Annual Report 2013

For the fiscal year ended March 31, 2013

The challenge of new growth

Creating Future

Leopalace21

PROFILE

Leopalace21 has established a unique business model fusing two core businesses, a Construction Business, which involves constructing apartments aimed mainly at single persons, and a Leasing Business, which involves performing the superintendence of apartments after they are built.

We also operate a Hotels & Resort Business and Elderly Care & other Businesses, making Leopalace21 a one-stop provider of a wide range of real estate services. Currently, with domestic rental housing demand on the decline, Leopalace21 is proceeding with apartment construction on an optimal scale based on an area strategy while also starting to receive orders for elderly care facilities as well as offices and commercial facilities. At the same time, by strengthening the profitability of the Leasing Business, Leopalace21 is moving forward with establishment of a stock-based business model capable of generating stable profits from our stock of existing apartments ("stock").

CONTENTS

Forward-looking Statements

Statements made in this annual report with respect to plans, strategies and future performance that are not historical facts are forward-looking statements involving risks and uncertainties. Leopalace21 cautions that a number of factors could cause actual results to differ materially from such statements including, but not limited to, general economic conditions in Leopalace21's markets; demand for, and competitive pricing pressure on, Leopalace21's products in the marketplace; Leopalace21's ability to continue to win acceptance for its products in these highlycompetitive markets; and movements of currency exchange rates.

TO OUR STAKEHOLDERS

The Japanese economic outlook remained uncertain in the fiscal year ended March 2013 (fiscal 2012). However, since the launch of a new government, there have been bright signs of economic recovery such as a clear trend of yen weakening and rising stock prices. Similarly in the housing industry, the number of new housing starts grew for a third consecutive year and rental housing starts also grew for the first time in four years.

Leopalace21's net sales decreased by 1.1% year on year to ¥454,222 million due in part to a sales decline in the Construction Business. Operating income grew by 61.7% year on year to ¥7,414 million due in part to an improvement in the net balance of income to expenditures on a recovery in occupancy rates and reduced rental costs in the Leasing Business. Recurring income grew by 372.1% year on year to ¥11,091 million due in part to foreign exchange gains caused by sharp yen depreciation. With regard to net income, while we booked an impairment loss of ¥2,173 million, an increase in deferred tax assets resulted in income tax expenses deferred of ¥4,670 million. As a result, net income grew by 739.2% year on year to ¥13,335 million.

We achieved steady results in two aims we set for fiscal 2012, the first year of our new Medium-term Management Plan. Those two aims were: "enhancing the competitiveness of our core businesses" and "implementing initiatives in new areas through existing businesses."

In fiscal 2013, the second year of the new plan, we seek to maximize earnings by strengthening services and increasing the competitiveness of leased managed properties with "the year of challenge to a new growth stage" as our motto. We aim for operating income of ¥14,100 million and net income of ¥11,000 million.

In closing, I would like to humbly request your continued support and encouragement.

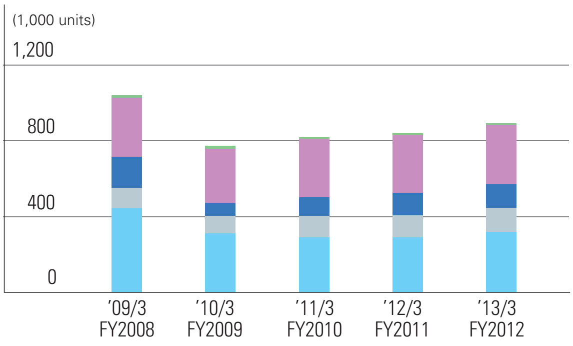
June 2013

Eisei Miyama
President and CEO

Eisei Miyama

LEOPALACE21'S EXTERNAL ENVIRONMENT

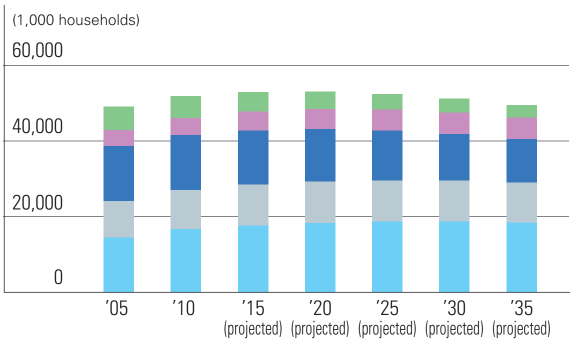
Number of New Rental Housing Starts
(Number of Housing Units by Use)



*Source: New residential housing construction work commencement statistics for fiscal 2013, the Ministry of Land, Infrastructure, Transport, and Tourism

New housing starts decreased sharply during the period from the fiscal year ended March 2009 to the fiscal year ended March 2010 due to the economic slump following the Lehman Shock. Subsequently, housing starts have gradually started to recover as a result of housing investment policy and other efforts. The number of housing starts increased to 893,000 units in the fiscal year ended March 2013, but has not returned to the level before the financial crisis sparked by the collapse of Lehman Brothers. Despite such circumstances, new housing starts for leased units are moving toward recovery. They temporarily declined due to Lehman's collapse, but now remain stable at a level of about 300,000 units. The number of new housing starts for leased units increased to 320,000 units for the first time in four years in the fiscal year ended March 2013.

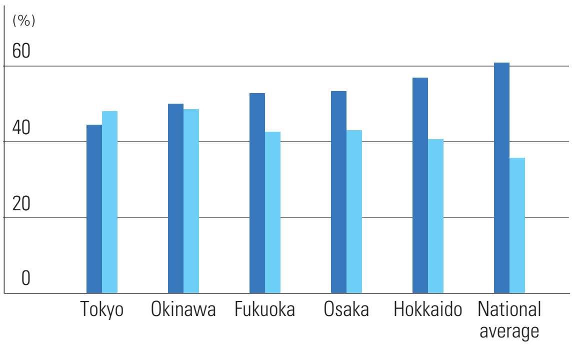
Trend in Number of Households



*Source: Population Census for 2010, the Ministry of Internal Affairs and Communications; fiscal 2013 report on the number of households and forecasts, the Institute of Population Problems

Due to Japan's declining population, the number of households is expected to gradually decline in the near future. On the other hand, single households are expected to keep growing for a while longer. The number of single households have grown from 2010's 16,780,000, and there are forecasts for single households to continue to grow through 2025, when the total number of households is expected to swing to a downturn versus the forecast peak, and to keep rising until 2030. As a result, forecasts call for 18,450,000 households in 2035, an increase of 1,670,000 from 2010, and for the percentage of single households as a percentage of all households to be 37.2% in 2035, up 4.8 points from the 32.4% of 2010.

Homeownership and tenancy rates of households



*Source: Residential housing and land survey for fiscal 2008, Statistics Bureau, Ministry of Internal Affairs and Communications

The 2008 survey (latest) on the total number of housing units and homeownership rates shows the homeownership rate was 61.1% and tenancy rate was 35.8%, and homeownership rates have remained at around 60% since the survey started in 1973. This trend varies by region with low homeownership rates and high tenancy rates in major metropolitan areas in general. Of the top five prefectures with the lowest homeowner rates, Tokyo is first, Osaka is third, and Fukuoka is fourth. These three prefectures include major metropolitan areas. In addition, these three prefectures are at the top in terms of population, so it can be said that tenant demand for rental or leased housing is largely concentrated in metropolitan areas such as Tokyo, Osaka, and Fukuoka.

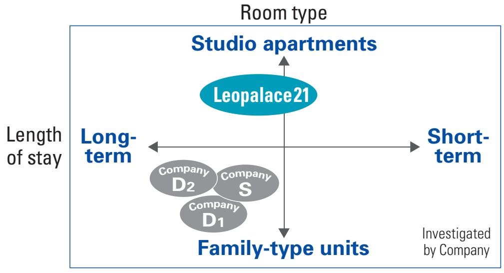
LEOPALACE21'S COMPETITIVE ADVANTAGE

Number of Apartment Units under Management

546,204 units

(as of the end of March 2013)

Market Positioning



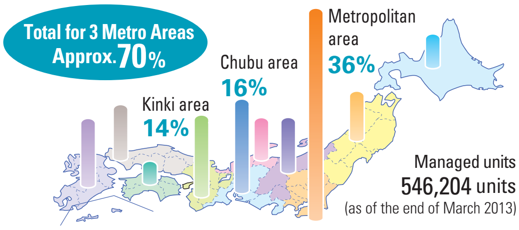
Leopalace21 currently boasts some 550,000 managed apartments units featuring furniture and home appliances across Japan. The company has achieved solid growth by steadily responding to the needs of tenants alongside the uptrend in single person households. Since they are mainly used by students and single employees living on their own, as well as for short-term stays such as business trips, approximately half of the leases are for corporate use as company housing or dormitories.

Proportion of Properties by Major Areas

Total for 3 Metro Areas

Approx. 70% (as of the end of March 2013)

Proportion of Managed Properties, Nationwide and by Key Area



Leopalace21's managed properties are concentrated in three metropolitan areas, which account for about 70% of all the company's properties: 36% in the Metropolitan area, 16% in the Chubu area, and 14% in the Kinki area. We maintain stable occupancy rates by concentrating our managed properties in areas where large numbers of people gather, especially these three metropolitan areas, which continue to have a population influx.

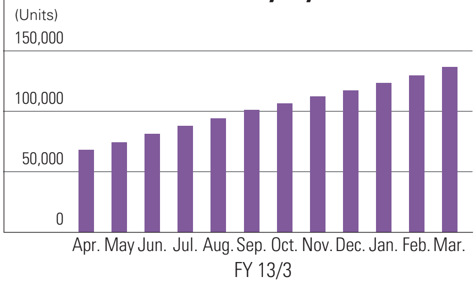
LEOPALACE21'S STRATEGIES

Apartment Security Systems

136,107units

Installation rate: 24.9% (as of the end of March 2013)

Installation of Security Systems



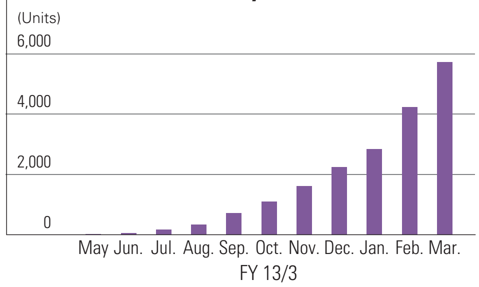
Leopalace21's first priority is the safety and security of our tenants. In addition to offering auto-lock gates and video intercoms, we are adding properties under management with 24-hour, 365-day safety and security systems that are overseen through joint efforts with security companies.

"Room Customize /My-Collection Plan" Total Number of Contracts

5,714 cases

(as of the end of March 2013)

Total Number of Contracts for "Room Customize /My-Collection Plan"



There are more and more customers who want where they live to reflect their personalities, even in case of rental properties. Leopalace21 provides services such as "Room Customize (My Collection Plan)," which allows tenants to customize one wall of the room by giving them a choice of free wallpaper, and the "Comfort Plan" (pay service), which allows tenants to choose wallpaper with features of functions such as odor elimination, humidity-control, photocatalytic self-cleaning.

LEOPALACE21'S NEW BUSINESSES

Our Group is focusing on solar power systems as a core project of our new businesses. Considering its business prospects including growth and future potential, we are actively engaged in this project in various forms and are currently proceeding with three main projects.

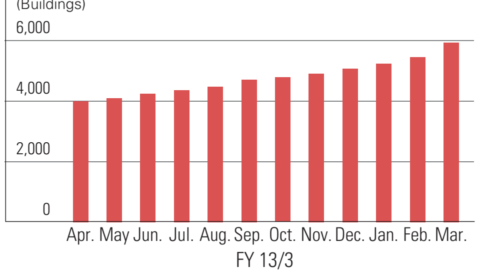
The first is a project to install solar panels on apartments under our management. We regard this as a measure to enhance the value of our properties, and we completed installation on about 5,900 buildings as of the end of March 2013. This is equivalent to about 27% of the roughly 22,000 apartments under our management on which solar power systems can be installed.

Another project is "Virtual Solar Power Plants." Leopalce21 started this demonstration test in Fukushima Prefecture in collaboration with Fujitsu Ltd. This is a pilot project to promote residential solar power systems in which our subsidiary leases the rooftops of apartments we manage from their owners, pays them lease fees, and collects revenues from selling power generated utilizing a feed-in-tariff scheme for renewable energy.

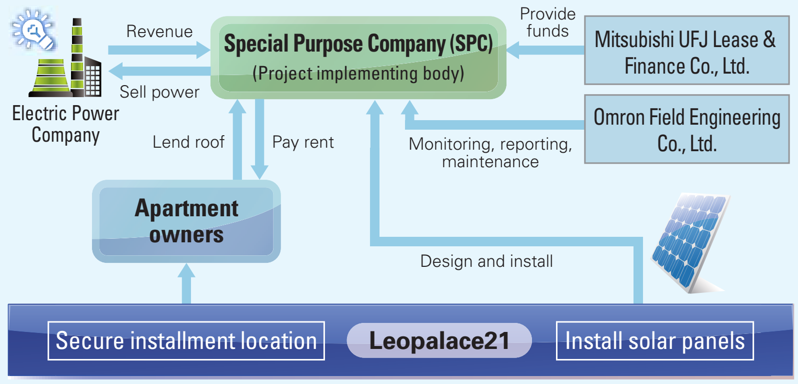
The last is "Roof Mega-solar Project." For this project, we lease the rooftops of managed apartments from their owners and sell the electricity generated to power companies. At the start of this project, we established a special purpose company (SPC) with Mitsubishi UFJ Lease & Finance Co., Ltd. and Omron Field Engineering Co., Ltd. to sell generated power to power companies. We started this business from this March with the aim of installing systems on 7,000 apartments (100MW).

Solar power systems
5,931 buildings
(installation rate: 27.1%)

Installation of Solar Power Systems



Roof Mega-solar Project Scheme



CORPORATE HISTORY

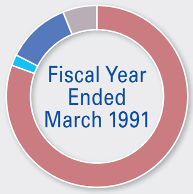
1973
- Establishment

1985
- Full-scale launch of Leopalace 21 urban apartments
- Capital increases to ¥132 million

1986
- Capital increases to ¥452 million

1987
- Capital increases to ¥760 million
- Capital increases to ¥2.74 billion

Sales breakdown by business



- Real Estate Business (condo sales) **80.6%**
- Construction Business **2.1%**
- Leasing Business **11.3%**
- Other Businesses **6.0%**

1991
- Acquire a patent for housing with lofts

1993
- Open Leopalace Resort Guam

1997

Return to net profits
- Launch Leopalace Fraternity

1998
- Number of managed properties increases to 100,000
- Leopalace 21 wins 1998 Good Design Award

1999
- Launch Monthly Leopalace Flat service including furniture and consumer electronics

Growth Period	Bubble Period	Post-Bubble Period	Business model transition	Return to earnings growth
	Apartment development/ sales business		Establish our business model (Shift from built-for-sale to construction subcontracting)	Shift Construction and Leasing Businesses to Full-scale operation of synergy model

1988
- Launch a unique membership-based tenant system
- Launch an online management of buildings and tenants

1989
- Capital increases to ¥4.41billion
- List on over-the-counter market (JASDAQ)
- Change company name to "MDI Corporation"

1990
- Capital increases to ¥22.48 billion

1995
- Launch corporate membership sales

1996

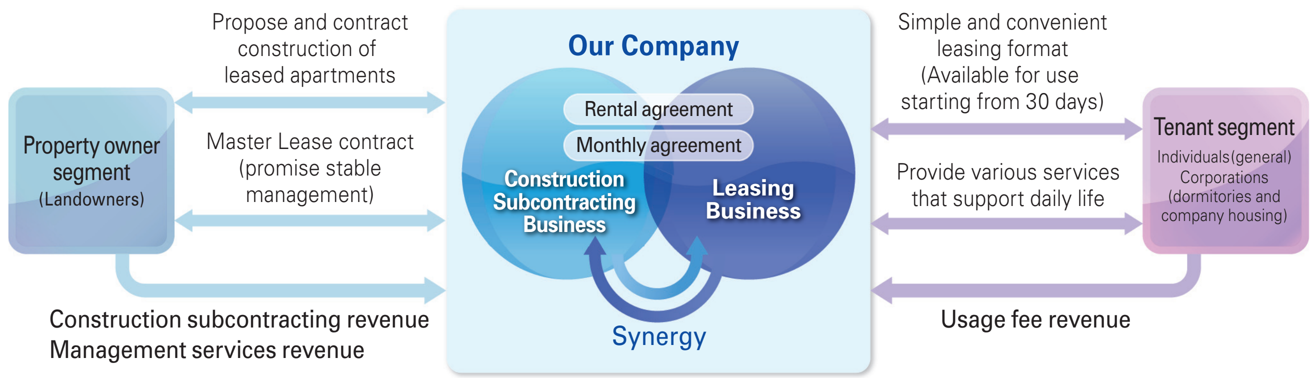
Return to recurring profits

2000
- Capital increases to ¥30.52 billion following third-party allotment of new shares
- Change company name to "Leopalace 21 Corporation"

2001

Net worth turns positive on a consolidated basis
- Launch Leopalace REIT, a series of real estate securitization products

Business model in transition period



Sales breakdown by business

- Leasing Business **43.9%**
- Construction Business **50.0%**
- Hotel & Resort Business **1.1%**
- Elderly Care Business & Other Businesses **4.9%**

Sales breakdown by business

- Leasing Business **84.4%**
- Construction Business **11.7%**
- Hotel & Resort Business **1.5%**
- Elderly Care Business & Other Businesses **2.4%**

2002

- Capital increase by public offering, capital increases to ¥37.24 billion
- Start broadband business

- Open Leopalace Center Gangnam, Seoul
- Launch Monthly Leopalace Flats
- Number of managed properties increases to 200,000

2008

- Launch of membership-based 'Class-L' service

2009

- Number of managed properties increases to 500,000
- Open Leopalace21 Business Consulting (Shanghai) Co., Ltd. Open Beijing Branch

2010

- Number of managed properties increases to 550,000
- Launch Leopalace Partners franchise system
- Capital increases to ¥56.56 billion following third-party allotment of new shares
- Open Shanghai Corporation Dalian Branch and Guangzhou Branch

Global Recession Lehman Collapse | **Great East Japan Earthquake** | **Start Return to Growth**

Comprehensive enhancement of stock-based earnings | Establish New Growth Stage Formulate Medium-Term Management Plan "Creating Future"

2004

- List on 1st Section of Tokyo Stock Exchange
- Capital increase by public offering, capital increases to ¥55.64 billion

2005

- Number of managed properties increases to 300,000
- Start Residential and Elderly Care Businesses

2006

- Open Leopalace Center Taipei and Leopalace Center Pusan

2007

- Number of managed properties increases to 400,000
- Open Leopalace Center Jongno, Seoul

2011

- Full-scale installation of security systems for apartments
- Full-scale installation of solar power systems

2012

Return to net profits

- Launch "Room Customize" service

- Start Fukushima virtual solar power plant pilot project with Fujitsu Ltd.
- Establish "Woori & Leo PMC Co., Ltd." in South Korea
- First exercise of share subscription rights, capital increases to ¥58.31 billion
- Launch property brokerage business in South Korea

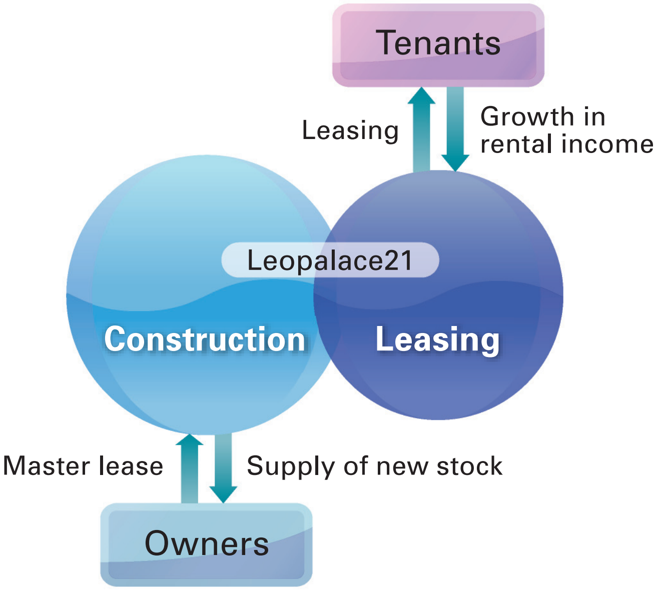
2013

- Nationwide launch of "roof mega-solar project"
- Second exercise of share subscription rights, capital increases to ¥60.41 billion
- Third exercise of share subscription rights, capital increases to ¥62.86 billion
- Launch brokerage business in Taiwan

BUSINESS MODEL TRANSITION

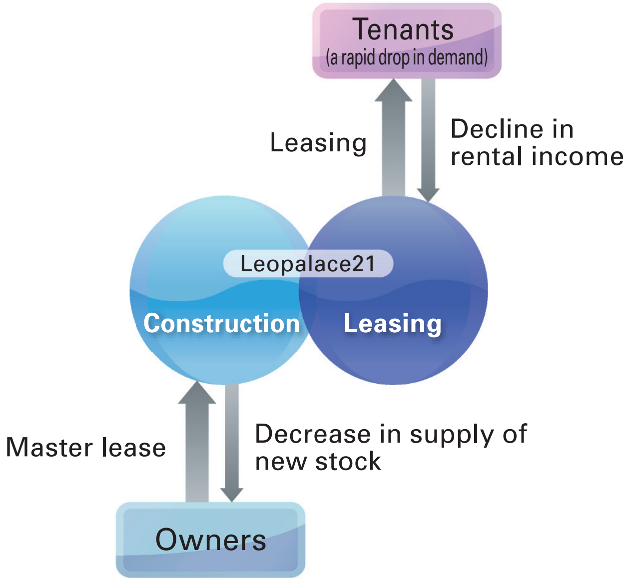
Traditional Business Model

Earnings Enhancement Cycle



In a period of returning to growth after the bubble's collapse, there was increased demand for apartments aimed at housing for job transferees (living away from their families) and company dormitories. While continuing to steadily meet this need, we substantially increased the new supply of stock and grew our Construction Business by addressing the concerns of landowners worried about vacancy risk through the introduction of a "Master Lease System." Our Leasing Business was also supported by healthy growth in corporate demand, enabling us to achieve both an increase in rental income and growth in the number of apartments leased. During this period, we realized an "Earnings Enhancement Cycle," in which our entire business was led by the Construction Business as our main business, but which also led to growth in our Leasing Business.

Earnings Deterioration Cycle



As a result of the rise in the unemployment rate across Japan due to the financial crisis triggered by the collapse of Lehman Brothers in 2008, there was also a downturn in apartment demand. At Leopalace21 as well, there was a series of tenant departures centering on properties under leasing agreement with corporations, leading to a reduction in rental income and a decline in Leasing Business profits. In addition, the financial crisis, which brought about more stringent loan screening at financial institutions, prompted us to curtail the supply of master lease system apartments to improve occupancy rates and caused a decline in the number of orders received in our Construction Business. We fell into an "Earnings Deterioration Cycle," in which there was a shrinking of our Construction Business linked to the decline in our Leasing Business profits triggered by the decrease in tenants.

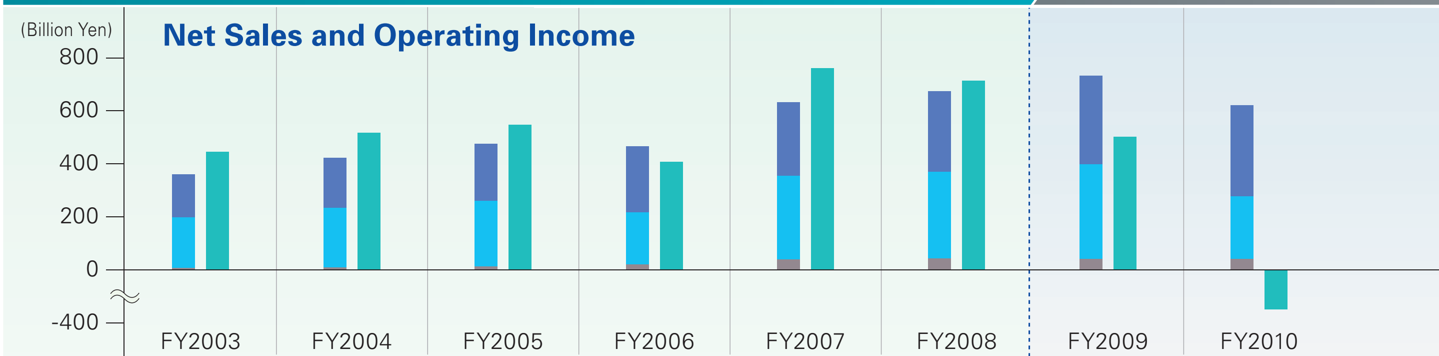
"Master Lease System*" master leases up to 30 years, the initial **"10-year"** fixed rent renewable every two years afterward

Macro-Environment and Business Performance Trends

Period of Returning to Growth
(Before the collapse of Lehman Brothers in 2008)
Construction and Leasing Businesses: Full-scale Operation of Synergy Model

Period of Global Recession
(Post-Lehman Collapse)
Stagnation of Synergy Model

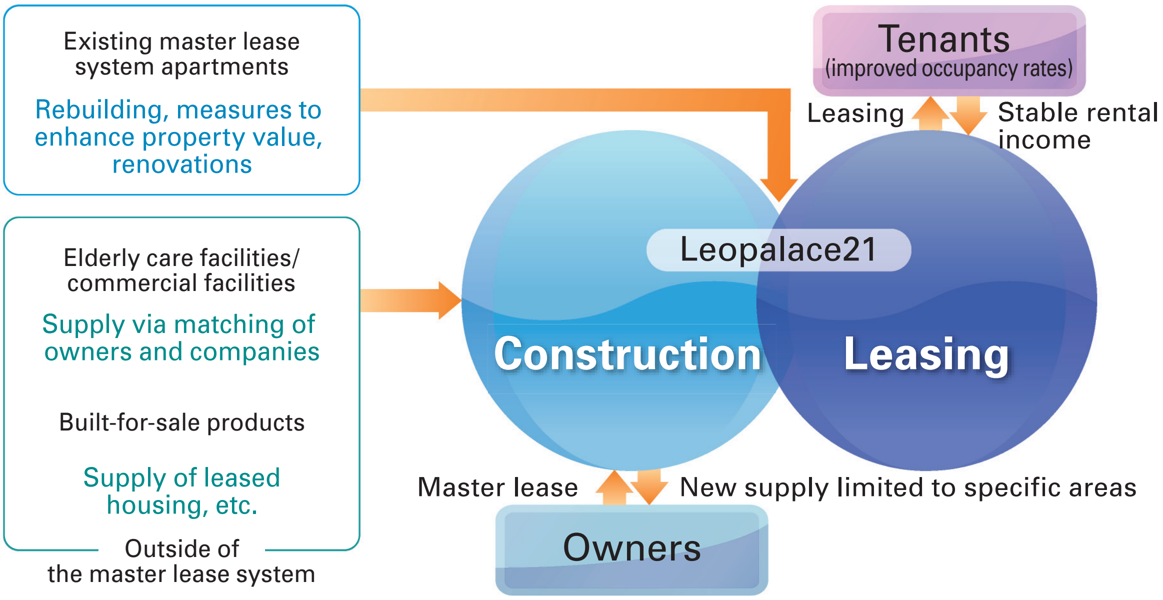
Net Sales and Operating Income



(Each fiscal year ends on March 31)

Future Business Model

Earnings Stabilization Cycle



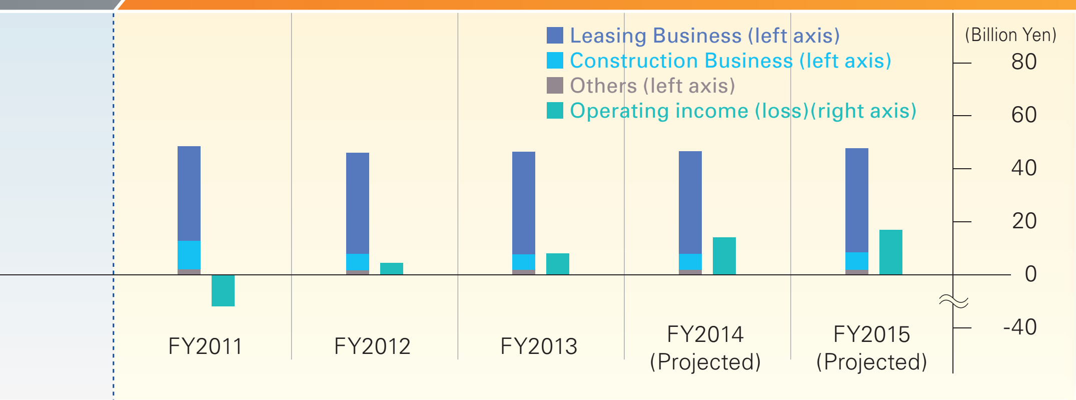
Looking at the current macro-environment, while there is little hope of an overall recovery in apartment demand given the unclear economic outlook, there are signs of recovery when it comes to demand in popular areas and demand for properties with high added value. Amid this environment, we intend to expand the number of orders received for our Construction Business by limiting new supply to specific areas and by incorporating ahead of their time ancillary equipment, such as apartment security and solar power systems, as standard features. At the same time, we are aiming to improve our Leasing Business profits by securing stable rental income based on high occupancy rates achieved by offering more appealing apartments. In our Construction Business, over and above these measures, we will also work to increase orders for elderly care facilities and commercial facilities through the matching of owners and companies. We are also moving toward the realization of an “Earnings Stabilization Cycle” in future, whereby stable earnings can be anticipated in both our Construction Business and Leasing Business.

“Master Lease System*” master leases up to 30 years, the initial **“2-year”** fixed rent renewable every two years afterward

*Master Lease System: Leopalace21 leases the entire building from the owner after apartment construction

Period of Economic Recovery
(The Present and Onward)

Comprehensive Enhancement of Earnings from Stock



Targets for Final Year of New Medium-Term Management Plan
(Period Ending March 2015)

▶ **Net sales**
¥476.5 billion

▶ **Operating income**
¥16.9 billion

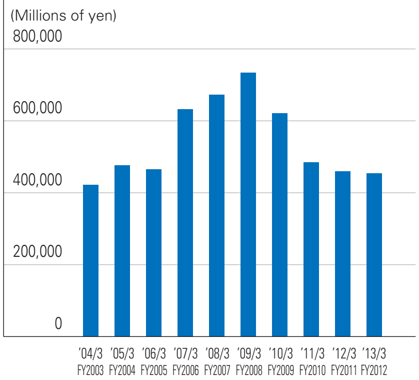
▶ **ROE**
20.0 %

TEN-YEAR CONSOLIDATED FINANCIAL HIGHLIGHTS

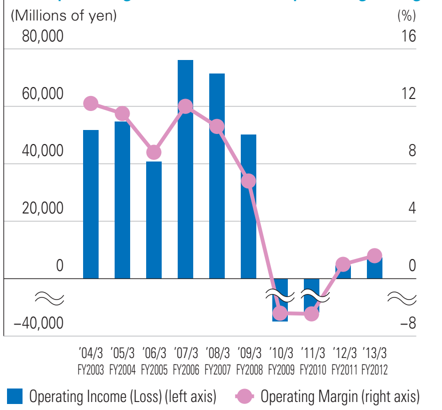
For the years ended March 31	'04/3 FY2003	'05/3 FY2004	'06/3 FY2005	'07/3 FY2006
Net sales	¥ 422,224	¥ 476,267	¥ 465,387	¥ 631,609
Leasing business	188,864	216,591	249,696	277,163
Construction business	225,011	248,033	195,202	316,117
Hotels & resort business	5,759	7,282	8,340	7,141
Elderly care business & other businesses	2,590	4,361	12,149	31,187
Cost of sales	313,085	357,546	353,928	474,713
Selling, general and administrative expenses	57,468	64,038	70,684	80,888
Operating income (loss)	51,671	54,682	40,775	76,007
Leasing business	7,429	7,244	8,079	7,031
Construction business	54,154	57,051	39,452	74,615
Hotels & resort business	(3,850)	(3,928)	(2,668)	(2,628)
Elderly care business & other businesses	(3,516)	(2,641)	(394)	1,092
EBITDA	56,922	60,538	45,340	80,567
Net income (loss)	20,960	33,262	(16,582)	37,358
At year-end:				
Total assets	¥ 421,164	¥ 453,434	¥ 412,804	¥ 454,820
Net assets	81,420	149,798	133,622	185,785
Interest-bearing debt	162,666	108,786	64,513	53,160
Cash flow:				
Cash flow from operations	¥ 35,033	¥ 40,349	¥ 56,972	¥ 63,308
Cash flow from investing	(13,363)	(8,979)	(11,266)	(15,930)
Cash flow from financing	(30,129)	(20,959)	(47,947)	(17,019)
Free cash flow	21,670	31,370	45,706	47,378
Amounts per share: (Yen)				
Net assets	¥ 585.82	¥ 941.06	¥ 839.44	¥ 1,054.99
Net income (loss)	150.91	220.79	(104.17)	234.68
Cash dividend	15.00	15.00	15.00	50.00
Ratio:				
Equity ratio (%)	19.3	33.0	32.4	37.0
Return on equity (ROE)(%)	28.0	28.8	(11.7)	24.8
Return on assets (ROA) (%)	5.0	7.6	(3.8)	8.6
Payout ratio (%)	9.9	6.8	—	21.3
Debt/equity ratio (%)	2.0	0.7	0.5	0.3
Number of employees	5,702	6,457	6,868	7,409

(Notes) 1. U.S. dollar amounts are translated from yen at the rate of ¥94.05 = U.S. $1, the approximate rate prevailing at March 31, 2013.
2. The amounts of net assets for the fiscal years ended March 31, 2004, 2005, and 2006 represent the value of total shareholders' equity of each year-end, and do not include minority interests.
3. EBITDA = Operating income + depreciation
4. Return on equity (ROE) = Net income/average net assets during the fiscal year x 100
5. Return on assets (ROA) = Net income/average total assets during the fiscal year x 100
6. Debt/equity ratio = Interest-bearing debt/ (net assets - minority interests)

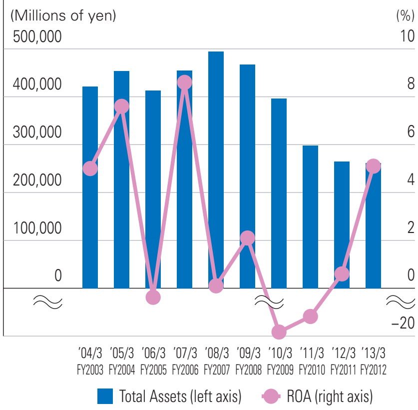
Net Sales



Operating Income (Loss)/ Operating Margin

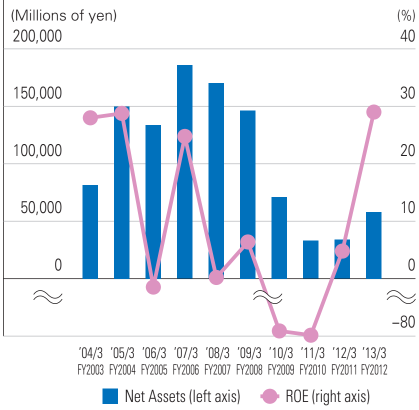


Total Assets/ ROA

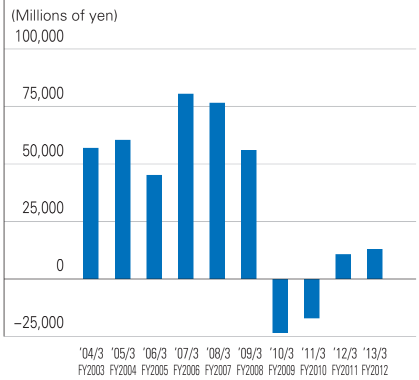


(Millions of yen)						(Thousands of U.S. dollars)
'08/3 FY2007	'09/3 FY2008	'10/3 FY2009	'11/3 FY2010	'12/3 FY2011	**'13/3 FY2012**	**'13/3 FY2012**
¥ 672,973	¥ 733,235	¥ 620,376	¥ 484,391	¥ 459,437	¥ 454,222	$ 42,720
302,731	334,561	342,316	356,606	380,308	383,574	36,075
327,541	359,155	237,062	107,821	62,913	53,370	5,019
6,072	5,611	6,734	6,492	6,228	6,658	626
36,630	33,909	34,264	13,472	9,987	10,620	999
511,054	589,834	570,749	448,392	403,573	396,509	3,507,281
90,517	93,245	79,355	59,606	51,278	50,299	4,731
71,403	50,157	(29,728)	(23,607)	4,586	7,414	697
3,037	(1,539)	(47,876)	(30,094)	5,249	8,688	817
73,268	70,113	29,745	11,971	4,309	2,747	258
(1,117)	(805)	(1,324)	(1,975)	(1,664)	(1,006)	(95)
646	(12,830)	(6,776)	(1,222)	(893)	(707)	(66)
76,566	55,939	(23,432)	(17,156)	10,633	13,098	1,232
342	9,952	(79,076)	(40,889)	1,589	13,335	1,254
¥ 493,956	¥ 467,300	¥ 396,512	¥ 298,274	¥ 264,783	¥ 261,650	$ 24,608
170,156	146,443	70,979	33,041	33,831	58,151	5,469
49,711	44,189	61,318	43,859	51,654	49,027	4,611
¥ 11,746	¥ 62,843	¥ (12,991)	¥ (28,337)	¥ (3,175)	¥ 6,069	$ 571
148	(10,049)	(8,889)	13,144	(3,538)	(6)	(1)
(26,780)	(33,885)	15,281	(15,891)	7,245	9,149	860
11,894	52,795	(21,880)	(15,193)	(6,712)	6,063	570
¥ 1,036.43	¥ 967.40	¥ 466.76	¥ 195.91	¥ 199.73	¥ 274.80	$ 25.84
2.15	63.54	(521.91)	(261.03)	9.40	74.50	7.01
80.00	30.00	—	—	—	—	—
33.4	31.3	17.9	11.1	12.8	22.2	
0.2	6.4	(72.8)	(78.7)	4.8	29.0	
0.1	2.1	(18.3)	(11.8)	0.6	5.1	
3,720.9	47.2	—	—	—	—	
0.3	0.3	0.9	1.3	1.5	0.8	
8,678	9,926	8,582	7,114	6,165	6,277	

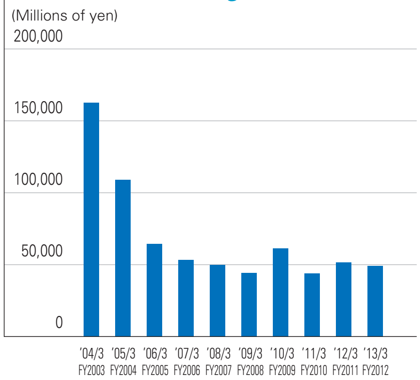
Net Assets/ ROE



EBITDA



Interest-bearing Debt



DIALOGUE:
MANAGEMENT OF LEOPALACE21

President Eisei Miyama and Outside Director Tetsuji Taya held a dialogue on management issues, including the state of business structure reforms, progress of the Medium-term Management Plan, the strategy for fiscal 2013, and corporate governance.

◆ Business Structure Reforms

Q: First of all, please tell us about the business structure reforms that you have been proceeding with in recent years. Please explain what Leopalace21 has sought to achieve and what its strengths are so we can understand why a company that has been steadily profitable needed to embark on structure reforms.

Structural reform is needed to bring about a balance between the Construction Business and Leasing Business in an era of market transformation.

Miyama: Our Construction Business builds apartments aimed mainly at single persons and our Leasing Business leases them. Our fusing of these two businesses, construction and leasing, is what sets Leopalace21 apart from other companies.

I believe Leopalace21's strengths are its sales capabilities and implementation speed. As a company with an aptitude for speed, during the era when the economy grew year after year, sales at our Construction Business grew rapidly on orders our sales team secured, and this growth in turn drove sales at the Leasing Business and overall profits higher.

However, things did not go well when the balance between the Construction Business and the Leasing Business collapsed due to macroeconomic shifts such as job losses and production adjustments resulting from rapid yen appreciation. Thus, it became necessary for us to embark on business structure reforms to bring about a balance between the two businesses.

Taya: From my perspective, Leopalace21's strength is that it started from scratch and has grown to its current scale. Companies like Leopalace21 share common traits. They have strong sales capabilities and know when to accelerate. To put it more precisely, decision-making at such companies is fast and they are good at execution. I think Leopalace21, even when looking at details, has been extremely innovative.

However, there is a life cycle in business—a period of growth and a period of maturation. Leopalace21's strength has been its skill in accelerating in growth periods, but in a mature period, the company needs to ease up on the accelerator or put on the brakes a bit. I believe this was the fundamental factor leading the company to embark on business structure reforms.

I believe our strengths are our sales capabilities and implementation speed.

Q: What are the key specifics in the business structure reforms? Also, what role does Outside Director Taya play in the reforms?

Miyama: Simply put, we aim to establish a new structure with balance between our Construction Business and Leasing Business in this period of market transformation.

Japan's rental housing market is becoming saturated. Even if our Construction Business profits on increased demand, sustained growth cannot be expected unless sound occupancy rates in the Leasing Business can be secured. Thus, Leopalace21 is implementing business structure reforms to maximize profits at our Leasing Business through quality improvement. Specifically, we aim to realize a recovery in profitability at the Leasing Business by enhancing the value added to properties and reducing rental cost, while shrinking the scale of our Construction Business which supplies properties to our Leasing Business.

We aim to maximize profits at our Leasing Business by improving property quality.

Taya: My role in the business structure reforms is to serve as a brake in management decisions as an outsider who has no vested interest in each business. You could also think of me as a balancer for overall optimization, rather than a partial variety. As the Construction Business itself is profitable, I have been assisting with making better decisions on "how the business should be as a whole company."

My role is to serve as a brake as an outsider with no vested interests.

◆ Medium-term Management Plan

Q: Business structure reforms are still moving ahead but the Medium-term Management Plan that started in fiscal 2012 also aims for growth. Please tell us about your targets.

We aim for stable profits with our stock of existing apartments and increased sales via new businesses.

Miyama: The various measures carried out in the earlier set of business structure reforms were focused on earnings recovery at the Leasing Business. As a result, we achieved stable profits with our stock of existing apartments, but there is still room for growth in sales. That is what the Medium-term Management Plan covers.

The basic policy of the latest Medium-term Management Plan is to "establish a system of stable profitability, with balanced income between the Leasing Business and the Construction Business" while incorporating a growth strategy. Two years from now in fiscal 2014 we aim for operating income of ¥16.9 billion, a more than two-fold increase over operating income in the previous fiscal year.

Q: Please tell us about the first year's results and the second year's approach in the Medium-term Management Plan.

Miyama: In our Construction Business, sales of solar power systems—a recently launched product—are showing favorable progress and the roof mega-solar project (this unit rents rooftops from apartment owners and installs solar power systems) has also started. In addition, in our mainstay domain of apartments, we have launched new products designed from a female perspective. In the Leasing Business, we started the "Room Customize" service along with efforts to promote long-term occupancy. In this fiscal year, based on a foundation of growth created by both businesses, we are targeting improved profitability by enhancing the services and competiveness of our leased managed properties.

Furthermore, we have paved the way for the Leasing Business overseas. The establishment of the joint venture "Woori & Leo PMC" with a South Korean company was one of our achievements in the previous fiscal year.

◆ Priority Initiatives for Fiscal 2013

Q: What are the priority initiatives for fiscal 2013, the second year of the Medium-term Management Plan?

Miyama: Based on the foundation created last year, we plan to "stand on a new stage" in the remaining two years of the Medium-term Management Plan, fiscal 2013 and fiscal 2014,while aiming to continue the growth of our core businesses. Especially in fiscal 2013, priority will be given to enhancing our added-value services.

Having worked to improve the value of our properties by installing security systems in apartments and solar power systems, we will continue to pour our efforts into such improvements this fiscal year. On the other hand, the "Leasing Concierge" service, which offers tenants seamless access to a menu of services from the handling of various complaints to our broad array of service guides, will be established in the Leasing Business to increase the satisfaction of tenants.

In our Construction Business, we will work to improve the quality of apartments, especially the supply of apartments with excellent sound insulation, along with expanding the variety of buildings.

At the same time, we would like to continue to propose leading-edge products that will be a source of competitiveness.

Moreover, in fiscal 2013 we will work to develop business overseas. In November 2012, we created a joint venture with Woori Housing Operation and Management Company, which has the greatest number of managed units in South Korea. The management plan is still being drawn up with the aim of starting operations from around July of this year. Since there are no businesses that manage properties leased from owners in South Korea, we plan to bring Japanese know-how to South Korea to increase the number of managed units and get the joint venture up and running smoothly.

Taya: This case in South Korea is very rare because we can utilize our management know-how with no competitive concerns. Since the Japanese population is declining and the economy maturing, the Construction Business is unlikely to grow significantly. It is thus sensible to seek growth outside of Japan and we hope this venture forms a good precedent for our overseas development.

We will give priority to enhancing added value and aim for a "new stage."

Corporate Governance

Q: Mr. Taya, you are the only Outside Director at Leopalace21. From an outside perspective, how do you see the state of Corporate Governance of Leopalace21?
And President Miyama, what do you think of the role played by Director Taya?

Taya: Upon assuming the position of Outside Director, I made some requests of the company. To remove the asymmetric nature of information, which is the weakness of being outside the company, I asked them to let me attend day-to-day decision-making meetings, committee meetings, and the like as well as to set up a system that would enable me to access all the information necessary to offer advice on making decisions. I think Leopalace21 has done these things pretty well.

In addition, I believe that building an internal control structure and compliance structure involving third parties is also important for strengthening governance. This company shows steady progress on this point. Overall, I believe the corporate governance of Leopalace21 is functioning properly.

Overall, I believe Leoplalace21's corporate governance is functioning properly.

Furthermore, I believe the purpose of governance is not to strengthen itself per se but rather to increase corporate value by ensuring the structure established to prevent specific managers from self-serving decision-making is functioning properly. Leopalace21, under the leadership of management including the President, is carrying out business structure reforms to enhance corporate value. The reforms are advancing smoothly, so I suppose the company's governance is also functioning properly.

Miyama: Director Taya is our only Outside Director, but I am extremely grateful that he states his opinions objectively concerning what direction Leopalace21 should head.

In management decision-making, the opinions of people who have been collaborating within the same company are bound to be biased in the same direction. Director Taya sometimes provides a different opinion by suggesting "maybe it isn't so," thus I appreciate the checks against this predilection we obtain through the proper functioning of the Outside Director.

The objective opinions of the Outside Director are helpful for management.

◆ Long-term Vision

Q: What is Leopalace21's aim for the future?

Miyama: Leopalace21 offers "housing," infrastructure that is essential for daily living.

We have a wide range of businesses, from housing aimed at single persons, with an emphasis on young people, to the Elderly Care Business. In terms of property development, we are pursuing an integrated approach that encompasses a wide range of buildings. Like the apartments designed from a female perspective that were launched in the previous fiscal period, I believe in going this route there is a need to further advance proposals "offering new value" related to housing, such as unprecedented products or proposals that fit certain lifestyles.

Furthermore, we will also develop our business targeting overseas markets in the future. We plan to extend our Leasing Business not only in the current joint venture with our South Korean partner, but also in other Asian countries.

We aim to take a comprehensive approach in Japan and overseas to developing "housing," infrastructure that is essential for daily life.

◆ To Shareholders and Investors

Q: Having achieved a return to profitability, I'm sure you are thinking about the future restoration of dividends. What are your thoughts on restoring dividends?

Miyama: Recognizing that returning profits to shareholders is a key issue in management, I think it is important to quickly bring about a restoration of dividends for that purpose. Currently our retained earnings are negative, but we are making earnest efforts to pave the way toward restoring dividends.

Over the 40-year history of Leopalace21, we have twice overcome challenging business circumstances. Reflecting on those experiences, I believe it is important to make cautious reforms this time. We will be able to meet your expectations within two to three years, and I would appreciate your long-term perspective.

We seek to meet our shareholders' expectations and pave the way to restoring dividends in two to three years.

SPECIAL FEATURE:
PROGRESS OF THE MEDIUM-TERM MANAGEMENT PLAN

Overview and Results of the Medium-Term Management Plan "Creating Future"

Overview

The Medium-Term Management Plan "Creating Future" is a three-year management plan with the fiscal year ended March 2013 being its first year. It targets net sales of ¥476.5 billion, an operating income of ¥16.9 billion, and a net income of ¥13.5 billion in the fiscal year ending March 2015, the final year of the plan.

The basic policy of this plan is to "establish a stable profit structure with balance between the Leasing Business and Construction Business," and we aim to secure operating income, especially in the Leasing Business, while maintaining net sales during the period at about the same level.

As for action plans stipulating specific initiatives, we worked to "create a foundation for growth" in the fiscal year ended March 2013 and we will implement measures to leap to a "new growth stage" in the fiscal years ending March 2014 and March 2015.

Results

The fiscal year ended March 2013, the first fiscal year of "Creating Future," we recorded net sales of ¥454.2 billion (our initial projection was ¥463.9 billion), operating income of ¥7.4 billion (¥8.0 billion), and net income of ¥13.3 billion (¥5.5 billion). Although both net sales and operating income did not reach our target, due to improved occupancy rates from measures to enhance property value such as "Room Customize," a strategy for acquiring individual tenants, and increasing installations of security systems, we steadily improved Leasing Business profits, which was one of our objectives in the Medium-Term Management Plan.

On the other hand, net income greatly exceeded our projection due to foreign exchange gains of ¥5.5 billion that resulted from a sharp depreciation in the yen at the end of the period, as well as income tax adjustments of –¥4.6 billion resulted from accumulation of deferred tax assets.

■ Projections and Results of the Medium-Term Management Plan

(Unit: Billion Yen)	'13/3 FY2012			'14/3 FY2013	'15/3 FY2014
	Projected	Actual	Execution rate versus plan	Projected	Projected
Net sales	463.9	454.2	(9.6)	467.4	476.5
Operating income	8.0	7.4	(0.5)	14.1	16.9
Net income	5.5	13.3	7.8	11.0	13.5
Net assets	42.8	58.1	15.3	58.0	76.5
Equity ratio (%)	17.0	22.2	5.2	23.1	29.5
Operating cash flow	2.4	6.0	3.6	12.0	13.3
ROE (%)	14.3	29.0	14.7	21.8	20.0
EPS (Yen)	29.2	74.5	45.3	54.2	62.4
ROA (%)	2.2	5.1	2.9	4.4	5.2
Orders received	76.8	73.0	(3.8)	80.1	78.9
Average occupancy rate during the fiscal year (%)	83.0	82.94	(0.06)	85.0	85.8

Action Plan for Each Business (fiscal year ended March 2013: create a foundation for growth)

In the fiscal year ended March 2013, we worked to "create a foundation for growth" centering on enhancing the competitiveness of core businesses and implementing initiatives in new areas by existing businesses.

As for specific measures of the Leasing Business, we promoted improvement of occupancy rates by creating more attractive products through measures to enhance property value, while we strengthened the sales capabilities by expanding sales channels. With these measures, we aimed to achieve operating profitability excluding the reversal of reserve for apartment vacancy loss.

In the Construction Business, based on measures for curbing orders we targeted even greater profitability improvements by narrowing down target areas for receiving orders and moving forward with measures to expand orders for construction work of facilities other than apartments.

As for Related Businesses, we poured effort into client retention, for example, maximally utilizing existing facilities with the aim of increasing repeat users.

Summing up these results, in terms of initiatives for the first fiscal year, we believe there was steady progress leading to the following fiscal years.

Enhance Competitiveness of Core Businesses
Efforts to Expand Our Existing Business into New Areas

	Create a foundation for growth	
	Action plan	**Results (fiscal year ended March 2013)**
Leasing Business	**Establishment of a stronger earnings structure**	
	Expansion of sales channels	Compared to the end of the previous fiscal year, direct offices (domestic) increased by 25 to 174 sales offices. Combined with the increase of two in partner offices, the number of domestic leasing offices has increased to 366 sales offices (349 sales offices at the end of the previous fiscal year).
	Operating profitability excluding the reversal of reserve for apartment vacancy loss	Compared to the end of the fiscal year ended March 2012, the reversal of the reserve for apartment vacancy losses for the fiscal year ended March 2013 was ¥5.2 billion (projection was reversal of ¥2.5 billion) due to profitability improvement and a contraction of the average remaining term of aggregate apartment leases. The reversal exceeded the forecast but we were able to achieve our target of operating profitability excluding the reversal of reserve for apartment vacancy loss.
Construction Business	**Initiatives in new areas**	
	Expand orders in areas where occupancy rate is high	As a result of our consistent efforts to win orders in areas where high occupancy rates can be expected in the future, specifically in the three metropolitan areas of Tokyo, Kinki, and Chubu, the Tokyo metropolitan area accounted for 55% of orders received in the Construction Business and the three metropolitan areas accounted for 73% of orders received.
	Expand orders other than apartments (elderly care facilities, stores)	Since the latter half of the fiscal year ended March 2012, we have started construction subcontracting of non-residential buildings other than apartments such as elderly care facilities and commercial facilities. This fiscal year, which is the second year of implementation, we were able to steadily expand orders with the amount of orders received at ¥3.4 billion for elderly care facilities and ¥400 million for commercial facilities.
Related Business	**Client retention**	
	Client retention	Occupancy rates improved and exceeded our projections in both sales and gross profits at both the Hotels & Resort Business and the Elderly Care Business. This was achieved by strengthening collaboration among business divisions with efforts such as promotion activities for corporate clients in the Leasing Business. Notably, the Elderly Care Business achieved its first profitable month partly due to a business transformation implemented for some facilities.

Action Plan for Each Business (Fiscal Years ending March 2014 and 2015: New Growth Stage)

The fiscal years ending March 2014 and March 2015, with our on-going motto "create a foundation for growth" as the base, will be the two years in which we aim for a new growth stage.

We will work harder to realize high profitability in the Leasing Business. As such, besides making efforts to increase the competitiveness of leased managed properties and enhance services for tenants, we will continue to promote security system installations, for which there is high demand among tenants.

In the Construction Business, we will hurry to establish products and business areas that are expected to form a new earnings base. Besides promoting the expansion of orders for elderly care facilities, commercial facilities, etc., we will advance installations of solar power systems and initiatives to turn selling electrical power into one of our businesses. As for related businesses such as the Hotels & Resort Business and the Elderly Care Business, we will utilize existing facilities and work for streamlining operations and management systems to maximize earnings.

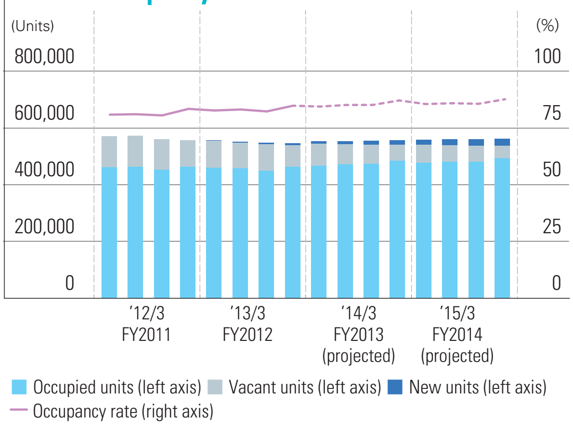
Support Continuing Growth of Core Businesses
Implement Initiatives for New Business

Leasing: Further Development as a High Earnings Business

(1) Increase competitiveness of leased managed properties by capping apartment units at 570,000

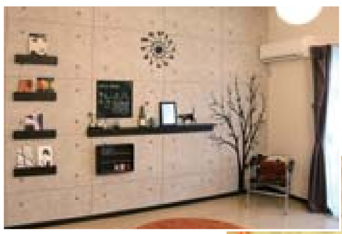
The number of managed apartments units is 546,204 units, holding the top position in the industry. In the future we think there will be a need to scrap and build existing apartments given the likely increase in difficulty of securing suitable land for constructing new apartments. As such, we set our target for the maximum number of apartment units we will manage at 570,000, aim to decrease the vacancy rate of the properties we manage, improve the occupancy rate from the current 82.9% (fiscal year ended March 2013) by reviewing leased managed properties and improving competitiveness, etc. We expect such efforts to lead to increased profits.

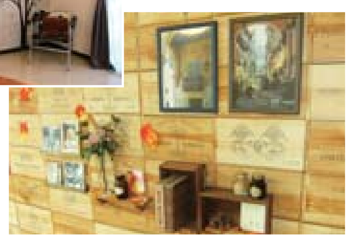
Number of Apartment Units under Management and Occupancy Rate



(2) Enhance services for tenants

Responding to high demand from individual tenants, we provide "Room Customize" as a part of an enhanced set of services for tenants, in which even rooms in rental properties can be personalized. We seek to enhance our product lineup with offerings such as "My-Collection Plan," in which custom wallpaper is free on one wall, with a selection of more than 100 types of wallpaper. On top of this, selection of wallpaper for the "Comfort Plan" includes features or functions such as odor elimination, humidity control, and photocatalytic self-cleaning.





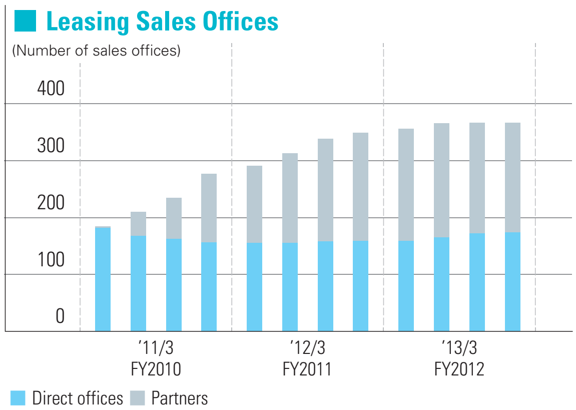
(3) Install security systems

Leopalace21 is actively installing security systems, which are highly desired by corporations and female customers. We are implementing a plan to increase the number of apartment units with security systems installed from 136,107 units (installation rate of 24.9%) as of the end of March 2013 to 190,000 units (installation rate of 35%) by the end of March 2015.

(4) Structure of 400 Leasing Sales Offices

In the Leasing Business, we continue to increase the number of sales offices to enhance profitability. Particularly, we are actively opening new sales offices in the three metropolitan areas of Tokyo, Kinki, and Chubu, where high occupancy rates can be anticipated in the future.

Leopalace21 is operating its sales offices in two forms — partners franchise sales offices in addition to directly managed sales offices. In the future we will increase directly managed sales offices in regions with many customer needs while maintaining the current scale for partner franchise sales offices. We will work to enhance the 366 sales offices as of the end of March 2013 and aim to build a structure of 400 sales offices by the end of March 2015.



Construction: Establish and Develop Products and Business Areas that will Form a New Earnings Base

(1) Expand variety of buildings (energy-saving features, geared to seniors, stores, etc.)

Networks with landowners through apartment construction and networks with corporations that use our rental housings have become one of the strengths of Leopalace21. In these networks, demand to construct not only apartments but elderly care facilities and commercial facilities as well on unused land is arising. As such, we are working to expand the variety of buildings such as facilities for elderly care and retail shops.

As for apartments, we intend to raise our power of persuasion towards landowners by expanding the lineup of products that match future demand, for example, developing and selling the environmentally friendly eco residence "Sky-Stage."

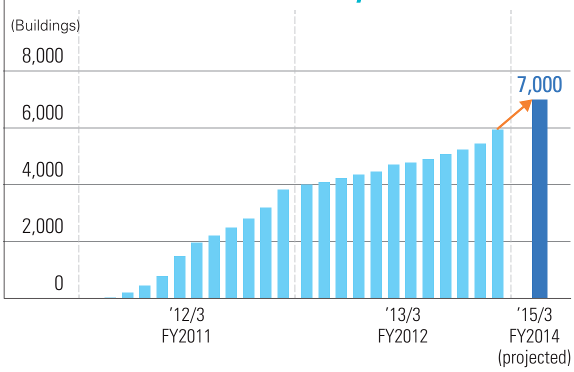
(2) Solar power system installation rate of 30%

As a solar power systems business, our solar panel installation business is advancing with orders from apartment owners. The cumulative total number of solar panels we have installed to date is 5,931 buildings (installment rate of 27.1%) and the generating capacity amounts to 64MW. This is equivalent to the energy consumption of 20,000 households.

In the feed-in-tariff scheme for renewable energy that took effect from July 1, 2012, the acceleration of the installment of large solar power systems with capacities of over 10 kW is thought to be a cause for the increase of installments on apartments.

Due to consideration for the environment and such, it is expected that the number of apartment owners desiring installation of solar power systems will increase in the future as well. In addition, since J-PEC (Japan Photovoltaic Expansion Center) will continue to provide subsidies for cases where capacities are less than 10kW, we intend to advance initiatives aiming to install 7,000 solar power systems (installment rate of 30%) by the end of March 2015.

■ Installation of Solar Power Systems



Start of Roof Mega-solar Project

We have started the Roof Mega-solar Project, which installs solar panels on rooftops rented from multiple apartment owners and sells generated power to electric power companies.

As the first stage of starting the business, we established a special purpose company (SPC) that will be the project-implementing body of the power generation business with Mitsubishi UFJ Lease & Finance Co. Ltd., which will provide leases on equipment necessary for solar power generation, and Omron Field Engineering Co., Ltd., which will carry out routine maintenance of the systems as well as monitor power generation.

The installation of solar panels is planned to rent the rooftops of properties managed by Leopalace21, and in the future it is planned to be expanded nationwide, growing to about 7,000 buildings (capacity of 100MW, equivalent to the energy consumption of 30,000 households).

Related: Maximizing Earnings

Streamlining Operations and Management Systems

In the Hotels & Resort Business, we will continue to strengthen collaboration among business divisions such as promoting utilization by customers of the Leasing Business. In addition, the Guam resort has an appeal as a sports facility as well, and we are working to streamline operations and management systems. As an example, Leopalace21's pool has been designated by JOC as a competition enhancement center and its golf course has been certified as a Japan Golf Association enhancement designation course. These facts certainly contribute to increasing the occupancy rates of neighboring hotels while raising the appeal of the facilities themselves.

On the other hand, we promote efficiency in the Elderly Care Business with efforts such as changing the business model of some operated facilities to more profitable ones, namely from fee-based residential homes to fee-based homes with nursing care, and revising payment plans to make these facilities more accessible.

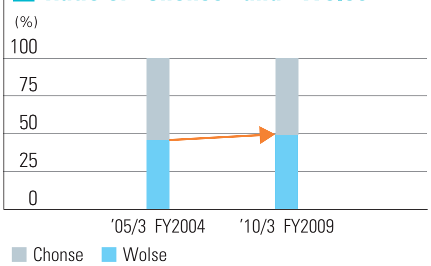
Implement Initiatives for New Businesses

Entering Leased Housing Market through Joint Venture with South Korean Company

We established a joint venture with Woori Housing Operation & Management Company, a major residential property management company of South Korea that manages 360,000 apartment units, and entered South Korea's leased housing market. This type of initiative is the first of its kind, and we aim for a smooth launch of the business by introducing the knowhow cultivated in Japan to South Korea.

A unique leasing contract system called "chonse" has been popularized in South Korea, but in recent years it has been shifting to a leasing contract system called "wolse" that is similar to Japan's leasing contract, which is likely to revitalize the rental housing market in South Korea. Given this shift and the absence of a schematized leased housing management service by a South Korean company, and with the provision of our knowhow, we believe the prospects for the business in South Korea are extremely promising.

Ratio of "Chonse" and "Wolse"



Start of Real Estate Brokerage Services in South Korea and Taiwan

Following the launch of Leopalace Seoul Jongno office in South Korea, brokerage services have also started in the Leopalace Taipei office in Taiwan in March 2013. Both offices provide support for contract procedures and follow-through services for tenants after their move into a property. These efforts contribute to the success of Japanese companies, who are our main customers, expanding overseas, enabling them to provide their employees safe and comfortable residences.

BUSINESS OVERVIEW: AT A GLANCE

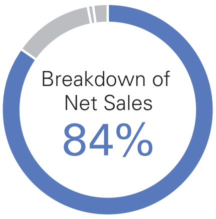
LEASING BUSINESS

▶26P

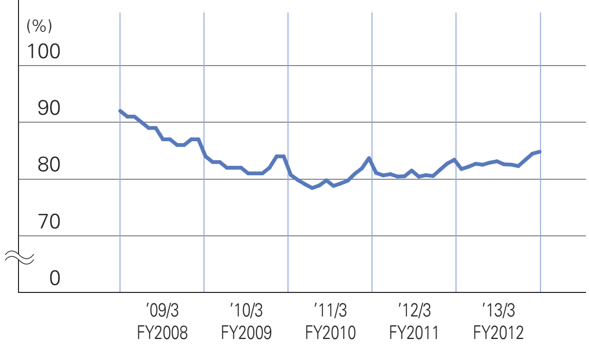
This business manages procedures involved with renting the units of managed properties based on a master lease system. The rental agreement we developed allows usage fees to be paid on a monthly basis, easing the burden of initial costs. Our monthly agreement requires usage fees to be paid up front but it includes furniture and home appliances and does not require payment of water bills and utility costs. In addition, through "Woori & Leo PMC," the joint venture established in South Korea last year (November 2012), Leopalace21 has opened the way for expansion of its leasing management business overseas.

Key subsidiaries/affiliates:

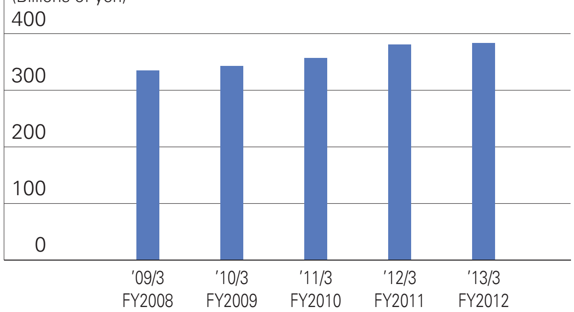
- Leopalace Leasing Corporation (corporate housing agency/real estate brokerage business)
- Plaza Guarantee Co., Ltd. (lease guarantee business)
- Leopalace21 Business Consulting (Shanghai) Co., Ltd. (consulting business)
- LIXIL RENEWAL Corporation (maintenance business)
- Woori & Leo PMC Co., Ltd. (leasing management services business)



Occupancy Rates



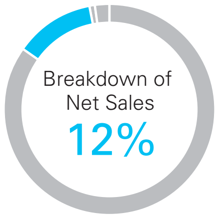
Changes in Net Sales



CONSTRUCTION BUSINESS

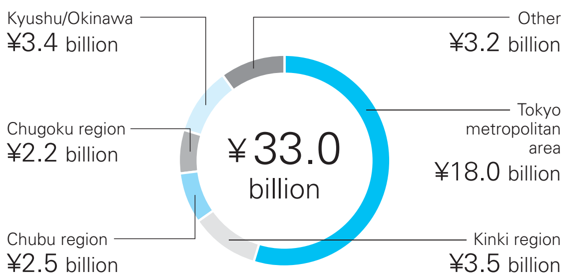
▶28P

This business undertakes construction subcontracting of apartments and other buildings. In the previous fiscal year (ended March 2013), sales of solar power systems were favorable. Along with apartments, construction subcontracting for commercial facilities and nursing homes is also expanding. In addition, we are also pouring effort into developing and improving the quality of products such as apartments with excellent sound insulation and apartments designed from a female perspective.

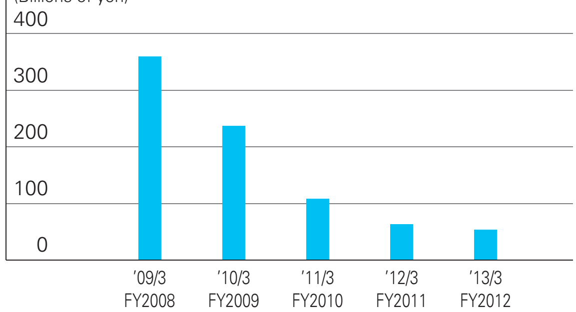


Apartment Construction Sales

(Fiscal Year Ended March 2013)



Changes in Net Sales



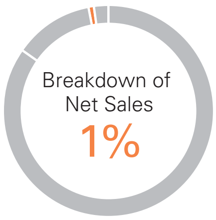
HOTELS & RESORT BUSINESS

▶30P

Via our overseas subsidiary Leopalace Guam Corporation, this business manages sports facilities such as golf courses and baseball fields as well as resort facilities such as hotels and condominiums on the island of Guam. It also operates hotels at eight locations across Japan.

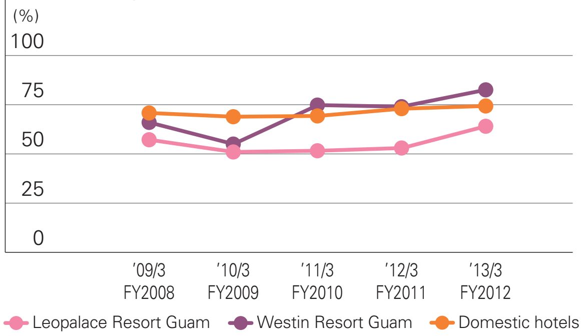
Key subsidiaries/affiliates:

- Leopalace Guam Corporation
  (hotels and resort business/Guam)
- Leopalace Travel, Ltd.
  (travel business)

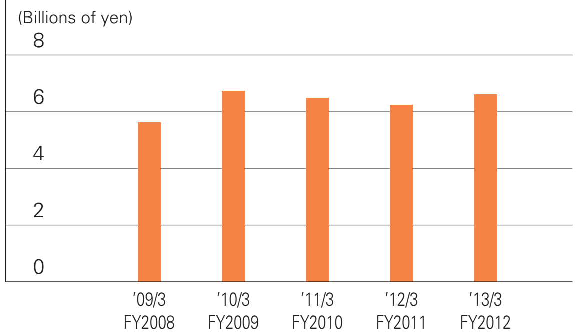


Guam/Domestic Hotel Occupancy Rates

(Annual Average)



Changes in Net Sales



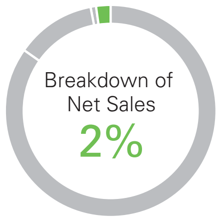
ELDERLY CARE & OTHER BUSINESSES

▶31P

Under the brand name Azumi En, this business manages private residential nursing homes, facilities offering day services and short stays, and group homes at 58 locations in the Kanto region. It also runs a regional community-based nursing care business that includes home visits by nursing care staff and the provision of in-home nursing care support services. Through a subsidiary, it also provides small-claims and short-term insurance covering household furnishings aimed at tenants.

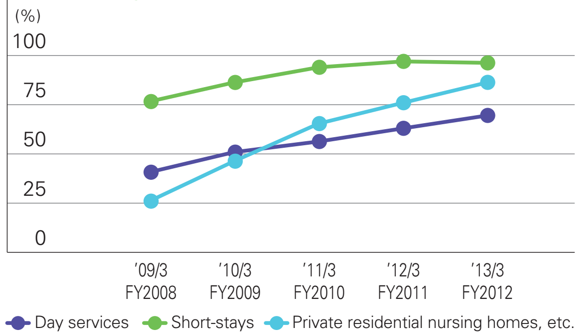
Key subsidiaries/affiliates:

- Leopalace Insurance Co., Ltd.
  (small-claims and short-term insurance business)
- Leopalace Smile Co., Ltd.
  (outsourcing business/special subsidiary)
- Leopalace Power Co., Ltd.
  (large-scale power generation business)

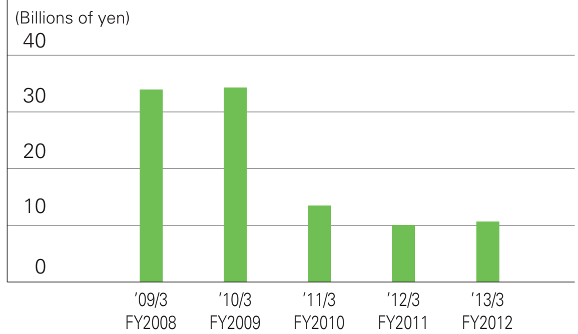


Elderly Care Facility Occupancy Rates

(Annual Average)



Changes in Net Sales



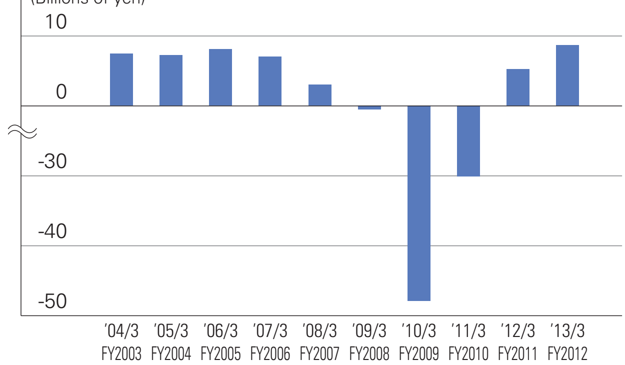
SEGMENT OVERVIEW: LEASING BUSINESS




Performance

In fiscal 2012, the Leasing Business posted net sales of ¥383,574 million (a 0.9% increase from the previous fiscal year) and operating income of ¥8,688 million (a 65.6% increase from the previous fiscal year). In the current fiscal year, we increased points of contact for customers through the expansion of our network of franchise sales offices (Leopalace Partners) and strengthened our corporate sales. We also curbed the number of apartment units under management by restricting property supply to areas that are expected to see stable tenant demand. As a result, the number of managed properties at the fiscal year-end was 546,000 units (down 10,000 units from the previous fiscal year-end), the occupancy rate at the fiscal year-end was 84.81% (up 1.41 percentage point from the previous fiscal year-end), and the average occupancy rate during the fiscal year was 82.94% (up 1.78 percentage points from the previous fiscal year).

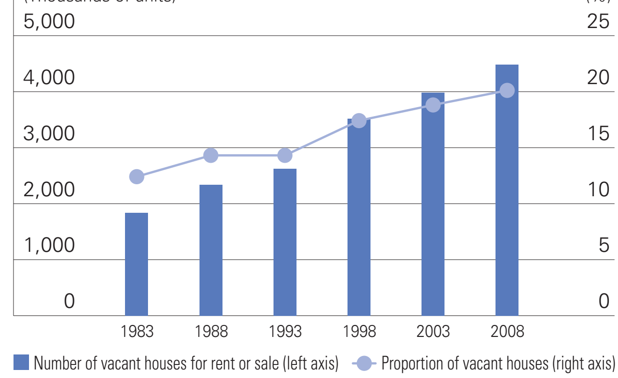
Operating Income (Loss)



Business Environment and Related Issues

The domestic rental housing market is already saturated due to the declining population and the increase in vacant houses. Given these conditions, it is difficult to expect a nationwide recovery in demand in the near future. As a result, in our Leasing Business, we are going far as we can to differentiate our services by making full use of our distinctive strengths like studio-type housing and rental agreements that include furniture and home appliances, and by taking steps that will enable us to attract tenants even in this fiercely competitive environment. In addition, to secure stable occupancy rates it is necessary to limit tenant outflow while moving ahead with cost reduction by reviewing master lease rents based on market rent levels and periodically reviewing our property management tasks.

Number of Vacant Rental Housing and the Proportion of Vacant Houses (Japan)



* Source: Housing and Land Survey the Ministry of Internal Affairs and Communications

Strategies

Promoting long-term occupancy and limiting tenant outflow:

In order to secure stable occupancy rates, it is important not only to increase tenants but also to limit tenant outflow. Thus, we contact tenants who plan to leave and present them with a proposal to relocate to another Leopalace21-managed apartment. In addition, we are also making creative efforts in services such as "Room Customize."

Corporate sales:

By building a sales system that is not overly reliant on one particular industry, we have made our portfolio resilient to economic swings. In addition, we cultivate strong relationships with our existing clients and work to increase new clients to strengthen corporate sales by developing and operating an online site (LAM System) aimed exclusively at corporate partners.

Measures aimed at female tenants:

Females comprise only 30% of Leopalace21's tenants. We aim to attract more female tenants by offering comfortable places for women, such as apartments with security systems, and thereby raise occupancy rates. Specifically, we intend to enhance our services targeting women living on their own. For example, we plan to offer housing with plenty of storage space or with an efficient kitchen where tenants can fully enjoy cooking.

Measures aimed at international students:

Along with our overseas branch network with four sales offices in China, three in South Korea, and one in Taiwan and our call centers, we operate an online site (the "LAM School" site) aimed exclusively at partner schools. We are stepping up efforts to respond to growing demand among international students.

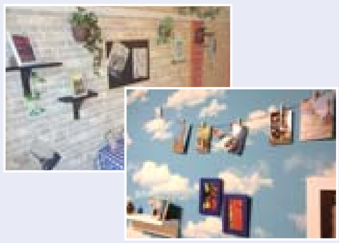
Expanding business overseas:

We until recently provided overseas customers rental housing in Japan through outlets overseas, but in the near future, we will expand our leasing management and brokerage services in overseas markets and work to facilitate stepped-up cooperation between our overseas units and Japanese corporate sales function.

Key Products/Services

"Room Customize":

This innovative service enables tenants to customize their living space to suit their own tastes—even in rental properties. The number of contracts for the "My-Collection Plan" service, which allows tenants to change the wallpaper on one wall for free, has already exceeded 5,000. With this service, we aim to promote long-term occupancy by enabling tenants to personalize and form attachments to their rooms.



Monthly agreements:

Monthly agreements for as few as 30 days are available for short-term use. These are furnished units, with utilities charges included in the rental fee, making them suitable for long-term business trips or periods of training.

Security systems:

With "24-hour, 365-day safety and security" as our motto, we have partnered with two major nationwide security companies to install security systems in properties we manage. The number of security system installations has already exceeded 130,000 units.

Overseas outlets:

Our overseas branch network includes four sales offices in China, three in South Korea, and one in Taiwan. Through our overseas branches, we provide rental housing mainly to people coming from overseas to Japan. In the near future, we will step up development of our real estate brokerage services overseas so we can respond to the needs of Japanese companies expanding overseas in terms of housing.

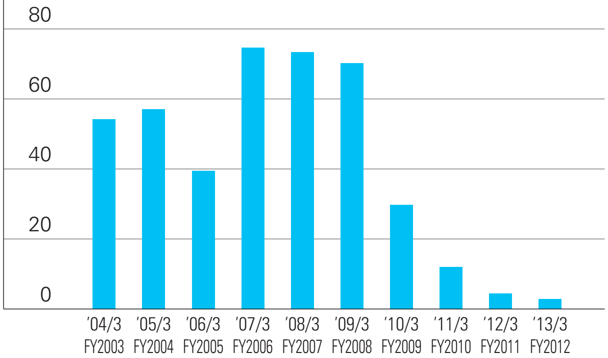
SEGMENT OVERVIEW:
CONSTRUCTION BUSINESS

Performance

In fiscal 2012, our Construction Business posted net sales of ¥53,370 million (a 15.2% decrease from the previous fiscal year) and operating income of ¥2,747 million (a 36.2% decrease from the previous fiscal year). Since our priority in fiscal 2012 was to improve the profitability of our Leasing Business, we made effort to win orders in areas that are expected to see stable tenant demand, while also promoting the installation of solar power systems which will improve the value of our properties. As a result, orders received in fiscal 2012 totaled ¥73,007 million (a 46.0% increase from the previous fiscal year) and the orders received outstanding at fiscal year-end totaled ¥47,461 million (a 12.9% increase from the end of previous fiscal year).

Operating Income

(Billions of yen)

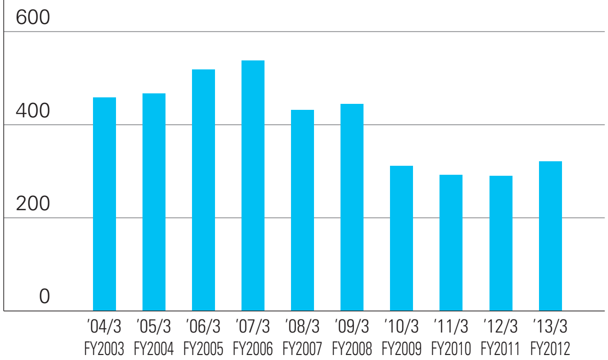


Business Environment and Related Issues

Due to domestic economy recovery and an improvement in Leopalace21's performance, the environment facing our Construction Business is improving. On the other hand, as shown by the continued decline in new rental housing starts from a peak of 537,943 units in fiscal 2006, the rental housing market is saturated when assessed at the national level. In such a difficult environment, we aim to identify areas where high occupancy rates are likely and expand construction orders received based on a more detailed supply plan, notably in Japan's three largest metropolitan areas. As for products, we aim to enhance product quality by developing products from the perspective of tenants, particularly of females, as well as implementing sound insulation and security measures.

Number of New Rental Housing Starts

(Thousands of units)



* Source: Statistics on New Housing Starts of the Ministry of Land, Infrastructure, Transport, and Tourism

Strategies

Actively supply apartment buildings in limited areas:

Since the occupancy rate is high for relatively new buildings and we anticipate extremely high demand in the future, especially in Japan's three major metropolitan areas, we aim to expand the number of apartments we supply, especially in those areas. In order to establish a sales system based on demand for apartments, we opened a branch in April in Aichi Prefecture's Toyota and a branch in Fukushima Prefecture's Koriyama.

Enhancing product quality:

Having already installed sound-insulated flooring, walls, and drainpipes, we will work hard to increase noise insulation by providing "non-sound floors," which more than double the level of noise reduction compared to conventional wooden structures. We aim to erase the perception that Leopalace21 properties have thin walls and build high-quality apartments that enable tenants to live comfortably.

Market expansion with new products:

We will increase female tenants with products created from a female perspective. Along with this, we have launched partial leased residences, which are designed to combine a home with rental spaces, to cultivate new markets in effective land use. As for apartments, we plan to provide reinforced concrete structures as an alternative to the mostly wooden construction of our conventional apartments.

Sales of solar power systems:

In the previous fiscal period, we channeled our efforts into sales of solar power systems for existing apartments as one measure to enhance property value. From this fiscal period, we will shift our focus to our solar power business that leases rooftops from apartment owners, but this is within the scope of our ongoing efforts to implement measures to enhance property value.

Construction subcontracting for non-residential buildings other than apartments:

We are expanding our construction subcontracting of non-residential buildings such as elderly care facilities, for which demand will rise in future, and retail/commercial facilities.

Key Products/Services

"Arma-L":

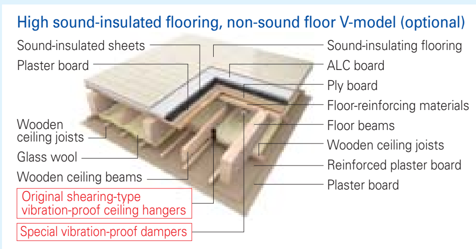
Our first apartment with the concept of "a room designed from the female perspective" features a storage wall, a counter-type wall dresser with a large mirror, and a counter-type open kitchen. All of these features are intended to remind the tenant of a hotel.

"Smaio":

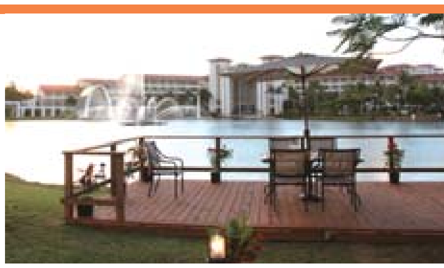
Our partial leased residences are built with steel-bracing construction. The residential space for the owner can be freely designed to suit personal preferences, and the attached rental rooms are leased en bloc by Leopalace21, creating a steady source of income for the owner.

"Non-sound floor V-model" with excellent sound-insulation:

We make our sound-insulated flooring, the highest level in the industry for wooden rental housing, available for all our apartment products as an optional extra. In terms of light/heavy floor impact sound insulation, our sound-insulated flooring is three times more effective and reduces audible noise to one-third of the previous level versus current standard flooring.



SEGMENT OVERVIEW:
HOTELS & RESORT BUSINESS

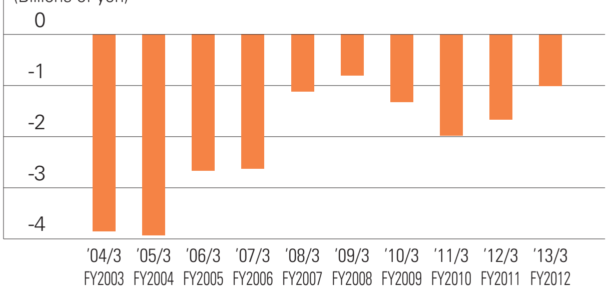


Performance

In fiscal 2012, net sales at our Hotels and Resort Business (Guam resort facilities and hotels in Japan) grew to ¥6,658 million (6.9% more than the previous fiscal year) due to an increase in the number of tourists going overseas from Japan and vice versa. We posted an operating loss of ¥1,006 million, which represents an improvement of ¥658 million compared to the previous fiscal year.

Operating Income (Loss)

(Billions of yen)



Business Environment and Related Issues

Attendant with the increase in the number of tourists from Japan going overseas, the business environment for our Guam resorts is turning favorable. Moreover, we have been consistently attracting tourists from Asian countries like South Korea, China, and Taiwan, while domestic demand, particularly from business travelers, is also increasing along with the recent economic pickup.

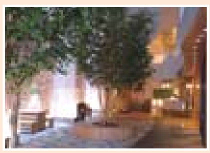
Strategies

To encourage longer stays by senior citizens, we market our Guam resorts as golf resorts. In addition, we are putting greater effort into attracting visitors from Asia. At our domestic hotels, we offer the event halls in our hotel facilities for sports group activities and company training exercises. Furthermore, at various sports events held throughout Japan, we rigorously facilitate sales activities and encourage people to stay at our hotels in eight domestic locations.

Key Products/Services

Leopalace Hotels:

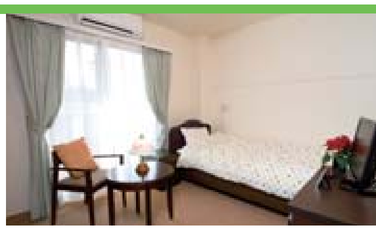
Our hotels are situated across Japan in eight locations: Sapporo, Asahikawa, Sendai, Niigata, Nagoya, Yokkaichi, Okayama, and Hakata. These hotels run restaurants under the direct management of Leopalace21 and provide free laundry facilities aimed at both long-term and short-term stays.



Leopalace Resort Guam:

Leopalace Guam resort is fully equipped with sports facilities that meet international standards. Its swimming facilities have been authorized as a "JOC-authorized swimming competition center" and its golf courses have been recognized as a "Japan Golf Association-designated golf course." It is used not only as a resort but also as a training site for athletes.

SEGMENT OVERVIEW:
ELDERLY CARE & OTHER BUSINESSES

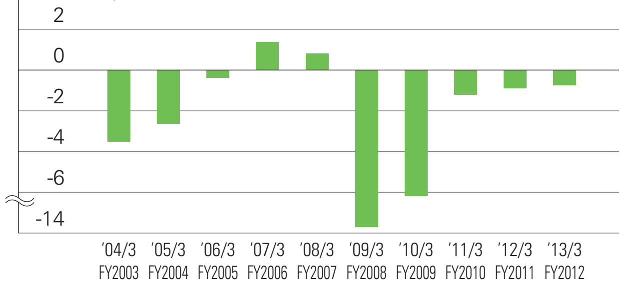



Performance

Thanks to the "Azumi En" facilities developed by the Group, net sales at our Elderly Care Business in fiscal 2012 came to ¥9,482 million (a 7.2% increase from the previous fiscal year). This business posted an operating loss of ¥742 million, which represents an improvement of ¥113 million over the previous fiscal year.

Operating Income (Loss)

(Billions of yen)



Business Environment and Related Issues

The business environment surrounding our elderly care business is difficult. While the population requiring care is growing and the market is expanding, the number of facilities for seniors is also increasing. As a result, competition with other companies in the same business has grown much fiercer. Under such circumstances, we aim to realize a near-term return to profitability through creative efforts and expansion of services at existing facilities, but we are also looking at the development of new facilities to attract demand with certainty.

Strategies

As for low-occupancy facilities for seniors, we aim to improve occupancy rates by offering creative services in each facility and building detailed strategies. At high-occupancy facilities, we will increase our service stations based on surveys of surrounding markets. Up until now, we have been leasing and managing only facilities we built, but in the future, we will start to extend our services to other companies' properties as well.

Key Products/Services

Azumi En:

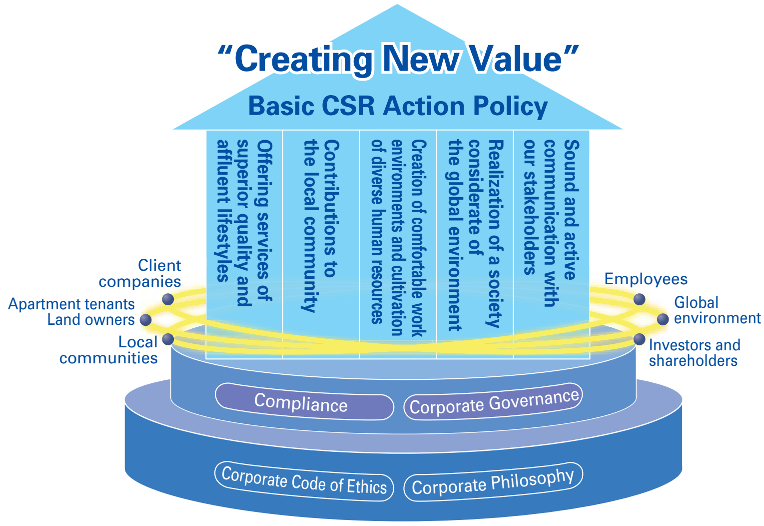
Currently, we manage 58 "Azumi En" facilities in the Kanto region. Services at each facility include private residential homes that offer support for daily living in a family-like atmosphere, group homes with daily-living support through meticulous care, day-services in which elderly people living in their own homes can come for one-day or temporary stays and so forth.


A MANAGEMENT STRUCTURE BUILT ON CSR

Leopalace21's New Basic CSR-related Policy

To respond to needs of the time and ensure our consistency with various guidelines, including ISO26000, we revised our four Basic CSR Policies, which we originally formulated in 2009. To further develop CSR activities through our businesses, we have established and are currently implementing five new basic CSR-related initiatives.

In line with these basic policies and based on compliance with the law and corporate ethics as well as corporate governance, we aim to "create new value" together with all stakeholders through the promotion of CSR activities.



Corporate Governance System

Features of Management Structure

The Board of Directors, our decision-making body, seeks to improve the Company's performance through appropriate and prompt decision-making by flexibly responding to changes in the business and management environment. The Board of Auditors, which has been set up as a body to oversee the directors' executive actions, works to strengthen management monitoring functions. The Board of Directors comprises eight directors, including one outside director.

On April 1, 2012, with the aim of strengthening our planning functions, we established the General Planning Headquarters. Together with the Marketing and Sales Headquarters and the Business Management Headquarters, the General Planning Headquarters forms a tripartite structure. With this structure in place to clarify responsibilities and authorities, we aim to continuously enhance our systems and corporate governance.

In addition, for thorough governance implementation throughout the Leopalace21 Group, the General Manager of the Business Management Headquarters is responsible for management of Leopalace21 and its associated companies, as well as promoting the smooth exchange of information and group activities. Moreover, each director is responsible for the associated companies in a specific business category and ensures the smooth functioning of our CSR promotion, compliance, and risk management systems, which reflect management-plan-based measures and smooth business execution.

Ingenuity in Management

For efficient management

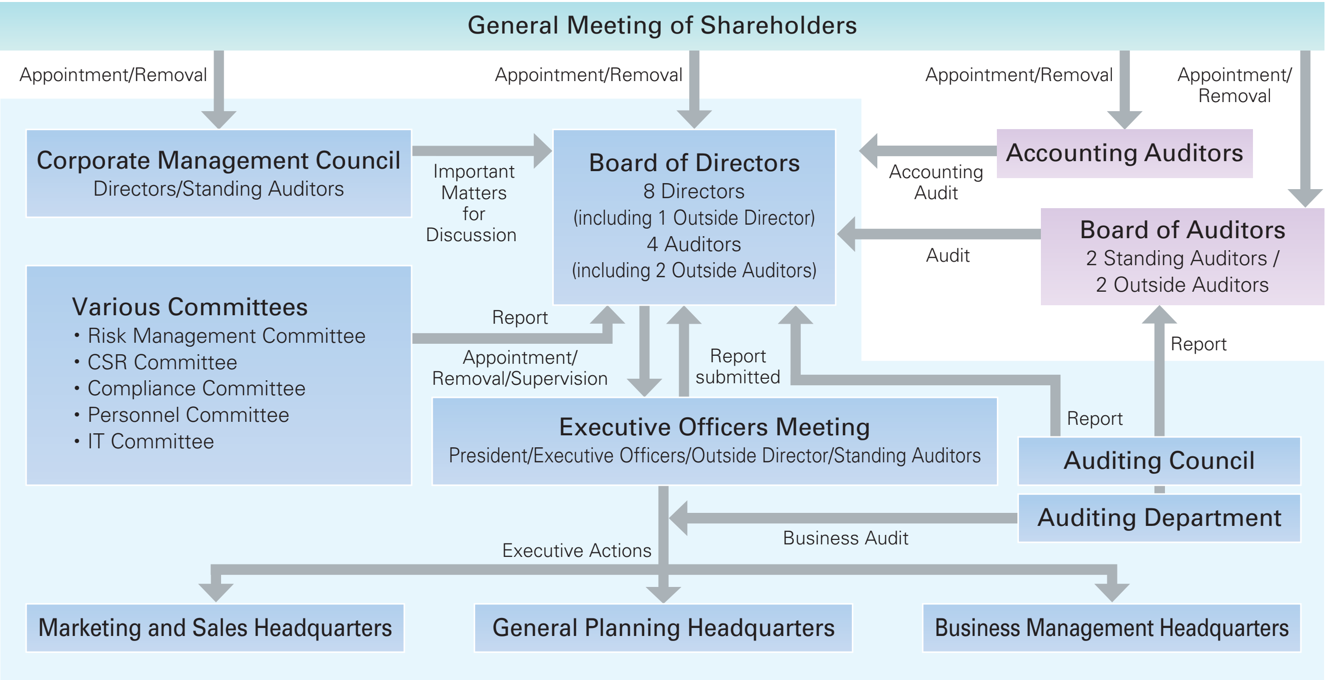
The Board of Directors, besides holding regular meetings once a month, hold meetings as necessary and decide important matters concerning management as well as check the progress of business execution. Furthermore, members of the Corporate Management Council and the Executive Officer Meeting meet as necessary where they deliberate on important matters concerning management, discuss policies and effective implementation, and examine countermeasures related to business execution.

For fair management

Our Board of Auditors work to enhance the effectiveness of management by attending important meetings, including Board of Directors meetings, and by surveying the status of business execution based on their audit program. Moreover, to ensure objective neutrality in management monitoring functions, we have appointed two outside auditors along with two inside auditors.

The Auditing Department, which is under the direct supervision of the President and CEO, performs audits in collaboration with the auditors, and reports the results at the monthly Board of Directors meetings.

Corporate Governance System



Directors (As of June 27, 2013)

From the left: Outside Director Tetsuji Taya, Director Hiroyuki Harada, Director Yuzuru Sekiya, President and CEO Eisei Miyama, Director Tadahiro Miyama, Director Yoshikazu Miike, Director Kou Kimura and Director Kazuto Tajiri

Organization of CSR Promotion, Compliance and Risk Management

We ensure that our corporate activities are in compliance with laws and regulations, and also social ethics. In particular, we have strengthened the compliance structure through the establishment of a Corporate Code of Ethics, an internal reporting system, and a Compliance Committee.

The Compliance Committee, which serves as the advisory body to the Board of Directors, is chaired by the President and CEO. The Compliance Committee is comprised of lawyers and internal committee members, and undertakes various initiatives to promote compliance. Such initiatives include training as well as the expansion and upgrading of the information management system.

CSR activities are promoted by the CSR Committee under the direct control of the Board of Directors, while the Risk Management Committee oversees risk management company-wide. Concerning the internal audit system, in addition to the Auditing Department, which is an internal auditing unit independent of each operations unit, we have established the Auditing Council to effect an even greater strengthening of the Department, and we are working to verify, evaluate, and improve its effectiveness in accordance with our basic policies for internal control systems.

Organization of CSR Promotion, Compliance and Risk Management

Specific Compliance Initiatives

(fiscal year ended March 31, 2013)

Description	Themes	Implementation Frequency
E-learning	“Contracts,” etc.	2 times
E-learning (training for new and mid-career employees)	“Information Management,” etc.	bimonthly basis
Compliance training	“Reporter Protection and Utilization of Internal Reporting System,” etc.	2 times
Compliance training (training for executive officers)	“Legal Responsibilities of Directors,” etc.	2 times
Compliance training (training for management employees)	“Harassment,” etc.	3 times
Compliance training (training for new employees)	“The Basics of Compliance,” etc.	1 time

Offering services of superior quality and affluent lifestyles

In matters concerning housing, the supply of high-quality housing, especially of high-quality rental housing, is still a serious social issue today. Specifically, protecting residences from break-ins and burglary targeting single-person households when tenants are out is an urgent necessity. Leopalace21 aims to offer residences with beefed-up crime and disaster prevention functions, taking the initiative with this issue by installing security systems in managed properties and enhancing crime prevention specifications along with the support given to our tenants.

In addition, there are higher expectations than before for rental housing that is suited to diverse modern lifestyles as the percentage of single-person households exceed 30% of all households. Leopalace21 continues to take steps to further diversify, such as developing apartments for female tenants and enhancing support for international customers.

Through initiatives such as these, we strive to offer residences where superior-quality services and affluent lifestyles can be enjoyed.

● Rental housing website in Chinese, Korean, and Portuguese

Contributions to Local Communities

The progress of urbanization and depopulation is increasingly weakening the region's connections, which have always existed in Japan. Leopalace21 aims to support local contribution activities that lead to the creation of connections and solidarity in society. In each region where we develop our businesses, we take a flexible approach to deepen relationships with our stakeholders through various activities. These include a "Clean Campaign," in which we take part in local cleanup activities together with owners and corporate partners, support for workplace experiences at our elderly care facility "Azumi En," "Children Emergency Call 110," and snow-removal support.

Furthermore, we engage in day-to-day activities that contribute to society. These include cooperating with blood donations, an Ecocap Program that collects caps of plastic bottles, the "Leopalace Recycle Reading" that donates profits from collecting old books to the Japanese Red Cross Society, and a "Volunteer Vendor" campaign, in which a part of vending machine sales are donated to welfare organizations.

● Clean Campaign

Creation of a Comfortable Work Environment and Cultivation of Diverse Human Resources

Due to an aging population, declining birthrate, and decreasing workforce, it has now become more important than ever for employees to achieve work-life balance. Companies thus need to enhance various systems, step up efforts to promote diversified working styles and find ways to be more flexible about working hours. Leopalace21 promotes better work-life balance by introducing various working-hour systems including childcare leave, shorter working hours, and nursing care leave, as well as promoting shorter or flexible working hours. Furthermore, we actively promote employment of the disabled and foreign nationals as well as foster a better working environment for women.

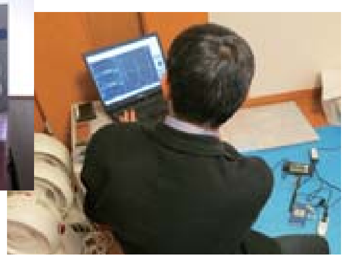
● The staff of the newly established women's planning room

Through these initiatives, we aim to create a comfortable and encouraging work environment where each employee can demonstrate a greater range of individuality and ability.

Realization of a society considerate of the global environment

One of our missions is to address the electrical power problem resulting from the Great East Japan Earthquake. We are promoting the installation of solar power systems to help relieve the problem. Along with our business of installing solar panels on the rooftops of existing apartments, we established a special-purpose company to focus on the "Roof Mega-solar Project," which started in March 2013 as a solar power business.

In addition, we have adopted an initiative to reduce greenhouse gas emissions, which are on the increase. We aim to contribute to reducing environmental stress throughout our corporate activities. For example, we seek to develop the eco-friendly rental housing of tomorrow through actual measurement of rental housing environmental performance and proceeding with the development of eco-conscious housing.



● Actual measurement in environmental performance

For details on our CSR activities, please see:
CSR Report (http://www.leopalace21.co.jp/IR/library/csr/index.html)
*Available in Japanese only

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.

FINANCIAL SECTION

FINANCIAL SECTION: MANAGEMENT'S DISCUSSION AND ANALYSIS

1. Operating Environment

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 Medium-term Management Plan, and implemented various measures mainly in the Leasing Business, for the current fiscal year, the first year of the Medium-Term Management Plan, to make it the year of "creating a foundation for new growth."

2. Analysis of Business Results

(1) Net Sales

Net sales during the fiscal year under review were ¥454,222 million (down 1.1% yoy). In the Construction Business, net sales declined to ¥53,370 million (down 15.2% yoy). On the other hand, net sales of the Leasing Business rose to ¥383,574 million (up 0.9% yoy) due to recovery in the occupancy rate and favorable sales of security systems.

■ Net Sales by Segment

(Millions of Yen)	FY2011	FY2012	Change
Leasing	380,308	383,574	3,266
Construction	62,913	53,370	(9,544)
Hotels & Resort	6,228	6,658	430
Elderly Care	8,845	9,482	637
Others	1,142	1,138	(4)
Total	459,437	454,222	(5,215)

(2) Earnings

Gross profit was ¥57,713 million (up 3.3% yoy), operating profit was ¥7,414 million (up 61.7% yoy), recurring profit was ¥11,091 million (up 372.1% yoy), mainly due to unrealized foreign exchange gains of ¥5,592 million. Net income drastically increased to ¥13,335 million (up 739.2% yoy), 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 ¥2,173 million.

■ Operating Income by Segment

(Millions of Yen)	FY2011	FY2012	Change
Leasing	5,249	8,688	3,439
Construction	4,309	2,747	(1,562)
Hotels & Resort	(1,664)	(1,006)	658
Elderly Care	(855)	(742)	113
Others	(38)	35	73
Adjustments	(2,416)	(2,308)	107
Total	4,586	7,414	2,828

■ Change in Operating Income

(Billions of yen)

(3) Segment Information

Leasing Business

The occupancy rate at the end of the 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 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% yoy), and operating income was ¥8,688 million (up 65.5% yoy).

Construction Business

Orders received during the fiscal year under review were ¥73,007 million (up 46.0% yoy) and the orders received outstanding at the end of the fiscal year under review stood at ¥47,461 million (down 12.9% yoy).

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 commercial facilities, as well as the installation of solar power generation systems, etc. that increase product value.

As a result, net sales came to ¥53,370 million (down 15.2% yoy), and operating income was ¥2,747 million (down 36.2% yoy).

Hotels & Resort Business

Net sales in resort facilities in Guam and hotels in Japan were ¥6,658 million (up 6.9% yoy), and the operating loss was ¥1,006 million (improving ¥658 million).

Elderly Care Business

Net sales were ¥9,482 million (up 7.2% yoy), and operating loss was ¥742 million (improving ¥113 million).

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 ¥1,138 million (down 0.4% yoy), and the operating income was ¥35 million (compared to operating loss amounted to ¥38 million in the previous fiscal year) .

3. Analysis of Financial Position

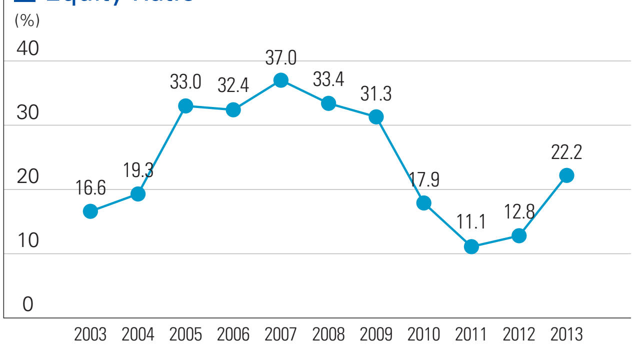
(1) Position of Assets, Liabilities, and Net assets

Total assets at the end of the fiscal year under review declined ¥3,133 million from the end of the previous fiscal year, to ¥261,650 million. This was mainly attributable to an increase of ¥15,204 million in cash and cash equivalents and decreases of ¥6,226 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 ¥203,499 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 ¥24,320 million from the end of the previous fiscal year, to ¥58,151 million, chiefly due to an increase of ¥2,093 million in negative foreign currency translation adjustments balance, an increase of ¥12,609 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%.

■ Equity Ratio



(2) Cash Flow Position

Cash flow from operating activities was a net inflow of ¥6,069 million (compared to a net outflow of ¥3,175 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 ¥16,300 million in long-term prepaid expenses, depreciation of ¥5,684 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 ¥3,532 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 ¥483 million, as well as payments for the purchase of property, plant and equipment of ¥891 million.

Cash flow from financing activities was a net inflow of ¥9,149 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 ¥12,552 million.

As a result, cash and cash equivalents at the end of the consolidated fiscal year under review stood at ¥56,382 million, an increase of ¥15,504 million from the end of the previous fiscal year.

4. Fundamental Policy on the Distribution of Earnings and Dividends

The Leopalace21 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.

5. Outlook

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).

In the next fiscal year, making it the year of “New growth stage,” the Company aims at strengthening a system of stable profitability mainly based on the Leasing Business, which 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, the Company 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%).

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 ¥476,500 million for net sales, ¥16,900 million for operating income, ¥13,500 million for net income, 20.0% for ROE, and 5.2% for ROA.

6. Issues to be Addressed by the Company

(1) 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.

(2) 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.

7. Business and Other Risks

(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, the Company have included in its 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 the 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 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, the Company's business results could be affected if amounts of uncollectible debt should increase, or if the Company 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

The Company 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. The Company 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 the company's financial position.

The Company also has deposits for 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 the Company's financial position.

(7) Financial Covenants

Financial covenants have been set on the numerous loan agreements that the Company 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.

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FINANCIAL SECTION:
CONSOLIDATED BALANCE SHEETS

Leopalace21 Corporation and consolidated subsidiaries
March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
ASSETS			
Current assets:			
Cash and cash equivalents (Notes 2-(2), 4, 5-(2))	**56,682**	41,478	**602,678**
Trade receivables (Note 5-(2))	**4,360**	4,541	**46,362**
Accounts receivable for completed projects (Note 5-(2))	**2,232**	1,004	**23,729**
Operating loans (Note 5-(2))	**1,880**	2,420	**19,987**
Securities (Notes 2-(4), 5-(2), 6)	**505**	10	**5,369**
Real estate for sale / property inventories (Note 2-(3))	**—**	14	**—**
Payment for construction in progress (Note 2-(14))	**340**	620	**3,615**
Raw materials and supplies	**457**	491	**4,863**
Prepaid expenses	**12,772**	18,998	**135,803**
Deferred tax assets (Note 2-(17), 10)	**4,274**	3,093	**45,443**
Other accounts receivable	**1,017**	1,153	**10,816**
Other	**6,723**	9,687	**71,485**
Allowance for doubtful accounts (Note 2-(9), 5-(2))	**(346)**	(447)	**(3,682)**
Total current assets	**90,896**	83,062	**966,468**
Property, plant and equipment: (Notes 2-(5), 2-(21))			
Buildings and structures (Notes 8, 11-(2), 17)	**111,350**	106,865	**1,183,941**
Accumulated depreciation	**(56,609)**	(51,749)	**(601,908)**
Net	**54,741**	55,116	**582,033**
Land (Notes 11-(2), 8, 17)	**80,781**	82,106	**858,910**
Leased assets (Note 2-(18))	**6,833**	6,842	**72,652**
Accumulated depreciation	**(5,034)**	(3,936)	**(53,526)**
Net	**1,799**	2,906	**19,126**
Construction in progress	**176**	28	**1,867**
Other (Note 21-(1)-(a))	**13,348**	13,664	**141,941**
Accumulated depreciation	**(11,847)**	(11,807)	**(125,963)**
Net	**1,501**	1,857	**15,978**
Total property, plant and equipment	**138,998**	142,013	**1,477,914**
Investments and other assets:			
Intangible assets (Note 2-(7))	**6,613**	7,080	**70,315**
Investment securities (Notes 2-(4), 5-(2), 6, 11-(2))	**7,177**	6,490	**76,309**
Long-term loans (Note 5-(2))	**571**	588	**6,070**
Bad debt (Notes 5-(2), 9)	**1,900**	2,838	**20,204**
Long-term prepaid expenses (Note 2-(8))	**8,128**	18,295	**86,419**
Deferred tax assets (Note 2-(17), 10)	**6,586**	3,319	**70,028**
Bond issuance cost	**48**	62	**511**
Other (Note 11-(2))	**3,339**	4,426	**35,506**
Allowance for doubtful accounts (Notes 2-(9), 5-(2))	**(2,606)**	(3,390)	**(27,713)**
Total investments and other assets	**31,756**	39,708	**337,649**
Total assets (Note 23)	**261,650**	264,783	**2,782,031**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable (Note 5-(2))	**2,670**	2,791	**28,394**
Accounts payable for completed projects (Note 5-(2))	**14,307**	13,314	**152,122**
Short-term borrowings (Notes 5-(2), 5-(3), 11, 12)	**11,875**	38,904	**126,262**
Current portion of long-term debt (Notes 5-(2), 5-(3), 11)	**2,940**	6,801	**31,260**
Bonds due within one year (Note 5-(2), 5-(3))	**560**	560	**5,954**
Lease obligations (Notes 5-(2), 5-(3), 11-(1))	**1,098**	1,348	**11,672**
Accounts payable-other	**13,252**	14,208	**140,905**
Accrued expenses	**13**	5	**137**
Accrued income taxes	**394**	324	**4,192**
Advances received (Note 2-(15))	**49,037**	58,302	**521,388**
Customer advances for projects in progress	**3,807**	2,957	**40,482**
Reserve for warranty obligations on completed projects (Note 2-(12))	**72**	57	**763**
Reserve for fulfillment of guarantees (Note 2-(13))	**457**	391	**4,864**
Reserve for disaster losses	**—**	51	**—**
Reserve for switch to terrestrial digital broadcasts	**—**	123	**—**
Asset retirement obligations (Note 18)	**37**	28	**396**
Other	**4,626**	5,360	**49,178**
Total current liabilities	**105,145**	145,524	**1,117,969**
Non-current liabilities:			
Bonds (Note 5-(2), 5-(3))	**1,480**	2,040	**15,736**
Long-term debt (Notes 5-(2), 5-(3), 11)	**30,020**	—	**319,192**
Lease obligations (Notes 5-(2), 5-(3), 11-(1))	**1,054**	2,001	**11,209**
Long-term advances received (Note 2-(15))	**32,358**	42,680	**344,051**
Lease/guarantee deposits received	**8,984**	9,854	**95,526**
Retirement benefit reserves (Notes 2-(10), 13)	**8,634**	8,041	**91,804**
Reserve for apartment vacancy loss (Note 2-(11))	**13,951**	19,207	**148,334**
Asset retirement obligations (Note 18)	**49**	50	**521**
Other (Note 2-(16))	**1,824**	1,555	**19,388**
Total non-current liabilities	**98,354**	85,428	**1,045,761**
Total liabilities	**203,499**	230,952	**2,163,730**
Net assets			
Shareholders' equity:			
Common stock: (Note 20)			
Authorized: 250,000,000 shares in 2013 and 2012	**62,867**	56,563	**668,446**
Issued: 217,443,915 shares in 2013 and 175,443,915 shares in 2012			
Capital surplus	**39,425**	33,884	**419,188**
Retained earnings	**(31,019)**	(44,964)	**(329,810)**
Treasury stock: 6,190,520 shares in 2013 and 5,900,320 shares in 2012 (Note 20)	**(4,727)**	(4,959)	**(50,259)**
Total shareholders' equity	**66,546**	40,524	**707,565**
Accumulated other comprehensive income:			
Net unrealized gains on "other securities" (Note 2-(4))	**648**	249	**6,891**
Foreign currency translation adjustments (Note 2-(20))	**(9,061)**	(6,969)	**(96,347)**
Total accumulated other comprehensive income	**(8,413)**	(6,720)	**(89,456)**
Share subscription rights	**18**	27	**192**
Total net assets	**58,151**	33,831	**618,301**
Total liabilities and net assets	**261,650**	264,783	**2,782,031**

FINANCIAL SECTION:
CONSOLIDATED STATEMENTS OF OPERATIONS

Leopalace21 Corporation and consolidated subsidiaries
For the years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
Net sales (Note 23)	**454,222**	459,437	**4,829,581**
Cost of sales	**396,509**	403,573	**4,215,938**
Gross profit	**57,713**	55,864	**613,643**
Selling, general and administrative expenses	**50,299**	51,278	**534,813**
Operating profit (Note 23)	**7,414**	4,586	**78,830**
Other income (expenses):			
Interest and dividend income	**94**	110	**998**
Equity in losses of affiliated companies	**(0)**	(664)	**(3)**
Foreign exchange gains (losses), net (Note 2-(19))	**5,592**	(581)	**59,463**
Interest expenses	**(1,423)**	(1,375)	**(15,135)**
Commission fee	**(549)**	(633)	**(5,835)**
Gain on sale of property, plant and equipment (Note 14)	**—**	1	**—**
Gain on sale of investment securities (Note 6)	**6**	—	**59**
Gain from cancellation of contracted work	**38**	50	**402**
Gain on bad debt recovered	**—**	418	**—**
Gain on adjustment of accounts payable	**—**	411	**—**
Gain on liquidation of subsidiaries	**70**	—	**746**
Reversal of allowance for disaster losses	**3**	320	**33**
Reversal of allowance for switch to terrestrial digital broadcasts	**65**	222	**690**
Reversal of retirement benefit payable for directors	**—**	1,185	**—**
Loss on sale of property, plant and equipment (Note 15)	**—**	(0)	**—**
Loss on disposal of property, plant and equipment (Note 16)	**(85)**	(111)	**(904)**
Impairment loss (Note 2-(6), 8)	**(2,173)**	(2,611)	**(23,105)**
Reversal of share subscription rights	**—**	2	**—**
Disaster loss	**—**	(4)	**—**
Consumption tax refund	**109**	—	**1,157**
Other-net	**(190)**	26	**(2,009)**
Income before income taxes	**8,971**	1,352	**95,387**
Income taxes (Note 2-(17))			
Current	**313**	205	**3,329**
Refund	**(7)**	(13)	**(73)**
Deferred	**(4,670)**	(429)	**(49,658)**
	(4,364)	(237)	**(46,402)**
Net income (Note 24)	**13,335**	1,589	**141,789**

The accompanying notes are an integral part of these statements.

FINANCIAL SECTION:
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Leopalace21 Corporation and consolidated subsidiaries
For the years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Net income	**13,335**	1,589	**141,789**
Other comprehensive income			
Net unrealized gains on "other securities"	**399**	45	**4,239**
Foreign currency translation adjustments (Note 2-(20))	**(2,093)**	(950)	**(22,254)**
Share of other comprehensive income in affiliates	**0**	3	**4**
Total	**(1,694)**	(902)	**(18,011)**
Comprehensive income	**11,641**	687	**123,778**
Comprehensive income attributable to shareholders of the parent entity	**11,641**	687	**123,778**

The accompanying notes are an integral part of these statements.

FINANCIAL SECTION:
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Leopalace21 Corporation and consolidated subsidiaries
For the years ended March 31, 2013 and 2012

	Millions of yen										
	Shareholders' equity					Accumulated other comprehensive income					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on "other securities"	Deferred losses on hedges	Foreign currency translation adjustments	Total accumulated other comprehensive income	Share subscription rights	Total net assets
Balance as of April 1, 2011	56,563	34,334	(46,553)	(5,501)	38,843	204	(3)	(6,019)	(5,818)	16	33,041
Net income			1,589		1,589						1,589
Purchase of treasury stock				(0)	(0)						(0)
Sales of treasury stock		(450)		542	92						92
Net change of items other than shareholders' equity						45	3	(950)	(902)	11	(891)
Total change during period		(450)	1,589	542	1,681	45	3	(950)	(902)	11	790
Balance as of March 31, 2012	56,563	33,884	(44,964)	(4,959)	40,524	249	—	(6,969)	(6,720)	27	33,831
Net income			13,335		13,335						13,335
Issuance of new shares	6,304	6,304			12,608						12,608
Sales of treasury stock		(153)		232	79						79
Decrease from decrease in affiliated companies		(610)			(610)						(610)
Increase from decrease in affiliated companies			610		610						610
Net change of items other than shareholders' equity						399		(2,092)	(1,693)	(9)	(1,702)
Total change during period	6,304	5,541	13,945	232	26,022	399	—	(2,092)	(1,693)	(9)	24,320
Balance as of March 31, 2013	62,867	39,425	(31,019)	(4,727)	66,546	648	—	(9,061)	(8,413)	18	58,151

	Thousands of U.S. dollars (Note 1)										
	Shareholders' equity					Accumulated other comprehensive income					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on "other securities"	Deferred losses on hedges	Foreign currency translation adjustments	Total accumulated other comprehensive income	Share subscription rights	Total net assets
Balance as of March 31, 2012	601,413	360,275	(478,081)	(52,731)	430,876	2,652	—	(74,097)	(71,445)	288	359,719
Net income			141,789		141,789						141,789
Issuance of new shares	67,033	67,033			134,066						134,066
Sales of treasury stock		(1,638)		2,472	834						834
Decrease from decrease in affiliated companies		(6,482)			(6,482)						(6,482)
Increase from decrease in affiliated companies			6,482		6,482						6,482
Net change of items other than shareholders' equity						4,239		(22,250)	(18,011)	(96)	(18,107)
Total change during period	67,033	58,913	148,271	2,472	276,689	4,239	—	(22,250)	(18,011)	(96)	258,582
Balance as of March 31, 2013	668,446	419,188	(329,810)	(50,259)	707,565	6,891	—	(96,347)	(89,456)	192	618,301

FINANCIAL SECTION:
CONSOLIDATED STATEMENTS OF CASH FLOWS

Leopalace21 Corporation and consolidated subsidiaries
For the years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
Cash flows from operating activities:			
Income before income taxes	**8,971**	1,352	**95,387**
Depreciation	**5,684**	6,047	**60,433**
Increase (decrease) in allowance for doubtful accounts	**(97)**	329	**(1,034)**
Increase (decrease) in reserve for apartment vacancy loss	**(5,256)**	(13,398)	**(55,889)**
Increase (decrease) in retirement benefit payable for directors	**—**	(1,185)	**—**
Increase (decrease) in allowance for disaster losses	**(20)**	(819)	**(216)**
Increase (decrease) in allowance for switch to terrestrial digital broadcasts	**(58)**	(844)	**(613)**
Interest and dividend income	**(94)**	(110)	**(998)**
Interest expense	**1,423**	1,375	**15,135**
Foreign exchange loss (gain)	**(5,592)**	581	**(59,463)**
Equity in losses (earnings) of affiliated companies	**0**	664	**3**
Loss (gain) on sale of property, plant and equipment	**—**	(1)	**—**
Loss on disposal of property, plant and equipment	**85**	111	**904**
Impairment loss	**2,173**	2,611	**23,105**
Disaster loss	**—**	4	**—**
Reversal of allowance for disaster losses	**(3)**	(320)	**(33)**
Reversal of allowance for switch to terrestrial digital broadcasts	**(65)**	(222)	**(690)**
Loss (gain) on sale of investment securities	**(6)**	—	**(59)**
Decrease (increase) in accounts receivable	**(102)**	3,867	**(1,085)**
Decrease (increase) in real estate for sale	**14**	105	**148**
Decrease (increase) in payment for construction in progress	**280**	(33)	**2,982**
Decrease (increase) in long-term prepaid expenses	**16,300**	20,617	**173,308**
Increase (decrease) in accounts payable	**(503)**	3,483	**(5,350)**
Increase (decrease) in customer advances for projects in progress	**850**	(1,098)	**9,039**
Increase (decrease) in advances received	**(19,587)**	(11,006)	**(208,265)**
Increase (decrease) in guarantee deposits received	**(1,033)**	(16,386)	**(10,985)**
Increase (decrease) in accrued consumption taxes	**75**	(1,081)	**796**
Other	**4,302**	4,135	**45,744**
Subtotal	**7,741**	(1,222)	**82,304**
Interest and dividends received	**80**	98	**853**
Interest paid	**(1,297)**	(1,483)	**(13,791)**
Income taxes paid	**(455)**	(568)	**(4,836)**
Net cash used in operating activities	**6,069**	(3,175)	**64,530**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
Cash flows from investing activities:			
Payment for purchase of property, plant and equipment	**(707)**	(579)	**(7,520)**
Proceeds from sale of property, plant and equipment	**—**	13	**—**
Payment for purchase of intangible assets	**(184)**	(238)	**(1,952)**
Payment for purchase of investment securities	**—**	(111)	**—**
Proceeds from sale of investment securities	**85**	61	**900**
Payment for loans	**(21)**	(34)	**(226)**
Proceeds from collection of loans	**39**	59	**413**
Payments for purchase of time deposits	**(300)**	(800)	**(3,190)**
Proceeds from withdrawal of time deposits	**600**	381	**6,380**
Other	**482**	(2,290)	**5,131**
Net cash provided by (used in) investing activities	**(6)**	(3,538)	**(64)**
Cash flows from financing activities:			
Proceeds from short-term borrowings	**2,609**	16,839	**27,736**
Repayment of short-term borrowings	**(29,638)**	(625)	**(315,128)**
Proceeds from long-term debt	**32,268**	—	**343,092**
Repayment of long-term debt	**(6,801)**	(7,238)	**(72,312)**
Repayment of finance lease obligations	**(1,359)**	(1,262)	**(14,449)**
Payment for redemption of bonds	**(560)**	(560)	**(5,954)**
Proceeds from issuance of common stock	**12,552**	—	**133,456**
Proceeds from sales of treasury stock	**78**	91	**834**
Payment for purchases of treasury stock	**—**	(0)	**—**
Net cash provided by (used in) financing activities	**9,149**	7,245	**97,275**
Effect of exchange rate changes on cash and cash equivalents	**292**	(146)	**3,106**
Net increase (decrease) in cash and cash equivalents	**15,504**	386	**164,847**
Cash and cash equivalents at beginning of year	**40,878**	40,492	**434,641**
Cash and cash equivalents at end of year (Note 4)	**56,382**	40,878	**599,488**

The accompanying notes are an integral part of these statements.

FINANCIAL SECTION:
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Leopalace21 Corporation and consolidated subsidiaries
For the years ended March 31, 2013 and 2012

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Leopalace21 Corporation (the "Company") have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Act of Japan and its related accounting regulations and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accompanying consolidated financial statements have been reformatted and translated into English (with certain expanded disclosure) from the consolidated financial statements of the Company prepared in accordance with accounting principles generally accepted in Japan and filed with the Financial Services Agency as required by the Financial Instruments and Exchange Act of Japan. Some supplementary information included in the statutory consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2013, which was ¥94.05 to U.S.$1.00. Such translation should not be construed as a representation that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange. Certain amounts in the prior year's financial statements have been reclassified to conform to the current fiscal year's presentation.

2. Summary of Significant Accounting Policies

(1) Consolidation

The accompanying consolidated financial statements as of March 31, 2013 include the accounts of the Company and its 10 (9 as of March 31, 2012) significant subsidiaries (together, the "Companies"). Affiliated companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis. Investments in 2 affiliates (2 affiliates for the year ended March 31, 2012) have been included for the year ended March 31, 2013. All significant intercompany balances and transactions have been eliminated.

Investments in subsidiaries and affiliates that are not consolidated or accounted for by the equity method are carried at cost or less. Where there has been a permanent decline in the value of such investments, the Company has written down the investments.

Since the fiscal year end for certain consolidated subsidiaries is December 31, their financial statements as of that date are used in the preparation of the Company's consolidated financial statement. When significant transactions occur at those subsidiaries between their fiscal year end and the Company's fiscal year end, these transactions are included in consolidation as necessary.

(2) Cash and cash equivalents

For the purpose of the statements of cash flows, the Company considers all highly liquid investments with insignificant risk of change in value that have maturities of generally three months or less when purchased to be cash equivalents. These include cash on hand, demand deposits at banks and highly liquid short-term investments with negligible risk of fluctuation in value and maturities of less than three months.

(3) Inventories

Inventories of the Companies are primarily stated at cost (reflecting write down due to decline in profitability) determined by the specific identification method.

(4) Securities

Held-to-maturity debt securities are stated at amortized cost (straight-line method).
Other securities with available fair market values are stated at fair market value at the end of the fiscal year of each consolidated companies. Other securities without available fair market values are stated at cost by the moving-average method.

Unrealized gains or losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Cost of securities sold is computed using the moving-average method.

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

(5) Property, plant and equipment (except for leased assets)

Buildings for rent of the Company and domestic consolidated subsidiaries are stated at cost. Depreciation is computed generally on the straight-line basis. The range of useful lives is principally from 22 to 47 years for buildings for rent.

Property, plant and equipment other than buildings for rent of the Company and domestic consolidated subsidiaries are stated at cost. Depreciation is computed generally by the declining-balance method. However, buildings (excluding accompanying facilities) obtained on or after April 1, 1998 are depreciated by the straight-line method. The range of useful lives is principally from 40 to 50 years for buildings and structures and 5 years for machinery and equipment.

Property, plant and equipment of the consolidated overseas subsidiaries are depreciated by the straight-line method based on the local GAAP. The range of useful lives is principally from 30 to 40 years for buildings and structures and from 3 to 5 years for machinery and equipment.

(6) Long-lived assets

The Companies review long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeded the sum of the undiscounted future cash flows expected to be generated by the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the assets exceeds their recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the assets, or the net selling price at disposition.

(7) Intangible assets

Software for internal use is amortized on a straight-line basis over the estimated useful life of 5 years.

(8) Long-term prepaid expenses

Long-term prepaid expenses are amortized evenly over a period mainly from 3 to 5 years.

(9) Allowance for doubtful accounts

The Companies maintain an allowance for doubtful accounts to reserve for potentially uncollectible receivables. A general provision for doubtful receivables is provided by applying a certain reserve percentage of the receivables based on experience from past transactions. A specific reserve is provided for the estimated amounts to be uncollectible based on the customers' financial condition or other pertinent factors.

(10) Retirement benefit reserves

Retirement benefit reserves for employees are provided based on the retirement benefit obligation as of the balance sheet date.

Unrecognized actuarial gain or loss is to be amortized on the straight-line basis over 5 years from the following year when the gain or loss is incurred, which is shorter than the average remaining years of service of the eligible employees.

Prior service cost is amortized by the straight-line method over 5 years, which is shorter than the average remaining years of service of the eligible employees.

Some domestic consolidated subsidiaries calculate retirement benefit reserves based on the simplified method.

(11) Reserve for apartment vacancy loss

Reserve for vacancy losses on apartment units managed under master lease agreements is calculated according to the projected loss that could occur during a logically predictable period to prepare for the risk of increased vacancies. It is based on estimated losses resulting from current rental income and expected future occupancy rates for each rental property managed by the leasing division of the Company.

(12) Reserve for warranty obligations on completed projects

Reserve for warranty obligations on completed projects is provided to reserve for execution of warranty obligations under defect liabilities in the future. It is calculated using the percentage of the past execution of warranty obligations on the completed projects.

(13) Reserve for fulfillment of guarantees

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

(14) Revenues and costs of construction contracts

In recognizing construction revenues and costs of constructions in process, the percentage-of-completion method is applied to such contracts in which the outcome of the construction activity is deemed certain by the end of the fiscal year ended March 31, 2013, while the completed contract method is applied to other constructions. Progress of construction is estimated based on the method of the ratio of actual cost incurred to total cost.

(15) 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 "non-current 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 ¥79,074 million shown in "advances received" under "current liabilities" and the ¥21,908 million shown in "long-term advances received" under "non-current liabilities" in the consolidated balance sheets for the previous fiscal year have been reclassified as ¥58,302 million in "advances received" and ¥42,680 million in "long-term advances received."

(16) Long-term other payable

"Long-term other payable" under "non-current 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 other payable" under "non-current liabilities" in the consolidated balance sheets for the previous fiscal year have been reclassified into "Other."

(17) Income taxes

Income taxes comprise corporate, inhabitant and enterprise taxes.

The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(18) Leases

Finance leases that are deemed to transfer ownership of leased property to the lessee (excluding leases that existed on or before March 31, 2008) are accounted for in a manner similar to sales transactions and depreciated by the straight-line method over the lease-term of respective assets as their useful lives with no residual value.

Any finance lease transactions executed before March 31, 2008, where ownership of the leased assets is not transferred to the lessee, are accounted for as operating lease transactions.

(19) Foreign currency transactions

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

(20) Foreign currency financial statements

The assets and liabilities of consolidated overseas subsidiaries are translated into Japanese yen at the current exchange rates as of each balance sheet date, and income and expenses are translated at the average exchange rates of the fiscal year. Foreign currency translation adjustments resulting from the translation of assets, liabilities and net assets are included in translation adjustments as a separate component of net assets.

(21) Interest capitalization

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

Capitalized interests included in carrying value of property, plant and equipment were ¥1,720 million ($18,286 thousand) and ¥1,588 million as of March 31, 2013 and 2012, respectively.

(22) Consumption taxes

National and local consumption taxes are basically excluded from transaction amounts. However, LEOPALACE SSI, a consolidated subsidiary, includes national and local consumption taxes in operating expenses and general and administrative expenses. The nondeductible portion of consumption taxes on the purchase of assets is recorded as long-term prepaid expenses and amortized evenly over 5 years.

(23) Earnings per share

Basic earnings per share of common stock is computed by net income available to common shareholders divided by the weighted-average number of common shares outstanding for the period.

Diluted earnings per share of common stock reflects the potential dilution that could occur if securities or other contracts to issue common stock were converted or exercised into common stock or resulted in the issuance of common stock.

3. Additional Information

(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.

(New Accounting Standard and Guidance Not Yet Applied)

"Accounting Standard for Retirement Benefits" (ASBJ Statement No.26, May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25, May 17, 2012)

(1) Overview

Under the current requirements, actuarial gains and losses and past service costs after adjusting for tax effects are recognized in the net assets section of the consolidated balance sheet and then the net cumulative surplus (deficit) is recognized as an asset (liability). Methods that can be applied for attributing expected retirement benefits to periods are to be limited to the benefit formula basis, along with the straight-line basis. Furthermore, the calculation method for the discount rate has been revised.

(2) Effective Dates

The new standard and guidance are to take effect from the end of the fiscal year ending March 31, 2014. However, the revision that limits the methods for attributing expected retirement benefits to periods is take effect from the beginning of the fiscal year ending March 2015.

(3) Effects Arising from Applying New Standard and Guidance

The effects expected to arise from applying the new accounting standard and guidance on consolidated financial statements are currently being assessed.

4. Cash and Cash Equivalents

A reconciliation between cash and cash equivalents in the consolidated balance sheets and consolidated statements of cash flows are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Cash and cash equivalents in the consolidated balance sheets	**56,682**	41,478	**602,678**
Time deposits with original maturities of more than three months	**(300)**	(600)	**(3,190)**
Cash and cash equivalents in the consolidated statements of cash flows	**56,382**	40,878	**599,488**

5. Financial Instruments

(1) The financial instruments and related disclosures

(a) Policy for financial instruments

The Companies are mainly involved in raising funds (mostly bank borrowing and corporate bond issuance) needed for capital investment to carry out Leasing Business and Construction Business. Temporary excess funds are invested in highly secure financial assets, and short-term working capital is raised by borrowing from the bank. The Companies conduct derivative transactions primarily for the purpose of avoiding interest rate and exchange rate risks, and has a policy not to conduct speculative trading.

(b) Nature and extent of risks arising from financial instruments

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

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

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

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

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

There are no derivatives transaction balances remaining as of the end of this fiscal year.

(c) Risk management for financial instruments

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

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

The basic policy of derivatives trading is determined by the board of directors, and the execution and administration of derivatives transactions are conducted in accordance with the Company's "Derivatives Trading Management Rules." The derivatives trading management situation is periodically reported to the board of directors for comprehensive risk management.

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

(d) Supplementary explanations on fair value of financial instruments

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

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

(2) Fair value of financial instruments

The carrying amount on the consolidated balance sheet and fair value of financial instruments as of March 31, 2013 and 2012 as well as the differences between these values are described below. Financial instruments whose fair values appear to be extremely difficult to determine are not included in the table. (See (Note 2))

	Millions of yen		
March 31, 2013	Carrying value	Fair value	Difference
(1) Cash and cash equivalents	**56,682**	**56,682**	**—**
(2) Trade receivables and accounts receivable for completed projects	**6,592**	**6,592**	**—**
(3) Securities and investment securities	**4,730**	**4,742**	**12**
(4) Operating loans	**1,880**		
Allowance for doubtful accounts (*1)	**(141)**		
Net	**1,739**	**2,080**	**341**
(5) Long-term loans	**571**		
Allowance for doubtful accounts (*1)	**(91)**		
Net	**480**	**480**	**—**
(6) Bad debt	**1,900**		
Allowance for doubtful accounts (*1)	**(1,865)**		
Net	**35**	**35**	**—**
Total assets	**70,258**	**70,611**	**353**
(1) Accounts payable and accounts payable for completed projects	**16,977**	**16,977**	**—**
(2) Short-term borrowings	**11,875**	**11,875**	**—**
(3) Bonds (*2)	**2,040**	**2,054**	**14**
(4) Long-term debt (*2)	**32,960**	**32,960**	**—**
(5) Lease obligations	**2,152**	**2,250**	**98**
Total liabilities	**66,004**	**66,116**	**112**
Derivative transactions	**—**	**—**	**—**

	Millions of yen		
March 31, 2012	Carrying value	Fair value	Difference
(1) Cash and cash equivalents	41,478	41,478	—
(2) Trade receivables and accounts receivable for completed projects	5,545	5,545	—
(3) Securities and investment securities	3,329	3,338	9
(4) Operating loans	2,420	—	
Allowance for doubtful accounts (*1)	(127)	—	
Net	2,293	2,557	264
(5) Long-term loans	588	—	
Allowance for doubtful accounts (*1)	(96)	—	
Net	492	492	—
(6) Bad debt	2,838	—	
Allowance for doubtful accounts (*1)	(2,698)	—	
Net	140	140	—
Total assets	53,277	53,550	273
(1) Accounts payable and accounts payable for completed projects	16,105	16,105	—
(2) Short-term borrowings	38,904	38,904	—
(3) Bonds (*2)	2,600	2,607	7
(4) Long-term debt (*2)	6,801	6,800	(1)
(5) Lease obligations	3,349	3,299	(50)
Total liabilities	67,759	67,715	(44)
Derivative transactions	—	—	—

	Thousands of U.S. dollars		
March 31, 2013	Carrying value	Fair value	Difference
(1) Cash and cash equivalents	602,678	602,678	—
(2) Trade receivables and accounts receivable for completed projects	70,091	70,091	—
(3) Securities and investment securities	50,293	50,423	130
(4) Operating loans	19,987	—	—
Allowance for doubtful accounts (*1)	(1,492)	—	—
Net	18,495	22,108	3,613
(5) Long-term loans	6,070		
Allowance for doubtful accounts (*1)	(963)		
Net	5,107	5,107	—
(6) Bad debt	20,204		
Allowance for doubtful accounts (*1)	(19,836)		
Net	368	368	—
Total assets	747,032	750,775	3,743
(1) Accounts payable and accounts payable for completed projects	180,516	180,516	—
(2) Short-term borrowings	126,262	126,262	—
(3) Bonds (*2)	21,690	21,841	151
(4) Long-term debt (*2)	350,452	350,452	—
(5) Lease obligations	22,881	23,917	1,036
Total liabilities	701,801	702,988	1,187
Derivative transactions	—	—	—

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

(*2) Bonds due within one year (¥560 million) in the consolidated balance sheets as of March 31, 2012, are included in bonds. Also, current portion of long-term debt (¥2,940 million, $31,260 thousand) and bonds due within one year (¥560 million, $5,954 thousand) in the consolidated balance sheets as of March 31, 2013, is included in long-term debt and bonds, respectively.

Notes:

(a) Matters concerning the calculation method for the fair value of financial instruments and securities

Assets

Cash and cash equivalents

Trade receivables and accounts receivable for completed projects

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

Securities and investment securities

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

For notes to securities by holding purposes, please refer to "6. Securities."

Operating loans

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

Long-term loans

Bad debt

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

Liabilities

Accounts payable and accounts payable for completed projects

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

Short-term borrowings

Long-term debt, Current portion of long-term debt

Lease obligations

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

Bonds

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

(b) Financial instruments whose fair value appear to be extremely difficult to determine

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Unlisted shares	**1,118**	1,198	**11,880**
Unlisted bonds (subordinate corporate bonds)	**824**	824	**8,764**
Subordinate beneficiary rights of loans and accounts receivable in trust	**899**	903	**9,561**
Contributions to limited investment partnerships	**111**	245	**1,180**
Total	**2,952**	3,170	**31,385**

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

(c) The scheduled redemption amount of monetary claims and investment securities with maturity subsequent to fiscal year end

	Millions of yen			
March 31, 2013	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	**56,682**	**—**	**—**	**—**
Trade receivables and accounts receivable for completed projects	**6,592**	**—**	**—**	**—**
Securities and investment securities				
Held-to-maturity debt securities				
(1)Government and municipal bonds	**500**	**800**	**—**	**—**
(2)Corporate bonds	**—**	**—**	**—**	**—**
Other securities with maturities				
(1)Government and municipal bonds	**5**	**1,395**	**544**	**—**
(2)Bonds (Corporate bonds)	**—**	**—**	**—**	**824**
(3)Others	**—**	**111**	**—**	**900**
Operating loans	**303**	**971**	**548**	**58**
Long-term loans	**20**	**48**	**22**	**481**
Bad debts	**—**	**—**	**—**	**1,900**
Total	**64,102**	**3,325**	**1,114**	**4,163**

March 31, 2012	Millions of yen			
	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	41,478	—	—	—
Trade receivables and accounts receivable for completed projects	5,546	—	—	—
Securities and investment securities				
Held-to-maturity debt securities				
(1)Government and municipal bonds	—	800	—	—
(2)Corporate bonds	—	—	—	—
Other securities with maturities				
(1)Government and municipal bonds	10	1,151	544	—
(2)Bonds (Corporate bonds)	—	—	—	824
(3)Others	—	246	—	903
Operating loans	358	1,166	815	81
Long-term loans	22	64	23	479
Bad debts	—	—	—	2,838
Total	47,414	3,427	1,382	5,125

March 31, 2013	Thousands of U.S. dollars			
	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	**602,678**	**—**	**—**	**—**
Trade receivables and accounts receivable for completed projects	**70,091**	**—**	**—**	**—**
Securities and investment securities				
Held-to-maturity debt securities				
(1)Government and municipal bonds	**5,316**	**8,506**	**—**	**—**
(2)Corporate bonds	**—**	**—**	**—**	**—**
Other securities with maturities				
(1)Government and municipal bonds	**53**	**14,833**	**5,784**	**—**
(2)Bonds (Corporate bonds)	**—**	**—**	**—**	**8,764**
(3)Others	**—**	**1,180**	**—**	**9,561**
Operating loans	**3,218**	**10,321**	**5,827**	**621**
Long-term loans	**215**	**511**	**234**	**5,110**
Bad debts	**—**	**—**	**—**	**20,204**
Total	**681,571**	**35,351**	**11,845**	**44,260**

(3) Scheduled repayment amount of bonds payable, long-term debt, lease obligations, and other interest-bearing debt subsequent to fiscal year end was as follows:

	Millions of yen					
March 31, 2013	Due within 1 year	Due after 1 through 2 years	Due after 2 through 3 years	Due after 3 through 4 years	Due after 4 through 5 years	Due after 5 years
Short-term borrowings	**11,875**	**—**	**—**	**—**	**—**	**—**
Bonds	**560**	**560**	**560**	**360**	**—**	**—**
Long-term debt	**2,940**	**2,940**	**27,080**	**—**	**—**	**—**
Lease obligations	**1,098**	**582**	**356**	**100**	**16**	**—**
Total	**16,473**	**4,082**	**27,996**	**460**	**16**	**—**

	Millions of yen					
March 31, 2012	Due within 1 year	Due after 1 through 2 years	Due after 2 through 3 years	Due after 3 through 4 years	Due after 4 through 5 years	Due after 5 years
Short-term borrowings	38,904	—	—	—	—	—
Bonds	560	560	560	560	360	—
Long-term debt	6,801	—	—	—	—	—
Lease obligations	1,348	1,047	530	321	90	13
Total	47,613	1,607	1,090	881	450	13

	Thousands of U.S. dollars					
March 31, 2013	Due within 1 year	Due after 1 through 2 years	Due after 2 through 3 years	Due after 3 through 4 years	Due after 4 through 5 years	Due after 5 years
Short-term borrowings	**126,262**	**—**	**—**	**—**	**—**	**—**
Bonds	**5,954**	**5,954**	**5,954**	**3,828**	**—**	**—**
Long-term debt	**31,260**	**31,260**	**287,932**	**—**	**—**	**—**
Lease obligations	**11,672**	**6,191**	**3,788**	**1,065**	**165**	**—**
Total	**175,148**	**43,405**	**297,674**	**4,893**	**165**	**—**

6. Securities

(1) At March 31, 2013 and 2012, information with respect to held-to-maturity debt securities for which market prices were available was summarized as follows:

	Millions of yen		
March 31, 2013	Carrying value	Market value	Unrecognized gain
Unrecognized gain items:			
Government and municipal bonds	**1,321**	**1,333**	**12**
Corporate bonds	**—**	**—**	**—**
Others	**—**	**—**	**—**
Subtotal	**1,321**	**1,333**	**12**
Unrecognized loss items:			
Government and municipal bonds	**—**	**—**	**—**
Corporate bonds	**—**	**—**	**—**
Others	**—**	**—**	**—**
Subtotal	**—**	**—**	**—**
Total	**1,321**	**1,333**	**12**

March 31, 2012	Millions of yen		
	Carrying value	Market value	Unrecognized gain
Unrecognized gain items:			
Government and municipal bonds	800	809	9
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	800	809	9
Unrecognized loss items:			
Government and municipal bonds	—	—	—
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	—	—	—
Total	800	809	9

March 31, 2013	Thousands of U.S. dollars		
	Carrying value	Market value	Unrecognized gain
Unrecognized gain items:			
Government and municipal bonds	**14,042**	**14,172**	**130**
Corporate bonds	**—**	**—**	**—**
Others	**—**	**—**	**—**
Subtotal	**14,042**	**14,172**	**130**
Unrecognized loss items:			
Government and municipal bonds	**—**	**—**	**—**
Corporate bonds	**—**	**—**	**—**
Others	**—**	**—**	**—**
Subtotal	**—**	**—**	**—**
Total	**14,042**	**14,172**	**130**

(2) Investment securities classified as other securities as of March 31, 2013 and 2012 were as follows:

March 31, 2013	Millions of yen		
	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	**1,464**	**447**	**1,017**
Bonds:			
Government and municipal bonds	**1,890**	**1,848**	**42**
Corporate bonds	**—**	**—**	**—**
Others	**—**	**—**	**—**
Others	**—**	**—**	**—**
Subtotal	**3,354**	**2,295**	**1,059**
Securities whose acquisition cost exceeds their carrying value:			
Stock	**12**	**13**	**(1)**
Bonds:			
Government and municipal bonds	**43**	**43**	**(0)**
Corporate bonds	**—**	**—**	**—**
Others	**—**	**—**	**—**
Others	**—**	**—**	**—**
Subtotal	**55**	**56**	**(1)**
Total	**3,409**	**2,351**	**1,058**

March 31, 2012	Millions of yen		
	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	773	447	326
Bonds:			
Government and municipal bonds	1,431	1,407	24
Corporate bonds	—	—	—
Others	—	—	—
Others	75	71	4
Subtotal	2,279	1,925	354
Securities whose acquisition cost exceeds their carrying value:			
Stock	13	13	—
Bonds:			
Government and municipal bonds	237	237	(0)
Corporate bonds	—	—	—
Others	—	—	—
Others	—	—	—
Subtotal	250	250	(0)
Total	2,529	2,175	354

March 31, 2013	Thousands of U.S. dollars		
	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	**15,567**	**4,753**	**10,814**
Bonds:			
Government and municipal bonds	**20,097**	**19,648**	**449**
Corporate bonds	**—**	**—**	**—**
Others	**—**	**—**	**—**
Others	**—**	**—**	**—**
Subtotal	**35,664**	**24,401**	**11,263**
Securities whose acquisition cost exceeds their carrying value:			
Stock	**133**	**138**	**(5)**
Bonds:			
Government and municipal bonds	**454**	**456**	**(2)**
Corporate bonds	**—**	**—**	**—**
Others	**—**	**—**	**—**
Others	**—**	**—**	**—**
Subtotal	**587**	**594**	**(7)**
Total	**36,251**	**24,995**	**11,256**

(Note)

March 31, 2013

¥1,118 million ($11,880 thousand) of non-listed shares, ¥824 million ($8,764 thousand) of non-listed bonds (subordinate corporate bonds), ¥899 million ($9,561 thousand) of subordinate beneficiary rights to loans and money in trust, and ¥111 million ($1,180 thousand) of contributions to investment business limited partnerships are not included in the other securities given above because they have no market value and assigning them fair market prices is recognized to be extremely difficult.

March 31, 2012

¥1,198 million of non-listed shares, ¥824 million of non-listed bonds (subordinate corporate bonds), ¥903 million of subordinate beneficiary rights to loans and money in trust, and ¥245 million of contributions to investment business limited partnerships are not included in the other securities given above because they have no market value and assigning them fair market prices is recognized to be extremely difficult.

Among the above items, non-listed bonds (subordinate corporate bonds) and subordinate beneficiary rights to loans and money in trust were acquired by the Company in conjunction with the securitization of nonexempt property type apartment loans, the financing executed primarily as contract work fee payment loans from financial institutions to the Company.

(3) Proceeds from sales of other securities and gain or loss on these sales for the years ended March 31, 2013 and 2012 were summarized as follows:

	Millions of yen		
March 31, 2013	Proceeds from sale	Gains	Losses
Stock	—	—	—
Bonds:			
Government and municipal bonds	—	—	—
Corporate bonds	—	—	—
Others	—	—	—
Others	**76**	**6**	—
Total	**76**	**6**	—

March 31, 2012

None

	Thousands of U.S. dollars		
March 31, 2013	Proceeds from sale	Gains	Losses
Stock	—	—	—
Bonds:			
Government and municipal bonds	—	—	—
Corporate bonds	—	—	—
Others	—	—	—
Others	**813**	**59**	—
Total	**813**	**59**	—

(4) In addition, investment in affiliates included in investment securities of the consolidated balance sheet was as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Investment securities (stocks)	**14**	94	**144**
Of which, investment in joint venture	**7**	—	**77**

7. Derivative Transactions

(1) Derivatives transaction not subject to the application of hedge accounting

Not applicable.

(2) Derivatives transactions subject to the application of hedge accounting

Interest rate-related derivatives

March 31, 2013

None

March 31, 2012

Hedge accounting method	Type of derivatives	Major hedged items	Millions of yen		
			Contract amount	Amount of more than 1 year-period contracts	Fair value
Exceptional accounting treatments applied to interest rate swaps	Interest rate swaps - pay fixed interest and received floating interest	Current portion of long-term debt	831	—	(Note)

(Note) Interest rate swaps subject to the application of exceptional accounting treatments are recognized together with hedged items (i.e. long-term debt), therefore their fair value are included in the fair value of the relevant long-term debt or current portion of long-term debt.

8. Long-lived Assets

(1) Breakdown of major plants, properties, and equipments were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Residential properties for rent	**59,657**	62,688	**634,315**
Domestic hotels	**13,872**	14,474	**147,498**
Head office and branches	**24,037**	24,302	**255,572**
Leopalace Resort Manenggon Hills Guam	**20,172**	18,736	**214,481**
Westin Resort Guam	**11,817**	11,043	**125,642**

(2) The Companies recognized impairment loss on the following asset groups for the years ended March 31, 2013 and 2012:

March 31, 2013

Purpose	Category	Location	Impairment loss	
			Millions of yen	Thousands of U.S. dollars
Rental assets (Apartment buildings and others, 96 units)	Buildings and Structures	Ota-ku, Tokyo, etc.	**160**	**1,700**
	Land		**1,744**	**18,539**
Idle assets	Land	Higashi-kagawa City, Kagawa	**269**	**2,866**
Total			**2,173**	**23,105**

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

The Companies wrote down book value of the rental assets whose profitability decreased seriously due to the slump in the rental income market and continuous decline in land prices, and idle assets, to recoverable amounts and recognized the reduced values as impairment losses.

Recoverable amounts of rental assets were measured at the higher of their values in use or their net realizable values in sale. Value in use was computed by discounting its future cash flows at 3.8%, while net realizable value in sale was determined based on publicly appraised value.

Recoverability of inactive assets was calculated using net selling value based on real estate appraisal values.

March 31, 2012

Purpose	Category	Location	Impairment loss
			Millions of yen
Rental assets (Apartment buildings and others, 142 units)	Buildings and Structures	Meguro-ku, Tokyo, etc.	156
	Land		2,452
Assets to be disposed	Buildings and Structures	Nakano-ku, Tokyo	2
	Others (equipment)		1
Total			2,611

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

The Companies wrote down book value of the rental assets whose profitability decreased seriously due to the slump in the rental income market and continuous decline in land prices, to recoverable amounts and recognized the reduced values as impairment losses. As for the assets to be disposed, the Companies reduced the book value to zero and recognized impairment loss in full.

Recoverable amounts of rental assets were measured at the higher of their values in use or their net realizable values in sale. Value in use was computed by discounting its future cash flows at 3.8%, while net realizable value in sale was determined based on publicly appraised value.

Recoverability of assets to be disposed was determined zero because these assets will be disposed due to office relocation.

9. Bad Debts

Bad debts are claims as stipulated under Article 32, Paragraph 1, and Item 10 of the Regulation concerning Financial Statements. Bad debt at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Claims in bankruptcy	**14**	5	**145**
Claims in the process of bankruptcy	**1,100**	1,110	**11,701**
Bad debts	**369**	1,241	**3,927**
Others	**417**	482	**4,431**
Total	**1,900**	2,838	**20,204**

10. Income Taxes

(1) Significant components of deferred tax assets and liabilities as of March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Deferred tax assets:			
Loss carried forward for tax purposes	**44,181**	38,586	**469,763**
Impairment loss	**21,326**	20,026	**226,756**
Reserve for apartment vacancy loss	**5,189**	7,163	**55,176**
Advances from customers for rent income	**4,259**	6,697	**45,286**
Retirement benefit reserves	**3,094**	2,880	**32,892**
Subsidiaries' foreign exchange loss	**2,393**	3,825	**25,441**
Loss on devaluation of property, plant and equipment	**1,427**	1,427	**15,177**
Allowance for doubtful accounts	**887**	947	**9,428**
Deposits received	**601**	687	**6,389**
Bonuses payable	**453**	395	**4,815**
Loss on devaluation of real estate for sale	**424**	434	**4,511**
Excess amortization on software	**256**	249	**2,726**
Reserve for fulfillment of guarantees	**163**	139	**1,734**
Sales promotion cost	**144**	342	**1,529**
Excess depreciation	**135**	139	**1,438**
Asset retirement obligations	**116**	116	**1,237**
Other payables	**83**	92	**880**
Elimination of unrealized gain	**82**	76	**872**
Sales discount for construction contracts	**61**	86	**644**
Accrued enterprise tax	**48**	48	**508**
Reserve for warranty obligations on completed project	**27**	22	**290**
Loss on devaluation of securities	**16**	27	**171**
Low-value assets	**12**	11	**129**
Bad debt loss	**11**	26	**112**
Reserve for switch to terrestrial digital broadcasts	**—**	47	**—**
Reserve for disaster losses	**—**	19	**—**
Others	**200**	172	**2,119**
Sub-total	**85,588**	84,678	**910,023**
Less: valuation allowance	**(74,360)**	(78,122)	**(790,635)**
Total deferred tax assets	**11,228**	6,556	**119,388**
Deferred tax liabilities:			
Net unrealized gain on other securities	**(359)**	(136)	**(3,816)**
Fixed asset retirement expenses	**(9)**	(8)	**(101)**
Total deferred tax liabilities	**(368)**	(144)	**(3,917)**
Net deferred tax assets	**10,860**	6,412	**115,471**

(2) Reconciliation of the differences between the normal effective statutory tax rate and the actual effective tax rate for the years ended March 31, 2013 and 2012 was not stated since the Company posted no taxable income.

11. Short-term Borrowings and Long-term Debt

(1) Short-term borrowings, long-term debt and lease obligations at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Short-term borrowings,			
with average interest rate of 2.57%	**11,875**	38,904	**126,262**
Current portion of long-term debt,			
with average interest rate of 2.85%	**2,940**	6,801	**31,260**
Current portion of lease obligations,			
with average interest rate of 5.58%	**1,098**	1,348	**11,672**
Long-term debt, due 2014 to 2015,			
with average interest rate of 3.29%	**30,020**	—	**319,192**
Lease obligations, long-term, due 2014 to 2018,			
with average interest rate of 8.06%	**1,054**	2,001	**11,209**
Total	**46,987**	49,054	**499,595**

(Notes)
To calculate “average interest rate,” weighted-average rates and fiscal year-end balances are used.

(2) Assets pledged as collateral for short-term borrowings and long-term debt at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Buildings and structures	**54,079**	54,348	**574,998**
Land	**80,537**	81,585	**856,326**
Investment securities	**1,569**	879	**16,685**
Others in Investments and other assets (Membership right)	**420**	420	**4,466**
Total	**136,605**	137,232	**1,452,475**

(3) Secured borrowings with pledge of collateral at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Short-term borrowings	**10,000**	36,654	**106,326**
Current portion of long-term debt	**2,940**	6,801	**31,260**
Long-term debt	**30,020**	—	**319,192**
Total	**42,960**	43,455	**456,778**

(4) Investment securities which have been deposited with the Legal Affairs Bureau at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Deposit for operation stipulated in Building Lots and Buildings Transaction Business Act	**45**	30	**478**
Deposit for housing construction warranty	**759**	695	**8,071**
Deposit for housing defect warranty	**107**	104	**1,141**
Advanced payment certificate in accordance with Payment and Settlement Regulations	**919**	731	**9,768**

12. Commitment Line

For efficient procurement of working capital, the Company maintains commitment line contracts with two financial institutions. As of the end of the current fiscal year, the unexercised portion of facilities based on the contract was as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Total commitment available	**10,000**	16,500	**106,326**
Less amount utilized	**10,000**	16,500	**106,326**
Balance available	**—**	—	**—**

13. Retirement Benefit Plans

(1) The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets as of March 31, 2013 and 2012 for the Companies' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Projected benefit obligation	**(9,033)**	(8,359)	**(96,043)**
Unrecognized prior service cost	**31**	55	**323**
Unrecognized actuarial gain or loss	**368**	263	**3,916**
Retirement benefit reserves	**(8,634)**	(8,041)	**(91,804)**

Certain consolidated subsidiaries apply simplified methods in calculating their projected benefit obligations.

(2) The following table sets forth the funded and accrued status of the entire pension plan as of March 31, 2012 and 2011.

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Pension assets	**44,139**	43,449	**469,311**
Projected benefit obligation	**53,150**	51,538	**565,119**
Difference	**(9,011)**	(8,089)	**(95,808)**

For the years ended March 31, 2012 and 2011, the main components of the difference were unrecognized prior service costs of ¥1,194 million ($12,697 thousand) and ¥1,491 million, and insufficient amount carried forward of ¥7,817 million ($83,111 thousand) and ¥6,599 million, respectively. The Company recognized the special annuity premium of ¥83 million ($878 thousand) and ¥86 million as an expense in the years ended March 31, 2012 and 2011, respectively. The ¥7,817 million ($83,111 thousand) of insufficient amount carried forward will be settled by increasing the rate of special annuity premium based on fiscal recalculation.

The annuity premium contributory proportion of the entire pension plan was 33% and 32% as of March 31, 2013 and 2012, respectively.

The Company has a welfare pension fund. In the welfare pension fund, it cannot reasonably calculate the portion of the pension assets attributed to the Company.

(3) The components of retirement benefit expenses for the years ended March 31, 2013 and 2012 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Service cost	**2,025**	2,043	**21,529**
Interest cost	**69**	165	**736**
Amortization of actuarial gain or loss	**83**	(18)	**882**
Amortization of prior service cost	**24**	24	**258**
Total	**2,201**	2,214	**23,405**

(Notes) 1. For the years ended March 31, 2013 and 2012, contributions to the welfare pension fund, which were recorded in service cost, were ¥1,129 million ($12,006 thousand) and ¥1,130 million, including ¥444 million ($4,719 thousand) and ¥447 million of employee contribution, respectively.

2. All the retirement benefit expenses of the domestic consolidated subsidiaries adopting the simplified method were recorded in service cost.

(4) The assumptions used in accounting for the above plans are as follows:

Assumptions used in accounting for retirement benefits	**2013**	2012
Periodical allocation of estimated retirement benefit	Straight-line method	Straight-line method
Discount rate	0.83%	0.83%
Amortization period of prior service cost	5 years (Amortized evenly over a period not exceeding the expected average remaining working lives of the employee from the time of occurrence.)	5 years (Amortized evenly over a period not exceeding the expected average remaining working lives of the employee from the time of occurrence.)
Amortization period of actuarial gain or loss	5 years from the following fiscal year (Amortized evenly over a period not exceeding the expected average remaining working lives of the employee from the time of occurrence.)	5 years from the following fiscal year (Amortized evenly over a period not exceeding the expected average remaining working lives of the employee from the time of occurrence.)

Based on the resolution of eliminating retirement benefit plans and its payment to directors, approved in the 36th Annual General Shareholders' Meeting held on June 29, 2009, an expected amount of ¥1,185 million was recorded as long-term other payable. Since the consent to give up the retirement benefit was obtained from the eligible directors, a reversal of long-term other payable was approved by the Board of Directors on May 6, 2011.

14. Gain on Sale of Property, Plant and Equipment

Gain on sale of property, plant and equipment for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Buildings and structures	**—**	1	**—**
Land	**—**	0	**—**
Total	**—**	1	**—**

15. Loss on Sale of Property, Plant and Equipment

Loss on sale of property, plant and equipment for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Buildings and structures	**—**	0	**—**
Total	**—**	0	**—**

16. Loss on Disposal of Property, Plant and Equipment

Loss on disposal of property, plant and equipment for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Buildings and structures	**31**	88	**327**
Others	**54**	22	**577**
Intangible assets	**—**	1	**—**
Total	**85**	111	**904**

17. Rental Properties

The Company possesses rental apartments in major cities and regions throughout Japan. Also, Leopalace Guam Corporation as a subsidiary company possesses rental housing within resorts, and Plaza Guarantee Co., Ltd. as a subsidiary company possesses buildings for rent. For the years ended March 31, 2013 and 2012, income arising from these rental properties were ¥4,186 million ($44,511 thousand) and ¥4,122 million, and impairment losses were ¥2,173 million ($23,105 thousand) and ¥2,607 million, respectively.

Also, the changes in book value of rental properties during the year ended March 31, 2013 and 2012, and the fair value as of March 31, 2013 and 2012 were as follows:

March 31, 2013

Millions of yen			
Carrying value			Fair value as of March 31, 2013
Balance as of April 1, 2012	Increase/Decrease	Balance as of March 31, 2013	
69,263	(3,412)	**65,851**	**64,626**

March 31, 2012

Millions of yen			
Carrying value			Fair value as of March 31, 2012
Balance as of April 1, 2011	Increase/Decrease	Balance as of March 31, 2012	
73,051	(3,788)	69,263	65,251

March 31, 2013

Thousands of U.S. dollars			
Carrying value			Fair value as of March 31, 2013
Balance as of April 1, 2012	Increase/Decrease	Balance as of March 31, 2013	
736,448	(36,276)	**700,172**	**687,143**

(Notes) 1. Carrying value recorded on the consolidated balance sheets is the amount after deducting accumulated depreciation and accumulated impairment loss from acquisition cost.
2. The main decrease was impairment loss of ¥2,173 million ($23,105 thousand) and ¥2,607 million for the year ended March 31, 2013 and 2012, respectively.
3. Fair value as of the end of the current fiscal year is calculated by the Company mainly based on "Real-estate appraisal standards."

18. Asset Retirement Obligations

Out of asset retirement obligations, item recorded on the consolidated balance sheet were as follows:

(1) Outline of the asset retirement obligations

Asset retirement obligations are restoration obligations under real estate rental agreement for shop and term leasehold interest agreement for rental properties and asbestos removal expenses in company-owned apartments.

(2) Calculation method of the asset retirement obligations

For the restoration obligations under real estate rental agreement for shop, the estimated period of use at 5 years from its acquisition and the discount rate at 0.120% to 1.797% are used to calculate the amount of the asset retirement obligations.

For the restoration obligations under term leasehold interest agreement for rental properties, the estimated period of use at 11-30 years depending on the period of the agreements (useful lives of buildings according to the former Act on Land and Building Lease) and the discount rate at 1.329% to 2.301% are used to calculate the amount of the asset retirement obligations.

For asbestos removal expenses in company-owned apartments, the estimated period of removal at 3 years and the discount rate at 0.193% are used to calculate the amount of the asset retirement obligations.

(3) Changes in the total amount of the asset retirement obligations during the year were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Balance at beginning of year	**78**	78	**830**
Increase due to acquisition of tangible fixed assets	**9**	4	**100**
Adjustments due to the passage of time	**1**	1	**9**
Decrease due to fulfillment of asset retirement obligations	**(2)**	(6)	**(23)**
Others	**0**	1	**1**
Balance at end of year	**86**	78	**917**

19. Business Combinations

Transactions under Common Control

(1) Overview of Transaction

(a) Name and Business of Combined Company

Name of the company: Leopalace Guam Corporation
Business description: Operation of hotels and resort facilities

(b) Date of Business Combination

March 26, 2013

(c) Legal Form of Business Combination

Debt equity swap

(d) Name of Company after Business Combination

The company's name has not changed.

(e) Other Transactions

Leopalace Guam Corporation increased capital through the conversion of loan claims into investment in kind with the aim of decreasing Leopalace Guam Corporation's interest-bearing debt, strengthening Leopalace Guam Corporation's financial structure via the enhancement of its capital base, and minimizing short-term foreign currency exchange risk exposure. Moreover, there has been no change as a result of this investment in Leopalace21 Corporation's ownership ratio in Leopalace Guam Corporation, which has been and remains a wholly-owned consolidated subsidiary of Leopalace21 Corporation.

(2) Overview of Account Treatments

This business combination is treated as transactions under common control based on the "Accounting Standard for Business Combinations" (ASBJ Statement No.21, December 26, 2008) and "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10, Revised December 26, 2008).

(3) Items Concerning Additional Acquisitions of Subsidiary Shares

(a) Acquisition Cost and Breakdown

		Millions of yen	Thousands of U.S. dollars
Consideration for Acquisition	Total face value of loan claims subject to conversion into equity as an investment in kind	**44,319**	**471,228**
	Net of doubtful account allowance for loans claims subject to investment in kind	**9,025**	**95,964**
Acquisition Cost		**35,294**	**375,263**

(b) Goodwill amount, causes, amortization method and amortization period

Not applicable.

20. Supplemental Information on the Statement of Changes in Equity

Shares issued and treasury stocks for the year ended March 31, 2013 were as follows:

Type of shares	April 1, 2012	Increase	Decrease	March 31, 2013
Shares issued				
Common stock	175,443,915	42,000,000	—	**217,443,915**
Total	175,443,915	42,000,000	—	**217,443,915**
Treasury stock				
Common stock	6,190,520	—	290,200	**5,900,320**
Total	6,190,520	—	290,200	**5,900,320**

(Notes) 1. Breakdown of amounts of increase was as follows:
Exercise of stock acquisition rights 42,000,000 shares
2. Breakdown of amounts of decrease was as follows:
Sell off of shares from "Leopalace 21 Employee Stock Ownership Committee Trust Account" to the Board for Employees' Ownership 290,200 shares
3. Number of treasury stock includes 1,331,200 shares held by the Trust Account as of the end of this fiscal year.

Stock acquisition rights (SAR) and own share options for the year ended March 31, 2013 were as follows:

Type	Class of shares issued upon exercise of SARs	Number of shares issued upon exercise of SARs				Outstanding as of March 31, 2013	
		April 1, 2012	Increase	Decrease	March 31, 2013	Millions of yen	Thousands of U.S. dollars
SARs as stock option	—	—	—	—	**—**	**18**	**192**
1st series SARs	Common stock	14,000,000	—	14,000,000	**—**	**—**	**—**
2nd series SARs	Common stock	14,000,000	—	14,000,000	**—**	**—**	**—**
3rd series SARs	Common stock	14,000,000	—	14,000,000	**—**	**—**	**—**
Total	—	42,000,000	—	42,000,000	**—**	**18**	**192**

(Note) The decrease of 1st to 3rd series SARs is due to the exercise of SARs.

Shares issued and treasury stocks for the year ended March 31, 2012 were as follows:

Type of shares	April 1, 2011	Increase	Decrease	March 31, 2012
Shares issued				
Common stock	175,443,915	—	—	175,443,915
Total	175,443,915	—	—	175,443,915
Treasury stock				
Common stock	6,867,850	170	677,500	6,190,520
Total	6,867,850	170	677,500	6,190,520

1. Breakdown of amounts of increase was as follows:
   Purchase of shares of less than one unit 170 shares
2. Breakdown of amounts of decrease was as follows:
   Sell off of shares from “Leopalace 21 Employee Stock Ownership Committee Trust Account” to the Board for Employees’ Ownership 677,500 shares
3. Number of treasury stock includes 1,621,400 shares held by the Trust Account as of March 31, 2012.

Stock acquisition rights (SAR) and own share options for the year ended March 31, 2012 were as follows:

Type	Class of shares issued upon exercise of SARs	Number of shares issued upon exercise of SARs				Outstanding as of March 31, 2012 Millions of yen
		April 1, 2011	Increase	Decrease	March 31, 2012	
SARs as stock option	—	—	—	—	—	18
1st series SARs	Common stock	14,000,000	—	14,000,000	—	3
2nd series SARs	Common stock	14,000,000	—	14,000,000	—	3
3rd series SARs	Common stock	14,000,000	—	14,000,000	—	3
Total	—	42,000,000	—	42,000,000	—	27

(Note) The increase of 1st to 3rd series SARs is due to the issue of SARs.

21. Leases

(1) Finance lease transactions

The Companies primarily lease furniture and electronic appliances, for apartments of their leasing business, and software.

(a) The following pro forma amounts represent the acquisition cost, accumulated depreciation and net book value of leased property as of March 31, 2013 and 2012, which would have been reflected in the accompanying consolidated balance sheets if finance accounting had been applied to the finance leases that existed on or before March 31, 2008 and are currently accounted for as operating leases:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Acquisition cost			
Vehicles	**—**	8	**—**
Equipment	**5,574**	9,707	**59,261**
Accumulated depreciation			
Vehicles	**—**	7	**—**
Equipment	**5,256**	8,222	**55,884**
Net book value			
Vehicles	**—**	1	**—**
Equipment	**318**	1,485	**3,377**

(b) The amounts of outstanding future lease payments under finance lease subsequent to March 31, 2013 and 2012 including the interest portion thereon were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Due within one year	**300**	1,307	**3,186**
Due after one year	**55**	355	**585**
Total	**355**	1,662	**3,771**

(c) Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2013 and 2012 for finance lease transactions accounted for as operating leases were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Lease payment	**1,351**	2,179	**14,363**
Estimated amount of depreciation by the straight-line method over the lease period	**1,168**	1,900	**12,421**
Estimated interest cost by the interest method	**44**	123	**463**

(d) Method of estimating amount of depreciation:
Amounts corresponding to pro forma depreciation under finance leases were computed by the straight-line method in which the lease period is used as the useful lives and it is assumed that the residual value of the relevant assets falls to nil at the end of the lease period.

(e) Method of estimating interest cost:
Estimated interest cost is calculated as the difference between the total amount of lease payments and the acquisition cost of leased properties, and allocated between each period using the interest method.

(2) Operating lease transactions

Future minimum lease payments related to non-cancelable operating leases subsequent to March 31, 2013 and 2012 were as follows:

	Millions of yen		
March 31, 2013	Future lease payments	Prepaid lease payments	Differences
Due within one year	**253,341**	11,059	**242,282**
	(253,338)	(11,059)	**(242,279)**
Due after one year	**651,064**	7,466	**643,598**
	(651,055)	(7,466)	**(643,589)**
Total	**904,405**	18,525	**885,880**
	(904,393)	(18,525)	**(885,868)**

	Millions of yen		
March 31, 2012	Future lease payments	Prepaid lease payments	Differences
Due within one year	268,014	17,077	250,937
	(268,014)	(17,077)	(250,937)
Due after one year	851,582	17,748	833,834
	(851,582)	(17,748)	(833,834)
Total	1,119,596	34,825	1,084,771
	(1,119,596)	(34,825)	(1,084,771)

	Thousands of U.S. dollars		
March 31, 2013	Future lease payments	Prepaid lease payments	Differences
Due within one year	**2,693,683**	**117,586**	**2,576,097**
	(2,693,652)	**(117,586)**	**(2,576,066)**
Due after one year	**6,922,537**	**79,387**	**6,843,150**
	(6,922,440)	**(79,387)**	**(6,843,053)**
Total	**9,616,220**	**196,973**	**9,419,247**
	(9,616,092)	**(196,973)**	**(9,419,119)**

Future operating lease payments fixed under master lease agreements in leasing business are shown in parentheses.

22. Contingent Liabilities

Contingent liabilities as of March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Contingent liabilities to financial institutions for customers who have a home mortgage	**1,336**	1,470	**14,206**
Contingent liabilities to financial institutions for customers who have a membership loan	**16**	22	**166**
Contingent liabilities to suppliers of affiliated company (Toyo Miyama Kogyo Co., Ltd.)	**—**	213	**—**
Total	**1,352**	1,705	**14,372**

23. Segment Information

(1) Overview of Reportable Segments

The Companies' reportable segments are the components for which separate financial information is available, and whose operating results are reviewed regularly by the board of directors in order to determine allocation of resources and assess segment performance.

The Companies have four reportable segments, the Leasing Business, Construction Business, Hotels & Resort Business and Elderly Care Business.

The Leasing Business operations comprise the leasing and management of apartment buildings and other properties, repair work, broadband internet service, rent guarantee, and the company residence agency business. The Construction Business constructs apartments and other buildings and installs solar power systems on a contract basis. The Hotels & Resort Business operates hotels and resort facilities. The Elderly Care Business operates elderly care facilities.

(2) Calculation Method for Sales, Profits and Losses, Assets, and other Items by Reportable Segment

The accounting methods for reportable segments are basically the same as that presented in "Summary of Significant Accounting Policies." The reportable segment profits (losses) represent operating income (loss). Inter-segment sales and transfers are based on prevailing market prices.

(3) Information Regarding Sales, Profits and Losses, Assets, and other Items by Reportable Segment for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen								
	Reportable segment								
March 31, 2013	Leasing Business	Construction Business	Hotels & Resort Business	Elderly Care Business	Segment Total	Others	Total	Adjustments	Consolidated Total
Sales									
Sales to customers	**383,574**	**53,370**	**6,658**	**9,482**	**453,084**	**1,138**	**454,222**	**—**	**454,222**
Inter-segment sales and transfers	**483**	**388**	**1,865**	**—**	**2,736**	**77**	**2,813**	**(2,813)**	**—**
Total	**384,057**	**53,758**	**8,523**	**9,482**	**455,820**	**1,215**	**457,035**	**(2,813)**	**454,222**
Segment profit (loss)	**8,688**	**2,747**	**(1,006)**	**(742)**	**9,687**	**35**	**9,722**	**(2,308)**	**7,414**
Segment assets	**107,726**	**15,851**	**43,692**	**2,193**	**169,462**	**4,380**	**173,842**	**87,808**	**261,650**
Other items									
Depreciation	**2,594**	**199**	**1,708**	**67**	**4,568**	**53**	**4,621**	**1,063**	**5,684**
Increase in property, plant, and equipment, and intangible assets	**113**	**7**	**184**	**29**	**333**	**281**	**614**	**566**	**1,180**

(Notes) 1. The "Others" classification is the business segment not included in reportable segments, and comprises the small-claims and short-term insurance business, financing business, residential sales business, and solar power business.

2. Breakdown of adjustments was as follows:

Segment profit (loss)

	Millions of yen	Thousands of U.S. dollars
Inter-segment eliminations	**(38)**	**(403)**
Corporate expenses*	**(2,270)**	**(24,139)**
Total	**(2,308)**	**(24,542)**

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

Adjustments in segment assets (¥87,808 million, $933,635 thousand) consist mainly of surplus operating funds, long-term investment capital, and assets which do not belong to reportable segments.

Adjustments in the increase of property, plant, and equipment, and intangible assets (¥566 million, $6,027 thousand) consist of capital investments which do not belong to reportable segments.

3. Segment profit (loss) is adjusted to operating profit on the consolidated statements of operations.

	Millions of yen								
	Reportable segment								
March 31, 2012	Leasing Business	Construction Business	Hotels & Resort Business	Elderly Care Business	Segment Total	Others	Total	Adjustments	Consolidated Total
Sales									
Sales to customers	380,308	62,914	6,228	8,845	458,295	1,142	459,437	—	459,437
Inter-segment sales and transfers	427	—	1,218	—	1,645	60	1,705	(1,705)	—
Total	380,735	62,914	7,446	8,845	459,940	1,202	461,142	(1,705)	459,437
Segment profit (loss)	5,249	4,309	(1,664)	(855)	7,039	(37)	7,002	(2,416)	4,586
Segment assets	131,747	16,130	42,096	2,299	192,272	4,371	196,643	68,140	264,783
Other items									
Depreciation	2,661	251	1,804	67	4,783	47	4,830	1,217	6,047
Increase in property, plant, and equipment, and intangible assets	755	9	381	1	1,146	44	1,190	294	1,484

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

2. Breakdown of adjustments was as follows:

Segment profit (loss)

	Millions of yen
Inter-segment eliminations	**20**
Corporate expenses*	**(2,436)**
Total	**(2,416)**

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

Adjustments in segment assets (¥68,140 million) consist mainly of surplus operating funds, long-term investment capital, and assets which do not belong to reportable segments.

Adjustments in the increase of property, plant, and equipment, and intangible assets (¥294 million) consist of capital investments which do not belong to reportable segments.

3. Segment profit (loss) is adjusted to operating profit on the consolidated statements of operations.

March 31, 2013	Thousands of U.S. dollars								
	Reportable segment								
	Leasing Business	Construction Business	Hotels & Resort Business	Elderly Care Business	Segment Total	Others	Total	Adjustments	Consolidated Total
Sales									
Sales to customers	4,078,407	567,463	70,790	100,822	4,817,482	12,099	4,829,581	—	4,829,581
Inter-segment sales and transfers	5,136	4,129	19,830	—	29,095	810	29,905	(29,905)	—
Total	4,083,543	571,592	90,620	100,822	4,846,577	12,909	4,859,486	(29,905)	4,829,581
Segment profit (loss)	92,372	29,211	(10,694)	(7,892)	102,997	375	103,372	(24,542)	78,830
Segment assets	1,145,415	168,533	464,567	23,317	1,801,832	46,564	1,848,396	933,635	2,782,031
Other items									
Depreciation	27,578	2,117	18,156	717	48,568	561	49,129	11,304	60,433
Increase in property, plant, and equipment, and intangible assets	1,197	77	1,954	311	3,539	2,985	6,524	6,027	12,551

Related information

1. Products and services

Information concerning products and services has been omitted, since similar information is reported in "23. Segment Information."

2. Geographic area

(1) Sales

Information concerning sales by geographic area has been omitted, since more than 90% of sales reported in the consolidated statement of operations are generated in Japan.

(2) Plant, property, and equipment

March 31, 2013

Millions of yen			
Japan	Trust territory of U.S.A. Guam	People's Republic of China	Total
106,982	32,012	4	138,998

March 31, 2012

Millions of yen			
Japan	Trust territory of U.S.A. Guam	People's Republic of China	Total
112,203	29,804	6	142,013

March 31, 2013

Thousands of U.S. dollars			
Japan	Trust territory of U.S.A. Guam	People's Republic of China	Total
1,137,500	340,371	43	1,477,914

3. Major customers

Information concerning sales to major customers has been omitted, since sales to any particular customer does not exceed 10% of sales reported in the consolidated statement of operations.

Information concerning impairment loss on fixed assets by reportable segments

March 31, 2013

	Millions of yen						
	Leasing Business	Construction Business	Hotels & Resort Business	Elderly Care Business	Others	Adjustments	Consolidated Total
Impairment loss	**1,903**	**—**	**—**	**—**	**—**	**270**	**2,173**

March 31, 2012

	Millions of yen						
	Leasing Business	Construction Business	Hotels & Resort Business	Elderly Care Business	Others	Adjustments	Consolidated Total
Impairment loss	2,607	—	—	—	4	—	2,173

March 31, 2013

	Thousands of U.S. dollars						
	Leasing Business	Construction Business	Hotels & Resort Business	Elderly Care Business	Others	Adjustments	Consolidated Total
Impairment loss	**20,239**	**—**	**—**	**—**	**—**	**2,866**	**23,105**

Information concerning goodwill amortization and unamortized balance by reportable segments

For the years ended March 31, 2013 and 2012

Not applicable.

Information concerning gain on negative goodwill by reportable segments

For the years ended March 31, 2013 and 2012

Not applicable.

24. Amounts per Share

(1) The following tables set forth the net assets and net income per share of common stock for the years ended March 31, 2013 and 2012.

	Yen		U.S. dollars
	2013	2012	**2013**
Net assets	**274.80**	199.73	**2.92**
Net income			
Basic	**74.50**	9.40	**0.79**
Diluted	**74.48**	9.40	**0.79**

(2) Basis of computation of basic and diluted net income per share for the years ended March 31, 2013 and 2012 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Basic net income per share			
Net income	**13,335**	1,589	**141,789**
Amount not attributable to common stock	**—**	—	**—**
Net income attributable to common stock	**13,335**	1,589	**141,789**
Weighted-average shares during the year (Thousands of shares)	**179,002**	168,996	**179,002**

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Diluted net income per share			
Adjustment to net income	**—**	—	**—**
Increase in common stock (Thousands of shares)	**41**	34	**41**
(of which, stock acquisition rights, thousands of shares)	**(41)**	(34)	**(41)**
Dilutive securities that didn't have dilutive effects and therefore were not included in the calculation of diluted net income per share	**New stock acquisition rights (650)**	New stock acquisition rights (28,000,650)	**New stock acquisition rights (650)**

The Company recognizes stocks held by "Leopalace 21 Employee Stock Ownership Committee Trust Account" (1,331,200 shares as of the end of the year ended March 31, 2013, and 1,621,400 shares as of the end of the year ended March 31, 2012) as the treasury stock. As a result, those numbers are eliminated in calculating "weighted-average number of common shares during the fiscal year."

25. Related Party Transactions

The following tables set forth related party transactions for the years ended March 31, 2013 and 2012.

For the year ended March 31, 2013

(a) Unconsolidated subsidiaries and affiliates

None

b) Directors and major individual shareholders

Attribute	Name	Address	Capital stock		Business or position	Percentage of share ownership	Relation
			Millions of yen	Thousands of U.S. dollars			
Directors and close relatives	Toshiko Miyoshi	—	—	—	—	—	Leasing of land and building

Attribute	Name	Transaction	Transaction amount		Account	Balance	
			Millions of yen	Thousands of U.S. dollars		Millions of yen	Thousands of U.S. dollars
Directors and close relatives	Toshiko Miyoshi	Leasing of apartments	**26**	**277**	Long-term prepaid expenses	**8**	**86**

(Notes) 1. Consumption taxes were not included in amounts.
2. Conditions of leasing of apartments are the same as transactions with third parties.
3. Toshiko Miyoshi is a close relative of Tadahiro Miyama, Director of the Company.

For the year ended March 31, 2012

(a) Unconsolidated subsidiaries and affiliates

None

(b) Directors and major individual shareholders

Attribute	Name	Address	Capital stock (Millions of yen)	Business or position	Percentage of share ownership	Relation
Directors and close relatives	Toshiko Miyoshi	—	—	—	—	Leasing of land and building
	Takeshi Yoshioka	—	—	—	—	Leasing of land and building

Attribute	Name	Transaction	Transaction amount (Millions of yen)	Account	Balance (Millions of yen)
Directors and close relatives	Toshiko Miyoshi	Leasing of apartments	26	Long-term prepaid expenses	14
	Takeshi Yoshioka	Leasing of apartments	10	—	—

(Notes) 1. Consumption taxes were not included in amounts.
2. Conditions of leasing of apartments are the same as transactions with third parties.
3. Toshiko Miyoshi is a close relative of Tadahiro Miyama, Director of the Company.
4. Takeshi Yoshioka is a close relative of Yoshikazu Miike, Director of the Company.

26. Other

The following tables set forth quarterly information for the years ended March 31, 2013.

	Millions of yen			
(Cumulative period)	First quarter	Second quarter	Third quarter	Full-year
Net sales	**106,450**	**219,998**	**329,834**	**454,222**
Income (loss) before income taxes	**(3,954)**	**(2,140)**	**5,247**	**8,971**
Net income (loss)	**(4,009)**	**(2,258)**	**5,045**	**13,335**
Net income (loss) per share (yen)	**(23.67)**	**(13.15)**	**29.10**	**74.50**

(Accounting period)	First quarter	Second quarter	Third quarter	Full-year
Net income (loss) per share (yen)	**(23.67)**	**10.06**	**41.33**	**42.26**

	Thousands of U.S. dollars			
(Cumulative period)	First quarter	Second quarter	Third quarter	Full-year
Net sales	**1,131,843**	**2,339,158**	**3,507,007**	**4,829,581**
Income (loss) before income taxes	**(42,041)**	**(22,754)**	**55,784**	**95,387**
Net income (loss)	**(42,631)**	**(24,010)**	**53,643**	**141,789**
Net income (loss) per share (dollars)	**(0.25)**	**(0.14)**	**0.31**	**0.79**

(Accounting period)	First quarter	Second quarter	Third quarter	Full-year
Net income (loss) per share (dollars)	**(0.25)**	**0.11**	**0.44**	**0.45**

27. Subsequent Events

Not applicable.

GrantThornton

Independent Auditor's Report

Grant Thornton Taiyo ASG LLC

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To the Board of Directors of
LEOPALACE21 Corporation

We have audited the accompanying consolidated financial statements of LEOPALACE21 Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2013 and the consolidated statements of operations, comprehensive income, changes in net assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of LEOPALACE21 Corporation and its consolidated subsidiaries as at March 31, 2013, and their consolidated financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The United States dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2013 are presented solely for the convenience. Our audit also included the translation of Japanese yen amounts into United States dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Grant Thornton Taiyo ASG LLC

June 27, 2013
Tokyo, Japan

CORPORATE PROFILE

Corporate Data

(As of March 31, 2013)

Company Name:
Leopalace21 Corporation

Head Office:
2-54-11 Honcho, Nakano-ku, Tokyo
TEL: +81-3-5350-0001 (Main Line)

Established:
August 17, 1973

Paid-in Capital:
¥62,867.36 million

Operations:
Construction, leasing and sales of apartments, condominiums, and residential housing; development and operation of resort facilities; hotel business; broadband business; and elderly care business, etc.

Number of Employees:
6,277 (consolidated basis)
5,390 (non-consolidated basis)

Members of Board of Directors and Auditors

(As of June 27, 2013)

Directors

President and CEO	Eisei Miyama
Director	Tadahiro Miyama
Director	Yuzuru Sekiya
Director	Yoshikazu Miike
Director	Kou Kimura
Director	Kazuto Tajiri
Director	Hiroyuki Harada
Director (Outside)	Tetsuji Taya

Auditors

Standing Auditor	Masumi Iwakabe
Standing Auditor	Mutsuhiro Yamada
Auditor (Outside)	Koichi Fujiwara
Auditor (Outside)	Masahiko Nakamura

Major Shareholders (Top10)

(As of March 31, 2013)

	Shareholders	Thousands of Shares	Percentage of Outstanding Shares
1	Japan Trustee Services Bank, Ltd. (Trust Account)	19,700	9.25%
2	Goldman Sachs International	13,254	6.22%
3	State Street Bank and Trust Company 505019	12,973	6.09%
4	LIXIL Corporation	10,500	4.93%
5	Stockholding Association for Leopalace21's Business Connection	6,853	3.21%
6	The Master Trust Bank of Japan, Ltd. (Trust Account)	6,030	2.83%
7	MSIP CLIENT SECURITIES	3,562	1.67%
8	Shin Takahashi	3,229	1.51%
9	Credit Suisse Securities (Europe) Ltd. Main Account	3,123	1.46%
10	MSCO CUSTOMER SECURITIES	3,030	1.42%

Notes: (1) Leopalace21 holds 4,569 thousand shares in treasury stock, but is excluded from the major shareholders list above.
(2) Of the shares in the major shareholders list above, those held in trust accounts as part of trust banking operations are as follows:
Japan Trustee Services Bank, Ltd. (Trust Account) 19,670 thousand shares
The Master Trust Bank of Japan, Ltd. (Trust Account) 6,030 thousand shares
(3) Treasury stock is excluded in calculating the percentage of outstanding shares.

Stock Information

(As of March 31, 2013)

Number of Shares:
Authorized: 500,000,000
Outstanding: 217,443,915

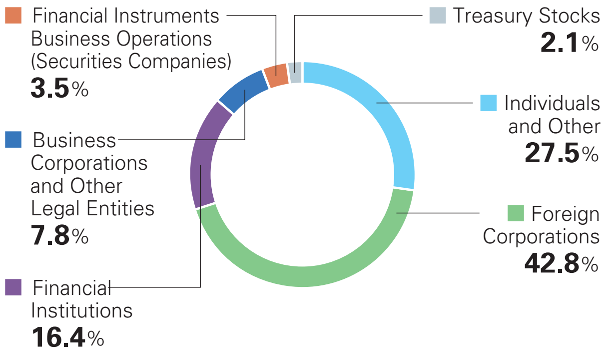
Number of Shareholders:
35,586

Listing:
First Section of the Tokyo Stock Exchange
(Security code: 8848)

Transfer Agent:
Mitsubishi UFJ Trust and Banking Corporation

Shareholder Composition

(As of March 31, 2013)



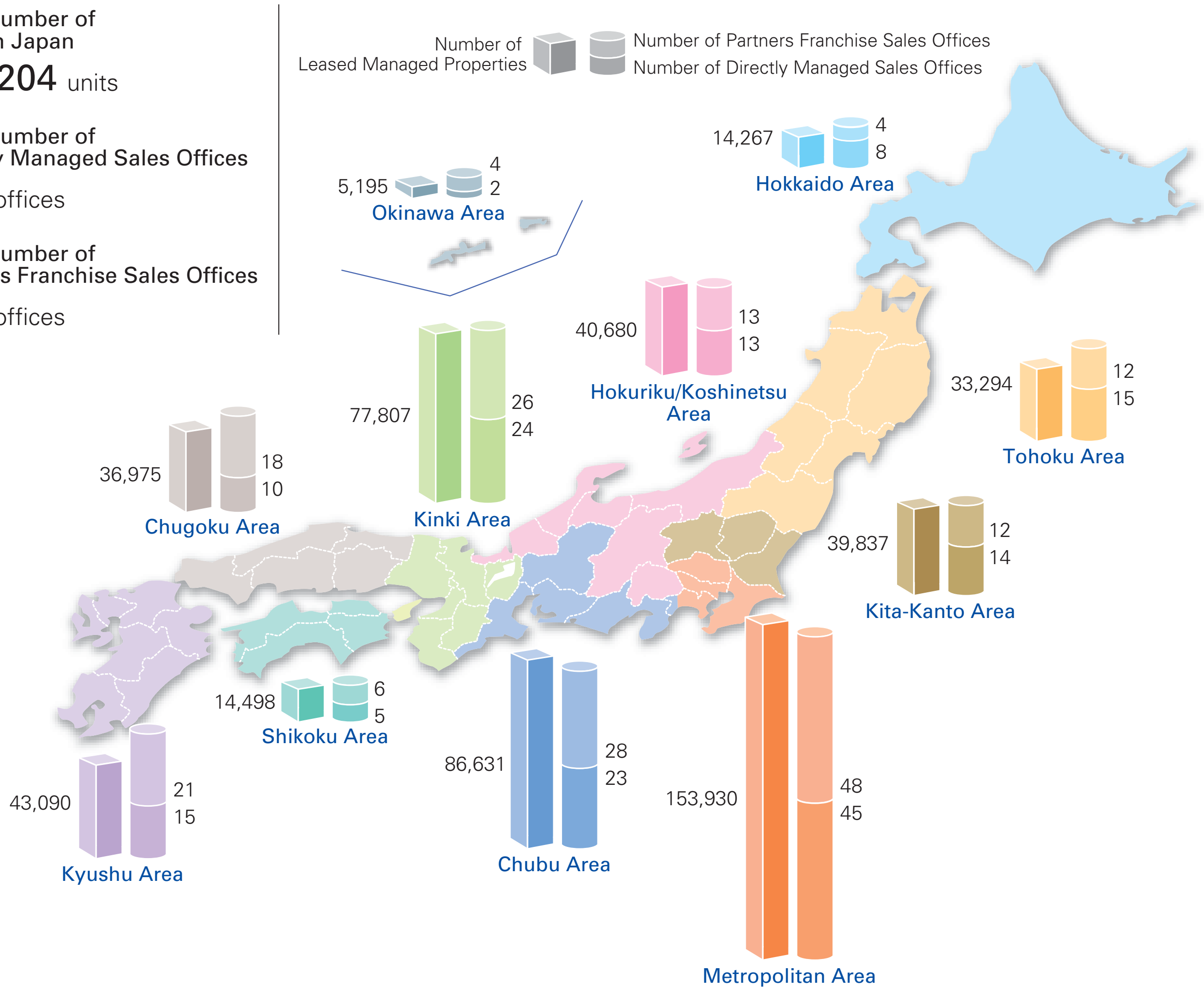
Number of Apartment Units under Management and Domestic Leasing Sales Offices by Areas

(As of March 31, 2013)

Total Number of Units in Japan
546,204 units

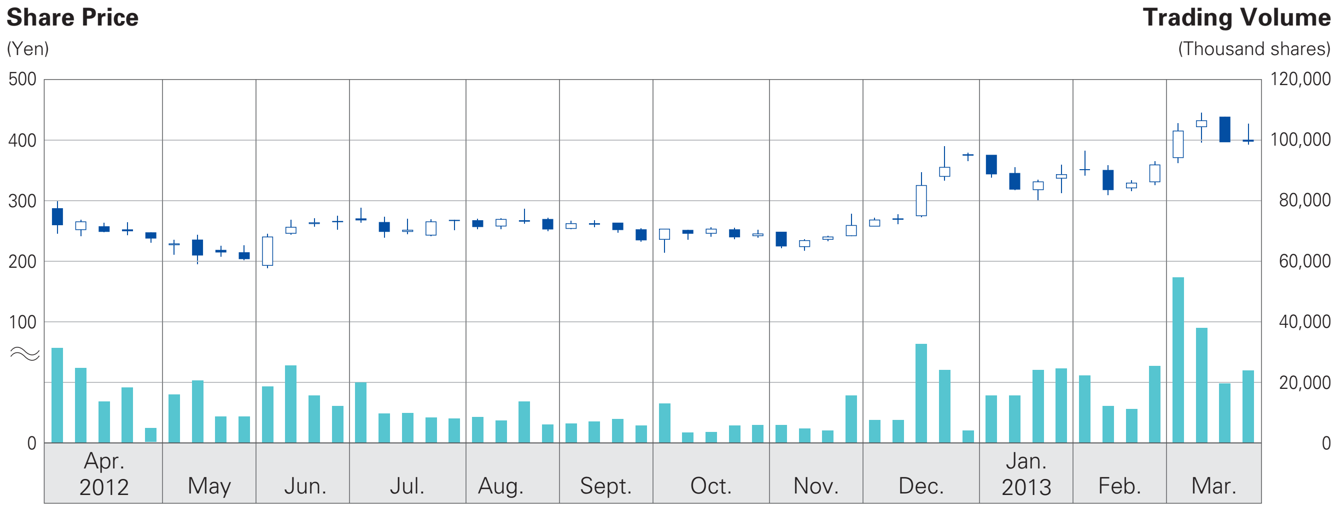
Total Number of Directly Managed Sales Offices
174 offices

Total Number of Partners Franchise Sales Offices
192 offices



Share Price and Trading Volume

(As of March 31, 2013)



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