulative effects of changes in accounting policies					—
Restated balance after changes in accounting policies	75,282	51,501	427	(3,660)	123,550
Change in the fiscal year					
Deficit disposition		(6,266)	6,266		—
Net income			19,432		19,432
Acquisition of treasury stock				(0)	(0)
Disposal of treasury stock					—
Changes in items other than shareholders' equity (net)					
Total change in the fiscal year	—	(6,266)	25,698	(0)	19,431
Balance at the current year-end	75,282	45,235	26,125	(3,660)	142,982

	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			
Balance at the previous year-end	379	3,545	(1,021)	2,904	18	0	126,473
Cumulative effects of changes in accounting policies							—
Restated balance after changes in accounting policies	379	3,545	(1,021)	2,904	18	0	126,473
Change in the fiscal year							
Deficit disposition							—
Net income							19,432
Acquisition of treasury stock							(0)
Disposal of treasury stock							—
Changes in items other than shareholders' equity (net)	55	105	125	286	—	20	306
Total change in the fiscal year	55	105	125	286	—	20	19,738
Balance at the current year-end	435	3,651	(895)	3,190	18	20	146,211

(4) Consolidated Statements of Cash Flows

(Million yen)

	FY ended March 31, 2016 (Apr. 2015–Mar. 2016)	FY ended March 31, 2015 (Apr. 2014–Mar. 2015)
Cash flows from operating activities		
Income before taxes and minority interests	19,061	12,896
Depreciation	9,614	7,736
Amortization of goodwill	154	—
Increase (decrease) in reserve for doubtful accounts	180	10
Increase (decrease) in reserve for apartment vacancy loss	(1,477)	(4,072)
Interest and dividend income	(121)	(124)
Interest expense	944	1,143
Foreign exchange loss (gain)	267	(52)
Equity in losses (earnings) of affiliated companies	9	8
Loss (gain) from evaluation of investment securities	(58)	—
Loss (gain) on sale of property, plant and equipment	(24)	(6)
Write-offs of property, plant and equipment	147	309
Impairment loss	616	224
Decrease (increase) in accounts receivable	32	(734)
Decrease (increase) in work in process	(138)	(80)
Decrease (increase) in long-term prepaid expenses	643	3,774
Increase (decrease) in accounts payable	(2,701)	4,924
Increase (decrease) in customer advances for projects in progress	(1,903)	1,114
Increase (decrease) in advances received	(5,386)	(9,572)
Increase (decrease) in guarantee deposits received	(448)	(529)
Increase (decrease) in accrued consumption taxes	911	982
Other	3,960	(124)
Subtotal	24,284	17,827
Interest and dividends received	89	108
Interest paid	(937)	(1,139)
Income taxes paid	(1,331)	(1,081)
Net cash provided by operating activities	**22,104**	**15,715**
Cash flows from investing activities		
Purchase of property, plant and equipment	(9,053)	(15,532)
Proceeds from sale of property, plant and equipment	666	230
Payment for purchase of intangible assets	(754)	(998)
Payment for purchase of investment securities	(1,515)	(101)
Proceeds from sale of investment securities	93	86
Payment for purchase of shares in subsidiaries	—	(812)
Payment for loans	(58)	(10)
Proceeds from collection of loans	21	38
Payment for deposit of fixed deposits	(1,100)	(600)
Proceeds from withdrawal of fixed deposits	600	500
Other	12	(349)
Net cash provided by (used in) investing activities	**(11,087)**	**(17,550)**

(Million yen)

	FY ended March 31, 2016 (Apr. 2015–Mar. 2016)	FY ended March 31, 2015 (Apr. 2014–Mar. 2015)
Cash flows from financing activities		
Proceeds from short-term debt	399	3,900
Repayment of short-term debt	(176)	(3,900)
Proceeds from long-term debt	8,544	7,261
Repayment of long-term debt	(23,244)	(7,846)
Repayment of finance lease obligations	(2,397)	(1,606)
Proceeds from payment from non-controlling shareholders	23	—
Proceeds from issuance of bonds	21,220	4,500
Payment for redemption of bonds	(2,993)	(560)
Payment for purchase of treasury stock	(0)	(0)
Payment of dividends to non-controlling shareholders	(0)	—
Net cash provided by (used in) financing activities	**1,374**	**1,747**
Effect of exchange rate changes on cash and cash equivalents	(70)	441
Net increase (decrease) in cash and cash equivalents	12,321	354
Cash and cash equivalents at beginning of period	**74,504**	**74,150**
Cash and cash equivalents at end of period	**86,826**	**74,504**

(5) Notes Regarding Consolidated Financial Statements

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

There are no relevant items.

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

・ Matters relating to the scope of consolidation

LEOPALACE21 PHILIPPINES INC., PT.Leopalace21 Properti Manajemen, and PT.Leopalace Duasatu Realty were established in the consolidated fiscal year under review, and have been included in the scope of consolidation.

・Matters relating to the settlement date of consolidated subsidiaries

The settlement date of LEOPALACE21 PHILIPPINES INC., PT.Leopalace21 Properti Manajemen, and PT.Leopalace Duasatu Realty is December 31. In preparing the consolidated financial statements, the financial statements as of December 31 have been used. However, adjustments necessary for preparing the consolidated financial statements have been made to the important transactions that took place between December 31 and the consolidated settlement date.

The former settlement date of Morizou Co., Ltd. was September 30, and therefore its financial statements based on a provisional settlement as of the consolidated settlement date in accordance with the actual settlement have been used in preparing consolidated financial statements. However, the settlement date has been changed to the end of February as of this fiscal year, and since the difference between the consolidated settlement date is less than three months, the financial statement as of the settlement date has been used, and adjustments necessary for preparing the consolidated financial statements have been made to the important transactions that took place between February 29 and the consolidated settlement date.

The disclosure of matters other than the above is omitted, as there are no significant changes from the statement in the most recent annual securities report (submitted on June 26, 2015).

(Changes in Accounting Policies)

(Application of accounting policies related to business combinations)

Starting in the subject fiscal year, the Accounting Standard for Business Combinations (ASBJ Statement No. 21 on September 13, 2013; hereinafter referred to as the “Business Combinations Accounting Standard”), the Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22 on September 13, 2013; hereinafter referred to as the “Consolidated Accounting Standard”), the Accounting Standard for Business Divestiture (ASBJ Statement No. 7 on September 13, 2013; hereinafter referred to as the “Business Divestiture Accounting Standard”), and other standards have been applied, and Leopalace21 Corporation changed accounting methods to those recording differences from fluctuations in equity that the Company holds in subsidiaries, for which the Company continues to control as capital surplus, and recording acquisition-related expenses as expenses for a consolidated fiscal year when the relevant expenses incur. The Company also changed accounting methods to those reflecting a review of the distribution amount of acquisition costs following the finalization of preliminary accounting processing for business combinations that are carried out after the beginning of the subject fiscal year to consolidated financial statements for the period to which the business combination belongs.

Moreover, the Company changed the presentation of net income, etc., and the presentation of minority interests to non-controlling interests. To reflect changes in the relevant presentation, the Company reclassified consolidated financial statements for the previous consolidated fiscal year.

The Company applies the Business Combinations Accounting Standard and other standards in compliance with the transitional handling as set forth in Paragraph 58-2 (4) of the Business Combinations Accounting Standard, Paragraph 44-5 (4) of the Consolidated Accounting Standard and Paragraph 57-4 (4) of the Business Divestiture Accounting Standard, and it applied these standards from the beginning of the first quarter of the consolidated fiscal year and will continue to apply them in the future.

There is no impact on profits and losses from the changes described above.

(Changes in method of presentation)

Since the quantitative significance of “gain from cancellation of contracted work” and “gain on adjustment of account payable” previously recorded in non-operating income has decreased, these has been recorded in “other” from the subject fiscal year. To reflect changes, the Company reclassified consolidated financial statements for the previous consolidated fiscal year.

As a result, 14 million yen recorded as “gain from cancellation of contracted work” and 50 million yen recorded as “gain on adjustment of account payable” in the previous fiscal year has been reclassified as “other.”

(Segment Information)

Fiscal Year ended March 31, 2015 (April 1, 2014 through March 31, 2015)

(Million yen)

	Reportable Segment					Others (Note 1)	Total	Adjustments (Note 2)	Consolidated Total (Note 3)
	Leasing Business	Construction Business	Elderly Care Business	Hotels & Resort Business	Segment Total				
Net sales									
(1) Sales to customers	399,316	61,312	10,608	8,951	480,188	2,999	483,188	—	483,188
(2) Inter-segment sales and transfers	790	12,065	—	2,827	15,682	127	15,810	(15,810)	—
total	400,107	73,378	10,608	11,778	495,871	3,127	498,999	(15,810)	483,188
Segment earnings (or loss)	20,532	210	(606)	(1,289)	18,848	31	18,879	(4,116)	14,763
Segment assets	98,861	19,895	2,428	50,367	171,554	21,481	193,035	115,239	308,274
Other items									
Depreciation	2,992	170	24	1,872	5,060	1,330	6,390	1,345	7,736
Increase in property, plant and equipment, and intangible assets	5,551	73	21	1,017	6,663	12,180	18,844	5,514	24,358

Fiscal Year ended March 31, 2016 (April 1, 2015 through March 31, 2016)

(Million yen)

	Reportable Segment					Others (Note 1)	Total	Adjustments (Note 2)	Consolidated Total (Note 3)
	Leasing Business	Construction Business	Elderly Care Business	Hotels & Resort Business	Segment Total				
Net sales									
(1) Sales to customers	410,552	74,160	10,798	11,427	506,939	4,485	511,424	—	511,424
(2) Inter-segment sales and transfers	944	2,614	—	3,640	7,199	149	7,349	(7,349)	—
total	411,497	76,774	10,798	15,068	514,139	4,635	518,774	(7,349)	511,424
Segment earnings (or loss)	22,760	3,339	(1,354)	(697)	24,047	337	24,385	(3,388)	20,996
Segment assets	99,329	16,755	2,657	55,246	173,988	23,076	197,065	129,825	326,890
Other items									
Depreciation	3,740	205	49	2,013	6,009	2,059	8,069	1,544	9,614
Increase in property, plant and equipment, and intangible assets	6,245	91	271	1,850	8,459	3,917	12,376	1,599	13,976

Note 1: "Others" classification consists of the business segment not included in reportable segments, and comprises such businesses as the small-claims and short-term insurance business, solar power generation business and financing businesses.

Note 2: Breakdown of adjustments is as follows.

Segment earnings (or loss) (Million yen)

	FY ended March 31, 2016	FY ended March 31, 2015
Inter-segment eliminations	(320)	(1,346)
Corporate expenses*	(3,067)	(2,769)
Total	(3,388)	(4,116)

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

Segment assets

(Million yen)

	FY ended March 31, 2016	FY ended March 31, 2015
Surplus operating funds, Long-term investment capital, and Assets which do not belong to reportable segments	129,825	115,239

Increase in property, plant and equipment, and intangible assets

(Million yen)

	FY ended March 31, 2016	FY ended March 31, 2015
Capital investments which do not belong to reportable segments	1,599	5,514

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