

Consolidated Financial Statements (Japanese Accounting Standards)

August 3, 2012

(For the three months ended June 30, 2012)

Name of Company Listed: **Leopalace21 Corporation**

Stock Listing: Tokyo Stock Exchange

Code Number: 8848

Location of Head Office: Tokyo

(URL: <http://eg.leopalace21.com>)

Representative:

Position: President and CEO

Name: Eisei Miyama

Contact Person:

Position: General Manager

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Scheduled Date of Filing of Quarterly Report: August 10, 2012

Scheduled Date of Commencement of Dividend Payments: –

Supplemental Explanatory Material Prepared: Yes

Results Briefing Held: None

1. Results for the Three Months Ended June 30, 2012 (April 1, 2012 through June 30, 2012)

(1) Consolidated financial results

(Amounts less than one million yen are omitted)
(Percentages represent changes from the same period last year)

	Net sales		Operating loss		Recurring loss		Net loss	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended June 30, 2012	106,449	0.9	(1,421)	–	(3,683)	–	(4,009)	–
Three months ended June 30, 2011	105,486	(6.3)	(3,831)	–	(4,885)	–	(3,798)	–

Note: Comprehensive loss: Three months ended June 30, 2012: (730) million yen, –%;
Three months ended June 30, 2011: (1,759) million yen, –%

	Net loss per share	Diluted net income (loss) per share
	Yen	Yen
Three months ended June 30, 2012	(23.67)	–
Three months ended June 30, 2011	(22.51)	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Equity per share
	Million yen	Million yen	%	Yen
As of June 30, 2012	240,604	33,246	13.8	195.60
As of March 31, 2012	264,783	33,831	12.8	199.73

Note: Shareholders' equity: As of June 30, 2012: 33,219 million yen; As of March 31, 2012: 33,804 million yen

2. Dividend Status

	Dividend per share					
	(Base date)	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	End of FY	Annual
		Yen	Yen	Yen	Yen	Yen
FY ended March 31, 2012		–	0.00	–	0.00	0.00
FY ending March 31, 2013		–	–	–	–	–
FY ending March 31, 2013 (Forecast)		–	0.00	–	0.00	0.00

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

3. Estimation of Business Results for the Fiscal Year Ending March 31, 2013 (April 1, 2012 through March 31, 2013)

(Amounts less than one million yen are omitted)
(Percentages represent changes compared with the previous full-year and six-month period results, respectively)

	Net sales		Operating income (loss)		Recurring income (loss)		Net income (loss)		Net income (loss) per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Six months ending September 30, 2012	219,600	(1.5)	(1,600)	–	(2,600)	–	(2,900)	–	(17.13)
FY ending March 31, 2013	463,900	1.0	8,000	74.4	6,100	159.6	5,500	246.1	32.50

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

4. Other

- (1) Changes in major subsidiaries during the period (Change in specific subsidiaries as a result of a change in the scope of consolidation):
None
- (2) Use of accounting procedures specific to the preparation of quarterly financial statements: Yes
- (3) Changes in accounting policies, changes in accounting estimates, restatements
 - (i) Changes in accounting policies accompanying revision of accounting standards, etc.: Yes
 - (ii) Changes in accounting policies other than (i) above: None
 - (iii) Changes in accounting estimates: Yes
 - (iv) Restatements: None
- (4) Total number of outstanding shares (Common stock)
 - (i) Total number of outstanding shares at term end (Includes treasury stock)
 - As of June 30, 2012: 175,943,915 shares
 - As of March 31, 2012: 175,443,915 shares
 - (ii) Total treasury stock at term end
 - As of June 30, 2012: 6,108,720 shares
 - As of March 31, 2012: 6,190,520 shares
 - (iii) Average number of outstanding shares during the period
 - For the three months ended June 30, 2012: 169,355,756 shares
 - For the three months ended June 30, 2011: 168,730,231 shares

Indication regarding the status of quarterly review procedures:

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

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

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 Leoplace21 has judged to be reasonable. Readers should be aware that a variety of factors might cause actual results to differ significantly from these forecasts.

Supplemental Explanatory Material on quarterly financial statements is scheduled to be posted on the Company's homepage on August 3, 2012.

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1. Qualitative Information on Financial Results for the Three Months Ended June 30, 2012

(1) Qualitative information on consolidated business results

(Million yen)

	Net sales	Operating loss	Recurring loss	Net loss
Three months ended June 30, 2012	106,449	(1,421)	(3,683)	(4,009)
Three months ended June 30, 2011	105,486	(3,831)	(4,885)	(3,798)
change	963	2,410	1,201	(210)

The Japanese economy during the first quarter of the consolidated fiscal year under review experienced a recovery to some extent, against a backdrop of disaster recovery demand. Nonetheless, the European sovereign debt crisis and the prolonged strength of the yen have made the future highly uncertain. In the housing industry, new housing starts have been increasing and rental housing, too, has seen a year-on-year increase for the past six months.

Under these conditions, the Leopalace Group is pursuing a number of policies, and must seek to establish a system of stable profitability using last fiscal year's return to profit for the first time in three years as a cornerstone, create the basis for new growth as a theme for this fiscal year, make the leasing business profitable, excluding the reversal of the reserve for apartment vacancy loss, and develop new areas of business.

As a result, during the first quarter of the consolidated fiscal year under review, the Group posted net sales of ¥106,449 million (up 0.9% year-on-year), an operating loss of ¥1,421 million (an improvement of ¥2,410 million from the same period last year), a recurring loss of ¥3,683 million (an improvement of ¥1,201 million from the same period last year), and a net loss of ¥4,009 million (an increase of ¥210 million in loss from the same period last year). A decline in extraordinary profit and the posting of asset impairment losses among other factors led to an increase in the net loss for the quarter but steady improvements are being made.

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

Business performance by segment is as follows:

The delineation of reportable segments changed in the second quarter of the previous consolidated fiscal year so, in comparing the figures for the same quarter of the last fiscal year below, the figures for the same quarter of the last fiscal year have been restated to incorporate the change in segment delineation for comparison.

(Million yen)

	Net sales			Operating Income (loss)		
	Three months ended June 30, 2011	Three months ended June 30, 2012	change	Three months ended June 30, 2011	Three months ended June 30, 2012	change
Leasing Business	91,743	96,097	4,353	(2,008)	922	2,931
Construction Business	9,570	5,910	(3,659)	(779)	(1,551)	(771)
Hotels & Resort Business	1,781	1,816	35	(137)	(116)	20
Elderly Care Business	2,120	2,340	220	(259)	(187)	71
Others	270	285	14	15	66	51
Adjustments	—	—	—	(662)	(555)	107
Total	105,486	106,449	963	(3,831)	(1,421)	2,410

(i) Leasing Business

The occupancy rate at the end of the first quarter of the consolidated fiscal year under review was 82.69% (up 1.82 points from the same quarter last year) and the average occupancy rate for the period was 82.22% (up 1.35 points from the same period last year).

In the leasing business, to ensure stable occupancy rates, in addition to strengthening Leopalace Partners stores and corporate sales and taking steps to raise the value of property by installing security systems, "Room-Customize" was introduced as a new service in May of this year. This service aims at expanding the number of female tenants and encourages long-term tenancies. In addition, the Company continues

to adjust rents paid based on market rents, and to cut costs by reviewing routine property management tasks such as cleaning and patrolling.

The number of units under management at the end of the first quarter under review was 556,000 (increasing 300 from the end of the previous fiscal year), and the number of direct offices was 167. The number of franchise offices was 197 (increasing 7).

As a result of the above, net sales amounted to ¥96,097 million (up 4.7% year-on-year), and operating income was ¥922 million (compared to operating loss amounted to ¥208 million in the same period of the previous fiscal year).

(ii) Construction Business

Orders received during the first quarter of the consolidated fiscal year under review were ¥15,750 million (up 19.9% from the same quarter of the previous fiscal year) and orders received outstanding at the end of the first quarter of the consolidated fiscal year under review were ¥58,632 million (down 49.2% from the end of the same quarter of the previous fiscal year). The method for recording orders received changed at the end of the previous fiscal year so, with respect to orders received for the same quarter of the previous fiscal year, the figures for orders received for the same quarter of the previous fiscal year reflect that change for comparison.

The construction business has been seeking to achieve stable profitability in the leasing business. With this objective, in addition to specialized sales activities in areas where high occupancy rates are expected (namely, urban areas), it has promoted contracting for "built-for-sale buildings," which have no impact on the supply of housing units, and buildings for corporate use, as well as installing solar power generating systems and other equipment that raise property values.

The Company meanwhile took steps to reduce costs by lowering material procurement costs and reviewing the deployment of offices and personnel. The number of offices at the end of the first quarter under review was 52 (increasing 1 from the end of the previous fiscal year).

As a result, net sales came to ¥5,910 million (down 38.2% year-on-year), and operating loss was ¥1,551 million (an increase of ¥771 million in loss year-on-year).

(iii) Hotels & Resort Business

Net sales in resort facilities in Guam and hotels in Japan were ¥1,816 million (up 2.0% year-on-year), and operating loss was ¥116 million (an improvement of ¥20 million).

(iv) Elderly Care Business

Net sales were ¥2,340 million (up 10.4% year-on-year), and operating loss was ¥187 million (an improvement of ¥71 million).

(v) Other Businesses

In other businesses such as the small-claims and short-term insurance business and the finance business, net sales were ¥285 million (up 5.3% year-on-year), and the operating income was ¥66 million (up 324.1%).

(2) Qualitative information on consolidated financial position

(Million yen)

	Total Assets	Total liabilities	Net Assets
As of June 30, 2012	240,604	207,358	33,246
As of March 31, 2012	264,783	230,951	33,831
change	(24,178)	(23,593)	(584)

Total assets at the end of the first quarter of the consolidated fiscal year under review declined by ¥24,178 million from the end of the previous fiscal year, to ¥240,604 million. The main reasons were declines of ¥16,018 million in cash and cash equivalents, ¥1,450 million in prepaid expenses, and ¥3,418 million in long-term prepaid expenses.

Total liabilities fell by ¥23,593 million from the end of the previous fiscal year, to ¥207,358 million. The main reasons were declines of ¥8,500 million in accounts payable for completed projects, ¥3,888 million in unpaid expenses, ¥9,151 million in short- and long-term advances received, and ¥1,425 million in the reserve for apartment vacancy loss.

Net assets declined by ¥584 million from the end of the previous fiscal year, to ¥33,246 million. The main factor for this was the posting of a net loss for the quarter reduced retained earnings by ¥4,009 million, while the negative balance in the foreign translation adjustments decreased by ¥3,324 million. The ratio of shareholders' equity to assets rose by 1.0 points over the end of the previous fiscal year to 13.8%.

(3) Qualitative information on consolidated results forecasts

Consolidated results forecasts announced in the consolidated financial statements published on May 11, 2012 remain unchanged.

The results forecasts are the estimates of the Company based on information available at the time of announcement of this document. Actual results may differ materially from these forecasts due to various factors.

2. Matters Relating to Summary Information (other)

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

Not applicable

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

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

As taxable income is not expected to arise in the current consolidated fiscal year, the amount equivalent to three fourths of the estimated annual amount of corporate inhabitant tax on per capita basis is recorded as tax expenses for the first quarter under review.

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

(Changes in accounting policy that is difficult to differentiate from changes in accounting estimates)

The Company and certain of its domestic subsidiaries, due to a revision of the Corporation Tax Act, from the first quarter of the consolidated fiscal year under review, with regard to tangible fixed assets acquired on or after April 1, 2012, have changed the depreciation method based on the revised Corporation Tax Act.

The impact of this change on the profit and loss of the first quarter of the consolidated fiscal year under review is minimal.

3. Consolidated Financial Statements
(1) Consolidated Balance Sheets

(Million yen)

	June 30, 2012	March 31, 2012
<Assets>		
Current assets		
Cash and cash equivalents	25,459	41,477
Trade receivables	3,802	4,541
Accounts receivable for completed projects	648	1,004
Operating loans	2,295	2,419
Marketable securities	9	9
Real estate for sale/property inventories	13	13
Payment for construction in progress	480	620
Raw materials and supplies	474	491
Prepaid expenses	17,547	18,997
Deferred tax assets	3,093	3,093
Other accounts receivable	346	1,152
Other	8,523	9,685
Allowance for doubtful accounts	(394)	(446)
Total	62,300	83,061
Fixed assets		
Property, plant and equipment		
Buildings and structures (Net)	55,688	55,116
Land	82,214	82,105
Leased assets (Net)	2,601	2,906
Construction in progress	58	27
Other (Net)	1,737	1,856
Total	142,300	142,013
Intangible assets	6,900	7,079
Investments and other assets		
Investment securities	6,701	6,489
Long-term loans	592	588
Deferred tax assets	3,342	3,318
Bad debt	2,605	2,837
Long-term prepaid expenses	14,877	18,295
Other	4,065	4,428
Allowance for doubtful accounts	(3,140)	(3,390)
Total	29,044	32,567
Total fixed assets	178,245	181,659
Deferred assets	58	61
Total assets	240,604	264,783

(Million yen)

	June 30, 2012	March 31, 2012
<Liabilities>		
Current liabilities		
Accounts payable	2,837	2,791
Accounts payable for completed projects	4,813	13,313
Short-term borrowings	45,705	45,705
Bonds due within one year	560	560
Lease obligations	1,332	1,348
Unpaid expenses	10,319	14,208
Accrued expenses	54	5
Accrued income taxes	100	324
Advances received	70,966	79,073
Customer advances for projects in progress	3,843	2,957
Allowance for employees' bonuses	562	—
Reserve for warranty obligations on completed projects	51	56
Reserve for fulfillment of guarantees	396	390
Reserve for disaster losses	47	50
Reserve for switch to terrestrial digital broadcasts	76	122
Asset retirement obligations	28	27
Other	4,087	5,360
Total	145,784	166,295
Long-term liabilities		
Bonds	2,040	2,040
Lease obligations	1,692	2,000
Retirement benefit reserves	8,179	8,041
Reserve for apartment vacancy loss	17,781	19,207
Lease/guarantee deposits received	9,472	9,853
Asset retirement obligations	50	50
Long-term advances received	20,864	21,908
Long-term accounts payable	7	9
Other	1,485	1,545
Total	61,573	64,656
Total liabilities	207,358	230,951
<Net assets>		
Shareholders' equity		
Common stock	56,625	56,562
Capital surplus	33,901	33,883
Retained earnings	(48,973)	(44,963)
Treasury stock	(4,893)	(4,959)
Total	36,659	40,523
Accumulated other comprehensive income (loss)		
Net unrealized gains on "other securities"	204	249
Translation adjustments	(3,644)	(6,968)
Total	(3,440)	(6,719)
Share subscription rights	26	26
Total net assets	33,246	33,831
Total liabilities and net assets	240,604	264,783

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

(Million yen)

	Three months ended June 30, 2012 (Apr. 2012–Jun. 2012)	Three months ended June 30, 2011 (Apr. 2011–Jun. 2011)
Net sales	106,449	105,486
Cost of sales	95,794	97,330
Gross profit	10,655	8,155
Selling, general and administrative expenses	12,076	11,987
Operating loss	(1,421)	(3,831)
Non-operating income		
Interest income	9	10
Dividend income	19	35
Gain on bad debt recovered	—	418
Gain on adjustment of accounts payable	—	411
Other	45	42
Total	74	917
Non-operating expenses		
Interest expenses	360	304
Commission fee	207	158
Foreign exchange loss	1,619	1,390
Equity in losses of affiliated companies	1	76
Other	148	41
Total	2,337	1,971
Recurring loss	(3,683)	(4,885)
Extraordinary income		
Reversal of reserve for accrued retirement benefit for directors	—	1,185
Total	—	1,185
Extraordinary losses		
Loss on disposal of property, plant and equipment	17	20
Impairment loss	252	18
Disaster loss	—	4
Total	269	43
Loss before taxes and minority interests	(3,953)	(3,743)
Income taxes	55	54
Net loss	(4,009)	(3,798)

Consolidated Statements of Comprehensive Income (Loss)

(Million yen)

	Three months ended June 30, 2012 (Apr. 2012–Jun. 2012)	Three months ended June 30, 2011 (Apr. 2011–Jun. 2011)
Net loss	(4,009)	(3,798)
Other comprehensive loss		
Net unrealized gains on “other securities”	(45)	(10)
Translation adjustments	3,324	2,045
Share of other comprehensive income of associates	—	3
Total	3,279	2,038
Comprehensive loss	(730)	(1,759)
(Breakdown)		
Comprehensive loss attributable to shareholders of the parent entity	(730)	(1,759)

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

There are no relevant items.

(4) Note Regarding Significant Changes in Shareholders' Equity

The Company, during the first quarter of the consolidated fiscal year under review, increased common stock and capital reserve by ¥62 million respectively due to the exercise of the 1st series of stock acquisition rights. Accordingly, common stock was ¥56,625 million and capital reserve was ¥31,649 million at the end of the first quarter of the consolidated fiscal year under review.

(5) Segment Information

i Three Months Ended June 30, 2011 (April 1, 2011 through June 30, 2011)

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

(Million yen)

	Reportable Segment					Others (Note 1)	Total	Adjustments (Note 2)	Consolidated Total (Note 3)
	Leasing Business	Construction Business	Hotels & Resort Business	Elderly Care Business	Segment Total				
Net sales									
(1) Sales to customers	91,743	9,570	1,781	2,120	105,215	270	105,486	-	105,486
(2) Inter-segment sales and transfers	113	-	367	-	480	15	495	(495)	-
Total	91,856	9,570	2,148	2,120	105,696	285	105,981	(495)	105,486
Segment earnings (or loss)	(2,008)	(779)	(137)	(259)	(3,185)	15	(3,169)	(662)	(3,831)

Notes: 1. The "Others" classification is the business segment not included in reportable segments, and comprises such businesses as the small-claims and short-term insurance business, financing businesses, and residential sales business.

2. The segment earnings (or loss) adjustment of (¥662) million includes ¥3 million in inter-segment eliminations, and (¥665) million in corporate expenses not allocated to reportable segments. Corporate expenses consist mainly of general administrative expenses for administrative departments that are not part of reportable segments.

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

ii Three Months Ended June 30, 2012 (April 1, 2012 through June 30, 2012)

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

(Million yen)

	Reportable Segment					Others (Note 1)	Total	Adjustments (Note 2)	Consolidated Total (Note 3)
	Leasing Business	Construction Business	Hotels & Resort Business	Elderly Care Business	Segment Total				
Net sales									
(1) Sales to customers	96,097	5,910	1,816	2,340	106,164	285	106,449	-	106,449
(2) Inter-segment sales and transfers	77	-	342	-	420	19	439	(439)	-
Total	96,174	5,910	2,159	2,340	106,585	304	106,889	(439)	106,449
Segment earnings (or loss)	922	(1,551)	(116)	(187)	(932)	66	(866)	(555)	(1,421)

Notes: 1. The "Others" classification is the business segment not included in reportable segments, and comprises such businesses as the small-claims and short-term insurance business, and financing businesses.

2. The segment earnings (or loss) adjustment of (¥555) million includes ¥12 million in inter-segment eliminations, and (¥567) million in corporate expenses not allocated to reportable segments. Corporate expenses consist mainly of general administrative expenses for administrative departments that are not part of reportable segments.

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

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

The "Elderly Care Business" had been included in the "Others" category until the first quarter of the previous fiscal year, but was classified in a reportable segment because its quantitative importance has increased.

Accordingly, the numbers for the three months ended June 30, 2012 were reclassified appropriately.