

Annual Report 2010



Responding to the Unmet Needs of Tenants and Landowners



Our basic business model is to build and rent apartments on a property in great demand, optimizing mutually beneficial needs for both property owners and tenants.

Since there are various unmet housing needs such as temporary housing in Japan, we have developed products (apartments) and contract types to respond to these needs. In addition, by constructing apartments on the property of landowners who are interested in effective utilization of land, we also have responded to the needs of property owners.

This is the unique synergy between the Leasing business and the Apartment Construction Subcontracting business that enables us to realize high stability in our business operations.

Unchanging Principles, Changing Strategies

However, following the sudden decline in the economy in the latter half of 2008, a drastic number of rooms beyond expectation were vacated due to the sudden mass adjustment of employment, particularly in major manufacturing companies, and our occupancy rates also inevitably saw an immoderate decline.

Occupancy rates in the Leasing business and orders in the Apartment Construction Subcontracting business have an inseparable relationship in our business. In the current situation where rapid recovery of occupancy rates is difficult, it is important to offer products which can secure orders in the regions with solid demand. In addition, it is also important to enhance and improve accuracy of leasing profit management, which have been our company's issues.





Shifting from “Product Out” to “Market Out” Model

We created a Medium-term Management Plan in May 2010, not only to adapt to a severe business environment after the global financial crisis, but also to implement measures to enhance and improve accuracy of leasing profit management, which have been our company’s issues, and to “shift to a stable earnings structure with earnings balanced between the Apartment Construction Subcontracting business and the Leasing business.”

Changing our mindset to a "Market Out" business model based on our Leasing business, we will shift our focus to “Stock” or units under our management. As the initial year for changing our business model, during fiscal 2010, we will concentrate on proceeding with a series of reforms in order to reinforce our foundation for a profitable business.

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Interview with the President



Q1: Please summarize results for fiscal 2009.

A1: Due to stagnation in both the Apartment Construction Subcontracting business and the Leasing business, we posted our first operating deficit in company history.

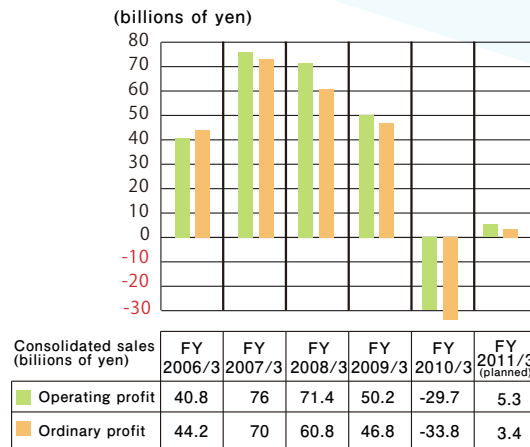
In May 2009, we announced the Medium-term Management Plan “Change for NEXT”. However, to our greatest regret, we posted operating deficit, due to the unexpected magnified impact given by the economic downturn triggered by the global financial crisis to our core businesses. We are sincerely sorry for causing worry to all of our valued shareholders and investors.

With the slowdown in new orders and the high cancellation rates for past orders in the Apartment Construction Subcontracting business, together with the depressed occupancy rate in the Leasing business, consolidated sales for fiscal 2009 (ended March 2010) ended with ¥620.3 billion, a 15.4% decrease from the end of the previous fiscal year.

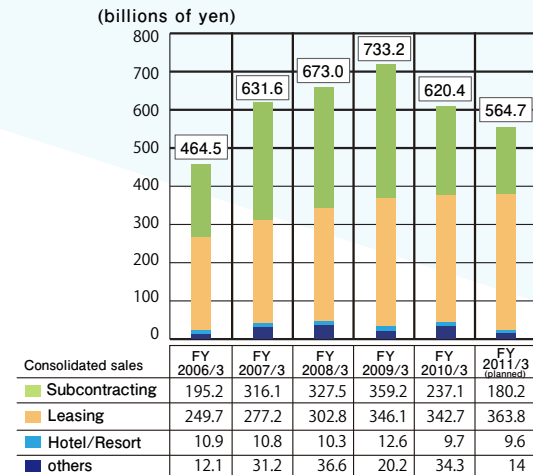
Although we were able to reduce selling, general and administrative expenses by ¥14.0 billion during fiscal 2009 from comprehensive efforts in cost reduction in the Apartment Construction Subcontracting division and streamlining management throughout the entire company, the measures were not enough to cover the reduction in sales and profitability in both leasing and subcontracting businesses.

In addition, with more money allocated to the provision for apartment vacancy loss to prepare for future vacancies due to a sudden change in the leasing environment, we marked our first operating deficit in the company's history. And I regret to announce our decision to suspend payment of year-end dividend, in lieu of recorded losses which led to negative retained earnings in fiscal 2009.

Consolidated operational profit/ordinary profit trend



Consolidated sales volume trend by sectors



Q2: What were the main causes of the decrease in sales in fiscal 2009?

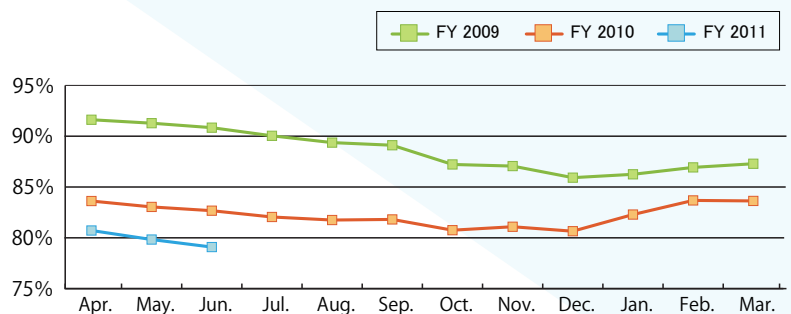
A2: The main causes were the reduction in the order amount for the Apartment Construction Subcontracting business and the fall in the occupancy rate for the Leasing business.

The overall decline in sales revenue is largely due to the sales decline in the Apartment Construction Subcontracting business, which accounted for about half of consolidated sales in the previous fiscal year.

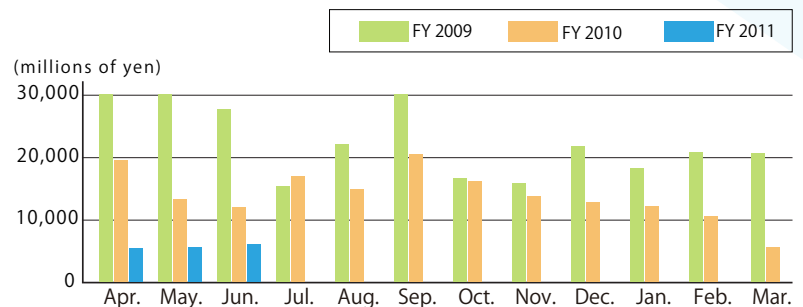
Subcontracting business's profits as of the current term will be decided based on the amount of orders in the preceding fiscal year. However, due to the difficult business environment which includes the financial institutions' strict loan standards, suspension of new nonrecourse loans because of the loss of the securitization market, order amount in the Apartment Construction Subcontracting business showed an enormous drop (decreased by about 50% compared to the previous fiscal year). As a result, sales for fiscal 2009 ended with ¥237.0 billion, a 34.0% decrease from the end of the previous fiscal year.

Meanwhile in the Leasing business division, following the sudden decline in the economy in the latter half of the previous year, a drastic number of rooms beyond expectation were vacated due to the sudden mass adjustment of employment, particularly in major manufacturing companies, and our occupancy rates also inevitably saw an immoderate decline. In fiscal 2009, we have committed to strengthening corporate client sales in addition to developing various campaigns to acquire individual and family tenants. Furthermore, we have been performing revisions on the construction supply plan in order to control increase in vacancies. However, with the employment adjustment continuing over a long period, it is taking a considerable period of time for corporate profits to return to the growth path than initially predicted. On one hand, the number of managed units increased along with the completion of apartments every month to make a total of 552 thousand units (increased by 45 thousand units from the end of fiscal 2008). And on the other hand, demand from corporate clients, which accounts for half of the number of contracted units, has been slowing down. As a result, the annual average occupancy rate of fiscal 2009 decreased by 6.2 points from the average of fiscal 2008, to 82.3%.

Monthly leasing business occupancy rate trend for past 3 years



Monthly subcontract order results trend for past 3 years



Q3: What is your analysis of the cause of stagnation in the core businesses?

A3: Although the effects of the economic recession have been significant, I also believe that structural problems were a root cause.

It is true that the influence of this recession has been great. For the Apartment Construction Subcontracting business, the loss of the securitization market and financial institutions' stricter loan standards following the global financial crisis heavily affected its performance. And corporations' protracted employment adjustments causing large scale reductions in new tenants for the Leasing business. However, I believe, this is not the only reason.

To introduce my background with Leopalace21, it has been 33 years since I joined the company in 1977, and I spent 14 of those years in leasing sales. I became involved with the leasing business when the current synergy model between construction subcontracting and leasing was developed, and since necessity to commercialize the leasing business emerged, I needed to specialize in the leasing business division to take on the responsibility. At the time I took on the role in 1996, there were only 80 thousand units under management. Currently, it is poles apart with 550 thousand units under management, which is close to seven times the units. With an enormous stock of leased apartment units under management, I believe it is difficult to operate under conventional methods. We have been implementing measures to enhance and improve accuracy of leasing profit management for the past few years, but they were more of supportive measures to deal with the financial crisis rather than to change our entire business structure. I believe this was the reason the revision to the Medium-term Management Plan "Change for NEXT" became inevitable.

Q4: What are the key components of the Medium-term Management Plan released in May, 2010?

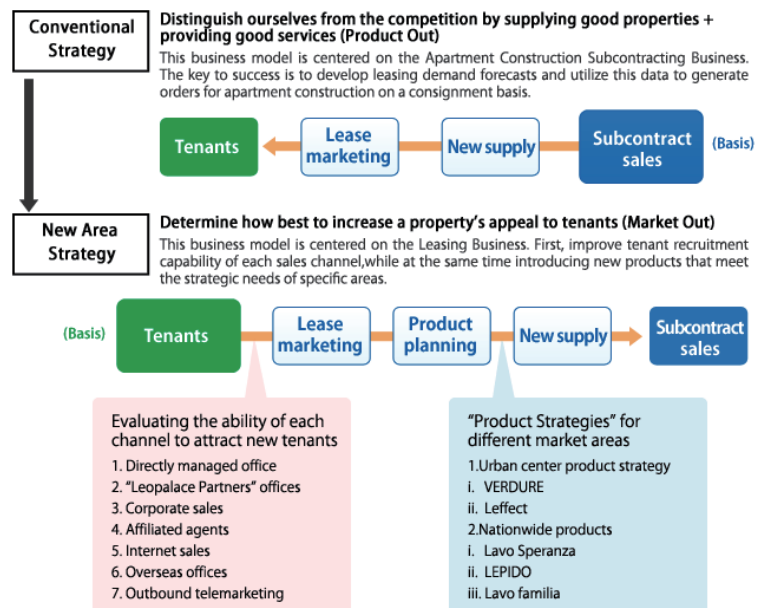
A4: We will shift to a stable earnings structure with earnings balanced between the Apartment Construction Subcontracting business and the Leasing business.

Previously, our business model had been centered on distinguishing ourselves from the competition by supplying good properties and providing good services. In other words, the key to high performance was to develop leasing demand forecasts and utilize this data to generate orders for apartment construction on a consignment basis.

Nevertheless, according to the Housing and Land Survey in 2008 by the Statistic Bureau of Ministry of Internal Affairs and Communications, the proportion of unoccupied houses (the vacant house rate) has climbed to a record high of 13.1% of all residences in Japan, up from 12.2% in 2004. In such a down business environment, it is essential to shift the starting strategy for our leasing business to constructing rentals in tenants' choice locations.

Based on this way of thinking, for the next three years starting with this fiscal year, our company is changing our mindset in the inaugural year 2010 to a "Market Out" business model based on our leasing business, and we will shift our focus to "Stock," or units under our management which currently are over 550 thousand units and scheduled to be over 620 thousand units by fiscal 2013. As the initial year for changing our business model, we will concentrate on proceeding with a series of reforms in order to reinforce our foundation for a profitable business.

Shifting from "Product Out" to "Market Out" Model



By upgrading and increasing precision in handling our company's traditional task of revenue management for rental properties, we will move towards a stable earnings structure with earnings balanced between the Apartment Construction Subcontracting business and the Leasing business.

In addition, the extraordinary loss of ¥45,5 billion on the balance sheet for fiscal 2009 includes the execution of a drastic business restructuring in accordance with this Medium-term Management Plan that should be implemented early in order to return to profitability.

* Please refer to MD&A section for details of extraordinary loss.

Q5: In what ways will the operational methods of the Leasing business be changed?

A5: The main points will be the diversification of sales channels and evaluation of the ability of each channel to attract new tenants, as well as the introduction of strategic commodities that fit with our regional strategies.

The important point is improving tenant recruitment capability of each sales channel, while at the same time introducing new products that meet the strategic needs of specific areas.

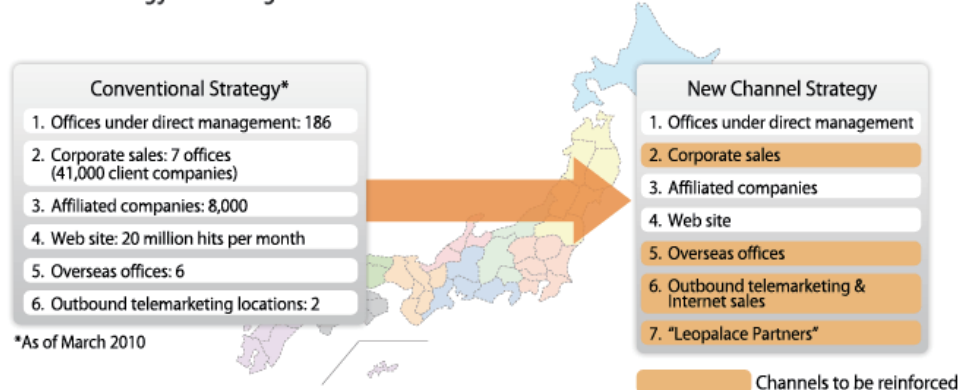
There were six types of methods (=channels) through which we acquired tenants for our Leasing business, but in reality the major channels were through offices under direct management and corporate sales, in other words, face-to-face sales activities.

During the period of our new Medium-term Management Plan, we will newly introduce a new channel called "Leopalace Partners" which includes outside franchises as well as independent franchises spun off from within the Company and operated by former Company staff members, to attract potential tenants while keeping sales costs to a minimum.

Providing properties best suited to each area is another important point. We will provide apartment properties best suited to the area in order to realize the "Market Out" for the New Area Strategy. As our first urban-type designer's condominium, we have introduced "VERDURE," a new product in our LEONEXT series in urban areas, which are our key markets. Furthermore, we will introduce large 1K (one room and kitchen) and family-type rooms for the suburb area in order to meet the needs of single people in their 30's as well as families.

Furthermore, in order to strengthen earnings from appropriate rent acquisitions, we are planning to use the Leasing ALM system already in operation in one department since May of 2010.

Channel Strategy in Leasing Business



Q6: How will the policy for the Apartment Construction Subcontracting business change?

A6: We will focus on accepting orders from regions and properties with reliable demand and strategically adjust the scale of operations to an appropriate level.

We may not be able to achieve previously seen high growth in terms of sales because this plan also includes a strategic retrenchment/rectification in the Apartment Construction Subcontracting business by focusing on accepting orders from regions and properties with reliable demand for three years through fiscal 2012.

However, we will endeavor to realize a stable growth in profits through fixed cost reduction, elaborative cost management, and detailed earning management on our Leasing business.

We will fundamentally revise the cost structure to allow us to generate profits even after strategic retrenchment of the highly profitable Apartment Construction Subcontracting business.

To be specific, we will (1) reduce unit cost of apartment construction in the Apartment Construction Subcontracting business, (2) rectify rents due on master lease agreements for the Apartment Construction Subcontracting business, (3) reduce sales costs in the Leasing business (shift to variable expenses), and (4) lower consolidated SG&A expenses from ¥79.3 billion (SG&A ratio of 12.8%) in fiscal 2009, to ¥52.7 billion (9.6%) in fiscal 2012.

In addition, we will suspend all non-essential capital expenditures and freeze large-scale development projects in order to return and drive-home “*Motazaru Keiei* (non-ownership management)” and reduce interest-bearing debt and operate by emphasizing cash flow in operations. Parts of the development projects have already been terminated or been determined as sell out in fiscal 2009, and an extraordinary loss resulting from this decision has been posted.

Furthermore, we will manage related businesses with priority on synergy with core businesses, in order to maximize consolidated earnings and efficiency.

Q7: What were the aims of the change in organization that was implemented in April 2010?

A7: The aims were to shift to a strategy based around our Leasing business and the swift promotion of structural reform.

In order to conduct decision-making from a company-wide optimum viewpoint and to promote speedy business restructuring, we have made reforms to the organizational structure in April 2010.

To conduct business structure reform quickly, we have created an organization in order to promote rapid decision-making and to make further progress toward reforms by establishing a new organization called “Business Structure Reform Headquarters” under the direct control of myself, the President and CEO, and by placing the committees, which were subsidiary organizations previously under the Corporate Management Council, under this headquarters.

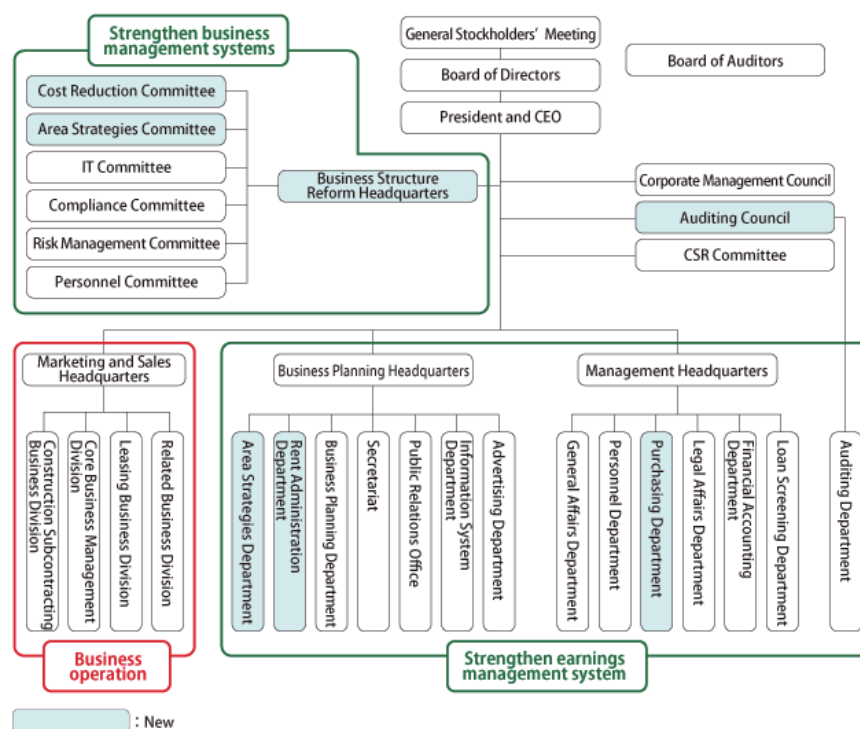
In addition, we have newly established a “Cost Reduction Committee” as a subordinate committee under Business Structure Reform Headquarters, and a “Purchasing Department” under Management Headquarters, and continue to promote a shift to a low-cost structure.

Our aim is to establish an earnings management structure that achieves balanced earnings in our core businesses and to realize a shift to our “Market Out Supply Plan” business model, based on our Leasing business.

Toward these goals, we made “Rent Administration Department” and “Area Strategies Department” independent from the Marketing and Sales Headquarters, placing it under the Business Planning Headquarters, and established an “Area Strategies Department” under the Business Structure Reform Headquarters.

Under the previous organization, we had Real Estate, Silver (Elderly Care) business, and Domestic Hotel & Resort Departments under the Related business division. Under the new organization restructure, the Related business division has been incorporated under the Marketing and Sales Headquarters with the goal to manage related businesses from the standpoint of “Concentrating Management Resources on Core Businesses.”

New Organization to Implement New Strategies (As of April, 2010)



Q8: What is the numerical target of the Medium-term Management Plan?

A8: Our plan is to aim to generally maintain the level of sales while improving the level of profits.

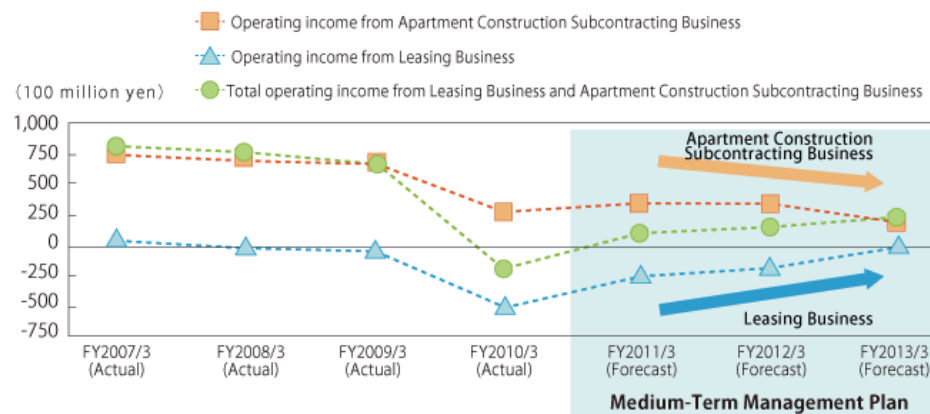
The basic policies of the Medium-term Management Plan are “Shift to a Stable Earnings Structure with Earnings Balanced between the Apartment Construction Subcontracting Business and the Leasing Business” and “Shift to a Low-cost Structure.” Toward these goals, we will strategically optimizing the highly profitable Apartment Construction Subcontracting business and fundamentally revising the cost structure.

In order to improve financial efficiency during the period of the new Medium-Term Management Plan, we will focus management resources on our core businesses (Apartment Construction Subcontracting business and the Leasing business).

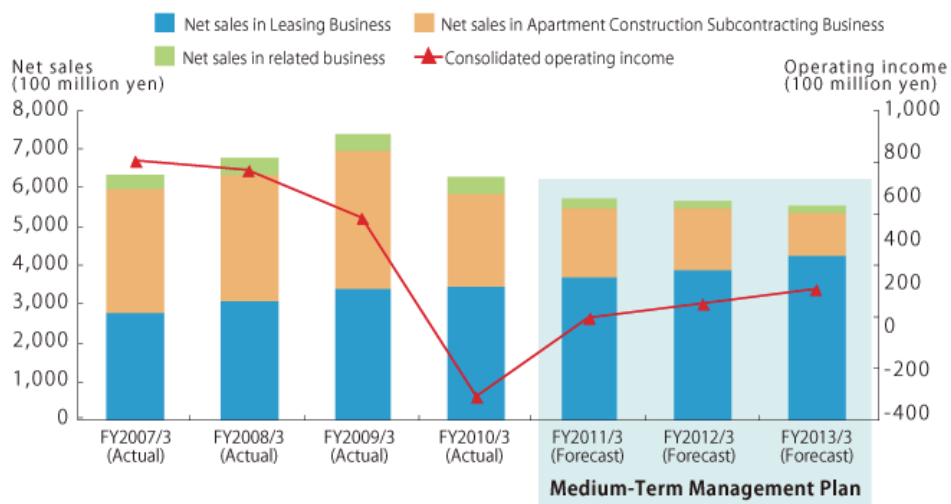
Due to the shift to a “Market Out Supply Plan” business model based on our Leasing business, the sales of our Apartment Construction Subcontracting business will greatly decrease. However, a fundamental review of the cost structure, making it possible to generate profits even after strategic retrenchment of highly profitable Apartment Construction Subcontracting business, will enable a moderate operating profit decrease.

Estimation on numeric values for our consolidated performance is based on changes in business models concerning the amount of orders received and occupancy rates, both of which are performance indicators. By estimating on the safe side based on our current business environment, the consolidated net sales will be ¥546.7 billion in the last fiscal year of the Medium-term Management Plan, but it is possible to measure definite improvements of the profit level within the planned period.

Operating Income from Apartment Construction Subcontracting and Leasing Business (Consolidated)



Net Sales and Operating Income (Consolidated)



Q9 : What is the outlook for fiscal 2010?

A9 : Concentrating on proceeding with a series of reforms, we will reinforce our foundation for a profitable business.

Fiscal 2010 is the year in which we have shifted our central strategy to a "Market Out" business model based on our Leasing business, and the initial year for changing our business model to focus to "Stock." This is a year where we will concentrate on proceeding with a series of reforms.

Sales figures at the first quarter (the start of the Medium-Term Management Plan) suffered slightly from the failure of the occupancy rate plan but through cost cutting efforts things are generally going according to plan. With rental fee adjustments and measures enacting in two core operations underway, we believe we are well on our way towards recovery.

To explain the measures of the core business in detail, firstly, as for the Leasing business, it aims for occupancy rate and an improvement in profitability according to the four measures stated below.

1. Narrow down the number of new apartments supplied to avoid stress on the occupancy rate, based on new area strategy (approximately 7,500 housing units which are 57% compared to the same period last year)
2. As measures to strengthen our new channel strategy, move up the opening of Leopalace Partners (franchise strategy) ahead of schedule, with a total of 22 offices (including 3 offices by former employees) scheduled to open in August. In addition, we are aiming to open 150 offices, which is our goal for this year, before the start of the peak period for tenancy applications from January to March (in other words, by the end of this year.)
3. Expansion of China business: Strengthen our sales channels in China through the establishment of a four-office system by adding two offices in Guangzhou and Dalian in October of this year.
4. As part of our pricing strategy in operating the "Leasing ALM System," strengthen the area authority from July of this year, by allowing the branch offices closest to the market to set rents and arrange campaigns, which will enable local areas to respond more effectively.

However, due to the effect of current economic trends and the state of the corporate job market on the occupancy rate, a set period of time will be required before we will see the effects of our countermeasures.

Consequently, in regard to the Apartment Construction Subcontracting business, we are putting two measures that are not based on the bulk leasing system into effect. It will increase the order amount while not putting stress on the occupancy rate, even while operating in the current economic environment.

1. Accepting orders for "Built-for-sale (apartments not subject to master lease agreements with owners)." Product names are Lavo Villent and SELDEAR, etc., and we have already booked orders received which account for 1/4 of the total for the first quarter.
2. Accepting orders for contract works of care facilities in our Silver (Elderly care) business from August of this year, which is to match the needs of our owners with the needs of businesses in elderly care. Thus, we will establish a so-called business model "Care business matching system" without using the bulk leasing system.

Future policy on dividend payouts to shareholders will be decided based on the current business climate and progress of our Medium-Term Management Plan throughout the term. Currently, no future policy has yet been decided.

We sincerely appreciate continuous understanding and support from our shareholders.

Q10 : Please tell us about the CSR efforts undertaken by the Company.

A10 : CSR is the activities that further enhance the social significance of the business itself, and we are always pursuing the creation of new value.

Our basic business model is to build houses on a property in great demand, optimizing mutually beneficial needs for higher perspectives for both landowners and tenants. We are confident that our business practicing itself reveals the Company's CSR.

As we run business implicating not only peoples' life-styles and social environments but also "solution measures," we are very happy to offer the values including those of our CSR activities, responding to the changes in lifestyle, society and environment, and to keep pace with the times.

Increasing number of corporate customers may be a good example. During the recent economic recovery period since 2002, Leoplace21 was utilized as companies' employee apartments for both for families and singles to alternate the housing benefit to reduce the budget. This resulted in the market expansion of our corporate customers.

With a significant change in business environment, our operation is at a turning point now. From CSR point of view, we are convinced that this is the time for reflection to give our thoughts to what our stakeholders expect us to be.

We are always pursuing the creation of new value that is one step ahead of the times and, by promoting CSR management which responds to the Corporate Social Responsibility as a Corporate Citizen that is in our corporate vision, we aim for continuous growth.



Q11: Can you please share a message with all the shareholders?

A11: We will strive to reform the business model and business structure with firm determination.

My absolute mission is to put the Company back on the growth path. There is possibility that recovery of corporate results will take some time, but our entire management will take on the reformation with indomitable resolve to respond to shareholders' expectations and realize continuous growth as a company indispensable to society.

When we look back in time, in 1985 we started leasing "Leopalace21" - urban-style, one-room rental apartment buildings - in a period of economic growth, and have achieved sustainable growth by changing business models through the adoption of changes in our business environment, such as switching to "Motazaru Keiei (non-ownership management)" after the bursting of the economic bubble.

The business model change this time will be one of the major turning points since the inauguration of the Company. The change will be painful to say the least, but I believe this reform will bring the Company sustainable growth and allow us to live up to the expectations of our customers, owners, shareholders and investors.

We sincerely appreciate continuous understanding and support for our management from our stakeholders.

Consolidated Six-Year Summary

Leopalace21 Corporation and consolidated subsidiaries
Years ended March 31

	Millions of yen, except where noted						Thousands of U.S. dollars, except where noted
	2010	2009	2008	2007	2006	2005	2010
For the year:							
Net sales	¥620,376	¥733,235	¥672,974	¥631,608	¥465,387	¥476,267	\$6,667,846
Apartment Construction Subcontracting	237,062	359,155	327,541	316,117	195,202	248,033	2,547,961
Leasing	342,316	334,561	302,731	277,163	249,696	216,591	3,679,236
Hotel Resort	6,734	5,611	6,072	7,141	8,340	7,282	72,378
Residential Sales	24,644	11,469	11,281	14,150	1,745	140	264,875
Other	9,620	22,439	25,349	17,037	10,404	4,221	103,396
Cost of sales	570,749	589,834	511,054	474,713	353,928	357,546	6,134,452
Selling, general and administrative expenses	79,355	93,244	90,517	80,888	70,684	64,039	852,910
Operating income	(29,728)	50,157	71,403	76,007	40,775	54,682	(319,517)
EBITDA	(23,432)	55,939	76,566	80,567	45,340	60,538	(251,850)
Net income (loss)	(79,076)	9,952	342	37,358	(16,582)	33,262	(849,913)
At year-end:							
Total assets	¥396,512	¥467,300	¥493,956	¥454,820	¥412,804	¥453,434	\$4,261,736
Total net assets	70,979	146,442	170,155	185,785	133,622	149,798	762,891
Interest-bearing debt	61,318	44,188	49,711	53,160	64,513	108,786	659,053
Amounts per share:							
Total net assets	¥466.76	¥967.40	¥1,036.43	¥1,054.99	¥839.44	¥941.06	\$5.02
Net income (loss)	(521.91)	63.54	2.15	234.68	(104.17)	220.79	(5.61)
Cash dividends	—	30.00	80.00	50.00	15.00	15.00	—
Ratios:							
Equity ratio (%)	17.9	31.3	33.4	37.0	32.4	33.0	
Return on equity (ROE) (%)	(72.8)	6.4	0.2	24.8	(11.7)	28.8	
Return on assets (ROA) (%)	(18.3)	2.1	0.1	8.6	(3.8)	7.6	
Payout ratio (%)	—	47.2	3,720.9	21.3	—	6.8	
Debt/equity ratio	0.9	0.3	0.3	0.3	0.5	0.7	
Number of employees	8,582	9,926	8,678	7,409	6,868	6,457	

Notes:

- U.S. dollar amounts are translated from yen at the rate of ¥93.04 = US\$1, the approximate rate prevailing at March 31, 2010.
- The Residential Sales division is classified separately from other divisions in the year ended March 31, 2009. Accordingly, the numbers for the years ended March, 2004, 2005, 2006, 2007 and 2008 were reclassified appropriately.
- The amounts of total net assets for the years ended March 2004, 2005 and 2006 represent the value of total shareholders' equity and do not include minority interests.
- Net loss for the year ended March 31, 2006 is the result of impairment losses posted after adoption of new accounting standards for impairment of property, plant and equipment.
- EBITDA = Operating income + depreciation
- Return on assets (ROA) = Net income/total assets x 100
- Debt/equity ratio = Interest-bearing debt/(net assets - minority interests)

Management's Discussion and Analysis

Operating Environment

Although the economy showed some signs of improvement in corporate performance such as exports and production during FY 2009 (the fiscal year ended March 31, 2010), with severe employment, income insecurity and prolonged deflation, the prospect of economic recovery still remains uncertain.

In the housing industry where the Company belongs, the tough business environment has been prolonged with commencement of new housing starts decreasing by 25.4%, of which houses for rent decreasing by 30.0% compared to the previous year.

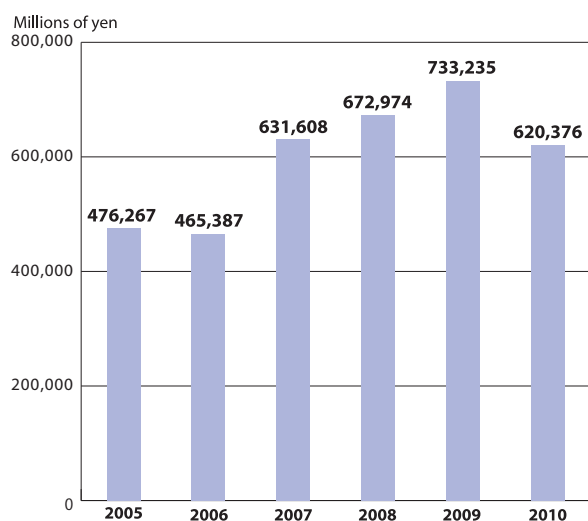
Under these circumstances, influenced by the worse than expected recession, consolidated net sales of Leopalace21 group fell during the subject fiscal year due to the decrease in order amount of the Apartment Construction Subcontracting business and occupancy rate in the Leasing business. In terms of earnings, despite strict cost management and company efforts to reduce costs, reduced profit margins due to lower sales and recording of additional allowance reserves due to low occupancy rates, profits decreased and the Company recorded a loss for the first time since its establishment.

Furthermore, due to the sharp downturn in performance, in order to bring the Company back to profitability as early as possible by implementing fundamental change in our business structure, together with appropriating the restructuring costs as special losses, and revisiting accounting policies as part of the restructuring, by allocating the provision for apartment vacancy losses as an extraordinary loss, a much higher than originally expected loss in net income was posted.

Net Sales

Consolidated net sales for the subject fiscal year was ¥620,376 million – a ¥112,859 million (15.4%) decrease from the previous fiscal year. The main reason for this is that the sales in the Apartment Construction Subcontracting business was ¥237,062 million – a ¥112,092 million (34.0%) decrease from the previous fiscal year due to a decrease in the number of orders received caused by the global financial crisis. Furthermore, due to the occupancy rate drop, sales in the Leasing business also decreased to ¥342,316 million, a ¥3,598 million (1.0%) decrease from the previous fiscal year.

Net Sales



As for the Hotel and Resort business, sales amount decreased to ¥6,734 million, which was 15.9% decrease from the previous fiscal year because of the decrease in tourists visiting the Guam islands due to the H1N1 flu epidemic. The Residential Sales business sales showed ¥24,643 million, a 114.9% increase from the previous fiscal year because of the administrative supports such as tax exemption for housing acquisition and successful pricing strategy. Sales from the Other division (Silver <elderly care> business, financing secured with real estate, small-claims and short-term insurance businesses) increased to ¥9,619 million by 10.7% from the previous fiscal year.

As a proportion of total sales by segment, the Apartment Construction Subcontracting business accounted for 38.2% (down 10.8 percentage point year on year) and the Leasing business 55.2% (up 9.6 percentage point), with these two segments accounting for 93.4% of total net sales. The Hotel Resort business accounted for 1.1% (up 0.3 percentage point), the Residential Sales business 4.0% (up 2.4 percentage point), and the Other Business 1.6% (down 1.5 percentage point).

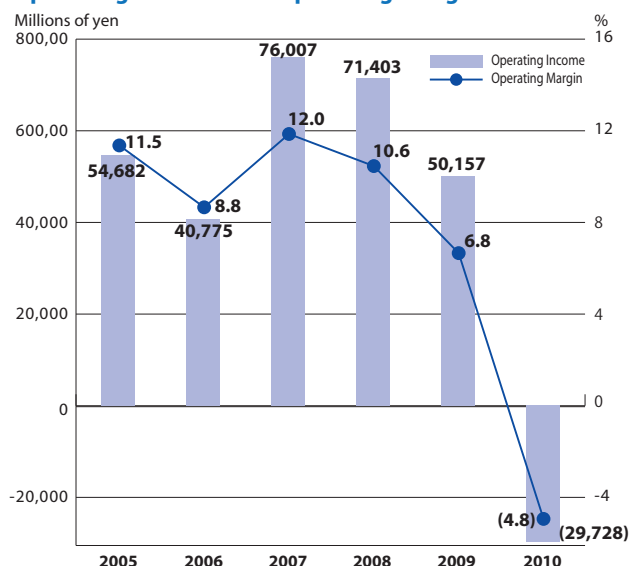
Earnings

The cost of sales decreased 3.2% year on year to ¥570,749 million. This was mainly due to insufficient cost reduction to keep up with the sharp drop in the Apartment Construction Subcontracting business's completed number of constructions, as well as the allocation of provision for apartment vacancy loss (¥16,765 million) in the Leasing business. As a result, the gross profit totaled ¥49,626 million, falling ¥93,775 (-65.4%) year on year.

Due to the cost reduction efforts, selling, general and administrative (SG&A) expenses showed year-on-year decrease by ¥13,889 million (-14.9%) to ¥79,354 million. However, this did not greatly affect the decrease in gross profit, and the Company posted operating loss of ¥29,727 million compared to ¥50,156 million profit of the previous fiscal year.

The current term net loss, after allocating the currency exchange loss of ¥2,468 million and extraordinary loss of ¥45,551 million, was ¥79,075 million (the previous fiscal year net profit was ¥9,951 million.)

Operating Income and Operating Margin



Note: Decline in operating income and operating margin for the year ended March 31, 2006 is the result of the postponement of scheduled construction contracts.

The extraordinary losses consist mainly in three areas: (1) losses on business restructuring (¥29,855 million), (2) provision for apartment vacancy losses (¥10,342 million) and (3) impairment losses (¥3,237 million). These losses are in line with the “Medium-Term Management Plan”, which aims for fundamental change in our business structure in order to bring the Company back to profitability as early as possible. The followings are the main items included in the losses on business restructuring:

1. Impairment losses on cancelled development projects and assets planned for sale: ¥18,761 million

Leopalace21 has decided to sell off or to halt development of some fixed assets, such as real estate, which the Company owned mainly for the purpose of constructing our own buildings. This is a part of the management policy of “*Motazaru Keiei* (non-ownership management)” in order to maintain cash flow. Therefore, the subject assets fall under “Implementation Guidance for Accounting Standards for Impairment of Fixed Assets”. Therefore, Leopalace21 reduced the book value of these assets to a level which the Company believes they can collect, and posted the reduced amount as an impaired loss for the current period.

2. Difference arising from a change in accounting treatment relating to indirect expenses in the Apartment Construction Subcontracting business: ¥10,204 million

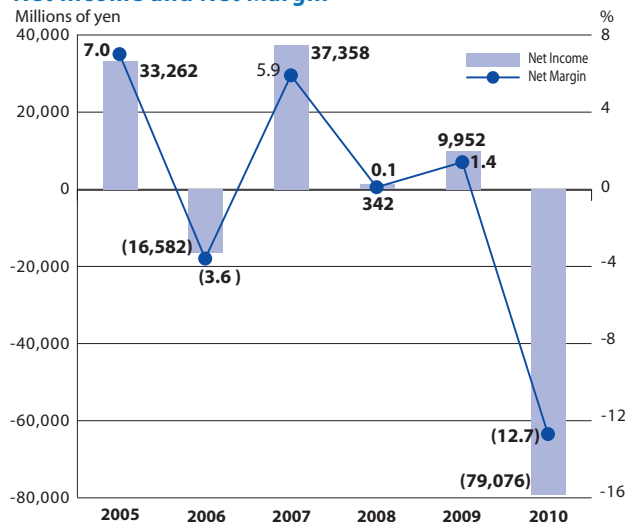
Starting from the 1st quarter of FY2010, the Company has posted profits and direct costs for contracted work of the Apartment Construction Subcontracting business division based on percentage of completion method. However, these costs did not include indirect costs, such as labor costs for management engineers, which was partly responsible for the reduction in gross margin for FY2009. In order to correct this problem and to improve accuracy in managing construction costs, Leopalace21 has revised the method of calculating indirect costs. Specifically, the Company has decided to cost and budget them when they incur, just as profits or direct costs, and reduce them together with sales and administrative costs. The difference posted here is the results of these revisions.

3. Expenses relating to the closing of business locations: ¥511 million

4. Early cancellation penalties relating to terminated lease contracts: ¥297 million

In order to comply with the anticipated Medium-Term Management Plan, Leopalace21 has closed out 99 Leasing business locations during FY2009 as part of its efforts to shift some of our SG&A expenses to variable expenses, thus making it possible to reduce fixed costs. In addition, in order to reduce company-wide SG&A expenses, the Company has closed out 14 Apartment Construction Subcontracting business offices. These costs include security deposits and labor costs for these premises and cancellation of leases for company vehicles.

Net Income and Net Margin



The extraordinary loss concerning provision for apartment vacancy losses indicates the difference between the two methods of estimating the provision amount. Previously, the Company used historical occupancy rates to calculate the provision, but it is now using projected occupancy rate.

An impairment loss was posted against some of the 622 apartment buildings the Company owns and rents out. The profitability of these assets has diminished as a result of a slowdown in the rental market, the fall in land prices, and other factors.

Segment Information

Apartment Construction Subcontracting

Apartment Construction Subcontracting business, one of Leopalace21 group’s core division, ended with order received of ¥167,700 million (37.7% decrease from the previous fiscal year) and with order outstanding of ¥183,660 million (27.4% decrease from the previous fiscal year end) due to the suspension of new nonrecourse loans and the financial institutions’ strict loan standards, following the occurrence of the global financial crisis.

In terms of sales, Leopalace21 has tried to recover order receiving by introducing new products from its new high-quality, high-added value brand series “LEONEXT” to meet various needs of the rental apartment market. In addition, after going through a review of the sites of sales and the staff deployment, the Company reduced the number of sites of sales at the end of FY2009 to 112 (14 sites of decrease from the previous fiscal year end).

In terms of profit, while Leopalace21 worked to reduce operating expenses by thorough control of the cost and the process, the Company could not curb sales decline, and the profit margin was narrowed. Among the construction contracts of which actual works were undertaken during this fiscal year, percentage of completion basis was applied to the construction works of which certainty of the result was recognized for the part progressed before the end of FY2009.

As a result, consolidated net sales was ¥237,062 million (34.0% decrease from the previous fiscal year), and operating profit was ¥29,744 million (57.6% of decrease from the previous fiscal year).

Leasing

Leasing business, Leoplace21 group's another core business, maintained 552,000 units under management (45,000 units of increase from end of the previous fiscal year), but the average occupancy rates for the term was 82.3% (6.2 percentage points down from the previous fiscal year). This was mainly due to the influence of large number of cancellation of corporate contracts for dorms and company housing which occurred following the production adjustment of mostly large manufacturers after sudden recession in the second half of the previous fiscal year, while the number of units under management increased by the completion of apartment construction work every month.

In terms of sales, while different promotional campaigns were implemented to obtain individual and family markets, revision of the housing supply plan was taken in order to avoid further spreading of vacancy. In addition, after going through a review of the point of sales and the staff deployment, the Company reduced the number of sales sites at the end of FY2009 to 192 (decrease of 99 sites from the previous fiscal year end).

In terms of profit, although Leoplace21 has tried to minimize operating expenses by reducing fixed cost with strengthened partnership with real estate brokers, the Company posted operating loss with allocation of ¥16,765 million of provision for apartment vacancy loss due to decreased occupancy rates.

As a result, net sales was ¥342,316 million (1.0% decrease from the previous fiscal year), and operating loss was ¥47,875 million (increase in loss of ¥46,898 million compared with the previous fiscal year).

Hotel and Resort

Although the resort facilities in Guam (sports resort complex "Leoplace Resort Manenggon Hills" and "Westin Resort") has been operated steadily, because of the impact of strong yen during the term, the Company suffered exchange loss of ¥2,468 million due to year-end re-evaluation. Moreover, since there was a decrease in number of hotel guests throughout the year 2009 under the restriction of entrance into the Guam islands due to the H1N1 flu epidemic, consolidated net sales was ¥6,734 million (15.9% decrease from the previous fiscal year), and operating loss was ¥1,324 million (increase in loss of ¥851 million compared with the previous fiscal year).

Residential Sales

Thanks to administrative supports such as tax exemption for housing acquisition and successful pricing strategy, Residential Sales division posted consolidated net sales of ¥24,643 million (114.9% increase from the previous fiscal year), and operating loss of ¥3,356 million (improvement of ¥738 million compared with the previous fiscal year).

Other

Number of subscribers for the Company's broadband business has steadily increased. Leoplace Insurance Co., Ltd. has grown steadily by providing property and casualty insurance products to the tenants of the Company's rental housing. However, the Company could not fill the deficit made by the operation of 57 facilities (as of March 31, 2010) in the Silver (elderly care) business. As a result, Other division ended with ¥9,619 million of consolidated net sales (10.7% increase from the previous fiscal year) and ¥3,419 million of operating loss (increase in loss of ¥360 million compared with the previous fiscal year).

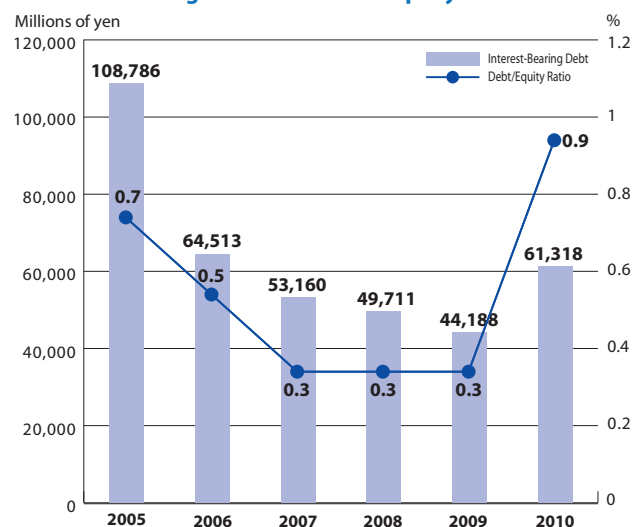
Financial Position

Total assets as of the end of FY2009 stood at ¥396,511 million, a decrease by ¥70,788 million compared with those as of the end of the previous fiscal year (15.1%).

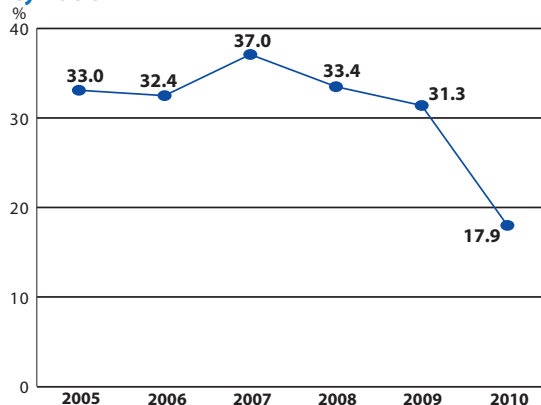
Current assets were at ¥146,416 million (a decrease by ¥45,599 million compared with those as of the end of the previous fiscal year) due to a decrease of ¥18,681 million in real estate for sale in process and a decrease of ¥13,741 million in payment for construction in progress, respectively. Additionally, fixed assets were ¥250,006 million (a decrease by ¥25,274 million compared with those as of the end of the previous fiscal year) due to a decrease of ¥18,620 million in land and a decrease of ¥9,889 million in long-term prepaid expenses, respectively.

Total liabilities stood at ¥325,532 million, an increase by ¥4,674 million compared with those as of the end of the previous fiscal year (1.5%). This increase is primarily because there were increases in provision for apartment vacancy loss by ¥27,108 million and short-and long-term borrowings by ¥12,372 million, although there were decreases in accounts payable and accounts payable for completed projects by ¥16,507 million, amounts received for uncompleted works by ¥5,410 million and corporation taxes payable by ¥11,663 million, respectively. Interest-bearing debts were ¥61,318 million (an

Interest-Bearing Debt and Debt/Equity Ratio



Equity Ratio



increase of ¥17,129 million compared with those as of the end of the previous fiscal year) due to an increase in short-and long-term borrowings and bonds.

Total net assets were ¥70,979 million, a decrease of ¥75,463 million compared with those as of the end of the previous fiscal year (51.5%). This is primarily due to a decrease in retained earnings, after the allocation of ¥79,075 million as net loss for FY2009.

As a result, equity ratio was 17.88 % (31.34% as of the end of the previous fiscal year) and net asset per share was ¥466.76 (¥967.40 as of the end of the previous fiscal year).

Cash Flows

Cash flows from operating activities were a loss of ¥12,990 million (an income of ¥62,843 million in the previous fiscal year). This loss is primarily because there was an increase in provision for apartment vacancy loss by ¥27,108 million, a decrease in real estate for sale by ¥24,221 million and business restructuring cost for ¥29,855 million, although there were decreases in loss before taxes and minority interests by ¥77,526 million and trade accounts payable by ¥15,357 million.

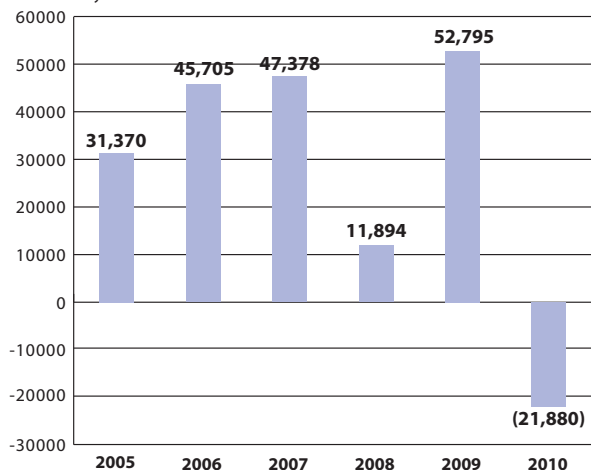
Cash flows from investing activities were a loss of ¥8,889 million (a decrease in loss by ¥1,159 million compared with the previous fiscal year). This loss is primarily because there were payments of ¥5,734 million from purchase of property, plant and equipments and payments of ¥3,697 million from purchase of intangible fixed assets, such as the Company's mission-critical system, although there was income of ¥1,536 million from sale of property, plant and equipments.

Cash flows from financing activities were an income of ¥15,281 million (a loss of ¥33,885 million in the previous fiscal year). This is primarily due to an income of ¥79,707 million from borrowings and issuance of bonds, although there were payments of ¥63,707 million from loan repayments and redemption of bonds.

As a result, the balance of cash and cash equivalents as of the end of FY2009 was ¥72,031 million, a decrease of ¥6,344 million compared with the end of the previous fiscal year (8.1%).

Free Cash Flow

Millions of yen



Basic Policy on Distribution of Earnings

The Company regards the return of profits to shareholders as one of its most important issues.

Despite the policy, the Company regrets to announce its decision to suspend payment of year-end dividend, in lieu of recorded losses which led to negative retained earnings in FY2009.

Future policy on dividend payouts to shareholders will be decided based on the current business climate and progress of the Mid-Term Management Plan throughout the term. Currently, no future policy has yet been decided.

Governance

We position the establishment and enhancement of corporate governance as one of our most critical management issues, and it is our basic philosophy of corporate activities to pursue an efficient, fair and highly transparent operation in order to attain higher corporate values for the sake of all stakeholders.

Based on this philosophy, we endeavor to improve our management system and management organization mainly through reinforcing our monitoring function of our decision making, establishment of a compliance system, improvement and strengthening of an internal control system and establishment of good relations with stakeholders.

Ensuring Corporate Governance

At Leopalace21, the top executive of our Business Planning Headquarters must unify the management of Leopalace21 and its affiliated companies to implement the optimal comprehensive group-wide governance, and is responsible for facilitating smooth information exchange and advancement of group activities. Additionally, directors in charge of each governance department in each affiliated company must establish a CSR promotion system, compliance systems, and risk management procedures in accordance with policies arising from the management plan and consistent with efficient work flow methods.

Our Systems of the Board of Directors and the Board of Auditors

While we set up the Board of Directors to enhance business performance through appropriate and rapid decision making, responding dynamically to the changes within our business and our management environment, we strive for the strengthening of our management monitoring function by setting up the Board of Auditors as a supervisory organ of the business execution by directors.

Board of Directors

The Board of Directors which is composed of 8 directors holds regular meetings once a month, while extraordinary meetings are held at any time as required, in order for decisions to be made on critical management issues as well as to monitor the performance of business operations. Furthermore, meetings of the Management Committee are held as needed to discuss policies on execution of business operations and to study measures for their implementation.

Board of Auditors

The Board of Auditors is composed of four auditors including two externally appointed auditors. We adopt a system to enhance the effectiveness of auditing by auditors' participation in essential meetings such as the Board of Directors meetings and by conducting operational status investigations, based on an auditing plan prepared by the Board of Auditors. (The company has no business connection with the external auditors)

Four-headquarters system

We have been promoting the enhancement of the management system, for instance by the reinforcement of controlling functions and the establishment of a compliance system. The management system is composed of four headquarters which consists of: the Marketing and Sales Headquarters controlling each business division; the Management Headquarters, responsible for administrative departments; and the Business Planning Headquarters, responsible for the planning and management of business plans; and the Business Structure Reform Headquarters, responsible for constitutional improvement and business structure reform.

Internal Control System

Our basic policy of the internal control system is to base our corporate activities on legal compliance and compliance with social ethics. Specifically, we adopt a system by which the Board of Auditors, Compliance Head Committee, Legal Department and the Auditing Department supervise if relevant laws and regulations have been complied, on the very basic internal understanding of the Code of Corporate Ethics. Additionally, we have established the Auditing Council to prepare appropriate financial statements while aiming to comply with all laws and regulations, to safeguard the company's assets, and to carry out our business activities efficiently. We have also created the Risk Management Committee, establishing a system to conduct research on all management risks within the company group and to conduct prior check of importance and necessity of the outstanding issue. Furthermore, we opened a window for the internal communication in order to grasp and improve various other issues of problems to accomplish further improvement and reinforcement of the internal control system.

CSR Promotion, Compliance System and Risk Management System

CSR Promotion System

We position CSR activities as an important managerial issue and pursue promotion of CSR by setting 4 basic principles. With regard to the CSR promotion system, we created a CSR Committee in order to aim at the sustainable development of society and our corporate group by performing our accountability in response to explicit as well as implicit requests from our stakeholders.

The CSR Committee, which is composed of the President and CEO as the chairman and executive officers of each headquarters as members, implements various measures in tie-up with the Compliance Committee and the Risk Management Committee, being conscious of how to respond to requirements from society. In order to promote the measures regarding CSR, a person in charge of CSR has been assigned in each business division and office to assume the job responsibility.

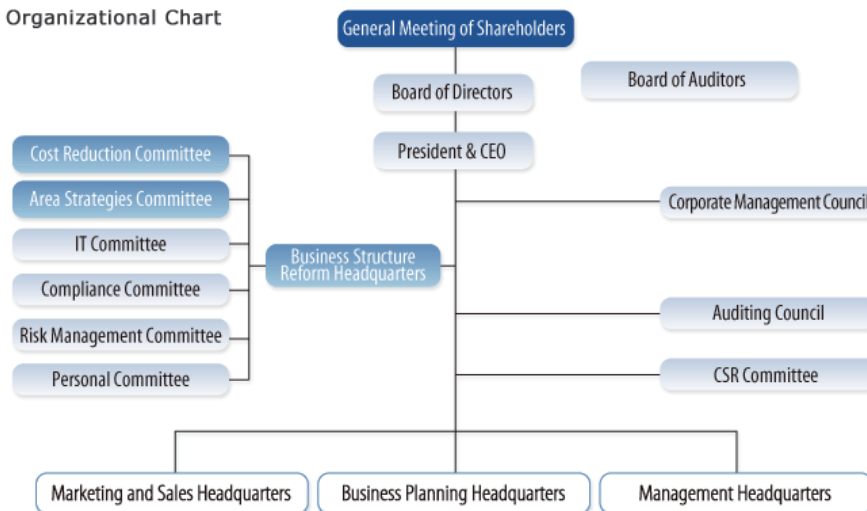
Compliance System

With regard to the compliance system, along with establishment of the Corporate Code of Ethics and the internal reporting system, we have created the Compliance Committee to strengthen its commitment.

As an advisory organ of the Board of Directors, the Compliance Committee is composed of the President and CEO as the chairman and external members (lawyers and external auditors). It plans and implements various measures concerning compliance such as educational training and improvement and reinforcement of the information control system.

As a system to aggressively implement such measures regarding compliance, a person in charge of compliance has been assigned at each business division and office to assume the job responsibility.

Organizational Chart



Risk Management System

With regard to the management system, the Risk Management Committee has been created to grasp and manage the risks of the whole company in a comprehensive manner. In furtherance, the Internal Auditing Department conducts auditing of the status of risk management of each headquarters together with auditors to report the results to the Board of Directors and the Risk Management Committee, also feeding back the results to the Administrative Headquarters to serve for the correction or preparation of the basis for further measures.

As an advisory organ of the Board of Directors, the Risk Management Committee, composed of President and CEO as the chairman and external members (lawyers and CPA), not only verifies status of risk management, but also plans and implements educational training and others in order to realize reduction and prevention of risk.

Internal Auditing System

With regard to the internal auditing system, we have formed the Auditing Department out of the independent internal auditing units from each operations unit. In the past, the Auditing Department was aiming to strengthen its capabilities by working under the direct supervision of the president, but we have recently set up a new Audit Council with the aim of strengthening the department's capacities even further. Based on our basic internal control system policies, we are verifying and evaluating the efficacy of, as well as making improvements in, the new system.

Information Security

We promote reinforcement of our information security system in order to properly manage corporate information as well as private information of apartment owners and tenants.

With regard to private information, the executive officer in charge of the Administrative Headquarters as supervisor of the private information, together with the Compliance Committee, make proper use and control of the information in accordance with relevant laws and regulations including the Private Information Protection Law, having prepared a system which enable us to respond quickly in case of an accident.

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

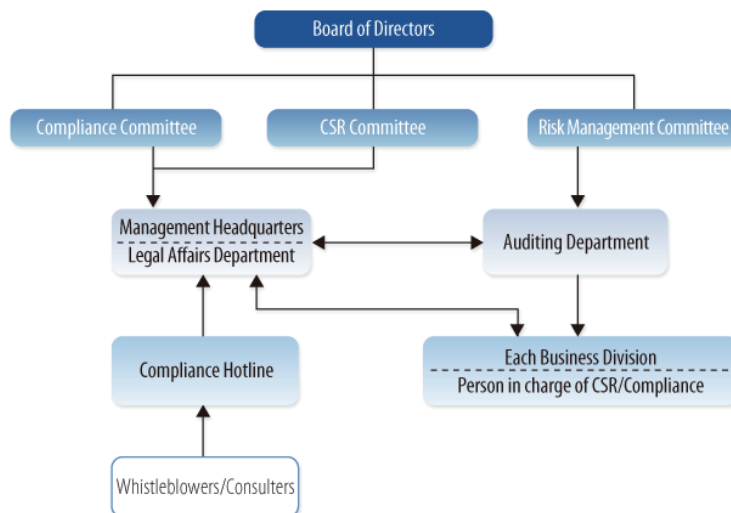
Leopalace21 apartments are primarily utilized by single persons, and corporate contracts typically involve short-term leases of apartments for use as company dormitories by workers travelling on company business. As a result, changes in the performance of the overall economy and corporate business results 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.

Diagram of System



3. Profit

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

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

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

5. Loan Losses, and Provision for Bad Debt

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

6. Provision for apartment vacancy loss

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

7. Leasehold Deposits and Guarantee Deposits

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

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

8. Information Leaks

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

9. Other Risks

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

Consolidated Financial Statements

Leopalace21 Corporation and consolidated subsidiaries
March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note1)
	2010	2009	2010
ASSETS			
Current assets:			
Cash and cash equivalents (Note 5)	¥ 72,432	¥ 78,376	\$ 778,503
Trade receivables	8,180	6,793	87,918
Accounts receivable for completed projects	4,737	2,678	50,912
Operating loans	5,482	10,043	58,926
Marketable securities	10	153	108
Real estate for sale/property inventories	1,371	7,560	14,740
Real estate for sale in process	2,584	21,266	27,775
Payment for construction in progress	1,184	14,925	12,727
Raw materials and supplies	594	598	6,382
Prepaid expenses	27,895	27,672	299,817
Deferred tax assets (Note 13)	6,142	8,046	66,018
Other accounts receivable	3,207	2,596	34,470
Other	13,495	12,781	145,032
Allowance for doubtful accounts	(897)	(1,472)	(9,638)
Total current assets	146,416	192,015	1,573,690
Fixed assets:			
Property, plant and equipment (Notes 9,14):			
Buildings and structures	112,741	112,758	1,211,750
Accumulated depreciation	(49,303)	(46,228)	(529,918)
Net	63,438	66,530	681,832
Land	96,294	114,915	1,034,972
Leased assets	5,923	3,990	63,665
Accumulated depreciation	(1,546)	(491)	(16,626)
Net	4,377	3,499	47,039
Construction in progress	3,367	2,884	36,190
Other	13,882	13,088	149,204
Accumulated depreciation	(10,626)	(9,572)	(114,199)
Net	3,256	3,516	35,005
Total property, plant and equipment	170,732	191,344	1,835,038
Investments and other assets:			
Intangible assets	6,385	3,028	68,631
Investment securities (Note 7)	6,931	6,103	74,493
Long-term loans	1,102	996	11,840
Bad debt (Note 12)	5,204	4,564	55,930
Long-term prepaid expenses	51,243	61,132	550,759
Deferred tax assets (Note 13)	7,482	5,474	80,422
Other	5,984	8,127	64,316
Allowance for doubtful accounts	(4,967)	(5,483)	(53,383)
Total investments and other assets	79,364	83,941	853,008
Total assets	¥396,512	¥467,300	\$4,261,736

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note1)
	2010	2009	2010
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable	¥ 2,705	¥ 3,587	\$ 29,073
Accounts payable for completed projects	43,375	59,001	466,201
Short-term borrowings (Note 14)	9,720	—	104,471
Current portion of long-term loans payable (Note 14)	20,281	17,493	217,977
Bonds due within one year	560	—	6,019
Lease obligations	1,196	793	12,855
Accounts payable-other	10,440	11,187	112,213
Accrued expenses	4	20	47
Accrued income taxes	1,595	13,258	17,141
Advances received	98,544	97,945	1,059,154
Customer advances for projects in progress	9,426	14,836	101,307
Allowance for employees' bonuses	3,065	3,759	32,943
Reserve for warranty obligations on completed projects	326	1,124	3,505
Asset retirement obligations	40	—	431
Other	7,134	8,430	76,676
Total current liabilities	208,411	231,433	2,240,013
Long-term liabilities:			
Bonds	3,160	—	33,964
Long-term debt (Note 14)	22,762	22,897	244,644
Lease obligations	3,640	3,006	39,123
Retirement benefit reserves (Note 16)	7,307	6,194	78,531
Retirement benefit reserves for directors	—	1,282	—
Reserve for apartment vacancy loss	31,728	4,620	341,016
Lease/guarantee deposits received	46,104	50,870	495,531
Asset retirement obligations	61	—	657
Long-term other payable	1,185	—	12,739
Other	1,175	556	12,627
Total long-term liabilities	117,122	89,425	1,258,832
Total liabilities	¥ 325,533	¥ 320,858	\$ 3,498,845
Net assets			
Shareholders' equity:			
Common stock:	¥ 55,641	¥ 55,641	\$ 598,030
Authorized: 250,000,000 shares			
Issued: 159,543,915 shares			
Capital surplus	33,894	34,105	364,295
Retained earnings	(5,663)	73,413	(60,868)
Treasury Stocks - 7,667,387 shares	(6,143)	(6,543)	(66,022)
Total shareholders' equity	77,729	156,616	835,435
Valuation and translation adjustments:			
Net unrealized gains on "other securities"	124	17	1,337
Deferred gains or losses on hedges	(5)	(8)	(59)
Translation adjustments	(6,958)	(10,183)	(74,778)
Total valuation and translation adjustments	(6,839)	(10,174)	(73,500)
Share subscription rights	89	—	956
Total net assets	70,979	146,442	762,891
Total liabilities and net assets	¥ 396,512	¥ 467,300	\$ 4,261,736

Consolidated Statements of Operations

Leopalace21 Corporation and consolidated subsidiaries
For the years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note1)
	2010	2009	2010
Net sales	¥ 620,376	¥ 733,235	\$ 6,667,846
Cost of sales	570,749	589,834	6,134,452
Gross profit	49,627	143,401	533,393
Selling, general and administrative expenses	79,355	93,244	852,910
Operating income (loss)	(29,728)	50,157	(319,517)
Other income (expenses):			
Interest and dividend income	176	297	1,896
Equity in earnings of affiliated companies	146	325	1,568
Foreign exchange losses	(2,468)	(1,877)	(26,531)
Interest expenses	(1,196)	(1,224)	(12,857)
Commission fee	(841)	(780)	(9,043)
Gain on sale of property, plant and equipment (Note 18)	130	0	1,400
Gain on sale of investment securities	2	—	16
Gain from cancellation of contracted work	105	101	1,129
Rent income	137	—	1,477
Reversal of allowance for doubtful receivables	1,633	296	17,550
Reversal of allowance for retirement benefits for directors	92	—	992
Reversal of reserve for rents due on master lease agreement	—	399	—
Provision of reserve for apartment vacancy loss	(10,343)	(4,313)	(111,164)
Loss on sale of property, plant and equipment (Note 19)	(226)	(1)	(2,434)
Loss on disposal of property, plant and equipment (Note 20)	(843)	(162)	(9,058)
Loss on devaluation of real estate for sale	—	(2,560)	—
Impairment loss (Note 9)	(3,238)	(2,808)	(34,800)
Loss on devaluation of investment securities	—	(3,405)	—
Loss on adjustment for changes of accounting standard for asset retirement obligations	(414)	—	(4,445)
Provision for bad debt	(73)	(786)	(782)
Business structure reform expenses	(29,856)	—	(320,891)
Other-net	(722)	(213)	(7,771)
Income (loss) before taxes and minority interests	(77,527)	33,446	(833,265)
Income taxes			
Income tax - current	330	21,503	3,543
Income tax - refund	—	(0)	—
Income taxed - previous period	1,359	(0)	14,605
Income taxes - deferred	(140)	1,991	(1,500)
Total income (loss) before taxes and minority interests	1,549	23,494	16,648
Net income (loss)	¥ (79,076)	¥ 9,952	\$ (849,913)

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

Leopalace21 Corporation and consolidated subsidiaries
For the years ended March 31, 2010 and 2009

Millions of yen

	Shareholders' equity					Valuation and translation adjustments				Share Subscription rights	Minority interests	Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on "other securities"	Deferred losses on hedges	Translation adjustments	Total valuation and translation adjustments			
Balance as of March 31, 2008	¥55,641	¥34,105	¥76,211	¥(99)	¥165,858	¥90	¥ -	¥(763)	¥(673)	¥ -	¥4,970	¥170,155
Cash dividend			(12,750)		(12,750)							(12,750)
Net income			9,952		9,952							9,952
Purchases of treasury stock				(6,444)	(6,444)							(6,444)
Net change of items other than shareholders' equity						(73)	(8)	(9,420)	(9,501)		(4,970)	(14,471)
Total change during period			(2,798)	(6,444)	(9,242)	(73)	(8)	(9,420)	(9,501)		(4,970)	(23,713)
Balance as of March 31, 2009	¥55,641	¥34,105	¥73,413	¥(6,543)	¥156,616	¥17	¥(8)	¥(10,183)	¥(10,174)	¥ -	¥ -	¥146,442
Cash dividend												
Net income			(79,076)		(79,076)							(79,076)
Purchases of treasury stock				(0)	(0)							(0)
Disposal of treasury stocks		(211)		400	189							189
Net change of items other than shareholders' equity						107	3	3,225	3,335	89		3,424
Total change during period		(211)	(79,076)	400	(78,887)	107	3	3,225	3,335	89		(75,463)
Balance as of March 31, 2010	¥55,641	¥33,894	¥(5,663)	¥(6,143)	¥77,729	¥124	¥(5)	¥(6,958)	¥(6,839)	¥89	¥ -	¥70,979

Thousands of U.S. dollars

	Shareholders' equity					Valuation and translation adjustments				Subscription rights to shares	Minority interests	Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on "other securities"	Deferred losses on hedges	Translation adjustments	Total valuation and translation adjustments			
Balance as of March 31, 2009	\$598,030	\$366,561	\$789,045	\$(70,313)	\$1,683,322	\$184	\$(82)	\$(109,448)	\$(109,347)	\$-	\$-	\$1,573,976
Cash dividend												
Net income			(849,913)		(849,913)							(849,913)
Purchases of treasury stock				(2)	(2)							(2)
Disposal of treasury stocks		(2,266)		4,293	2,027							2,027
Net change of items other than shareholders' equity						1,153	23	34,670	35,846	956		36,802
Total change during period		(2,266)	(849,913)	4,291	(847,888)	1,153	23	34,670	35,846	956		(811,086)
Balance as of March 31, 2010	\$598,030	\$364,295	\$(60,868)	\$66,022	\$835,435	\$1,337	\$(59)	\$(74,778)	\$(73,500)	\$956	\$-	\$726,891

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Leopalace21 Corporation and consolidated subsidiaries
For the years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note1)
	2010	2009	2010
Cash flows from operating activities			
Income(loss) before taxes and minority interests	¥ (77,527)	¥ 33,446	\$ (833,265)
Depreciation	6,296	5,782	67,667
Increase (decrease) in allowance for doubtful accounts	(133)	3,638	(1,433)
Increase (decrease) in retirement benefit reserves for directors	(97)	(311)	(1,039)
Increase (decrease) in reserve for apartment vacancy loss	27,108	4,620	291,359
Interest and dividend income	(176)	(297)	(1,896)
Interest expense	1,196	1,224	12,857
Foreign exchange loss (gain)	2,468	1,877	26,531
Equity in losses (earnings) of affiliated companies	(146)	(325)	(1,568)
Loss (gain) on sale of property, plant and equipment	96	0	1,034
Write-offs of property, plant and equipment	843	162	9,058
Loss on devaluation of real estate for sale	—	2,560	—
Impairment loss	3,238	2,808	34,800
Loss (gain) on sale of investment securities	(2)	—	(16)
Loss (gain) on devaluation of investment securities	—	3,405	—
Business structure reform expenses	29,856	—	320,891
Decrease (increase) in accounts receivable	(991)	35,868	(10,656)
Decrease (increase) in real estate for sale	24,221	4,941	260,329
Decrease (increase) in work in process	3,537	(3,133)	38,017
Decrease (increase) in long-term prepaid expenses	9,348	(10,854)	100,477
Increase (decrease) in accounts payable	(15,358)	(26,860)	(165,066)
Increase (decrease) in customer advances for projects in progress	(5,410)	(6,916)	(58,151)
Increase (decrease) in advances received	621	(506)	6,677
Increase (decrease) in guarantee deposits received	(4,870)	31,180	(52,342)
Increase (decrease) in accrued consumption taxes	(1,870)	1,549	(20,101)
Other	177	2,492	1,895
Subtotal	2,425	86,350	26,059
Interest and dividends received	184	603	1,975
Interest paid	(1,213)	(1,225)	(13,034)
Income taxes paid	(14,387)	(22,885)	(154,624)
Net cash provided by (used in) operating activities	(12,991)	62,843	(139,624)
Cash flows from investing activities:			
Payment for purchase of property, plant and equipment	(5,735)	(5,375)	(61,639)
Proceeds from sale of property, plant and equipment	1,536	227	16,514
Payment for purchase of intangible assets	(3,697)	(2,444)	(39,737)
Payment for purchase of investment securities	(836)	(499)	(8,990)
Proceeds from sale of investment securities	126	80	1,353
Payment for loans	(110)	(536)	(1,188)
Proceeds from collection of loans	5	301	55
Other	(178)	(1,803)	(1,911)
Net cash used in (provide by) investing activities	(8,889)	(10,049)	(95,543)
Cash flows from financing activities:			
Proceeds from short-term debt	37,800	29,000	406,277
Repayments for short-term debt	(28,080)	(29,000)	(301,806)
Proceeds from long-term debt	38,000	18,000	408,426
Repayments for long-term debt	(35,348)	(22,226)	(379,922)
Repayments of lease obligations	(906)	(401)	(9,742)
Proceeds from issuance of bonds	3,907	—	41,995
Payment for redemption of bonds	(280)	(5,094)	(3,009)
Refund of amount invested by minority interests	—	(4,970)	—
Proceeds from disposal of treasury stock	189	—	2,027
Payment for purchases of treasury stock	(1)	(6,444)	(1)
Dividends paid for shareholders	—	(12,750)	—
Net cash provided by (used in) financing activities	15,281	(33,885)	164,245
Effect of exchange rate changes on cash and cash equivalents	255	(1,498)	2,736
Net increase (decrease) in cash and cash equivalents	(6,344)	17,411	(68,186)
Cash and cash equivalents at beginning of period	78,376	60,965	842,389
Cash and cash equivalents at end of period (Note5)	¥ 72,032	¥78,376	\$ 774,203

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

Leopalace21 Corporation and consolidated subsidiaries
For the years ended March 31, 2010 and 2009

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 Japanese generally accepted accounting principles 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 Japanese language 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, 2010, which was ¥93.04 to US\$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 year's presentation.

2. Summary of Significant Accounting Policies

(1) Consolidation

The accompanying consolidated financial statements as of March 31, 2010 include the accounts of the Company and its 9 (7 as of March 31, 2009) 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 1 affiliate have been included for the years ended March 31, 2010 and 2009. 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. Those 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.

Ending inventories are amounts after book value devaluation accompanying the decline in profitability and the following loss on sales real estate revaluation is included in the cost of sales.

1,670 million yen

(4) Marketable and investment securities

Held-to-maturity 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) Derivatives

Derivative transactions are accounted for using hedge accounting.

1. Hedge accounting method

The Company uses the deferred hedge accounting method.

The interest rate swaps that meet specific matching criteria are recognized and included in interest expense or income.

2. Hedging method and hedge targets

Hedging method	Hedge targets
Interest rate swaps	Debt

3. Hedge policy

Interest rate swaps are utilized as a hedge against possible future interest rate increases, in amounts that fall within the range of the particular liability being hedged.

4. Method used to evaluate the effectiveness of the hedge

Cumulative interest rate fluctuations and changes in cash flows are compared to evaluate the effectiveness of hedge targets and hedge methods. However, evaluation as of the date of settlement of the effectiveness of interest rate swaps that meet specific matching criteria is omitted.

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

Rental buildings 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 rental buildings.

Property, plant and equipment other than rental buildings 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.

(7) 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 result from 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.

(8) Intangible assets

Intangible assets for internal use are stated at cost. Amortization is computed generally on the straight-line basis. The range of useful lives is its availability in-house (5 years) for rental Software.

(9) Long-term prepaid expenses

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

(10) Allowance for doubtful accounts

The Companies provide the allowance for doubtful accounts by the method that uses the percentage of its own actual experience of bad debt loss written off against the balance of total receivables plus the amount deemed necessary to cover individual accounts estimated to be uncollectible.

(11) Allowance for employees' bonuses

Allowance for employees' bonuses is provided for the payment of employees' bonuses based on estimated amounts of future payments attributed to the current fiscal year.

(12) Retirement benefit reserves

Retirement benefit reserves for employees are provided mainly at an amount calculated based on the retirement benefit obligation as of the balance sheet date.

The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of service of the eligible employees.

Unrecognized gain and loss of the Companies are amortized in the year following the year in which the gain or loss is recognized by the straight-line method over a period (5 years), which is within the average of the estimated remaining years of service to be performed by the employees at the time of accrual, commencing with the fiscal year following the accrual time.

Prior service cost is amortized by the straight line method over a certain number of years (5 years) within the average of the remaining years of service to be performed by the employees at the time of accrual.

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

(Changes in accounting policy)

The Company adopted "Partial Amendments to Accounting Standard for Retirement Benefits (Part3)" (ASBJ Statement No.19, issued on July 31, 2008) from current fiscal year. This change has had no effect on operating loss and loss before taxes and minority interests.

(13) 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 logical predictable period to prepare for the risk of increased vacancies. It is based on estimated losses resulting from historical rental income and occupancy rates for each rental property managed by the leasing division of the Company.

The provision for apartment vacancy loss is set according to the projected loss that could occur due to the risk of increased vacancies under Bulk leasing system.

Previously, the Company forecasted provision for vacancy losses based on historical occupancy rates of properties. However, starting in FY2009, the Company changed to forecasting the amount provided for vacancy losses using the most recent occupancy rates, and posted the balance amount.

(Changes in accounting policy)

In the leasing business of the Company, the projected amount of loss that could occur during a logical predictable period was recorded as the reserve for apartment vacancy loss, based on current monthly rent and past occupancy rate of individual buildings.

However, as occupancy rates have been decreasing due to the recent sluggish economy, the calculation method based on these past occupancy rates have resulted in a time gap from the reality, thus the difference in profit or loss caused by this time gap has become larger and the need for proper accounting has become more important.

In such surroundings, the Company has changed the accounting method, from this fiscal year, to one where the projected amount of loss that could occur during a logical predictable period is recorded as the reserve for apartment vacancy loss based on

current monthly rent and the future estimated occupancy rates. This was made possible by the construction of a framework for forecasting and validating the occupancy rates for individual buildings together with a firmer understanding of future forecasted occupancy rates based on the reality and marketing measures.

As a result of this change, the loss of ¥16,765 million (\$180,195 thousand) for this fiscal year was recorded as cost of sales with the difference of ¥10,343 million (\$111,164 thousand) recorded as other expenses. As a result, loss before taxes and minority interests have increased by ¥10,343 million (\$111,164 thousand), compared with the previous method.

(14) Reserve for warranty obligations on completed projects

Reserve for warranty obligations on completed projects is provided in an amount based on the Company's past experience, with an additional amount deemed necessary in the future for execution of warranty obligations regarding construction projects.

(15) Accounting policies for significant revenue and expenses

In recognizing construction revenues 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 fiscal year ended March 31, 2010, 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.

(Changes in accounting policy)

The Company had conventionally recognized its construction revenues of subcontracting contracts by using the completed contract method.

However, the Company, effective from fiscal year ended March 31, 2010, adopted "Accounting Standard for Construction Contracts (the Accounting Standard Board of Japan (ASBJ) Statement No. 15 issued on December 27, 2007)" and "Guidance on Accounting Standard for Construction Contracts (ASBJ Guidance No. 18 issued on December 27, 2007)" to recognize construction revenues.

This change increases consolidated net sales for FY2009 by ¥6,350 million (\$68,249 thousand), and decreases consolidated operating loss and loss before taxes and minority interests, by ¥1,614 million (\$17,350 thousand), respectively.

The impact on segment information is stated in the applicable sections.

(16) 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.

(17) 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.

Among leased assets concerning non-transfer ownership finance lease transactions, lease transactions that commenced prior to March 31, 2008 are reported by the same method applied to standard lease and rental contracts.

(18) 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 income.

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 revenues and expenses are translated at the average exchange rates of the fiscal year. Exchange differences are included in foreign currency translation adjustments.

(19) 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 ¥1,983 million (\$21,317 thousand) and ¥2,010 million for the years ended March 31, 2010 and 2009, respectively.

(20) Consumption taxes

National and local consumption taxes are basically excluded from transaction amounts. However, Leopalace Insurance Co., Ltd, 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.

(21) Net income per share

Basic net income 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.

3. Changes in Significant Accounting Policies

(1) Change in cost calculation for contracted work

The Company adopted the job-order costing method in the cost accounting of contracted works, and allocated job costs which were calculated by using the standard overhead rate for overhead expenses not allocatable directly to the costs of individual works.

However, the changes in the basis of recording profit to the percentage-of-completion method, together with the impact of economic downturn in recent years causing decreases in amount of orders received and sales, resulted in a pronounced decrease in year-end balance of payment for construction in progress. At the end of this fiscal year, the Company has reviewed, from a conservative perspective, the method of cost calculation, and changed to a method by which overhead costs of the contracted works for this fiscal year are charged to cost related to completed constructions in the same period.

Because of this change, overhead costs of ¥21,704 million (\$233,273 thousand) were recorded as cost of sales in the fiscal year ended March 31, 2010, and overhead costs of ¥10,204 million (\$109,677 thousand) which were carried forward and included in construction in progress at the beginning of the fiscal year were recorded as other expenses in the fiscal year ended March 31, 2010.

As a result, consolidated operating loss for FY2009 have decreased by ¥620 million (\$6,664 thousand), and consolidated loss before taxes and minority interests has increased by ¥9,584 million (\$103,013 thousand), compared with the previous method.

The impact on segment information is stated in the applicable sections.

(2) Accounting Standard for Asset Retirement Obligations

Starting with this fiscal year, the Company has decided to adopt "Accounting Standards for Asset Retirement Obligations" (ASBJ Statement No.18, March 31, 2008) and "Guidance on Accounting Standards for Asset Retirement Obligations" (ASBJ Guidance No.21 March 31, 2008) ahead of schedule.

As a result, consolidated operating loss for FY2009 have increased by ¥66 million (\$705 thousand), and consolidated loss before taxes and minority interests has increased by ¥479 million (\$5,149 thousand).

The impact on segment information is stated in the applicable sections.

4. Additional Information

(1) Allowance for directors' retirement benefits

The Company has made provision for Director's retirement benefits as per internal regulations to prepare for payment of director's retirement benefits.

However, at the board meeting held on May 15, 2009, a resolution was passed to abolish the retirement benefit program for directors at the conclusion of the annual shareholders meeting on June 29, 2009, and it was also decided to pay the retirement benefits to the directors, according to the term of office until the date this program would be abolished, at the annual shareholder's meeting.

According to the resolution, the Company reversed the allowance for directors' retirement benefits, and recorded the long-term other payable of ¥1,185 million (\$12,739 thousand) at the end of this fiscal year.

In addition, at the time of the above resolution, the Company recorded the difference of ¥92 million (\$992 thousand) between

the allowance for Directors' retirement benefits and long-term other payable, as "reversal of allowance for retirement benefits for directors" in other income.

(2) Employee stock ownership plan

For the fiscal year ended March 31, 2010, the Company implemented the ESOP (Employee Stock Ownership Plan) in order to strengthen its corporate value, by improving and strengthening corporate governance through the encouragement of the employees' willingness to participate in corporate decision-making, and by giving incentives to the employees to increase their willingness to work.

In this plan, "Leopalace 21 Employee Stock Ownership Committee Trust Account" (hereinafter referred to as the "Trust Account") was established for the purpose to transfer treasury stock to the Board for Employees' Ownership. The Trust Account will acquire the number of stocks requested by the Board for Employees' Ownership from the Company in one lump during the trust period, and sell them off to the Board for Employees' Ownership.

As of September 18, 2009, the Company transferred 3,597,100 treasury stocks to the Trust Account.

For accounting treatment for the disposal of such stocks, any debt incurred by the Trust Account is guaranteed by the Company, and accounting treatment has been processed jointly as a single entity for both the Company and the Trust Account with a conservative perspective in mind focusing on economic realities.

Accordingly, treasury stocks, assets, liabilities, expenses and profits held by the Trust Account has been recorded under the consolidated balance sheet, consolidated statements of income and consolidated statements of cash flows.

The Trust Account held 3,098,500 treasury stocks as of the end of this fiscal year.

5. Cash and Cash Equivalents

Difference between "Cash and cash equivalents" in the consolidated balance sheet and "Cash and cash equivalents" in the consolidated statements of cash flows are as follows:

March 31, 2010	(Millions of yen)	(Thousands of U.S. dollars)
Cash and cash equivalents in the consolidated balance sheet	¥72,432	\$778,503
Time deposits with original maturities of more than three months	(400)	(4,300)
Cash and cash equivalents in the consolidated statements of cash flows	¥72,032	\$774,203

6. Financial instruments

(1) The financial instruments and related disclosures

1) 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 Apartment Construction Subcontracting Business and Leasing 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 the below mentioned risk, and has a policy not to conduct speculative trading.

2) 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 resulting from customers' default of payments. Foreign currencies denominated loans originated in conjunction with overseas business development are exposed to exchange risk. Securities and investment securities are mainly held-to-maturity securities and shares acquired as a result of relationships with trading partner enterprises, and these 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 seven years subsequent to fiscal year end.

Derivative transactions are interest rate swaps whose purpose is to hedge against the risk of future interest rate fluctuations related to loans payable. The interest rate swaps carry a risk of fluctuations in market interest rates.

For details of hedging method, hedge targets, hedging policy and the method for evaluating hedging effectiveness concerning hedge accounting, please refer to aforementioned "Significant matters providing the basis for the preparation of consolidated financial statements, 2. Summary of Significant Accounting Policies, (5) Derivatives.

3) 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-evaluating 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. Furthermore, the contracted counter party to derivative trades is always a highly credit worthy Japanese financial institution, so it can be recognized that the risk of contract breach by the other party is close to zero.

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 Group.

4) Supplementary explanations on fair value of financial instruments

Fair value of financial instruments are measured based on the quoted market price, if available, 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 fluctuating factor, and the value might differ if different assumptions are used. In addition, the contract amount of the derivative transactions described in "8. Derivative Transactions" does not represent the market risk of the derivative transactions.

(2) Fair value of financial instruments

The carrying amount on the consolidated balance sheet and fair value of financial instruments as of March 31, 2010 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)	Balance sheet	Fair value	Difference
(1) Cash and cash equivalents	¥72,432	¥72,432	¥—
(2) Trade receivables and accounts receivables for completed projects	12,917	12,917	—
(3) Marketable securities and investment securities	3,201	3,189	(12)
(4) Operating loans	5,482		
Allowance for doubtful accounts (*1)	(724)		
Net	4,758	5,500	742
(5) Long-term loans	1,102		
Allowance for doubtful accounts (*1)	(63)		
Net	1,039	1,039	—
(6) Bad debt	5,204		
Allowance for doubtful accounts (*1)	(4,228)		
Net	976	976	—
Total assets	¥95,323	¥96,053	¥730
(1) Accounts payable and accounts payable for completed projects	46,080	46,080	—
(2) Short-term borrowings	9,720	9,716	(4)
(3) Bonds (*2)	3,720	3,701	(19)
(4) Long-term debt (*2)	43,042	43,016	(26)
(5) Lease obligations	4,836	4,696	(140)
Total liabilities	¥107,398	¥107,209	¥(189)
Derivatives transaction not subject to the application of hedge accounting	—	—	—
Derivatives transactions subject to the application of hedge accounting	—	—	—
Total derivative transactions	—	—	—

(Thousands of U.S. dollars)	Balance sheet	Fair value	Difference
(1) Cash and cash equivalents	\$778,503	\$778,503	\$—
(2) Trade receivables and accounts receivables for completed projects	138,830	138,830	—
(3) Marketable securities and investment securities	34,403	34,273	(130)
(4) Operating loans	58,926		
Allowance for doubtful accounts (*1)	(7,783)		
Net	51,143	59,119	7,977
(5) Long-term loans	11,840		
Allowance for doubtful accounts (*1)	(674)		
Net	11,166	11,166	—
(6) Bad debt	55,930		
Allowance for doubtful accounts (*1)	(45,440)		
Net	10,490	10,490	—
Total assets	\$1,024,535	\$1,032,381	\$7,846
(1) Accounts payable and accounts payable for completed projects	495,274	495,274	—
(2) Short-term borrowings	104,471	104,431	(40)
(3) Bonds (*2)	39,983	39,775	(208)
(4) Long-term debt (*2)	462,621	462,335	(286)
(5) Lease obligations	51,978	50,473	(1,505)
Total liabilities	\$1,154,327	\$1,152,288	\$(2,039)
Derivatives transaction not subject to the application of hedge accounting	—	—	—
Derivatives transactions subject to the application of hedge accounting	—	—	—
Total 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) As per the consolidated balance sheet, the current portion of long-term debt (¥20,281 million, \$217,977 thousand) and the bonds to be redeemed within one year (¥560 million, \$6,019 thousand) are respectively recorded as being included within long-term debts and bonds.

(Note 1) Matters concerning the calculation method for the fair value of financial instruments, marketable securities and derivatives transaction

Assets

(1) Cash and cash equivalents

(2) 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.

(3) Marketable 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 "Notes to securities."

(4) 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).

(5) Long-term loans

(6) Bad debt

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

Liabilities

(1) 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.

(2) Short-term borrowings

(4) Long-term debt

(5) 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).

(3) Bonds

Bonds issued by the Company are privately offered, and its 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).

Derivatives transactions

Please refer to "Note to derivatives transaction" below.

(Note 2) Financial instruments whose fair value appear to be extremely difficult to determine

Item	Balance Sheet (Millions of yen)
Unlisted shares	¥2,127
Unlisted bonds (subordinate corporate bonds)	824
Subordinate beneficiary rights of loans and accounts receivable in trust	499
Contributions to limited investment partnerships	290
Total	¥3,740

Item	Balance Sheet (Thousands of U.S. dollars)
Unlisted shares	\$22,858
Unlisted bonds (subordinate corporate bonds)	8,859
Subordinate beneficiary rights of loans and monetary claims in trust	5,361
Contributions to limited investment partnerships	3,120
Total	\$40,198

As they have no market value, and as it is understood that it is extremely difficult to estimate their future cash flow, they are not included in [Assets (3) Marketable Securities & Investment Securities].

(Note 3) The scheduled redemption amount of monetary claims and marketable securities with maturity subsequent to fiscal year end

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 deposits	¥72,432	¥ —	¥ —	¥ —
Trade receivables and Accounts receivables for completed projects	12,917	—	—	—
Marketable securities and Investment securities				
Held-to-maturity bonds				
(1) Government and municipal bonds	—	700	—	—
(2) Corporate bonds	—	—	300	200
Other marketable securities with maturities				
(1) Government and municipal bonds	10	709	—	—
(2) Bonds	—	—	—	824
(Corporate bonds)				
(3) Others	—	—	290	999
Operating loans	941	2,303	1,404	834
Long-term loans	—	—	—	1,102
Bad debts	—	—	—	5,204
Total	¥86,300	¥3,712	¥1,994	¥9,163

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 deposits	\$778,503	\$ —	\$ —	\$ —
Trade receivables and Accounts receivables for completed projects	138,830	—	—	—
Marketable securities and Investment securities				
Held-to-maturity bonds				
(1) Government and municipal bonds	—	7,524	—	—
(2) Corporate bonds	—	—	3,224	2,150
Other marketable securities with maturities				
(1) Government and municipal bonds	107	7,620	—	—
(2) Bonds	—	—	—	8,859
(Corporate bonds)				
(3) Others	—	—	3,120	10,735
Operating loans	10,114	24,757	15,088	8,968
Long-term loans	—	—	—	11,840
Bad debts	—	—	—	55,930
Total	\$927,554	\$39,901	\$21,432	\$98,482

(Note 4) Scheduled repayment amount of bonds payable, long-term debts and lease obligations subsequent to fiscal year end are as follows:

Schedule of bonds

(Millions of Yen)

Due within 1 year	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years
¥560	560	560	560	560

(Thousands of U.S. dollars)

Due within 1 year	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years
\$6,019	\$6,019	\$6,019	\$6,019	\$6,019

Schedule of loans

(Millions of Yen)				
Category	Balance at the end of prior fiscal year	Balance at the end of current fiscal year	Average interest rate(%)	Maturity
Short-term loans payable	¥ —	9,720	1.50	—
Current portion of long-term loans payable	17,493	20,281	2.22	—
Current portion of lease obligations	793	1,196	4.28	—
Long-term loans payable (excluding current portion)	22,897	22,762	2.25	From 2012 to 2013
Lease obligations (excluding current portion)	3,006	3,640	4.39	From 2012 to 2017
Total	¥44,189	¥57,598	—	

(Thousands of U.S. dollars)				
Category	Balance at the end of prior fiscal year	Balance at the end of current fiscal year	Average interest rate(%)	Maturity
Short-term loans payable	—	104,471	1.50	—
Current portion of long-term loans payable	188,014	217,977	2.22	—
Current portion of lease obligations	8,520	12,855	4.28	—
Long-term loans payable (excluding current portion)	246,103	244,644	2.25	From 2012 to 2013
Lease obligations (excluding current portion)	32,309	39,123	4.39	From 2012 to 2017
Total	\$474,946	\$619,070	—	

(Notes)

- To calculate "Average interest rate," weighted average rates and fiscal year-end balances are used.
- The redemption schedule of long-term loans payable and lease obligations (excluding current portion) for 5 years subsequent to March 31, 2010, is summarized as follows:

(Millions of Yen)				
	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years
Long-term loans payable	¥17,841	4,921	—	—
Lease obligations	¥1,171	1,171	854	319

(Thousands of U.S. dollars)				
	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years
Long-term loans payable	\$191,752	52,892	—	—
Lease obligations	\$12,585	12,583	9,175	3,426

(Additional Information)

Effective from the fiscal year, "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, issued on March 10, 2008) and "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, issued on March 10, 2008) is applied.

7. Securities and Investment Securities

(a) At March 31, 2010 and 2009, information with respect to "held-to-maturity securities" for which market prices were available was summarized as follows:

March 31, 2010	Millions of Yen		
	Balance sheet	Market value	Unrecognized gain (loss)
Unrecognized gain items:			
Government and municipal bonds, etc.	¥599	¥610	¥11
Corporate bonds	—	—	—
Others	300	300	0
Subtotal	899	910	11
Unrecognized loss items:			
Government and municipal bonds, etc.	100	100	(0)
Corporate bonds	—	—	—
Others	200	178	(23)
Subtotal	300	278	(23)
Total	¥1,199	¥1,188	¥(12)

March 31, 2009	Millions of Yen		
	Balance sheet	Market value	Unrecognized gain (loss)
Unrecognized gain items:			
Government and municipal bonds, etc.	¥398	¥405	¥7
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	398	405	7
Unrecognized loss items:			
Government and municipal bonds, etc.	100	100	0
Corporate bonds	—	—	—
Others	601	588	(13)
Subtotal	701	688	(13)
Total	¥1,099	¥1,093	¥ (6)

March 31, 2010	Thousands of U.S. dollars		
	Balance sheet	Market value	Unrecognized gain (loss)
Unrecognized gain items:			
Government and municipal bonds, etc.	\$6,440	\$6,555	\$115
Corporate bonds	—	—	—
Others	3,225	3,225	0
Subtotal	9,665	9,780	115
Unrecognized loss items:			
Government and municipal bonds, etc.	1,075	1,072	(3)
Corporate bonds	—	—	—
Others	2,150	1,908	(242)
Subtotal	3,225	2,980	(245)
Total	\$12,890	\$12,760	\$(130)

b) Marketable securities classified as "other securities" as of March 31, 2010 and 2009 were as follows:

March 31, 2010	Millions of Yen		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥730	¥447	¥283
Bonds:			
Government and municipal bonds, etc.	10	10	0
Corporate bonds	—	—	—
Others	—	—	—
Others	152	106	46
Subtotal	892	563	329
Securities whose acquisition cost exceeds their carrying value:			
Stock	12	13	(1)
Bonds:			
Government and municipal bonds, etc.	639	646	(7)
Corporate bonds	—	—	—
Others	318	345	(27)
Others	140	166	(26)
Subtotal	1,109	1,170	(61)
Total	¥2,001	¥1,733	¥268

March 31, 2009	Millions of Yen		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥382	¥539	¥157
Bonds:			
Government and municipal bonds, etc.	173	173	0
Corporate bonds	—	—	—
Others	—	—	—
Others	96	97	1
Subtotal	651	809	158
Securities whose acquisition cost exceeds their carrying value:			
Stock	78	75	(3)
Bonds:			
Government and municipal bonds, etc.	—	—	—
Corporate bonds	—	—	—
Others	345	345	—
Others	294	251	(43)
Subtotal	717	671	(46)
Total	¥1,368	¥1,480	¥112

March 31, 2010	Thousands of U.S. dollars		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	\$7,844	\$4,804	\$3,040
Bonds:			
Government and municipal bonds, etc.	108	108	0
Corporate bonds	—	—	—
Others	—	—	—
Others	1,630	1,137	493
Subtotal	9,582	6,049	3,533
Securities whose acquisition cost exceeds their carrying value:			
Stock	132	140	(8)
Bonds:			
Government and municipal bonds, etc.	6,873	6,944	(71)
Corporate bonds	—	—	—
Others	3,423	3,708	(285)
Others	1,505	1,787	(282)
Subtotal	11,933	12,579	(646)
Total	\$21,515	\$18,628	\$2,887

¥2,127 billion (\$22,858 thousand) of non-listed shares, ¥824 million (\$8,859 thousand) of non-listed bonds (subordinate corporate bonds), ¥499 million (\$5,361 thousand) of subordinate beneficiary rights to loans and money in trust, and ¥290 million (\$3,120 thousand) of contributions to investment business limited partnerships are not included in the "other securities" amount on the preceding financial statement because they have no market value and assigning them fair market prices is recognized to be extremely difficult.

Among the above items, the subordinate beneficiary rights to the subordinate corporate bonds and the money on 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.

(c) Proceeds from sales of "other securities" for the years ended March 31, 2010 and 2009 were ¥97 million (\$1,044 thousand) and ¥42 million, respectively. Gross realized gains on these sales were ¥2 million (\$16 thousand) and ¥0 million for the years ended March 31,

2010 and 2009, respectively.

(d) In addition, amount of subsidiaries and affiliate' stocks included in investment securities of the consolidated balance sheet are as follows:

Investment securities (stocks) 1,020 million yen

(e) Impaired securities that were written down to their fair values during the current fiscal year (from April 2009 to March 31, 2010): During this fiscal year, the Company did not report an impairment loss. Impairment loss will be recognized on securities whose market value had declined by 30% or more of acquisition cost at year-end.

8. 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

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 receive floating interest	Long-term debt	¥2,607	¥888	(Note)

Hedge accounting method	Type of derivatives	Major hedged items	(Thousands of U.S. dollars)		
			Contract amount	Amount of more than 1 year-period contracts	Fair value
Exceptional accounting treatments applied to interest rate swaps	Interest-rate swaps	Long-term debt	\$28,020	\$9,544	(Note)

(Note)

Interest rate swap 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.

9. Long-Lived Assets

The Companies recognized impairment loss of the following asset groups for the years ended March 31, 2010 and 2009:

(For the year ended March 31, 2010)

Purpose	Category	Location	Impairment loss	
			Millions of yen	Thousands of U.S. dollars
Rental assets (Apartment buildings and others, 111 units)	Buildings and structures	Setagaya-ku, Tokyo, etc.	¥268	\$2,883
	Land		2,935	31,541
Business properties	Software and others	Nakano-ku, Tokyo	35	376
Total			¥3,238	\$34,800

(For the year ended March 31, 2009)

Purpose	Category	Location	Impairment loss	
			Millions of yen	Thousands of U.S. dollars
Rental assets (59 blocks of apartments)	Buildings and structures	Sapporo City, Hokkaido, etc.	¥681	\$6,927
	Land		2,127	21,656
Total			¥2,808	\$28,583

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

The Companies reduced book value of the rental assets and business properties 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.

Recoverable amounts of rental assets were measured by values in current use and net sales price, which were calculated based on the present values of future cash flows, using a discount rate of 4.6%.

In addition, in consideration of the discontinued operation of the subsidiary, the Company posted Impairment loss for the business properties.

10. Breakdown of Losses regarding Business Structure Reform

In response to a sudden decline in business performance, the Company recorded below mentioned items as part of promoting business structural reforms for a more stable profit structure.

Items	Amounts	
	Millions of yen	Thousands of U.S. dollars
Impairment losses on cancelled development projects and fixed assets planned for sale	¥18,761	\$201,648
Difference arising from a change in accounting treatment relating to indirect expenses in the Apartment Construction Subcontracting Business	10,204	109,677
Expenses relating to the closing of business locations	512	5,503
Early cancellation penalties relating to terminated lease contracts	297	3,195
Special extra retirement payments	80	868
Total	¥29,856	\$320,891

11. Reclassification from Current Assets to Land and Construction in Progress

The Company has reclassified real estate for sale in process of ¥1,836 million (\$19,736 thousand) that had been categorized as current assets into land of ¥650 million (\$6,986 thousand) and construction in progress of ¥1,186 million (\$12,750 thousand) due to change in possession purpose as of March 31, 2010.

12. Bad debts

Bad debts are claims as stipulated under Article 32, Paragraph 1, Item 10 of the Regulation concerning Financial Statements. Bad debt at March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Claim in bankruptcy	¥ —	¥ 10	\$ —
Claim in the process of bankruptcy	2,390	3,488	25,689
Bad debt	2,644	866	28,417
Others	170	200	1,823
Total	¥5,204	¥4,564	\$55,929

13. Deferred Tax Assets and Liabilities

(a) Significant components of deferred tax assets and liabilities as of March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Deferred tax assets:			
Impairment loss	¥29,877	¥20,986	\$321,124
Loss carried forward for tax purposes	25,691	11,523	276,133
Loss on devaluation of real estate for sale	2,067	4,757	22,221
Advances from customers for rent income	2,119	3,644	22,773
Retirement benefit reserves	2,973	2,520	31,954
Subsidiaries' foreign exchange loss	2,792	2,013	30,011
Reserve for apartment vacancy loss	12,910	1,880	138,759
Loss on devaluation of property, plant and equipment	1,630	1,630	17,516
Allowance for employees' bonuses	1,114	1,530	11,977
Allowance for doubtful accounts	1,229	1,369	13,212
Accrued business tax	45	1,015	484
Deposits received	739	811	7,941
Loss on devaluation of securities	705	705	7,573
Sales promotion cost	610	—	6,552
Other payables	361	577	3,879
Retirement benefit reserves for directors	482	522	5,183
Reserve for warranty obligations on completed project	133	457	1,426
Excess amortization on software	348	293	3,743
Loss on devaluation of real estate for investment	263	63	2,828
Excess depreciation	153	146	1,641
Sales discount for construction contracts	148	136	1,588
Elimination of unrealized gain	95	96	1,016
Low-value assets	23	55	245
Bad debt loss	34	41	368
Others	699	271	7,509
Sub-total	87,240	57,041	937,656
Less: valuation allowance	(73,522)	(43,477)	(790,210)
Total deferred tax assets	13,718	13,564	147,446
Deferred tax liabilities:			
Net unrealized gain on "other securities"	(78)	(44)	(843)
Others	(16)	—	(163)
Total deferred tax liabilities	(94)	(44)	(1,006)
Net deferred tax assets	¥13,624	¥13,520	\$146,440

(b) Reconciliation of the differences between the statutory tax rate and the effective income tax rate for the years ended March 31, 2010 and 2009 was as follows:

	2010	2009
Statutory tax rate	—	40.69%
Valuation allowances	—	17.76
Non-deductible expenses including entertainment expenses	—	9.84
Inhabitant tax	—	0.91
Others	—	1.05
Effective income tax rate	—	70.25%

(Note)

As for the year ended March 31, 2010, statutory tax rate and the effective income tax rate were not stated since the Company posted loss before taxes and minority interests.

14. Short-Term Borrowings and Long-Term Debt

(a) Short-term borrowings, long-term debt and lease obligations at March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Short-term borrowings	¥9,720	—	\$104,471
Current portion of long-term debt	20,281	¥17,493	217,977
Current portion of lease obligations	1,196	793	12,855
Unsecured corporate bonds due on September 30, 2008	—	—	—
Long-term debt	22,762	22,897	244,644
Lease obligations, long term	3,640	3,006	39,123
Total	¥57,598	¥44,189	\$619,070

(b) Assets pledged as collateral for short-term borrowings and long-term debt at March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Real estate for sale/property inventories	¥1,157	—	\$12,438
Real estate for sale in process	2,289	—	24,598
Buildings and structures	32,880	¥12,549	353,393
Land	83,908	43,858	901,853
Investment securities	834	93	8,962
Others in Investments and other assets (Membership right)	420	420	4,514
Total	¥121,488	¥56,920	\$1,305,758

(c) Investment securities have been deposited with the Legal Affairs Bureau as follows:

	Millions of yen	Thousands of U.S. dollars
Deposit for operation stipulated in Building Lots and Buildings Transaction Business Act	¥35	\$378
Deposit for housing construction warranty	386	4,152
Deposit for housing defect warranty	89	958

15. 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
Amount of agreement for commitment line	¥16,500	\$177,343
Amount of borrowing	—	—
Balance	16,500	177,343

16. Retirement Benefit Plans

(a) 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, 2010 and 2009 for the Companies' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Projected benefit obligation	¥(7,736)	¥(6,815)	\$(83,146)
Unrecognized prior service cost	103	—	1,111
Unrecognized actuarial gain or loss	326	621	3,504
Retirement benefit reserves	¥(7,307)	¥(6,194)	\$(78,531)

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

(b) The following table sets forth the funded and accrued status of the entire pension plan as of March 31, 2009 and 2008.

	Millions of yen		Thousands of U.S. dollars
	As of March 31		
	2009	2008	2009
Pension assets	¥35,982	¥45,804	\$386,744
Projected benefit obligation	53,152	50,403	571,291
Difference	¥(17,170)	¥(4,599)	\$(184,547)

The main components of the difference are unrecognized prior service costs of ¥2,285 million (\$24,554 thousand) and insufficient amount carried forward of ¥14,886 million (\$159,993 thousand). The Company recognized the special annuity premium of ¥130 million (\$1,394 thousand) and ¥131 million as an expense in the years ended March 31, 2010 and 2009, respectively. The ¥14,886 million (\$159,993 thousand) of insufficient amount carried forward will be settled by increasing the rate of special annuity premium based on recalculation of the financial situation.

The annuity premium contributory proportion of the entire pension plan is 41% and 43% as of March 31, 2010 and 2009, 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.

(c) The components of retirement benefit expenses for the years ended March 31, 2010 and 2009 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Service cost	¥3,256	¥3,145	\$35,000
Interest cost	156	123	1,676
Amortization of actuarial gain or loss	217	188	2,337
Amortization of prior service cost	18	—	196
Total	¥3,647	¥3,456	\$39,209

- (Notes) 1. In the year ended March 31, 2010, contributions to the welfare pension fund were ¥1,975 million (\$21,229 thousand), including ¥801 million (\$8,606 thousand) of employee contribution were recorded in service cost.
 2. Other than the afore-mentioned retirement pension expenses, additional severance pay of ¥81 million (\$868 thousand) is recorded as other expenses in the consolidated statements of income.
 3. All the retirement benefit expenses of the domestic consolidated subsidiaries adopting the simplified method were recorded in service cost.

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

Assumptions used in accounting for retirement benefits	2010	2009
Periodical allocation of estimated retirement benefit	Benefits-years-of-service approach	Benefits-years-of-service approach
Discount rate	2.2%	2.2%
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.)	—
Amortization period of actuarial gain or loss	Same as right	5 years (Amortized evenly over a period not exceeding the expected average remaining working lives of the employee from the time of occurrence.)

17. Stock Option

(1) Classification and amount of expenses regarding stock option

Selling, general and administrative expenses (Directors' compensation): ¥83 million (\$891 thousand)
Selling, general and administrative expenses (Salary and bonuses): ¥6 million (\$66thousand)

(2) Contents and amount of stock options and its change

1) Contents of stock options

	First issue of new share subscription right (equity-compensation type)	First issue of new share subscription right
Type and number of eligible persons	Directors of the Company: 9 Former Director of the Company: 1	Executive officers (excluding Directors), Employees, Directors and employees of major subsidiaries: 33
Class and number of shares Granted (Note)	Common stock: 107,600shares	Common stock: 71,000shares
Grant date	August 17, 2009	August 17, 2009
Vesting requirement	—	Continuously employed from the grant date (August 17, 2009) to the vesting date (August 17, 2011)
Vesting period	—	From August 17, 2009 to August 17, 2011
Exercise period	From August 18, 2009 to August 17, 2039	From August 18, 2011 to June 27, 2019

(Note) Converted into number of shares.

2) Size of stock options and its fluctuation

Stock options which have been existed in this fiscal year are in the scope, and the number of stock options is described by converting to the number of shares.

a. Number of stock options

	First issue of new share subscription right (equity-compensation type)	First issue of new share subscription right
Prior to vesting (shares)		
At end of the prior fiscal year (shares)	—	—
Granted (shares)	107,600	71,000
Expired (shares)	—	—
Vested (shares)	107,600	—
Unvested balance (shares)	—	71,000
After vesting (shares)		
At end of the prior fiscal year (shares)	—	—
Vested (shares)	107,600	—
Exercised (shares)	—	—
Expired (shares)	7,400	—
Unexercised balance (shares)	100,200	—

b. Price information

	First issue of new share subscription right (equity-compensation type)	First issue of new share subscription right
Exercise price (yen)	1	870
Average stock price at exercise (yen)	—	—
Grant-date fair value (yen)	827	277

(3) Method to estimate fair value of stock options

The estimation of per share fair value of stock options granted during this fiscal year is as follows:

- 1) Used evaluation method: Black-Scholes model
- 2) Main fundamental parameters and the estimation method

	First issue of new share subscription right (equity-compensation type)	First issue of new share subscription right
Stock price volatility (Note 1)	55.6%	49.0%
Estimated remaining period (Note 2)	0.87 year	5.93 year
Estimated dividend(Note 3)	¥30/share	¥30/share
Risk free rate(Note 4)	0.18%	0.81%

First issue of new share subscription right (equity-compensation type)	First issue of new share subscription right
(Notes) 1. The evaluation is based on the actual stock prices in the past period from Sep. 29 2008 to Aug. 10 2009 corresponding to the estimated remaining period. 2. An estimated average period until retirement of the directors is adopted 3. The actual dividends in the fiscal year ended March 2009 are used. 4. Yield rate on the expected remaining term of government bonds.	(Notes) 1. The evaluation is based on the actual stock prices in the past period from Sep. 8 2004 to Aug. 10 2009 corresponding to the estimated remaining period. 2. Since accumulated data are not sufficient and reasonable estimation is difficult, the estimation is based on an assumption that it is exercised at the midpoint of the exercise period. 3. The actual dividends in the fiscal year ended March 2009 are used. 4. Yield rate on the expected remaining term of government bonds.

(4) Method for estimating the number of vested rights for stock options

Since it is generally difficult to make reasonable estimates of future numbers of lapses, a method reflecting only the actual number of lapses that have occurred has been used.

18. Gain on Sale of Property, Plant and Equipment

Gain on sale of property, plant and equipment for the years ended March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Buildings and structures	¥130	¥—	\$1,392
Land	1	—	8
Others	0	0	0
Total	¥130	¥0	\$1,400

19. Loss on Sale of Property, Plant and Equipment

Loss on sale of property, plant and equipment for the years ended March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Buildings and structures	¥10	¥—	\$111
Land	216	—	—
Others	—	1	2,323
Total	¥226	¥1	\$2,434

20. Loss on Disposal of Property, Plant and Equipment

Loss on disposal of property, plant and equipment for the years ended March 31, 2010 and 2009 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Buildings and structures	¥805	¥96	\$8,654
Leased assets	4	—	39
Construction in progress	—	20	—
Intangible assets	—	33	—
Others	34	13	365
Total	¥843	¥162	\$9,058

21. 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. In March 2010, income arising from these rental properties were ¥4,144 million (\$44,537 thousand), and impairment losses were ¥2,942 million (\$31,618 thousand).

Also, book value of rental properties recorded in the consolidated balance sheet, and this financial year's increases, decreases and fair value are as follows:

(Millions of yen)

Book Value			Fair Value
Balance as of March 31, 2009	Increase/Decrease	Balance as of March 31, 2010	
¥80,238	¥4,844	¥85,082	¥82,566

(Thousands of U.S. dollars)

Book Value			Fair Value
Balance as of March 31, 2009	Increase/Decrease	Balance as of March 31, 2010	
\$862,405	\$52,060	\$914,465	\$887,423

(Note)

1. Book value recorded on the consolidated balance sheets is the amount after deducting Accumulated depreciation and Accumulated impairment loss from Acquisition cost.
2. In increase/decrease for the current fiscal year, the main increase is an increase as a result of change in intended use (¥9,453 million, \$101,606 thousand) and the main decrease is impairment loss (¥2,942 million, \$31,618 thousand).
3. Fair value as of the end of the current fiscal year is calculated by the Company mainly based on "Real-estate appraisal standards".

(Additional information)

From the current fiscal year, "Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (ASBJ Statement No. 20, 28 November, 2008) and "Implementation Guidance on Accounting Standard for Disclosures about the Fair Value of Investment and Rental Property" (ASBJ Guidance No. 23, 28 November, 2008) are applied.

22. Asset retirement obligations

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

(1) Outline of the asset retirement obligations

It is restoration obligations under real estate rental agreement for shop and fixed-term land lease agreement for renting real estate.

(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 0.485% is used to calculate the amount of the asset retirement obligations.

For the restoration obligations under fixed-term land lease agreement for renting real estate, the estimated period of use at 11–30 years depending on the period of the agreement (useful lives

of buildings according to the old Act on Land and Building Lease) and the discount rate at 1.329-2.301% is used to calculate the amount of the asset retirement obligations.

(3) Change in the total amount of the asset retirement obligations for the current fiscal year

Balance at beginning of year (Note): ¥91 million (\$981 thousands)

Increase due to acquisition of tangible fixed assets: ¥9 million (\$96 thousands)

Adjustment due to the passage of time: ¥1 million (\$10 thousands)

Balance at end of year: ¥101 million (\$1,087 thousands)

(Note) Balance at beginning of year is the amount after applying, from the current fiscal year, "Accounting Standards for Asset Retirement Obligations" (ASBJ Statement No. 18, March 31, 2008) and "Guidance on Accounting Standards for Asset Retirement Obligations" (ASBJ Guidance No. 21, March 31, 2008).

23. Shares Outstanding and Treasury Stocks

Shares outstanding and treasury stocks for the year ended March 31, 2010 were as follows:

Type of shares	March 31, 2009	Increase	Decrease	March 31, 2010
Shares outstanding	159,543,915	—	—	159,543,915
Common stock				
Total	159,543,915	—	—	159,543,915
Treasury stock				
Common stock	8,165,714	273	498,600	7,667,387
Total	8,165,714	273	498,600	7,667,387

(Note)

1. Breakdown of amounts of increase is as follows:
Purchase of shares of less than one unit 273 shares
2. Breakdown of amounts of decrease is as follows:
Sell off of shares from "Leopalace 21 Employee Stock Ownership Committee Trust Account" to the Board for Employees' Ownership 498,600 shares
3. Number of treasury stock includes 3,098,500 shares held by the Trust Account as of the end of this fiscal year.

Shares outstanding and treasury stocks for the year ended March 31, 2009 were as follows:

Type of shares	March 31, 2008	Increase	Decrease	March 31, 2009
Shares outstanding	159,543,915	—	—	159,543,915
Common stock				
Total	159,543,915	—	—	159,543,915
Treasury stock				
Common stock	165,059	8,000,655	—	8,165,714
Total	165,059	8,000,655	—	8,165,714

(Note) 1. An increase of 8,000,655 shares was due to purchases of common stock (8,000,000 shares) by resolution of the Board of Directors' meeting and purchases of shares of less than one unit (655 shares).

24. Cash Dividends

(a) Cash dividends for the year ended March 31, 2010:
Not applicable.

Cash dividends for the year ended March 31, 2009 were as follows:

Resolution	Type of shares	Gross amount (millions of yen)	Per share (yen)	Record date	Date in effect of dividend
General shareholders' meeting on June 27, 2008	Common stock	¥7,969	¥50	March 31, 2008	June 30, 2008
Board of Directors' meeting on November 4, 2008	Common stock	4,781	30	September 30, 2008	November 25, 2008

(b) There is no dividend that will be in effect in the year ended March 31, 2011 and recorded in the year ended March 31, 2010.

25. New Share Subscription Right and Own Share Option

Classification	Detail of new share subscription rights	Type of shares available for new share subscription rights	Number of shares available for new share subscription rights (shares)				As of March 31, 2010	
			As of March 31, 2009	Increase in FY2009	Decrease in FY2009	As of March 31, 2010	(Millions of yen)	(Thousands of U.S. dollars)
The Company	new share subscription rights as stock option	—	—	—	—	—	¥89	\$956
Total		—	—	—	—	—	¥89	\$956

(Note) As for six million yen of the above, the first day of exercise period has not come.

26. Leases

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, 2010 and 2009, 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
	2010	2009	2010
Acquisition cost			
Vehicles	¥7	¥11	\$77
Equipment	14,536	17,466	156,237
Accumulated depreciation			
Vehicles	¥4	¥5	\$41
Equipment	8,728	8,836	93,808
Net book value			
Vehicles	¥3	¥6	\$37
Equipment	5,808	8,630	62,429

(b) The amounts of outstanding future lease payments under finance lease subsequent to March 31, 2010 including the interest portion thereon were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Due within one year	¥2,535	¥2,834	\$27,249
Due after one year	3,722	6,307	40,000
Total	¥6,257	¥9,141	\$67,249

Annual lease expenses charged to income were ¥3,188 million (\$34,263 thousand) and ¥4,038 million for the years ended March 31, 2010 and 2009, respectively.

(c) Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2010 and 2009 for finance lease transactions accounted for as operating leases were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Lease payment	¥3,188	¥4,037	\$34,263
Estimated amount of depreciation by the straight-line method over the lease period	2,767	3,494	\$28,772
Estimated interest cost by the interest method	359	540	3,862

(d) Future minimum lease payments related to non-cancelable operating leases subsequent to March 31, 2010 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	Future lease payments	Prepaid lease payments	Differences	Future lease payments	Prepaid lease payments	Differences
Due within one year	¥ 279,727	¥ 25,395	¥ 254,332	\$ 3,006,525	\$ 272,945	\$ 2,733,581
	¥ (279,685)	¥ (25,395)	¥ (254,291)	\$ (3,006,077)	\$ (272,945)	\$ (2,733,132)
Due after one year	1,183,488	50,300	1,133,188	12,720,208	540,631	12,179,578
	(1,183,477)	(50,300)	(1,133,177)	(12,720,089)	(540,631)	(12,179,458)
Total	¥ 1,463,215	¥ 75,695	¥ 1,387,520	\$ 15,726,733	\$ 813,575	\$ 14,913,158
	¥(1,463,162)	¥(75,695)	¥(1,387,467)	\$(15,726,166)	\$(813,575)	\$(14,912,590)

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

27. Contingent Liabilities

Contingent liabilities for the years ended March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Contingent liabilities to financial institutions for customers who have a home mortgage	¥1,710	¥1,810	\$18,375
Contingent liabilities to financial institutions for customers who have a membership loan	30	30	323
Subordinated contingent liabilities to financial institutions for customers who have an apartment loan with nonexempt property	—	1	—
Total	¥1,740	¥1,841	\$18,688

28. Segment Information

(a) Business segments

Segment information by business groups for the years ended March 31, 2010 and 2009 was as follows:

Year ended March 31, 2010	Millions of yen							Consolidated totals
	Apartment Construction Subcontracting Division	Leasing Division	Hotel Resort Division	Residential Sales Division	Other Division	Segment totals	Elimination or common assets	
(1) Net sales and operating income (loss)								
Sales								
Sales to customers	¥237,062	¥342,316	¥6,734	¥24,644	¥9,620	¥620,376	-	¥620,376
Inter-segment sales and transfers	-	398	2,972	-	36	3,406	(3,406)	-
Total	237,062	342,714	9,706	24,644	9,656	623,782	(3,406)	620,376
Operating expenses	207,317	390,590	11,030	28,001	13,076	650,014	90	650,104
Operating income (loss)	¥29,745	¥(47,876)	¥(1,324)	¥(3,357)	¥(3,420)	¥(26,231)	¥(3,496)	¥(29,728)
(2) Assets, depreciation, impairment losses and capital expenditures								
Assets	¥30,735	¥183,178	¥55,912	¥3,996	¥10,020	¥283,841	¥112,671	¥396,512
Depreciation	1,033	1,983	1,968	2	106	5,092	1,204	6,296
Impairment losses	-	2,942	261	-	35	3,238	-	3,238
Capital expenditures	41	1,580	3,071	3	1,495	6,190	5,182	11,372

Year ended March 31, 2009	Millions of yen							Consolidated totals
	Apartment Construction Subcontracting Division	Leasing Division	Hotel Resort Division	Residential Sales Division	Other Division	Segment totals	Elimination or common assets	
(1) Net sales and operating income (loss)								
Sales								
Sales to customers	¥359,155	¥345,915	¥8,004	¥11,469	¥8,692	¥733,235	¥-	¥733,235
Inter-segment sales and transfers	-	216	4,605	-	-	4,821	(4,821)	-
Total	359,155	346,131	12,609	11,469	8,692	738,056	(4,821)	733,235
Operating expenses	289,042	347,108	13,081	22,134	11,752	683,117	(39)	683,078
Operating income (loss)	¥70,113	¥ (977)	¥ (472)	¥(10,665)	¥ (3,060)	¥54,939	¥(4,782)	¥50,157
(2) Assets, depreciation, impairment losses and capital expenditures								
Assets	¥41,900	¥205,737	¥53,711	¥28,907	¥16,144	¥346,399	¥120,901	¥467,300
Depreciation	537	2,652	2,079	10	85	5,363	419	5,782
Impairment losses	-	2,808	-	-	-	2,808	-	2,808
Capital expenditures	278	6,458	506	6	351	7,599	4,155	11,754

Year ended March 31, 2010	Thousands of U.S. dollars							Consolidated totals
	Apartment Construction Subcontracting Division	Leasing Division	Hotel Resort Division	Residential Sales Division	Other Division	Segment totals	Elimination or common assets	
(1) Net sales and operating income (loss)								
Sales								
Sales to customers	\$2,547,961	\$3,679,236	\$72,378	\$264,875	\$103,396	\$6,667,846	\$-	\$6,667,846
Inter-segment sales and transfers	-	4,276	31,945	-	387	36,608	(36,608)	-
Total	2,547,961	3,683,512	104,323	264,875	103,783	6,704,454	(36,608)	6,667,846
Operating expenses	2,228,260	4,198,083	118,558	300,952	140,540	6,986,393	970	6,987,363
Operating income (loss)	319,701	(514,571)	(14,235)	(36,077)	(36,757)	(281,939)	(37,578)	(319,517)
(2) Assets, depreciation, impairment losses and capital expenditures								
Assets	330,344	1,968,805	600,943	42,951	107,694	3,050,737	1,210,999	4,261,736
Depreciation	11,108	21,317	21,149	24	1,136	54,734	12,933	67,667
Impairment losses	-	31,618	2,806	-	376	34,800	-	34,800
Capital expenditures	443	16,983	33,005	28	16,067	66,526	55,703	122,229

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

2. Segments and business content

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

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

	Year ended March 31, 2010		Main component
	Millions of yen	Thousands of U.S. dollars	
Operating expenses unable to be allocated included in "Elimination or common assets"	¥3,587	\$38,554	Management expenses of the General Affairs Department of the Company.
Amount of corporate assets included in "Elimination or common assets"	¥112,671	\$1,210,999	Surplus funds under management at the Company (cash and deposits, marketable securities, etc.), long-term investment funds (investment securities, etc.), and assets related to management operations.

4. Changes in business segments

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

As a result of this change, compared to the previous method, sales for the subject fiscal year increased ¥12,334 million (\$132,564 thousand) in the Leasing Division segment and ¥2,219 million (\$23,849 thousand) in the Hotel Resort Division segment, and decreased ¥14,553 million (\$156,413 thousand) in the Other Division segment. Operating expenses increased ¥9,328 million (\$100,256 thousand) in the Leasing Division segment, and decreased ¥2,424 million (\$26,053 thousand) in the Hotel Resort Division segment, and ¥11,752 million (\$126,309 thousand) in the Other Division segment.

5. Changes in accounting policy

(1) Accounting standard regarding construction contracts

The Company had conventionally recognized its construction revenues of subcontracting contracts by using the completed contract method. However, as discussed in "3-(1) Changes in Significant Accounting Policies," the Company, effective from fiscal year ended March 31, 2010, adopted the "Accounting Standard for Construction Contracts (the Accounting Standard Board of Japan (ASBJ) Statement No. 15 issued on December 27, 2007)" and the "Guidance on Accounting Standard for Construction Contracts (ASBJ Guidance No. 18 issued on December 27, 2007)" to recognize construction revenues.

As a result of this change, net sales and operating income for Apartment Construction Subcontracting Division for fiscal year ended March 31, 2010 increased by ¥6,350 million (\$68,249 thousand) and ¥1,614 million (\$17,350 thousand), respectively.

(2) Changes in cost calculation for contracted work

As discussed in "Changes in Significant Accounting Policies," the Company, effective from fiscal year ended March 31, 2010, changed the cost accounting of contracted works to a method by which overhead costs of the contracted works for this fiscal year are charged to costs related to completed constructions in the same period.

As a result of this change, operating expenses for the Apartment Construction Subcontracting Business for fiscal year ended March 31, 2010 decreased by ¥620 million (\$6,664 thousand), and operating income increased by the same amount, respectively.

(3) Accounting standard for asset retirement obligations

As discussed in "Changes in Significant Accounting Policies," the Company, effective from fiscal year ended March 31, 2010, adopted the "Accounting Standards for Asset Retirement Obligations" (Corporate Accounting Standards No.18, March 31, 2008) and "Guidance on Accounting Standards for Asset Retirement Obligations" (Corporate Accounting Standards No.21 March 31, 2008)."

As a result of this change, for fiscal year ended March 31, 2010, operating expenses and operating loss of Apartment Construction Subcontracting Division, Leasing Division, Hotel Resort Division, Residential Sales Division, Other Division and Eliminations/Unallocated increased by ¥46 million (\$492 thousand), ¥16 million (\$157 thousand), ¥2 million (\$23 thousand), ¥0 million (\$1 thousand), ¥2 million (\$25 thousand) and ¥0 million (\$7 thousand), respectively.

(b) Geographical segments

Segment information by geographic area for the years ended March 31, 2010 and 2009 was as follows:

Year ended March 31, 2010	Millions of yen					Consolidated totals
	Japan	Trust territory of U.S.A. Guam	People's Republic of China	Segment totals	Elimination or common assets	
(1) Net sales and operating income (loss)						
Sales						
Sales to customers	¥617,142	¥3,234	¥-	¥620,376	¥-	¥620,376
Inter-segment sales and transfers	88	3,184	19	3,291	(3,291)	-
Total	617,230	6,418	19	623,667	(3,291)	620,376
Operating expenses	643,316	6,560	23	649,899	205	650,104
Operating income (loss)	(26,086)	(142)	(4)	(26,232)	(3,496)	(29,728)
(2) Assets						
Assets	241,546	42,277	33	283,856	112,656	396,512

Year ended March 31, 2009	Millions of yen					Consolidated totals
	Japan	Trust territory of U.S.A. Guam	Segment totals	Elimination or common assets	Consolidated totals	
(1) Net sales and operating income (loss)						
Sales						
Sales to customers	¥729,238	¥3,997	¥733,235	¥-	¥733,235	
Inter-segment sales and transfers	115	5,077	5,192	(5,192)	-	
Total	729,353	9,074	738,427	(5,192)	733,235	
Operating expenses	675,410	8,078	683,488	(410)	683,078	
Operating income (loss)	¥53,943	¥996	¥54,939	¥(4,782)	¥50,157	
(2) Assets						
Assets	¥304,788	¥41,610	¥346,398	¥120,902	¥467,300	

Year ended March 31, 2010	Thousands of U.S. dollars					
	Japan	Trust territory of U.S.A. Guam	People's Republic of China	Segment totals	Elimination or common assets	Consolidated totals
(1) Net sales and operating income (loss)						
Sales						
Sales to customers	\$6,633,088	\$34,758	\$—	\$6,667,846	\$—	\$6,667,846
Inter-segment sales and transfers	944	34,222	203	35,369	(35,369)	—
Total	6,634,032	68,980	203	6,703,214	(35,369)	6,667,846
Operating expenses	6,914,399	70,505	250	6,985,154	2,209	6,987,363
Operating income (loss)	(280,367)	(1,525)	(47)	(281,940)	(37,578)	(319,517)
(2) Assets						
Assets	2,596,153	454,400	349	3,050,902	1,210,834	4,261,736

- (Notes) 1. Geographic area is defined by geographic contiguity.
 2. Effective from fiscal year ended March 31, 2010, Leopalace21 Business Consulting (Shanghai) Co., Ltd. was newly included in the scope of consolidation. As a result, "People's Republic of China" was added in the geographical segments.
 3. Major items and amounts included in "Elimination or common assets" are the same as in Note in "Business segments."

(Changes in accounting policy)

(1) Accounting standard regarding construction contracts
 The Company had conventionally recognized its construction revenues of subcontracting contracts by using the completed contract method. However, as discussed in "3-(1) Changes in Significant Accounting Policies," the Company, effective from fiscal year ended March 31, 2010, adopted the "Accounting Standard for Construction Contracts (the Accounting Standard Board of Japan (ASBJ) Statement No. 15 issued on December 27, 2007)" and the "Guidance on Accounting Standard for Construction Contracts (ASBJ Guidance No. 18 issued on December 27, 2007)" to recognize construction revenues.
 As a result of this change, net sales of Japan for fiscal year ended March 31, 2010 increased by ¥6,350 million (\$68,249 thousand), and operating loss decreased by ¥1,614 million (\$17,350 thousand), respectively.

(2) Accounting standard regarding cost calculation for contracted work
 As discussed in "Changes in Significant Accounting Policies," the Company, effective from fiscal year ended March 31, 2010, changed the cost accounting of contracted works to a method by which overhead costs of the contracted works for this fiscal year are charged to costs related to completed constructions in the same period.
 As a result of this change, operating expenses of Japan for fiscal year ended March 31, 2010 decreased by ¥620 million (\$6,664 thousand), and operating loss of Japan decreased by the same amount, respectively.

(3) Accounting standard for asset retirement obligations
 As discussed in "Changes in Significant Accounting Policies," the Company, effective from fiscal year ended March 31, 2010, adopted the "Accounting Standards for Asset Retirement Obligations" (Corporate Accounting Standards No.18, March 31, 2008) and "Guidance on Accounting Standards for Asset Retirement Obligations" (Corporate Accounting Standards No.21 March 31, 2008).
 As a result of this change, for fiscal year ended March 31, 2010, operating expenses of Japan, Trust territory of U.S.A. Guam, People's Republic of China and Eliminations/Common assets increased by ¥64 million (\$685 thousand), ¥1 million (\$12 thousand), ¥0million (\$0 thousand) and ¥1 million (\$7thousand), respectively. In addition, operating loss increased by the same amount.

(c) Overseas sales

As overseas sales constituted less than 10% of consolidated net sales for the years ended March 31, 2010 and 2009, overseas sales information has been omitted.

29. Amounts per Share

(a) The following table sets forth the net assets and net income per share of common stock for the years ended March 31, 2010 and 2009.

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Net assets	¥466.76	¥967.40	\$5.02
Net income (loss)			
Basic	(521.91)	63.54	(5.61)

Diluted net income per share is not stated since the Company posted net loss per share.

(b) Basis of computation of net assets per share at March 31, 2010 and 2009 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Net assets	¥70,979	¥146,442	\$762,891
Amount not allocated to common stock (new share subscription right)	89	—	956
	(89)		(956)
Net assets allocated to common stock	70,890	146,442	761,935
Shares issued outstanding at end of year (Thousands of shares)	151,877	151,378	—

(c) Basis of computation of basic net income per share for the years ended March 31, 2010 and 2009 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Net income (loss)	¥(79,076)	¥9,952	\$(849,913)
Amount not allocated to common stock	—	—	—
Net income allocated to common stock	(79,076)	9,952	(849,913)
Weighted-average shares during the year (thousands of shares)	151,512	156,620	
Dilutive securities that did not have dilutive effects and therefore were not included in the calculation of diluted net income per share.	new share subscription right (1,712)	—	—

The Company recognizes stocks held by "Leopalace 21 Employee Stock Ownership Committee Trust Account" (3,098,500 treasury stocks as of the end of this fiscal year) as the treasury stock. As a result, those numbers are eliminated in calculating "Number of common shares used to calculate net assets per share at the end of the fiscal year" and "Weighted average number of common shares during the fiscal year."

30. Related Party Transactions

The following table sets forth related party transactions for the years ended March 31, 2010 and 2009.

(For the year ended March 31, 2010)

(a) Unconsolidated subsidiaries and affiliates

Attribute	Name	Address	Capital stock		Business or position	Percentage of share ownership of the Company	Relation
			Millions of yen	Thousands of U.S. dollars			
Affiliate	Toyo Miyama Kogyo Co., Ltd.	Kisarazu City, Chiba	¥ 100	\$1,075	Production and sales of building materials	50.0%	-Purchases of building materials and others -Interlocking directors

Attribute	Name	Transaction	Transaction amount		Account	Balance	
			Millions of yen	Thousands of U.S. dollars		Millions of yen	Thousands of U.S. dollars
Affiliate	Toyo Miyama Kogyo Co., Ltd.	Purchases of building materials and others	¥25,511	\$274,194	Accounts payable for completed projects	¥5,690	\$61,159

(b) Directors and major shareholders

Attribute	Name	Address	Capital stock		Business or position	Percentage of share ownership of the Company	Relation
			Millions of yen	Thousands of U.S. dollars			
Director and close relatives	Yoshiteru Kitagawa	-	-	-	-	0.5%	Leasing of land and building
	Toshiko Miyoshi	-	-	-	-	-	Subcontracting of building construction Leasing of land and building
	Takeshi Yoshioka	-	-	-	-	-	Leasing of land and buildings

Attribute	Name	Transaction	Transaction amount		Account	Balance	
			Millions of yen	Thousands of U.S. dollars		Millions of yen	Thousands of U.S. dollars
Director and close relatives	Yoshiteru Kitagawa	Leasing of apartments	¥10	\$110	-	-	-
	Toshiko Miyoshi	Apartment construction subcontracting	193	2,074	-	-	-
		Leasing of apartments	15	165	Long-term prepaid expenses	¥25	\$271
	Takeshi Yoshioka	Leasing of apartments	13	140	-	-	-

(Notes) 1. Consumption taxes were not included in transaction amounts but included in balance.

2. Conditions of transactions:

(a) Conditions of purchases of building material were the same as transactions with third parties.

(b) Conditions of leasing of apartments are the same as transactions with third parties.

(c) Conditions of sale of land are the same as transactions with third parties.

3. As of February 5, 2010, Yoshiteru Kitagawa resigned as a board member.

4. Toshiko Miyoshi is a close relative of Tadahiro Miyama, Executive Director of Management.

5. Takeshi Yoshioka is a close relative of Yoshikazu Miike, Director of the Company.

(For the year ended March 31, 2009)

(a) Unconsolidated subsidiaries and affiliates

Attribute	Name	Address	Capital stock		Business or position	Percentage of share ownership of the Company	Relation
			Millions of yen	Thousands of U.S. dollars			
Affiliate	Toyo Miyama Kogyo Co., Ltd.	Kisarazu City, Chiba	¥ 100	\$1,018	Production and sales of building materials	50.0%	-Purchases of building materials and others -Interlocking directors

Attribute	Name	Transaction	Transaction amount		Account	Balance	
			Millions of yen	Thousands of U.S. dollars		Millions of yen	Thousands of U.S. dollars
Affiliate	Toyo Miyama Kogyo Co., Ltd.	Purchases of building materials and others	¥41,387	\$421,324	Accounts payable for completed projects	¥10,571	\$107,615

(b) Directors and individual major shareholders

Attribute	Name	Address	Capital stock	Business or position	Percentage of share ownership of the Company	Relation
			Millions of yen			
Director and close relatives	Yoshiteru Kitagawa	-	-	President and CEO	0.5%	Leasing of land and building
	Toshiko Miyoshi	-	-	-	-	Sales of real estate
	Takeshi Yoshioka	-	-	-	-	Leasing of land and buildings

Attribute	Name	Transaction	Transaction amount	Account	Balance
			Millions of yen		Millions of yen
Director and close relatives	Yoshiteru Kitagawa	Leasing of apartments	¥10	-	¥-
	Toshiko Miyoshi	Sale of land	52	-	-
		Leasing of apartments	-	Long-term prepaid expenses	29
	Takeshi Yoshioka	Leasing of apartments	13	-	-

- (Notes) 1. Consumption taxes were not included in transaction amounts but included in balance.
 2. Conditions of transactions:
 (a) Conditions of purchases of building material were the same as transactions with third parties.
 (b) Conditions of leasing of apartments are the same as transactions with third parties.
 (c) Conditions of sale of land are the same as transactions with third parties.
 3. Toshiko Miyoshi is a close relative of Tadahiro Miyama, Executive Director of Management.
 4. Takeshi Yoshioka is a close relative of Yoshikazu Miike, Director of the Company.

31. Subsequent Events

Material assets pledged as collateral

The Company, in accordance with the request from transacting financial institutions, is in mutual agreement with the offering of the following assets as added security towards loans as of June 25, 2010.

	Millions of yen	Thousands of U.S. dollars
Buildings and structures	¥29,585	\$317,980
Land	11,846	127,322
Others	1,079	11,600
Total	¥42,510	\$456,902

Report of Independent Auditors



Grant Thornton Report of Independent Certified Public Accountants

Grant Thornton Taiyo ASG

Akasaka DS Bldg. 9F
8-5-26 Akasaka, Minato-ku
Tokyo 107-0052, Japan

T +81 (0)3 5474 0111
F +81 (0)3 5474 0112
<http://www.gtjapan.or.jp>

To the Board of Directors of
LEOPALACE21 CORPORATION

We have audited the accompanying consolidated balance sheets of LEOPALACE21 CORPORATION and subsidiaries as of March 31, 2010, and the related consolidated statements of operations, shareholders' equity and cash flows for the year then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the over all financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of LEOPALACE21 CORPORATION and subsidiaries as of March 31, 2010, and the consolidated results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in Japan as described in Note 1 to the consolidated statements.

As described in Note 2(13), in reporting on the Company's leasing operations, a reserve for apartment vacancy losses was established and recorded. The reserve was previously estimated on an individual building basis using current monthly rate and historical occupancy rates. Beginning this fiscal year, the Company changed its estimation methodology to one where the reserve is now estimated based on current monthly rent and future estimated occupancy rates.

As described in Note 2(15), the Company, effective from fiscal year ended March 31, 2010, adopted "Accounting Standard for Construction Contracts" and "Guidance on Accounting Standard for Construction Contracts" to recognize construction revenues.

As described in Note 3(1), effective for the year ended March 31, 2010, the Company changed to a method by which contracted worker overhead costs are charged to cost related to completed constructions in the same period.

As described in Note 3(2), the Company, effective from fiscal year ended March 31, 2010, adopted "Accounting Standards for Asset Retirement Obligations" and "Guidance on Accounting Standards for Asset Retirement Obligations".

As described in Note 31, as of June 25, 2010, the Company was required to provide additional collateral to secure the repayment of their loans.

The consolidated financial statements as of and for the year ended March 31, 2010 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.


Tokyo, Japan
June 28, 2010

Member of Grant Thornton International Ltd

Leopalace21 Corporation

Head Office:

2-54-11 Honcho, Nakano-ku, Tokyo 164-8622, Japan
Tel: +81-3-5350-0001
http://eg.leopalace21.com

Date of Establishment:

August 17, 1973

Share Capital:

¥55,640.66 million

Operations:

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

Group Companies:

Leopalace Guam Corporation, Leopalace Travel, Ltd., Leopalace Insurance Co., Ltd., Leopalace Leasing Corporation, Leopalace Finance Co., Ltd., Leopalace21 Business Consulting (Shanghai) Co., Ltd., Leopalace Smile Co., Ltd., Leopalace Guam Distributing Corporation, Leopalace Guam Service Corporation, Toyo Miyama Kogyo Co., Ltd.

Number of Employees:(As of March 31,2010)

8,582 (consolidated basis);
7,739 (non-consolidated basis)

Board of Directors and Auditors

(As of June 25, 2010)

President and CEO	Eisei Miyama
Executive Director of Management	Tadahiro Miyama
Directors	Hiroyuki Miyata
	Yoshikazu Miike
	Kou Kimura
	Fumiaki Yamamoto
	Yuzuru Sekiya
Standing Auditors	Tetsuji Taya (outside)
	Yoshinori Uehara
	Shinya Watanabe
Auditors	Koichi Fujiwara (outside)
	Masahiko Nakamura (outside)

Major Shareholders (Top 10)

(As of March 31, 2010)

Name of shareholder	No. of shares held	% of shares held
Yusuke Miyama	18,135,774	11.37%
Japan Trustee Service Bank, Ltd. (for trust)	8,783,300	5.51%
The Master Trust of Japan, Ltd. (Trust Account)	8,549,500	5.36%
Leopalace21 Corporation	4,568,887	2.86%
Bank of New York GCM Client Account JPRDISGFEAC Standing Proxy, Bank of Tokyo-Mitsubishi UFJ	4,089,086	2.56%
Trust & Custody Services Bank, Ltd. (Pension Trust Account)	3,975,700	2.49%
Japan Trustee Service Bank, Ltd. (for trust 9)	3,775,100	2.37%
Stockholding Association for Leopalace21's Business Connections	3,125,100	1.96%
Sumitomo Mitsui Banking Corporation, Trust Account	3,098,500	1.94%
Toyo Kanetsu K.K.	2,745,900	1.72%

Number of Shares:

Authorized: 250,000,000
Issued and outstanding: 159,543,915

Number of Shareholders:

30,738

Stock Exchange Listing:

Tokyo Stock Exchange (ticker: 8848)

Transfer agent:

Mitsubishi UFJ Trust and Banking Corporation

Composition of Shareholders

(As of March 31, 2010)

