Consolidated Financial Statements (Japanese Accounting Standard)

May 10, 2013

(For the year ended March 31, 2013)

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
Name of Contact Person: Position: Executive Officer Name: Bunya Miyao
Telephone: +81-3-5350-0216

Scheduled Date of Annual Meeting of Stockholders: June 27, 2013
Scheduled Date of Filing of Securities Report: June 27, 2013
Scheduled Date of Commencement of Dividend Payments: –
Supplemental Explanatory Material Prepared: Yes
Results Briefing Held: Yes (for investment analysts and institutional investors)

1. Results for the Fiscal Year Ended March 31, 2013 (April 1, 2012 through March 31, 2013)

(1) Consolidated financial results

(Amounts less than one million yen are omitted)
(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, 2013	**454,222**	**(1.1)**	**7,413**	**61.7**	**11,091**	**372.1**	**13,335**	**739.2**
FY ended March 31, 2012	459,436	(5.2)	4,585	–	2,349	–	1,588	–

Note: Comprehensive income (loss): As of March 31, 2013: 11,641 million yen; As of March 31, 2012: 687 million yen

	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, 2013	**74.50**	**74.48**	**29.0**	**4.2**	**1.6**
FY ended March 31, 2012	9.40	9.40	4.8	0.8	1.0

Reference: Equity in earnings of affiliates in FY ended March 31, 2013: (0) million yen, FY ended March 31, 2012: (663) million yen.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Equity per share
	Million yen	Million yen	%	Yen
FY ended March 31, 2013	**261,649**	**58,151**	**22.2**	**274.80**
FY ended March 31, 2012	264,783	33,831	12.8	199.73

Reference: Shareholders' equity: As of March 31, 2013: 58,133 million yen; As of March 31, 2012: 33,804 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, 2013	**6,069**	**(6)**	**9,148**	**56,381**
FY ended March 31, 2012	(3,174)	(3,537)	7,245	40,877

2. Dividend Status

	Dividend per share					Total cash dividends (annual)	Dividend payout ratio (consolidated)	Dividend on equity ratio (consolidated)
(Base date)	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	End of FY	Annual			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
FY ended March 31, 2012	–	0.00	–	0.00	0.00	–	–	–
FY ended March 31, 2013	**–**	**0.00**	**–**	**0.00**	**0.00**	**–**	**–**	**–**
FY ending March 31, 2014 (Estimated)	–	0.00	–	0.00	0.00		–	

3. Estimation of Business Results for the Fiscal Year Ending March 31, 2014 (April 1, 2013 through March 31, 2014)

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

	Net sales		Operating income		Recurring income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Six months ending September 30, 2013	227,100	3.2	4,700	147.7	3,700	–	3,100	–	14.65
FY ending March 31, 2014	467,400	2.9	14,100	90.2	12,200	10.0	11,000	(17.5)	52.00

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 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

(3) Total number of outstanding shares (Common stock)

(i) Total number of outstanding shares at term end (Includes treasury stock)
As of March 31, 2013: 217,443,915 shares, As of March 31, 2012: 175,443,915 shares
(ii) Total treasury stock at term end
As of March 31, 2013: 5,900,320 shares, As of March 31, 2012: 6,190,520 shares
(iii) Average number of outstanding shares during the period
As of March 31, 2013: 179,002,153 shares, As of March 31, 2012: 168,995,991 shares

(Reference) Summary of Non-Consolidated Financial Statements

1. Results of the Fiscal Year Ended March 31, 2013 (April 1, 2012 through March 31, 2013)

(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, 2013	**448,266**	**(1.1)**	**6,776**	**58.2**	**9,426**	**342.1**	**11,798**	**747.9**
FY ended March 31, 2012	453,304	(5.2)	4,283	–	2,132	–	1,391	–

	Net income per share	Diluted net income per share
	Yen	Yen
FY ended March 31, 2013	**65.91**	**65.90**
FY ended March 31, 2012	8.23	8.23

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Equity per share
	Million yen	Million yen	%	Yen
FY ended March 31, 2013	**260,883**	**60,265**	**23.1**	**284.80**
FY ended March 31, 2012	264,016	35,389	13.4	208.93

Reference: Shareholders' equity: As of March 31, 2013: 60,247 million yen, As of March 31, 2012: 35,362 million yen

2. Estimation of Non-consolidated Business Results for the Fiscal Year Ending March 31, 2014 (April 1, 2013 through March 31, 2014)

(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 income		Net income		Net income per share
	Million yen	%	Million yen	%	Million	%	Yen
Six months ending September 30, 2013	223,900	3.1	3,200	—	2,700	—	12.76
FY ending March 31, 2014	460,500	2.7	10,700	13.5	9,600	(18.6)	43.58

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 was 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.

Concerning assumptions of business forecasts and note on the proper use of these forecasts, see page 4. "1. Business Results (1) Analysis of Business Results."

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1. Business Results

(1) Analysis of Business Results

(Million yen)

	Net sales	Operating income	Recurring income	Net income
FY ended March 31, 2013	454,222	7,413	11,091	13,335
FY ended March 31, 2012	459,436	4,585	2,349	1,588
change	(5,214)	2,827	8,741	11,746

During the fiscal year under review, the future of the Japanese economy remained uncertain, primarily due to slower growth in the global economy and the prolonged appreciation of the yen. After the end of the year, however, circumstances changed so that an economic recovery began to be expected, given the weaker yen and rising stock prices, reflecting the easy monetary policy promoted by the new government. In the housing industry, new housing starts during fiscal year 2012 increased for the third consecutive year, and new housing starts for rental housing also turned up for the first time in four years (up 10.7% year-on-year).

Under these conditions, the Leopalace Group made it its basic policy to “establish a system of stable profitability, with balanced income between the leasing business and the construction business” in the new medium-term management plan, and implemented various measures mainly in the leasing business, for the current fiscal year, the first year of the new medium-term management plan, to make it the year of “creating a foundation for new growth.”

As a result, consolidated net sales for the fiscal year under review were ¥454,222 million (down 1.1% year-on-year). Consolidated operating income came to ¥7,413 million (up 61.7%), mainly due to a ¥5,256 million reversal of the reserve for apartment vacancy loss. Consolidated recurring income was ¥11,091 million (up 372.1%), chiefly due to the recording of foreign exchange gains of ¥5,592 million. Consolidated net income was ¥13,335 million (up 739.2%), mainly reflecting income taxes-deferred of -¥4,670 million due to the accumulation of deferred tax assets, despite the posting of an impairment loss of ¥2,172 million.

On a non-consolidated basis, net sales were ¥448,266 million (down 1.1% year-on-year), operating income was ¥6,776 million (up 58.2%), recurring income was ¥9,426 million (up 342.1%), and net income was ¥11,798 million (up 747.9%).

As described above, although net sales increased slightly, primarily due to reduced supply in the construction business, income increased substantially, mainly thanks to improvements in income and expenditures in the leasing business.

(Actual figures by segment)

(Million yen)

	Net sales			Operating Income (loss)		
	FY ended March 31, 2012	FY ended March 31, 2013	change	FY ended March 31, 2012	FY ended March 31, 2013	change
Leasing Business	380,307	383,574	3,266	5,248	8,687	3,438
Construction Business	62,913	53,369	(9,543)	4,309	2,747	(1,561)
Hotels & Resort Business	6,228	6,657	429	(1,663)	(1,005)	657
Elderly Care Business	8,845	9,482	637	(855)	(742)	112
Others	1,142	1,137	(4)	(37)	35	72
Adjustments	–	–	–	(2,415)	(2,308)	107
Total	459,436	454,222	(5,214)	4,585	7,413	2,827

(i) Leasing Business

The occupancy rate at the end of the consolidated fiscal year under review was 84.81% (up 1.41 points from the end of last fiscal year) and the average occupancy rate for the fiscal year under review was 82.94% (up 1.78 points from last fiscal 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 last 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 consolidated fiscal year under review was 546,000 (decreasing 10,000 from the

end of last fiscal year), and the number of direct offices was 182 (increasing 15). The number of franchise offices was 192 (increasing 2).
As a result of the above, net sales amounted to ¥383,574 million (up 0.9% year-on-year), and operating income was ¥8,687 million (up 65.5% year-on-year).

(ii) Construction Business
Orders received during the consolidated fiscal year under review were ¥73,006 million (up 46.0% from last fiscal year) and the orders received outstanding at the end of the consolidated fiscal year under review stood at ¥47,461 million (down 12.9% from last fiscal year).
In the construction business, the Company focused its activities to provide apartments in areas where solid demand for apartments was anticipated, aiming to contribute to higher income in the leasing business. It also promoted sales of built-for-sale products that did not have an impact on the number of units supplied, and buildings such as elderly care facilities and stores, as well as the installation of a solar power system, etc. that would increase product value.
As a result, net sales came to ¥53,369 million (down 15.2% year-on-year), and operating income was ¥2,747 million (down 36.2%).

(iii) Hotels & Resort t Business
Net sales in resort facilities in Guam and hotels in Japan were ¥6,657 million (up 6.9% year-on-year), and the operating loss was ¥1,005 million (improving ¥657 million).

(iv) Elderly Care Business
Net sales were ¥9,482 million (up 7.2% year on year), and operating loss was ¥742 million (improving ¥112 million).

(v) Other Businesses
In other businesses such as the small-claims and short-term insurance business, the residential sales business, and the finance business, net sales were ¥1,137 million (down 0.4% year on year), and the operating income was ¥35 million (compared to operating loss amounted to ¥37 million in the previous fiscal year) .

(Outlook for the next fiscal year)
In the next fiscal year, making it the year of “New growth stage”, we aim at strengthening a system of stable profitability mainly based on the leasing business, which we have established in this fiscal year, and cultivating a new foundation of profits.
As for the consolidated business results of the fiscal year ending March 2014, we expect sales of 467,400 million (up 2.9% year-on-year), operating income of 14,100 million (up 90.2%), recurring income of 12,200 million (up 10.0%), and net income of 11,000 million (down 17.5%).

(2) Analysis of Consolidated Financial Position
(i) Position of Assets, Liabilities, and Net assets

(Million yen)

	Total Assets	Total liabilities	Net Assets
As of March 31, 2013	261,649	203,498	58,151
As of March 31, 2012	264,783	230,951	33,831
change	(3,133)	(27,453)	24,319

Total assets at the end of the fiscal year under review declined ¥3,133 million from the end of the previous fiscal year, to ¥261,649 million. This was mainly attributable to an increase of ¥15,203 million in cash and cash equivalents and decreases of ¥6,225 million in prepaid expenses, ¥2,962 million in other (deposits paid, etc.) under current assets, and ¥10,167 million in long-term prepaid expenses.
Total liabilities decreased ¥27,453 million from the end of the previous fiscal year, to ¥203,498 million. This primarily reflected decreases of ¥2,627 million in interest-bearing debt, ¥19,587 million in advances received and long-term advances received, and ¥5,256 million in reserve for apartment vacancy loss.
Net assets were up ¥24,319 million from the end of the previous fiscal year, to ¥58,151 million, chiefly due to an increase of ¥2,092 million in negative foreign currency translation adjustments balance, an increase of ¥12,608 million in common stock and capital surplus as a result of the exercise of stock acquisition rights, and an increase of ¥13,335 million in retained earnings due to the posting of net income. The ratio of shareholders’ equity to assets rose 9.4 points from the end of the previous fiscal year, to 22.2%.

(ii) Cash flow position
Cash flow from operating activities was a net inflow of ¥6,069 million (compared to a net outflow of ¥3,174 million in the previous fiscal year). This was mainly due to a decrease of ¥19,587 million in advances received, a foreign exchange gain of ¥5,592 million, a decline of

¥5,256 million in reserve for apartment vacancy loss, as well as a decrease of ¥16,299 million in long-term prepaid expenses, depreciation of ¥5,683 million, other (collection of deposits paid, etc.) of ¥4,302 million, and income before taxes and minority interests of ¥8,971 million.

Cash flow from investing activities was a net outflow of ¥6 million (a decline of ¥3,531 million in net outflow from the previous fiscal year). This was primarily due to proceeds from the withdrawal of time deposits of ¥300 million (net of payments for time deposits) and other (collection of long-term trust funds, etc.) of ¥482 million, as well as payments for the purchase of property, plant and equipment of ¥890 million.

Cash flow from financing activities was a net inflow of ¥9,148 million (an increase of ¥1,903 million in net inflow from the previous fiscal year). This was chiefly due to the repayment of interest-bearing debt of ¥3,481 million (net of proceeds from debt) and proceeds from the issuance of shares of ¥12,551 million.

As a result, cash and cash equivalents at the end of the consolidated fiscal year under review stood at ¥56,381 million, an increase of ¥15,503 million from the end of the previous fiscal year.

(Reference) Trends in cash flow indicators

	FY ended March 31, 2010	FY ended March 31, 2011	FY ended March 31, 2012	FY ended March 31, 2013
Equity ratio (%)	17.9	11.1	12.8	22.2
Market price based equity ratio (%)	18.6	6.2	18.0	32.2
Ratio of cash flow to interest bearing debt (year)	–	–	–	8.1
Interest coverage ratio (ratio)	–	–	–	4.7

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 on the basis of 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 2010, March 2011 and March 2012 are not shown because cash flow from operating activities was negative in those years.

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

The Leopalace Group acknowledges that the distribution of profit to shareholders is an important management issue. However, retained earnings are negative so it is with deep regret that the Group will pass on the term-end dividend. The Group also plans to pass on its dividends for the next fiscal year but will endeavor to recover retained earnings through a stable profit structure with the aim of restoring the dividend.

(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 that is unique to the Company through the teamwork of all employees taking part in planning with flexible ideas and drive while steadily focusing on the needs of the present day. ii. By making our clients' happiness our happiness, to continue growth as a company that is always evolving its products, service and technology. iii. As a leading company in the industry, to create new value for all of society by contributing to the creation of an affluent society with a pleasant lifestyle.

(2) Management Indicator Goals

The Company has set its financial targets for the fiscal year ending March 31, 2015, the final year of its Medium-Term Management Plan, at ¥476.5 billion for net sales, ¥16.9 billion for operating income, ¥13.5 billion for net income, 20.0% for ROE, and 5.2% for ROA.

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

Based on its fundamental policy of "establishing a stable profit structure by striking a balance between profits from the construction business and from the leasing business" established in its Medium-Term Management Plan, the Company aims to build solid management strength.

The Company aims to develop the leasing business further as a highly profitable business by taking various steps such as expanding its sales network through new store openings (a sales structure of 400 stores), improving strong corporate sales, addressing tenant needs through "Room Customize" and the installation of security systems, strengthening efforts for foreign students who demonstrate solid demand, and reducing costs by reviewing routine property management tasks and setting reasonable rents.

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 reconstruction and business buildings such as elderly care and commercial facilities. As a company-wide measure, the Company will also maintain a low cost structure while strategically investing in the costs (personnel, advertising, and sales promotion expenses) necessary to expand future sales and earnings.

With respect to the funds procured from the exercise of stock acquisition rights in the fiscal year under review (¥12.6 billion), the Company intends to appropriate these to expenses to develop mission-critical systems and leasing business–related investments (investments in measures to improve income and expenditures in the leasing business and capital investments in rental properties owned by the Company).

(4) Issues to be Addressed by the Company

・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 Company 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 establishing a rental housing management company in South Korea and operating a "leased roof solar power generation business" through a special purpose company, the Company will continue to work on developing new products and services, as well as its revenue base.

3. Consolidated Financial Statements
(1) Consolidated Balance Sheets

(Million yen)

	March 31, 2013	March 31, 2012
<Assets>		
Current assets		
Cash and cash equivalents	56,681	41,477
Trade receivables	4,360	4,541
Accounts receivable for completed projects	2,231	1,004
Operating loans	1,879	2,419
Marketable securities	504	9
Real estate for sale/property inventories	—	13
Payment for construction in progress	339	620
Raw materials and supplies	457	491
Prepaid expenses	12,772	18,997
Deferred tax assets	4,273	3,093
Other accounts receivable	1,017	1,152
Other	6,722	9,685
Reserve for doubtful accounts	(346)	(446)
Total		**83,061**
Fixed assets		
Property, plant and equipment		
Buildings and structures	111,349	106,865
Accumulated depreciation	(56,609)	(51,748)
Net	54,740	55,116
Land	80,780	82,105
Leased assets	6,832	6,842
Accumulated depreciation	(5,034)	(3,935)
Net	1,798	2,906
Construction in progress	175	27
Other	13,349	13,663
Accumulated depreciation	(11,846)	(11,807)
Net	1,502	1,856
Total	**138,997**	**142,013**
Intangible assets		
Other	6,613	7,079
Total	**6,613**	**7,079**
Investments and other assets		
Investment securities	7,176	6,489
Long-term loans	570	588
Bad debt	1,900	2,837
Long-term prepaid expenses	8,127	18,295
Deferred tax assets	6,586	3,318
Other	3,339	4,428
Reserve for doubtful accounts	(2,606)	(3,390)
Total	**25,094**	**32,567**
Total fixed assets	**170,705**	**181,659**
Deferred assets		
Bond issuance cost	48	61
Total	**48**	**61**
Total assets	**261,649**	**264,783**

(Million yen)

	March 31, 2013	March 31, 2012
<Liabilities>		
Current liabilities		
Accounts payable	2,670	2,791
Accounts payable for completed projects	14,307	13,313
Short-term borrowings	11,874	38,904
Current portion of long-term loans payable	2,940	6,800
Bonds due within one year	560	560
Lease obligations	1,097	1,348
Unpaid expenses	13,252	14,208
Accrued expenses	12	5
Accrued income taxes	394	324
Advances received	49,036	58,301
Customer advances for projects in progress	3,807	2,957
Reserve for warranty obligations on completed projects	71	56
Reserve for fulfillment of guarantees	457	390
Reserve for disaster losses	—	50
Reserve for switch to terrestrial digital broadcasts	—	122
Asset retirement obligations	37	27
Other	4,625	5,360
Total	**105,144**	**145,524**
Long-term liabilities		
Bonds	1,480	2,040
Long-term debt	30,020	–
Lease obligations	1,054	2,000
Asset retirement obligations	49	50
Long-term advances received	32,357	42,680
Lease/guarantee deposits received	8,984	9,853
Retirement benefit reserves	8,643	8,041
Reserve for apartment vacancy loss	13,950	19,207
Other	1,823	1,554
Total	**98,353**	**85,427**
Total liabilities	**203,498**	**230,951**
<Net assets>		
Shareholders' equity		
Common stock	62,867	56,562
Capital surplus	39,424	33,883
Retained earnings	(31,018)	(44,963)
Treasury stock	(4,726)	(4,959)
Total	**66,546**	**40,523**
Accumulated other comprehensive income (loss)		
Net unrealized gains on "other securities"	648	249
Translation adjustments	(9,061)	(6,968)
Total	**(8,413)**	**(6,719)**
Stock acquisition rights	**18**	**26**
Total net assets	**58,151**	**33,831**
Total liabilities and net assets	**261,649**	**264,783**

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

Consolidated Statements of Operations

(Million yen)

	March 31, 2013 (April 2012–March 2013)	March 31, 2012 (April 2011–March 2012)
Net sales		
Sales from Leasing Business	383,574	380,307
Sales from Construction Business	53,369	62,913
Sales from Other Business	17,278	16,215
Total	**454,222**	**459,436**
Cost of sales		
Cost of sales from Leasing Business	340,546	342,131
Cost of sales from Construction Business	40,271	46,147
Cost of sales from Other Business	15,690	15,293
Total	**396,508**	**403,572**
Gross profit	**57,713**	**55,864**
Selling, general and administrative expenses		
Advertising expenses	2,905	2,615
Sales commission expense	2,242	2,025
Transfer to reserve for bad debt	125	531
Directors' compensation	240	250
Salary and bonuses	21,742	21,727
Reserve for retirement bonuses	846	828
Rent expense	2,424	2,860
Depreciation and amortization	1,570	1,783
Taxes and public charges	2,988	3,400
Other	15,212	15,254
Total	**50,299**	**51,278**
Operating income	**7,413**	**4,585**
Non-operating income		
Interest income	50	50
Dividend income	43	59
Gain from cancellation of contracted work	37	50
Gain on sale of investment securities	5	–
Foreign exchange income	5,592	–
Consumption tax refund	108	–
Gain on bad debt recovered	–	418
Gain on adjustment of accounts payable	–	411
Other	197	294
Total	**6,036**	**1,284**
Non-operating expenses		
Interest expenses	1,423	1,375
Commission fee	548	632
Equity in losses of affiliated companies	0	663
Foreign exchange loss	–	580
Other	386	268
Total	**2,358**	**3,520**
Recurring income	**11,091**	**2,349**

(Million yen)

	March 31, 2013 (April 2012–March 2013)	March 31, 2012 (April 2011–March 2012)
Extraordinary income		
Gain on sale of property, plant and equipment	—	1
Gain on liquidation of subsidiaries	70	—
Reversal of reserve for disaster loss	3	319
Reversal of reserve for switch to terrestrial digital broadcasts	64	221
Reversal of reserve for retirement benefits for directors	—	1,185
Reversal of stock acquisition rights	—	1
Total	**138**	**1,729**
Extraordinary losses		
Loss on sale of property, plant and equipment	—	0
Loss on disposal of property, plant and equipment	85	111
Impairment loss	2,172	2,610
Disaster loss	—	4
Total	**2,258**	**2,726**
Income before taxes and minority interests	**8,971**	**1,352**
Income tax－current	313	205
Income tax– refund	(6)	(13)
Income taxes－deferred	(4,670)	(428)
Total	**(4,364)**	**(236)**
Net income	**13,335**	**1,588**

Consolidated Statements of Comprehensive Income

(Million yen)

	March 31, 2013 (April 2012–March 2013)	March 31, 2012 (April 2011–March 2012)
Net income	13,335	1,588
Other comprehensive income (loss)		
Net unrealized gains on “other securities”	398	45
Translation adjustments	(2,092)	(950)
Share of other comprehensive income of associates	0	3
Total	**(1,693)**	**(901)**
Comprehensive income	11,641	687
(Breakdown)		
Comprehensive income attributable to shareholders of the parent entity	11,641	687

(3) Consolidated Statements of Changes in Net Assets

(Million yen)

	March 31, 2013 (April 2012–March 2013)	March 31, 2012 (April 2011–March 2012)
Shareholders' equity		
Share capital		
Balance at the previous year-end	56,562	56,562
Change in the fiscal year		
Issuance of new shares	6,304	—
Total	**6,304**	**—**
Balance at the current year-end	62,867	56,562
Capital surplus		
Balance at the previous year-end	33,883	34,334
Change in the fiscal year		
Issuance of new shares	6,304	—
Disposal of treasury stock	(154)	(450)
Decrease of decrease in affiliated companies	(609)	—
Total	**5,540**	**(450)**
Balance at the current year-end	39,424	33,883
Retained earnings		
Balance at the previous year-end	(44,963)	(46,552)
Change in the fiscal year:		
Net income	13,335	1,588
Increase of decrease in affiliated companies	609	—
Total	**13,944**	**1,588**
Balance at the current year-end	(31,018)	(44,963)
Treasury stock, at cost:		
Balance at the previous year-end	(4,959)	(5,502)
Change in the fiscal year:		
Purchase of treasury stock	—	(0)
Disposal of treasury stock	232	542
Total	**232**	**542**
Balance at the current year-end	(4,726)	(4,959)
Total shareholders' equity:		
Balance at the previous year-end	40,523	38,842
Change in the fiscal year:		
Issuance of new shares	12,608	—
Net income	13,335	1,588
Disposal of treasury stock	78	92
Decrease of decrease in affiliated companies	(609)	—
Increase of decrease in affiliated companies	609	—
Purchase of treasury stock	—	(0)
Total	**26,022**	**1,681**
Balance at the current year-end	66,546	40,523

(Million yen)

	March 31, 2013 (April 2012–March 2013)	March 31, 2012 (April 2011–March 2012)
Accumulated other comprehensive income		
Net unrealized holding gain on securities:		
Balance at the previous year-end	249	204
Change in the fiscal year:		
Net changes of items other than shareholders' equity	398	45
Total	**398**	**45**
Balance at the current year-end	648	249
Deferred gains or losses on hedges:		
Balance at the previous year-end	—	(3)
Change in the fiscal year:		
Net changes in items other than shareholders' equity	—	3
Total	—	**3**
Balance at the current year-end	—	—
Translation adjustments:		
Balance at the previous year-end	(6,968)	(6,018)
Change in the fiscal year:		
Net changes of items other than shareholders' equity	(2,092)	(950)
Total	**(2,092)**	**(950)**
Balance at the current year-end	(9,061)	(6,968)
Total accumulated other comprehensive income (loss):		
Balance at the previous year-end	(6,719)	(5,817)
Change in the fiscal year:		
Net changes of items other than shareholders' equity	(1,693)	(901)
Total	**(1,693)**	**(901)**
Balance at the current year-end	(8,413)	(6,719)
Subscription rights to shares:		
Balance at the previous year-end	26	15
Change in the fiscal year:		
Net changes of items other than shareholders' equity	(8)	11
Total	**(8)**	**11**
Balance at the current year-end	18	26
Total net assets:		
Balance at the previous year-end	33,831	33,040
Change in the fiscal year:		
Issuance of new shares	12,608	—
Net income	13,335	1,588
Disposal of treasury stock	78	92
Decrease of decrease in affiliated companies	(609)	—
Increase of decrease in affiliated companies	609	—
Purchase of treasury stock	—	(0)
Net changes of items other than shareholders' equity	(1,702)	(890)
Total	**24,319**	**790**
Balance at the current year-end	58,151	33,831

(4) Consolidated Statements of Cash Flows

(Million yen)

	March 31, 2013 (April 2012–March 2013)	March 31, 2012 (April 2011–March 2012)
Cash flows from operating activities		
Income before taxes and minority interests	8,971	1,352
Depreciation	5,683	6,046
Increase (decrease) in reserve for doubtful accounts	(97)	328
Increase (decrease) in reserve for apartment vacancy loss	(5,256)	(13,398)
Increase (decrease) in retirement benefit reserves for directors	—	(1,185)
Increase (decrease) in reserve for disaster losses	(20)	(819)
Increase (decrease) in reserve for switch to terrestrial digital broadcasts	(57)	(844)
Interest and dividend income	(93)	(110)
Interest expense	1,423	1,375
Foreign exchange loss (gain)	(5,592)	580
Equity in losses (earnings) of affiliated companies	0	663
Loss (gain) on sale of property, plant and equipment	—	(1)
Write-offs of property, plant and equipment	85	111
Impairment loss	2,172	2,610
Disaster loss	—	4
Reversal of reserve for disaster losses	(3)	(319)
Reversal of reserve for switch to terrestrial digital broadcasts	(64)	(221)
Loss (gain) on sale of investment securities	(5)	—
Decrease (increase) in accounts receivable	(102)	3,867
Decrease (increase) in real estate for sale	13	104
Decrease (increase) in work in process	280	(33)
Decrease (increase) in long-term prepaid expenses	16,299	20,616
Increase (decrease) in accounts payable	(503)	3,483
Increase (decrease) in customer advances for projects in progress	850	(1,098)
Increase (decrease) in advances received	(19,587)	(11,006)
Increase (decrease) in guarantee deposits received	(1,033)	(16,385)
Increase (decrease) in accrued consumption taxes	74	(1,081)
Other	4,302	4,136
Subtotal	7,740	(1,221)
Interest and dividends received	80	97
Interest paid	(1,297)	(1,482)
Income taxes paid	(454)	(567)
Net cash used in operating activities	**6,069**	**(3,174)**

(Million yen)

	March 31, 2013 (April 2012–March 2013)	March 31, 2012 (April 2011–March 2012)
Cash flows from investing activities		
Purchase of property, plant and equipment	(707)	(578)
Proceeds from sale of property, plant and equipment	—	12
Payment for purchase of intangible assets	(183)	(238)
Payment for purchase of investment securities	—	(110)
Proceeds from sale of investment securities	84	60
Payment for loans	(21)	(33)
Proceeds from collection of loans	38	58
Payments for time deposits	(300)	(800)
Proceeds from withdrawal of time deposits	600	380
Other	482	(2,289)
Net cash provided by (used in) investing activities	**(6)**	**(3,537)**
Cash flows from financing activities		
Proceeds from short-term debt	2,608	16,839
Repayment of short-term debt	(29,637)	(625)
Proceeds from long-term debt	32,267	—
Repayment of long-term debt	(6,800)	(7,238)
Repayment of finance lease obligations	(1,358)	(1,261)
Payment for redemption of bonds	(560)	(560)
Proceeds from issuance of shares	12,551	—
Proceeds from disposal of treasury stock	78	91
Payment for purchase of treasury stock	—	(0)
Net cash provided by (used in) financing activities	**9,148**	**7,245**
Effect of exchange rate changes on cash and cash equivalents	**292**	**(147)**
Net increase (decrease) in cash and cash equivalents	**15,503**	**385**
Cash and cash equivalents at beginning of period	**40,877**	**40,492**
Cash and cash equivalents at end of period	**56,831**	**40,877**

(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

As Leopalace Power Co., Ltd. was recently established in the fiscal year under review, it was included in the scope of consolidation.

・Matters relating to the application of the equity method

As Woori & Leo PMC Co., Ltd. was recently established in the fiscal year under review, it was included in the scope of application of the equity method. As the account settlement date of this company is different from the consolidated account settlement date, the company's financial statements for its business year are used.

As Toyo Miyama Kogyo Co., Ltd. was liquidated in the fiscal year under review, it was excluded from the scope of application of the equity method.

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 28, 2012).

(Changes in Accounting Policies)

・Change of depreciation method

The Company and its consolidated subsidiaries in Japan have changed the depreciation method for property, plant and equipment acquired on or after April 1, 2012 to that specified in the revised Corporation Tax Act in association with the revision of the Corporation Tax Act.

The impact of this change on profits and losses in the fiscal year under review is minor.

(Changes in Indication Method)

(Consolidated Financial Statements)

・Advances received

With respect to advances received, such as rent, although the entire amount was given in the past by including it in "advances received" under "current liabilities," the Company decided in the third quarter of the fiscal year under review to show the portion corresponding to more than a year by including it in "long-term advances received" under "long-term liabilities," and the portion corresponding to a year or less by including it in "advances received" under "current liabilities."

The classification above applies in the wake of creating a system that makes advances received, such as rent, correspond more accurately to the lease period information for the lease agreements in the third quarter of the fiscal year under review. This allows the Company to more clearly present the characteristics and actual transactions of the Company's leasing business which receives rents, etc. over a long period of time, such as monthly usage fees, as advances received.

To reflect this change in presentation methods, the Company has reclassified its consolidated financial statements for the previous fiscal year.

As a result, the ¥79,073 million yen shown in "advances received" under "current liabilities" and the ¥21,908 million shown in "long-term advances received" under "long-term liabilities" in the consolidated balance sheets for the previous fiscal year have been reclassified as ¥58,301 million yen in "advances received" and ¥42,680 million yen in "long-term advances received."

・Long-term accounts payable

"Long-term accounts payable" under "long-term liabilities," which was presented independently in the previous fiscal year, is presented by including it in "Other" in the fiscal year under review, as the significance of its amount has become minor.

To reflect this change in presentation methods, the Company has reclassified its consolidated financial statements for the previous fiscal year.

As a result, the ¥9 million shown in "long-term accounts payable" under "long-term liabilities" in the consolidated balance sheets for the previous fiscal year have been reclassified into "Other."

(Segment Information)

Information Regarding Sales and Profit, as well as Losses, Assets, Liabilities and other Items by Reportable Segment

Fiscal Year ended March 31, 2012 (April 1, 2011 through March 31, 2012)

(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	380,307	62,913	6,228	8,845	458,294	1,142	459,436	–	459,436
(2) Inter-segment sales and transfers	427	–	1,217	–	1,645	60	1,705	(1,705)	–
Total	380,735	62,913	7,445	8,845	459,939	1,202	461,141	(1,705)	459,436
Segment earnings (or loss)	5,248	4,309	(1,663)	(855)	7,039	(37)	7,001	(2,415)	4,585
Segment assets	131,746	16,129	42,095	2,299	192,271	4,370	196,642	68,140	264,783
Other items									
Depreciation	2,661	250	1,803	66	4,782	47	4,829	1,217	6,046
Increase in property, plant and equipment, and intangible assets	755	8	381	0	1,145	44	1,189	293	1,483

Fiscal Year ended March 31, 2013 (April 1, 2012 through March 31, 2013)

(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	380,547	53,369	6,657	9,482	453,084	1,137	454,222	–	454,222
(2) Inter-segment sales and transfers	483	388	1,865	–	2,736	76	2,812	(2,812)	–
Total	384,057	53,758	8,522	9,482	455,820	1,214	457,034	(2,812)	454,222
Segment earnings (or loss)	8,687	2,747	(1,005)	(742)	9,686	35	9,722	(2,308)	7,413
Segment assets	107,726	15,850	43,692	2,192	169,462	4,379	173,841	87,808	261,649
Other items									
Depreciation	2,593	199	1,707	67	4,567	52	4,620	1,063	5,683
Increase in property, plant and equipment, and intangible assets	112	7	183	29	332	280	613	566	1,180

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. Breakdown of adjustments is as follows.

Segment earnings (or loss) (Million yen)

	FY ended March 31, 2012	FY ended March 31, 2013
Inter-segment eliminations	20	(37)
Corporate expenses*	(2,435)	(2,270)
Total	(2,415)	(2,308)

*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, 2012	FY ended March 31, 2013
Surplus operating funds, Long-term investment capital, and Assets which do not belong to reportable segments	68,140	87,808

Increase in property, plant and equipment, and intangible assets (Million yen)

	FY ended March 31, 2012	FY ended March 31, 2013
Capital investments which do not belong to reportable segments	293	566

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