Annual Report 2011

For the fiscal year ended March 31, 2011

Change for NEXT

Leopalace21

Leopalace21 Corporation

Guide to this Report

To those who are new to our business → Basic Information

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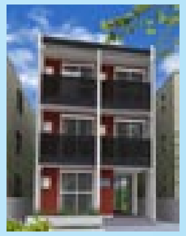
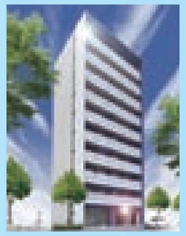



Ten-Year Consolidated Financial Highlights

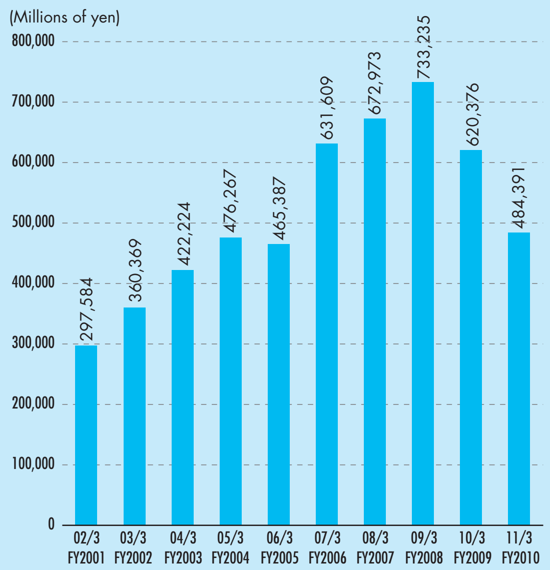
For the years ended March 31

(Millions of yen/Thousands of U.S. dollars)

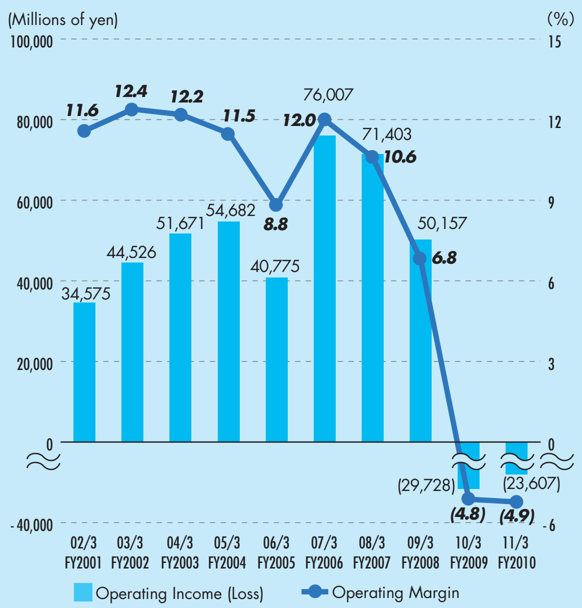
For the year:	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2011
Net sales	¥297,584	¥360,369	¥422,224	¥476,267	¥465,387	¥631,609	¥672,973	¥733,235	¥620,376	**¥484,391**	**$5,825,507**
Apartment Construction Subcontracting	150,843	190,217	225,011	248,033	195,202	316,117	327,541	359,155	237,062	**107,821**	**1,296,705**
Leasing	136,924	162,766	188,864	216,591	249,696	277,163	302,731	334,561	342,316	**356,606**	**4,288,709**
Hotel Resort	7,043	5,928	5,759	7,282	8,340	7,140	6,072	5,611	6,734	**6,492**	**78,073**
Residential Sales	—	—	—	140	1,745	14,150	11,281	11,469	24,644	**4,689**	**56,391**
Others	2,775	1,458	2,590	4,221	10,404	17,037	25,349	22,440	9,620	**8,783**	**105,629**
Cost of sales	220,807	268,857	313,085	357,546	353,928	474,713	511,054	589,834	570,749	**448,392**	**5,392,571**
Selling, general and administrative expenses	42,203	46,987	57,468	64,038	70,684	80,888	90,517	93,245	79,355	**59,606**	**716,846**
Operating income (loss)	34,575	44,526	51,671	54,682	40,775	76,007	71,403	50,157	(29,728)	**(23,607)**	**(283,910)**
EBITDA	39,131	49,233	56,922	60,538	45,340	80,567	76,566	55,939	(23,432)	**(17,156)**	**(206,323)**
Net income (loss)	19,902	20,464	20,960	33,262	(16,582)	37,358	342	9,952	(79,076)	**(40,890)**	**(491,755)**
At year-end:											
Total assets	¥374,397	¥410,340	¥421,164	¥453,434	¥412,804	¥454,820	¥493,956	¥467,300	¥396,512	**¥298,274**	**$3,587,181**
Net assets	46,078	68,309	81,420	149,798	133,622	185,785	170,156	146,443	70,979	**33,041**	**397,366**
Interest-bearing debt	197,258	183,047	162,666	108,786	64,513	53,160	49,711	44,189	61,318	**43,859**	**527,465**
Amounts per share: (Yen/U.S. dollars)											
Net assets	¥ 373.69	¥ 492.06	¥ 585.82	¥ 941.06	¥ 839.44	¥1,054.99	¥1,036.43	¥ 967.40	¥ 466.76	**¥ 195.91**	**$ 2.36**
Net income (loss)	164.53	160.56	150.91	220.79	(104.17)	234.68	2.15	63.54	(521.91)	**(261.03)**	**(3.14)**
Cash dividends	—	15.00	15.00	15.00	15.00	50.00	80.00	30.00	—	**—**	
Ratio:											
Equity ratio (%)	12.3	16.7	19.3	33.0	32.4	37.0	33.4	31.3	17.9	**11.1**	
Return on equity (ROE) (%)	62.5	35.8	28.0	28.8	(11.7)	24.8	0.2	6.4	(72.8)	**(78.7)**	
Return on assets (ROA) (%)	5.5	5.2	5.0	7.6	(3.8)	8.6	0.1	2.1	(18.3)	**(11.8)**	
Payout ratio (%)	—	9.3	9.9	6.8	—	21.3	3,720.9	47.2	—	**—**	
Debt/equity ratio	4.3	2.7	2.0	0.7	0.5	0.3	0.3	0.3	0.9	**1.3**	
Number of employees	4,228	4,385	5,702	6,457	6,868	7,409	8,678	9,926	8,582	**7,114**	

(Notes)
1. U.S. dollar amounts are translated from yen at the rate of ¥83.15 = US$1, the approximate rate prevailing at March 31, 2011.
2. The Residential Sales Business is classified separately from the Other Businesses in the fiscal year ended March 31, 2009. Accordingly, the numbers for the fiscal years ended March 31, 2005, 2006, 2007, and 2008 were reclassified appropriately.
3. The amounts of net assets for the fiscal years ended March 31, 2004, 2005, and 2006 represent the value of total shareholders' equity and do not include minority interests.
4. Net loss for the fiscal 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.
5. EBITDA = Operating income + depreciation
6. Return on assets (ROA) = Net income/total assets x 100
7. Debt/equity ratio = Interest-bearing debt/(net assets – minority interests)

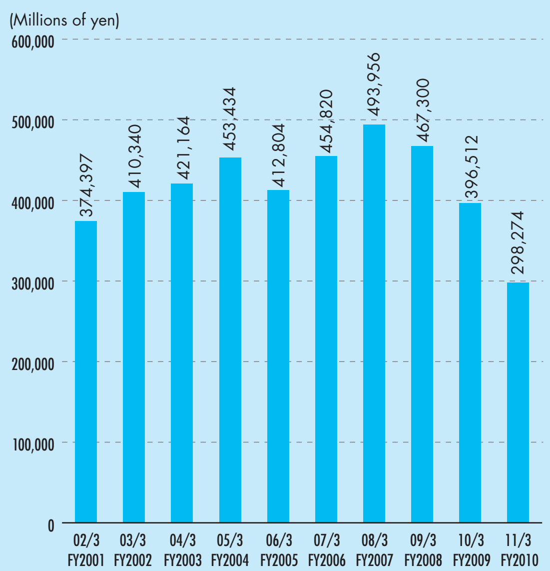
Net Sales



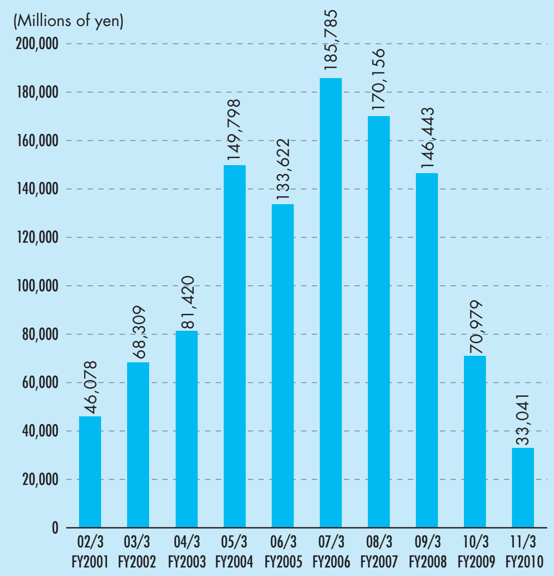
Operating Income (Loss) / Operating Margin



Total Assets



Net Assets

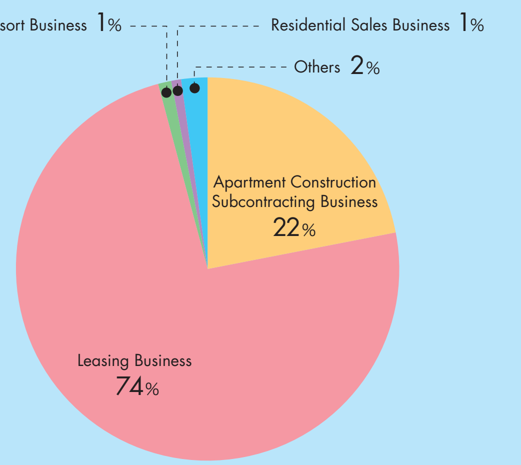


Changes in Our Businesses and Business Activities

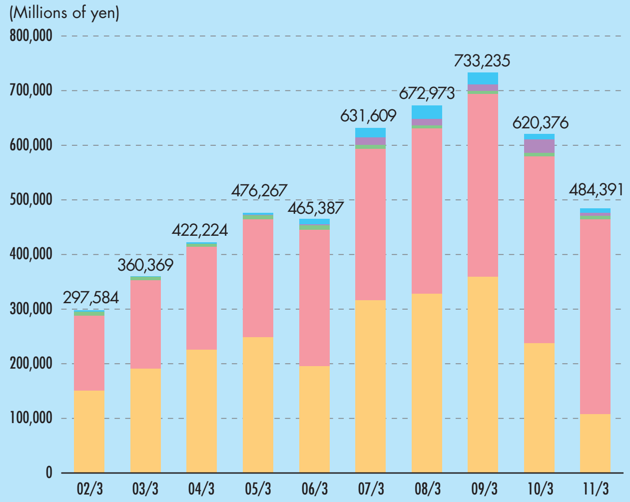
● Providing one-stop services in all areas of real estate

Leopalace21's core business operations are apartment construction subcontracting and leasing of apartments, the two of which we have fused to form a unique business model. In our Apartment Construction Subcontracting Business, we construct apartments as a means of effectively using land and creating revenue opportunities for landowners. In our Leasing Business, we solicit tenants and perform general management and superintendence of apartments. In this manner, through our provision of one-stop services in all areas of real estate, we are building a business model that creates synergies between both of our core businesses. Looking into the future, we will strengthen our Leasing Business to build a "stock" focused business model that reinforces revenue opportunities from our stock of existing apartments.

Consolidated Net Sales by Business for FY2010 (Fiscal Year Ended March 31, 2011)



Consolidated Net Sales by Business Segment



	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
Apartment Construction Subcontracting Business	150,843	190,217	225,011	248,033	195,202	316,117	327,541	359,155	237,062	107,821
Leasing Business	136,924	162,766	188,864	216,591	249,696	277,163	302,731	334,561	342,316	356,606
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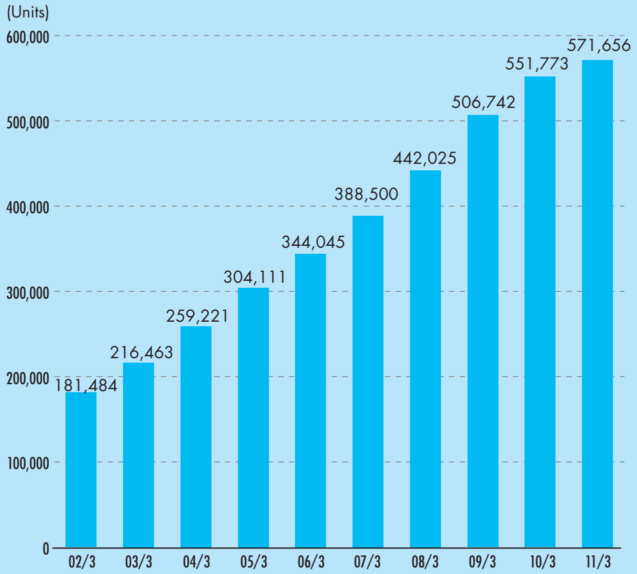
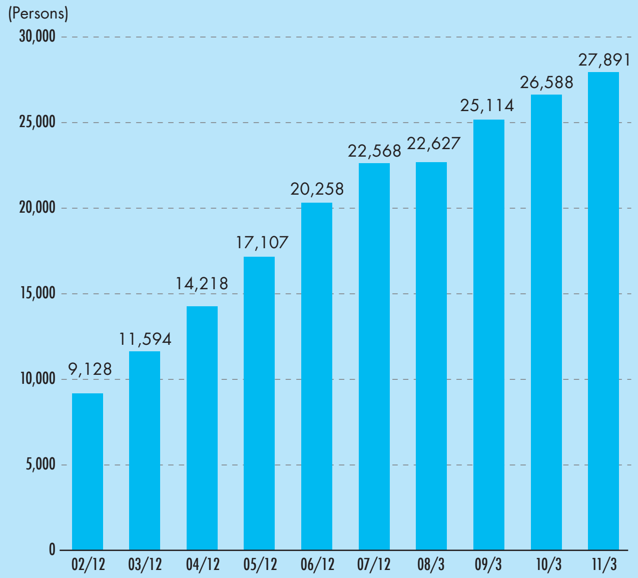
Others	2,775	1,458	2,590	4,221	10,404	17,037	25,349	22,440	9,620	8,783

* From fiscal 2008 (the fiscal year ended March 31, 2009), we have split off our Residential Sales Business from the Other Businesses category and recorded it separately. Accordingly, values equating to that business from fiscal 2004 (the fiscal year ended March 31, 2005) to fiscal 2007 (the fiscal year ended March 31, 2008) are calculated separately as reference values.

Number of Apartment Units Under Management



Number of Owners



Services and Products Ahead of Their Time

● Developing advanced services at Leopalace21

Leopalace21 is always engaged in businesses at the forefront of the real estate industry. In leased apartments, two-year agreements are the norm for rent. However, some tenants have short-term needs for units, such as during business travel or during periods of training. In response, from 1999 we began offering monthly agreements. These furnished units boast furniture and home appliances and are available from periods of 30 days or more, offering a service that lets tenants move in with nothing more than a single suitcase.

In recent years we have also been consistently enhancing the added value of our apartments by installing photovoltaic power generation systems and security systems and taking measures to support the safety and security of tenants.

Rental agreement
Normal two-year agreement

Monthly agreement
Available for short-term use, starting from 30 days

Furnished rooms with home appliances
Fully equipped with daily lifestyle necessities to allow residency with a single suitcase

● Creating compelling products with an emphasis on functionality and prospective tenants

To promote orders in our Apartment Construction Subcontracting Business, we undertake strategic development of new products with high added value. Moreover, to achieve merit for both tenants and landowners, we categorize products by factors such as room area, as well as by external appearances matched to region, location, and target occupant. We also put forth products that excel in seismic resistance and other areas of functionality. Below is a selection of our broad product lineup.

CON GRAZIA
Introduced in 2000
Studio-type furnished units with home appliances for easy living, with short-term residency potential.

VILLA SUPERIO
Introduced in 2006
Urban-style four-story structure targeting areas with high occupancy rates.

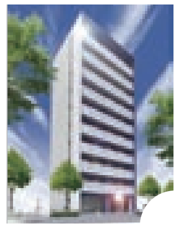
VILLA SCELTE
Introduced in 2006
Spacious rooms of 40m² and up, targeting the DINKS demographic.

LEO GRANDIR
Introduced in 2007
Family-type units in maisonette style equipped with a loft that makes use of space under the roof.

Lavo cerna
Introduced in 2008
Partial leased residence that ensures the independence of the leased portion and the owner's residential portion.

Lavo familia
Introduced in 2008
Maisonette-type unit aimed at the young family demographic.

Leffect
Introduced in 2009
Structure adapted to narrow urban areas that until now were difficult to use.

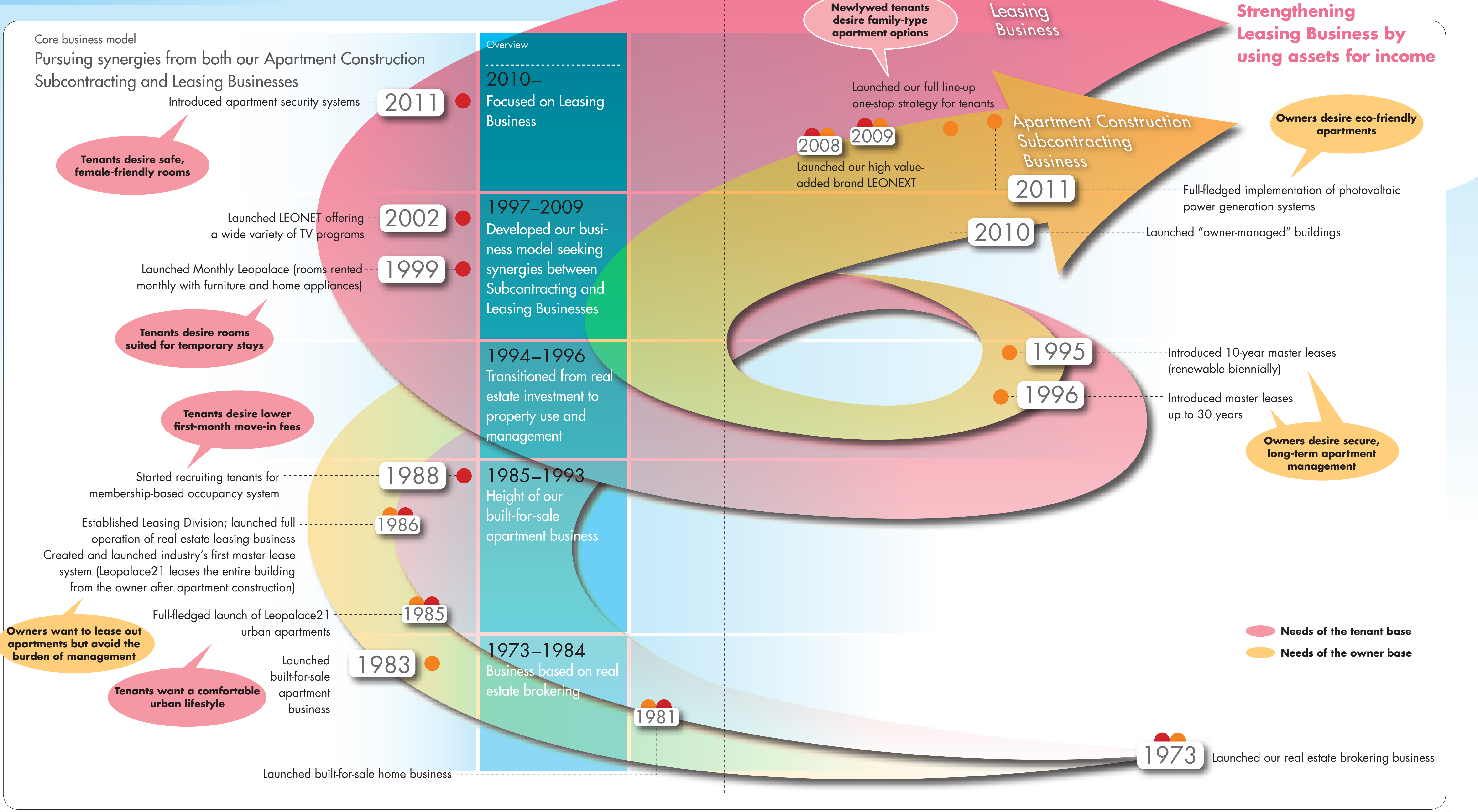


VERDURE
Introduced in 2010
The Company's first urban-style leased designer condominiums, targeting exclusive metropolitan mid- to high-rise zones and offering up to ten stories.

Business Model Transitions and Future Directions

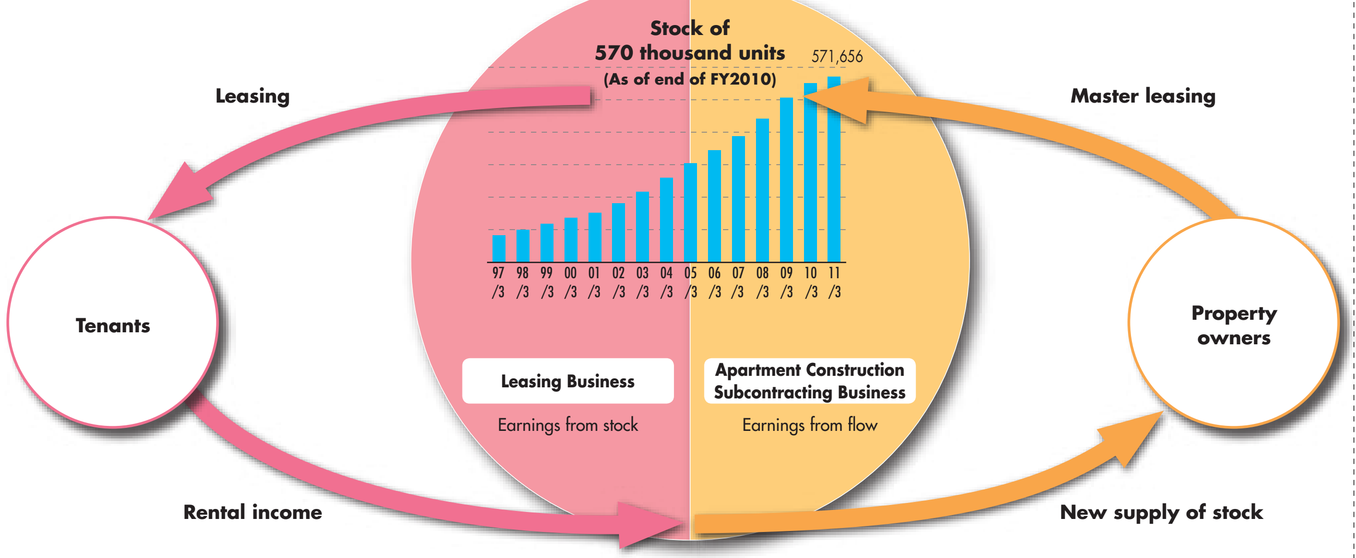
Leopalace21 was founded as a real estate agency. From the early 1980s we began sales of apartments, and expanded with each passing year through a cycle of bank borrowing → land purchasing → apartment construction → apartment sales. However, that cycle collapsed in the 1990s along with the real estate bubble, leaving our built-for-sale apartment business stranded. We thus transitioned to a business model in which we take on apartment construction subcontracting from landowners, without purchasing land ourselves.

From here out, we will fortify our Leasing Business through measures that enhance the value of existing apartments (stock). In this way, we will balance our business earnings, transition to a stable profit structure, and aim for the effective development of our Apartment Construction Subcontracting (Subcontracting) and Leasing Businesses.



Our Characteristics and Competitiveness

● Our business model



● Nationwide network of 570 thousand units

Leasing of Leopalace21's approximately 570 thousand managed properties is available through the Company's directly-managed Leopalace Center offices (156 locations nationwide as of the end of March 2011) as well as the Leopalace Partners (franchise sales offices) launched in June 2010. Moreover, our online site allows one-stop handling of all procedures, from nationwide search for properties to application and agreement, from computers and mobile phones.

These networks also cover the needs of business, allowing Leopalace21 to steadily build a record of achievement in corporate housing and dormitories.

● Implementing a 30-year master lease system

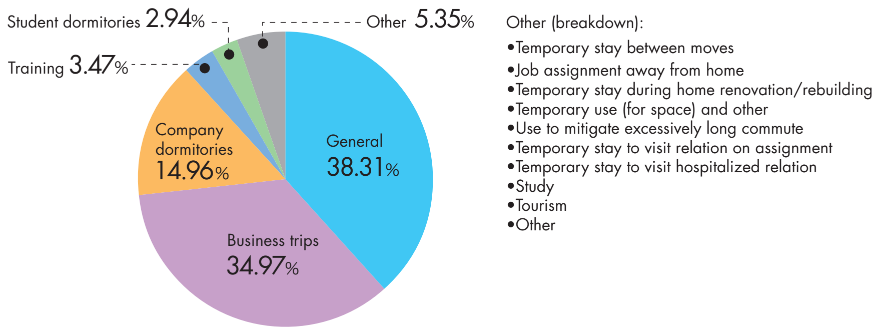
In its Apartment Construction Subcontracting Business, Leopalace21 implemented an industry-leading master lease system, under which we promise up to 30 years of stable management that provides a solid sense of security to subleasing property owners. Against the background of this strength, the properties that we build as subcontractor and master lease from owners extend from Hokkaido in the north to Okinawa in the south, exceeding 570 thousand units as of the end of March 2011. No other single company constructs and manages this many properties on its own.

● Our business situation

Providing monthly agreements for short-term tenants

In addition to general leasing aimed at long-term residency, Leopalace21 has opened a new market differing from conventional leasing through the introduction of monthly leasing for short-term or temporary residence. Our monthly agreements are used for a variety of residential purposes, including business travel, dormitories, and training.

Usage data: Breakdown of uses of month-to-month leases (As of March 31, 2011)

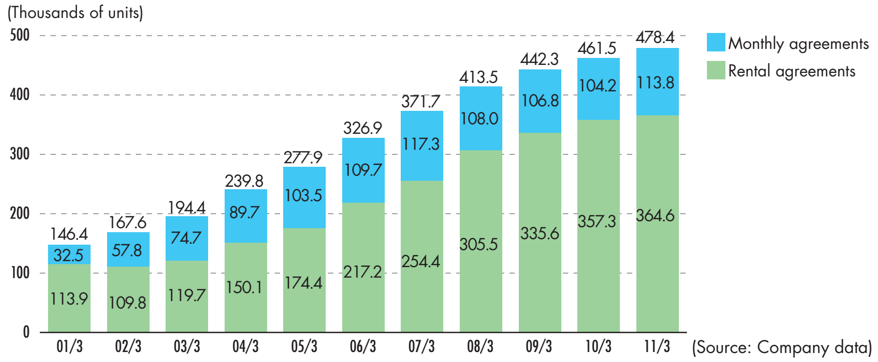


(Source: Company data)

Steady increase in monthly agreement tenants

Since the start of monthly agreements in fiscal 1999 (the fiscal year ended March 31, 2000), the rising number of units leased through the service shows how it effectively fills a market need. By accurately meeting the changing needs of the marketplace, our monthly service has maintained a high level of agreements in excess of 100 thousand units since fiscal 2004 (the fiscal year ended March 31, 2005).

Usage data: Number of leased units by agreement type



(Source: Company data)

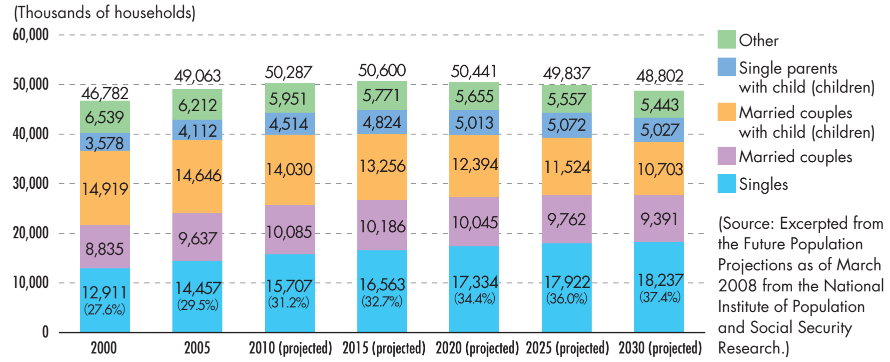
● Market trends are in our favor

Single-person households are on the rise in Japan's housing market. In such a market environment, the demand for studio-type housing for single persons is expected to continue over the long term. Looking ahead, we will strive to supply high-quality housing that meets such societal needs.

Single-person households are on the rise

With studio-type housing as one of our core products, forecasting the future of single-person households holds important implications for us. According to estimates by the National Institute of Population and Social Security Research, single-person households are expected to steadily increase through 2030, both in number and in share of all households. As such, the market for our core studio-type housing products is expected to continue growing in the future.

Demand data: Estimation for future number of general households by family category

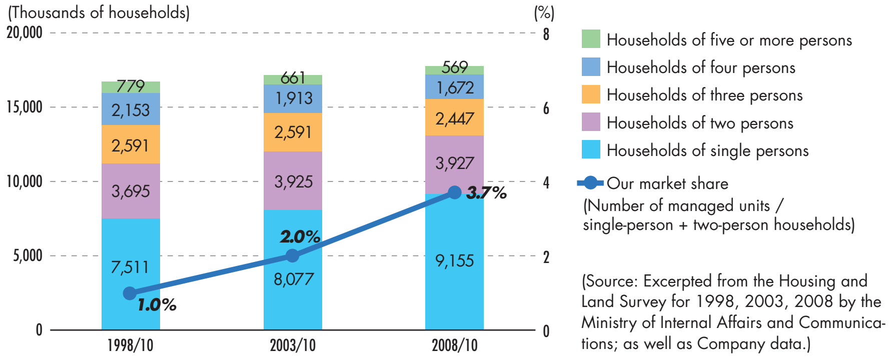


(Source: Excerpted from the Future Population Projections as of March 2008 from the National Institute of Population and Social Security Research.)

Single-person households in rental housing are increasing

Along with the number and share of single-person households, the demand for rental housing by those households is also an indicator of importance to Leopalace21. According to the Housing and Land Survey by the Ministry of Internal Affairs and Communications, the number of households living in rental housing increased during the decade up through 2008, with the single-person and two-person households targeted by the Company expanding steadily in both number and in share of all households. Also during the decade, our share of managed units among single-person and two-person households has also been on the rise. The increase in these households, in both number and in share of all households, is forecasted to continue from here out.

Demand data: The number of households residing in rental housing and our share of the market (single-person and two-person households)

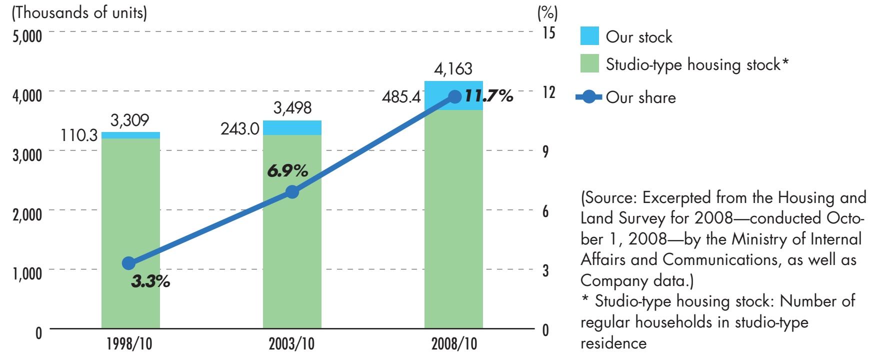


(Source: Excerpted from the Housing and Land Survey for 1998, 2003, 2008 by the Ministry of Internal Affairs and Communications; as well as Company data.)

Studio-type housing, and the Company's share, are on the rise

In the decade up through 2008, the total number (stock) of studio-type housing units supplied in Japan was on an increasing trend. According to statistics published every five years by the Ministry of Internal Affairs and Communications, as of October 1, 2008, the supply of studio-type housing was 4,163 thousand units, an increase of 25.8% over 10 years. Among this supply of units, the Company's share increased to 11.7% during that period.

Stock data: Number of studio-type units, number and shares of our units

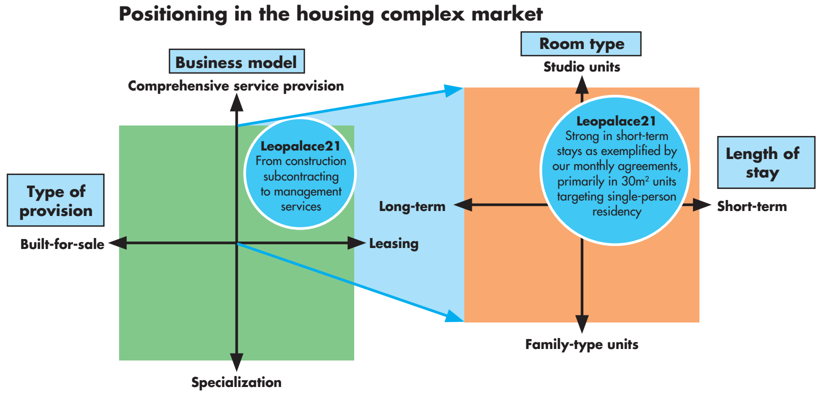


(Source: Excerpted from the Housing and Land Survey for 2008—conducted October 1, 2008—by the Ministry of Internal Affairs and Communications, as well as Company data.)
* Studio-type housing stock: Number of regular households in studio-type residence

● The Company's position

Within the housing complex market, the Company specializes in leasing and has established a business model providing comprehensive services from apartment construction to general management and superintendence. Even within an industry supporting similar business models, we have successfully differentiated ourselves by providing a large number of short-stay room types, as exemplified by our monthly agreements aimed at single tenants. Taking advantage of our characteristics and competitiveness and solidly positioning ourselves in the marketplace, we aim to achieve further growth in the future.

Positioning in the housing complex market



Launching strategies to enhance earnings from stock to re-vitalize synergies in our business model

Eisei Miyama
President and CEO

Start of our Medium-term Management Plan

Q: Please relate your impressions looking back upon the fiscal year ended March 31, 2011 (fiscal 2010), the first year of the Medium-term Management Plan.

A: We embarked upon business restructuring under new basic policies. I believe that we are steadily building a foundation for growth.

In May 2010, we launched our new Medium-term Management Plan. The purpose behind this was to rethink our ideal business model and enact a shift in policies. In our core Apartment Construction Subcontracting Business and Leasing Business, we had previously placed priority on new supply of apartments as rooms were in short supply in some areas. However, demand for rental housing hit a sharp temporary decline following the collapse of Lehman Brothers. Apartment occupancy rates fell, and it became difficult to extract synergies from our two core businesses.

For that reason, we adopted new basic policies aiming at transformation to a stable earnings structure through the balancing of earnings in both of the businesses, and subsequently began restructuring. Specifically, we transformed our thinking from a "Product Out" approach prioritizing apartment construction, to a "Market Out" approach focusing on market demand. In addition, we shifted emphasis from the new supply of apartments to our Leasing Business, launching one initiative after another to secure earnings from our existing apartments (i.e., stock).

The Company's consolidated financial results for fiscal 2010 have been impacted by the protracted sluggishness in the domestic economy and the Great East Japan Earthquake that struck during the peak March season. Further, we saw a delay in our switch to handling apartment agreements for individuals through our newly implemented franchising program instead of our directly managed sales offices, and were forced to considerably revise our number of apartment units supplied. As a result, consolidated net sales were ¥484.4 billion (down 21.9% year on year). We posted an operating loss of ¥23.6 billion.

Our construction of a foundation for growth, however, is making progress in areas not seen in the performance numbers. The principles behind our business restructuring are reflected in new action plans, and I believe that all directors and employees have come together to create a structure to tackle our difficulties. Results are already evident in some areas, and at the end of fiscal 2010 we recorded our highest ever number of corporate apartment unit agreements. In individual agreements, too, we are enjoying robust growth in our number of agreements with students.

Strategies for fiscal 2011

Q: Please discuss the basic policies for the fiscal year ending March 31, 2012 (fiscal 2011).

A: In order to strengthen emphasis on our Leasing Business, we made "enhancing earnings from stock" our central business strategy for fiscal 2011.

Last year we changed our mindset from a Product Out to a Market Out business model. Further, in keeping with our policy of shifting focus to our Leasing Business, we believe that selling tenants on the value of our stock of existing apartments is a key point. With an eye on the successful new measures we implemented in fiscal 2010 in order to enhance the value of our stock of leased managed properties, we will move to maximize the earnings gained from that stock in fiscal 2011.

Q: Please concretely describe initiatives to be implemented in fiscal 2011.

A: In accordance with our basic policies for fiscal 2011, we will undertake (1) Full-scale measures to enhance the value of properties; (2) Reduction of leasing costs and improvement of services; and (3) Strengthened tenant placement ability.

Full-scale measures to enhance the value of properties

First, we believe that enhancing the value of our properties is a direct means of enhancing our earnings from stock. Toward that end, in fiscal 2011 we will undertake full-scale upgrades by installing photovoltaic power generation systems and security systems.

We expect that photovoltaic power generation systems will contribute to environmental conservation. Further, the electricity generated can be used in common services for tenants, while revenue from the sale of surplus electric power accrues entirely to the apartment owner.

In security systems, we are partnering with SECOM CO., LTD., and SOHGO SECURITY SERVICES CO., LTD., to provide a secure home living environment for tenants, whether at home or away. We are planning to introduce this service to all units, which we believe is a landmark innovation for leased apartments. We think this will be especially appealing to women tenants, and expect that it will further improve occupancy rates.

In addition, in partnership with JS Group Corporation we plan to undertake room and exterior appearance renovations for buildings aged 15 years or older, starting from the second half of fiscal 2011.

Such measures to enhance the value of properties create a win-win-win relationship among owners, tenants, and the Company. Looking ahead, we will continue to expand orders for both existing properties and new properties.

Reduction of leasing costs and improvement of services

Leopalace21 will strengthen its efforts to reduce costs and improve services. We will review our management work to make tasks such as cleaning more efficient, while also optimizing rent payments to owners. In addition, based upon discussions with owners we will continue our service agreements for broadband operations and our comprehensive furniture and home appliance maintenance service—action plans we instituted in fiscal 2010.

Strengthened tenant placement ability

In addition to the above, we will reinforce our franchise sales offices, strengthen our handling of corporate demand, and build cooperative relationships with other companies. These measures aim to increase our points of contact for acquiring tenants, helping us grow our number of lease agreements.

We previously handled apartment agreements for individuals through our directly managed sales offices. However, as this alone is insufficient for increasing our number of tenants, we will reinforce our Leopalace Partners franchise sales offices. At the same time, we will reduce our number of directly managed sales offices as a cost-cutting measure.

Additionally, we will strengthen our handling of corporate demand. The number of units for corporate use among our managed properties reached a record high at the end of fiscal 2010, surpassing 200 thousand units. At the time, that figure represented a 35.4% share of our total units. These numbers showcase our strength in capturing corporate demand, one of the hallmarks of the Company. To enhance this strength even further, we will increase corporate housing for families in response to requests from corporate customers. At present, studio-type rooms make up about 95% and housing for families make

Our shift toward leasing is what will bring out synergies between leasing and subcontracting. In the future, the Company envisions exporting the leasing expertise it has built up in Japan.

up about 5%, but we aim to make those ratios 80% and 20%, respectively.

Our success in securing tenants is dependent upon not only our efforts, but also our network with other real estate companies. We have formed a cooperative relationship with JS Group Corporation, and between January and March 2011 saw the number of lease agreements for our properties acquired through that company's real estate division affiliates grow to 1.5 times that of the previous year. From here out, we will continue working to build cooperative relationships with real estate companies to increase such partnerships.

Business model synergies

Q: With the Company's shift toward the Leasing Business, what will become of the Apartment Construction Subcontracting Business?
A: The Subcontracting Business will continue, while taking a selective stance toward orders.

By continuing to accept orders only in areas with high demand for residency, the Subcontracting Business will be restrictive in the total number of new units supplied in our managed properties. However, as we have constructed many apartments from 1985 onward, demand will grow for the renewal, renovation, and rebuilding of these, and thus the Subcontracting Business will play a role as a source of steady earnings.

Furthermore, with respect to those who manage multiple apartments on their own, or to apartments targeting a tenant base different from that of our managed properties, we are employing our accumulated internal expertise to perform subcontracted construction of apartments not master leased by Leopalace21 (i.e., owner-managed properties). Moreover, we are also actively working to provide construction subcontracting for nursing facilities and combined facilities of leased residential and commercial complexes that take best advantage of properties' environs and characteristics.

Q: Will restricting the Subcontracting Business and shifting toward the Leasing Business result in an unbalance?
A: To the contrary, I believe that the result will be synergies between these two core businesses.

In fact, I believe that this shift toward the Leasing Business is the very thing that will reignite synergies in our business model consisting of two core businesses. The issue we faced was that we had prioritized the supply of apartments, and occupancy could not keep up. As a result, we had been moving to restrict new apartment construction orders and rebalance supply in our business to match demand. However, by capturing tenants' needs, beginning with our measures to enhance the value of properties, and by taking steps to boost our tenant placement ability, our apartments will grow in popularity and create a ripple effect that lifts the Subcontracting Business.

Our shift toward the Leasing Business will reactivate the business model that stems from our two core businesses, and will reignite synergies.

Response to the Great East Japan Earthquake

Q: Please discuss the Company's response to the Great East Japan Earthquake.
A: Putting our past experience to work, we immediately moved to ascertain the extent of the situation.

The Great East Japan Earthquake that occurred on March 11, 2011 resulted in damage to 137 buildings (2,373 units) among our managed properties, but none were destroyed by the quake or washed away by the tsunami. However, some have become uninhabitable due to the water damage. There was no major damage to our branch offices in the region.

After the earthquake, we immediately formed a team of about 130 experts, primarily consisting of managing engineers, and conducted an investigation of our properties. Specifically, we examined exterior cracks, misalignment, and the condition of foundations and interiors. We requested that tenants leave properties in which problems were found. With regard to vacant rooms, we are recruiting tenants only after confirming that the rooms can be lived in without safety risks. Our structure for dealing with the disaster served us well due to our experience gained from the Great Hanshin-Awaji Earthquake in 1995 and the Niigata Chuetsu Earthquake in 2004.

Q: Please discuss the Company's philanthropic activities related to the earthquake.
A: We did everything we could, working through our business of providing housing.

Immediately after the earthquake, we received an emergency request from the Ministry of Land, Infrastructure, Transport and Tourism regarding properties managed by the Company, and provided rooms within the properties we managed in the afflicted areas. We also constructed 300 temporary housing units in Miyagi and Fukushima prefectures.

At the same time, although there was no request from the government, we provided support to those affected by the disaster in the form of reduced rent for our managed properties (halved rent for short-term tenants, waived initial fees for long-term residents, etc.). In addition, we collected donations and provided relief supplies.

Long-term strategies

Q: In the long term, what sort of new developments do you wish to pursue?
A: We would like to take the leasing know-how we have accumulated so far and export it overseas.

Our strategic vision includes overseas markets. Leopalace21 already provides intermediary services for apartments on behalf of persons coming to Japan from China, Taiwan, and South Korea. In the future, we want to take full advantage of our local office networks in China and South Korea to provide similar property intermediary services for those going abroad from Japan.

We are looking even more deeply into our international strategies. There are countries overseas that do not have the housing culture of leased apartments or leased condominiums as seen in Japan. For example, in South Korea there are only built-for-sale condominiums provided by corporate conglomerates. The system calls for lump payment of a security deposit upon taking residence, without a leasing system as in Japan; nor are there even leased housing insurers or rent guaranty firms to deal with cases of rent non-payment. However, Leopalace21 has small-claims and short-term insurers and recovery specialists among its subsidiaries. In the future, rather than constructing apartments overseas, we would like to offer the leasing business expertise we have accumulated in Japan. In other words, we want to export not *things* but rather our *know-how*.

To our shareholders and investors

Q: Finally, please describe the Company's policies regarding return to shareholders.
A: We will continue to make every effort to retain our position as the industry leader.

For two years now we have not paid dividends to our shareholders, a situation which we must note with regret. Under a policy of boosting earnings by leveraging our stock of properties, the Company as a whole is tackling business restructuring. We will continue making every effort in the future to retain our position as the industry leader. As such, we ask all of our shareholders and investors to hold high expectations for our long-term growth potential and to continue offering your generous support and understanding.

August 2011

Eisei Miyama
President and CEO
Leopalace21 Corporation

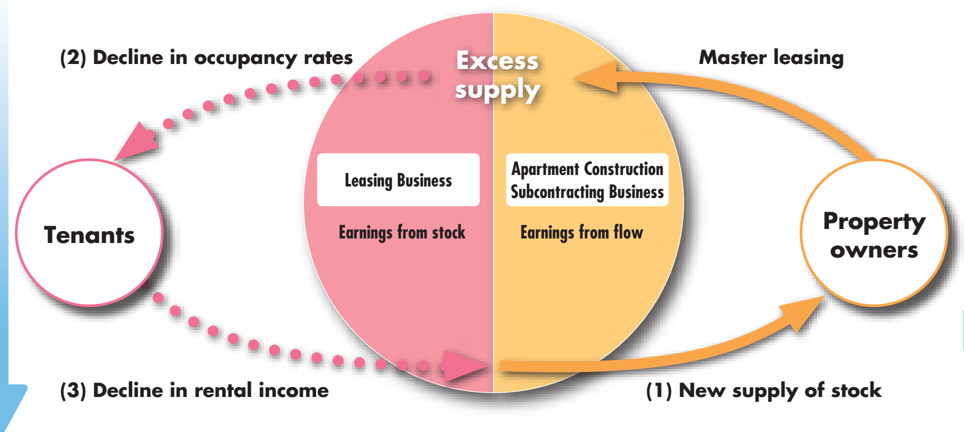
Responding flexibly and appropriately to a rapidly changing business environment

● Background of the new strategies

Leopalace21 launched its Medium-term Management Plan in fiscal 2010 (the fiscal year ended March 31, 2011). This Medium-term Management Plan marks a major change in direction for our business model. Precisely speaking, rather than changing our business model itself, we are changing how we make use of it. From the 1990s, we equally held up our Apartment Construction Subcontracting Business and our Leasing Business, practicing a business model in which we solicited tenants for the apartments we constructed and performed complete management and superintendence of those apartments. However, hit by the Lehman Brothers crisis in 2008, unemployment has been increasing throughout Japan. Our apartments, which have a high number of corporate agreements, saw many tenants depart, leaving us with the challenge of restoring occupancy rates. We are taking this as an opportunity to adjust our pace of new apartment supply and to place priority on securing tenants.

Aiming for the balanced development of both of our core businesses

Previous problem areas (Product Out approach)



(1) With rooms in short supply in some areas, we actively solicited orders for apartment construction.

(2) Demand for apartments temporarily sunk in the wake of the Lehman Brothers crisis.
→ Rapid deterioration in occupancy rates

(3) Rental income also deteriorated.

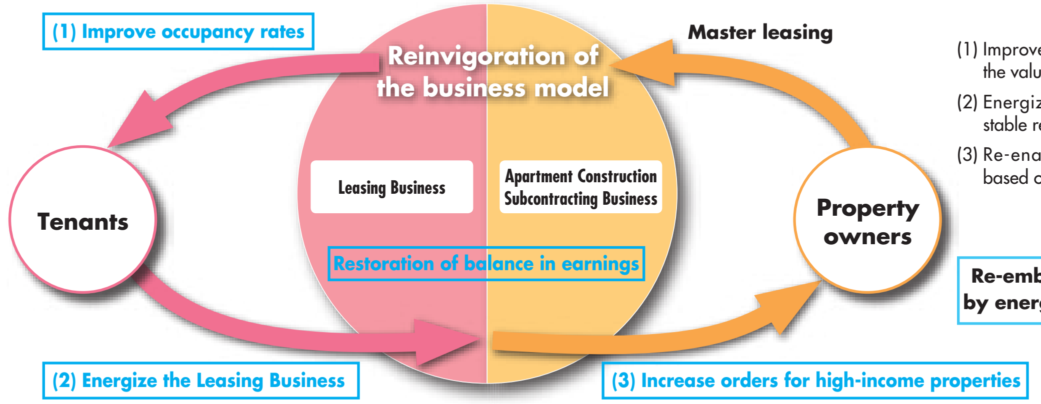
The result: a state of oversupply

Strategies for fiscal 2011

Strengthen the Leasing Business and implement strategies to secure a large number of tenants

- Measures to enhance the value of properties: Installation of photovoltaic power generation systems and security systems in apartments
- Improvement of services: Diversification of master-leasing agreements, introduction of owner-managed properties without master leasing, and limiting solicitation areas for orders
- Strengthened tenant placement ability: Increase number of Leopalace Partners franchise sales offices

Goals for fiscal 2011 (Market Out approach)



(1) Improve occupancy rates by enhancing the value of properties.

(2) Energize the Leasing Business through stable rental income from tenants.

(3) Re-enable solicitation of new orders based on demand for apartments.

Re-embark upon a growth path by energizing the business model

● Summary of fiscal 2010

Our basic policy for fiscal 2010, the first year of our Medium-term Management Plan, was to transition to a stable earnings structure that balances earnings from our Subcontracting Business and from our Leasing Business. In particular, we implemented the following three initiatives with the goal of a near-term return to profitability in our Leasing Business.

First, we took measures to strengthen our tenant placement sales, with the goal of improvement in occupancy rates. Toward this end we fortified our corporate sales, developed Leopalace Partners franchise sales offices as an adjunct to our directly managed sales offices, and began working to improve the competitiveness of our apartment properties.

We also undertook measures to reduce leasing costs and improve our services. We enhanced the services we offer to owners, along with implementing efficient apartment management and superintendence.

In addition, we enacted a strategy of limiting our Subcontracting Business's solicitation of orders to areas promising improvement and stability in occupancy rates.

Looking back upon all of these in fiscal 2010, we have clearly made progress in implementing improvements. Yet at the same time, new issues have arisen. In light of these, in fiscal 2011 we will enact strategies to build an even stronger management foundation.

Review of fiscal 2010

Transition to a stable earnings structure balancing earnings from the Subcontracting Business and the Leasing Business

Basic policies	Action items	
Enable near-term profitability in the Leasing Business	Strengthen tenant placement sales	● Improve occupancy rates
	Reduce leasing costs and improve services	● Newly establish service agreements for broadband operations and a comprehensive furniture and home appliance maintenance service ● Reduce costs through review of regular maintenance tasks ● Adjust master lease rents in line with market prices
	Narrow the Subcontracting Business to construction projects that can secure stable earnings for the Leasing Business	● Improve and stabilize occupancy rates through an "area limitation" strategy

New Strategies

Actions for Fiscal 2011

●Basic policy for fiscal 2011: Enhancing earnings from stock

Toward management that leverages, not creates, physical goods (stock)

Up to now, the Company has generated significant earnings through the construction of leased apartments and condominiums by our Subcontracting Business. Our number of managed properties has grown to exceed 570 thousand units, enough to sufficiently meet demand. Going forward, by strengthening the Leasing Business to leverage this enormous asset of managed units (i.e., our stock), we will secure profitability not dependent on the Subcontracting Business alone, and thereby set the Subcontracting Business and Leasing Business working in concert.

Basic policies for fiscal 2011

- ■In fiscal 2011 (the fiscal year ending March 31, 2012), we will enhance our earnings from stock.
- ■We will realize this plan by implementing three pillars of action: Full-scale measures to enhance the value of properties; Reduction of leasing costs and improvement of services; and Strengthened tenant placement ability. We have already carried out organizational changes in May 2011, creating a stronger structure for executing this plan.
- ■We will further strengthen and enhance our existing measures to address SG&A expenses.

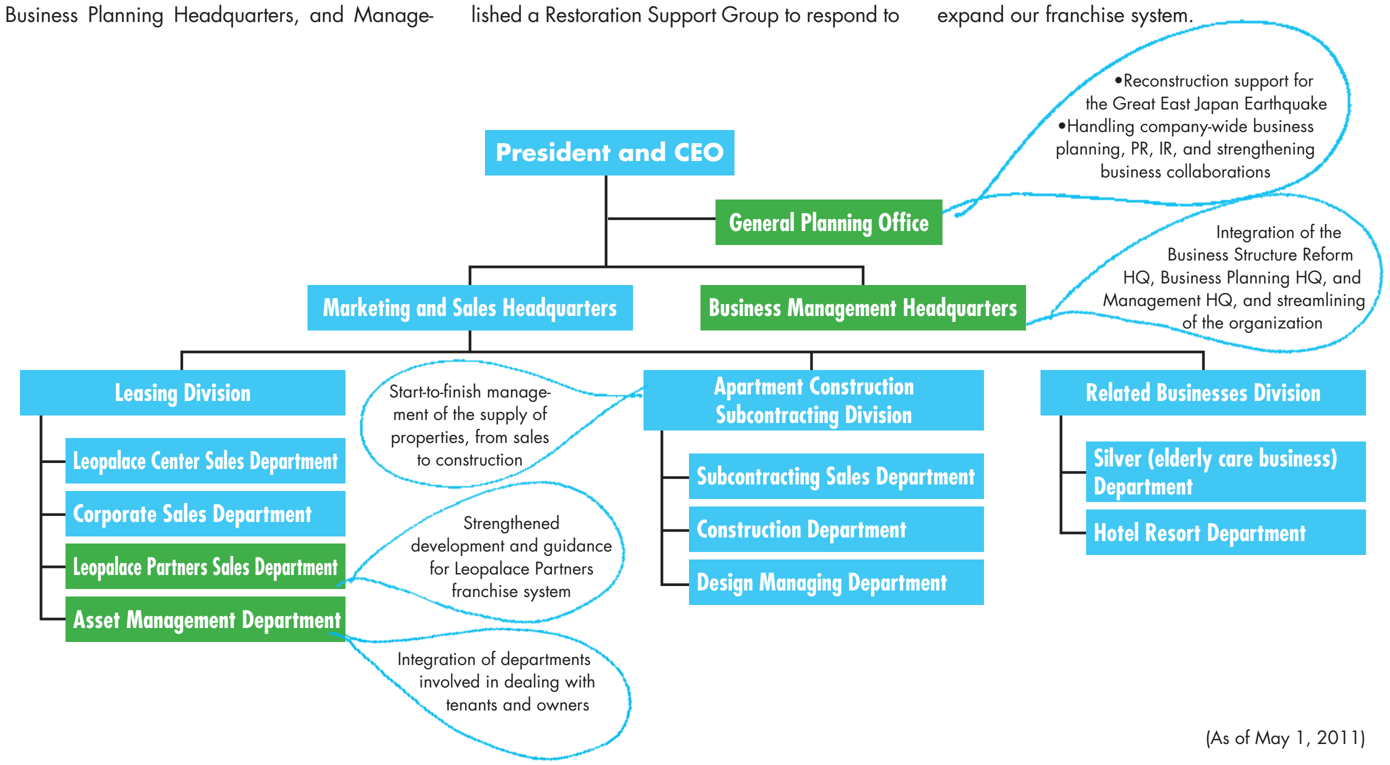
●New organizational structure

Toward a dual headquarters structure: Marketing and Sales Headquarters and Business Management Headquarters

In May 2011, Leopalace21 carried out an organizational change to further enhance operational efficiency.

We consolidated our three existing Headquarters (Business Structure Reform Headquarters, Business Planning Headquarters, and Management Headquarters) and established a new Business Management Headquarters as well as a General Planning Office directly under the President.

Within the General Planning Office we established a Restoration Support Group to respond to disasters, and are enacting reconstruction aid for the Great East Japan Earthquake. In addition, we established an Asset Management Department to respond to the needs of tenants and owners, and a Leopalace Partners Sales Department to expand our franchise system.



(As of May 1, 2011)

●The three pillars of fiscal 2011 actions

The three pillars for driving business model change

The three pillars

Measures to enhance the value of properties	Reduction of leasing costs Improvement of services	Strengthened tenant placement ability
By offering photovoltaic power generation systems and security systems matched to the characteristics of properties, we aim to increase medium- and long-term sales through increased short-term earnings and improved occupancy rates and rents.	We will further expand review of the regular maintenance services we provide, linking these to cost reductions.	By executing measures to increase the number of Leopalace Partners franchise sales offices, number of agreements per office, and number of corporate agreements, as well as to increase the number of agreements by reducing the work load at directly managed sales offices, we aim to increase our overall number of agreements.

●Key strategies for the Leasing Business

Promoting change along the two axes of sales growth and cost reductions

Leopalace21 is committed to improving the profitability of our Leasing Business, primarily through the leveraging of stock. Toward that end, we are enacting a number of initiatives aimed at both sales growth and cost reductions. We are making the improvement of occupancy rates paramount and actively addressing the reduction of fixed costs and other costs, and will strengthen our Leasing Business through a more robust management structure.

As our strategy for growing sales, we will increase our points of contact for acquiring tenants and improving occupancy rates, and thus secure stable earnings. In addition to our conventional directly managed sales offices, we will expand our Leopalace Partners franchise sales offices. In addition, we will further reinforce our existing strength in corporate sales, to capture the demand for corporate housing and temporary business use. Furthermore, to enhance the value of our properties, we will introduce security systems and photovoltaic power generation systems, both exceptionally innovative services in the field of leased apartments. In particular, we intend to introduce security systems in all of our roughly 570 thousand managed units.

As cost reduction measures, we will strive for reductions in property management costs, optimization of master lease rents for our managed properties, and reduction of sales expenses. At a number of the properties constructed by Leopalace21 as a subcontractor, we perform management and superintendence on behalf of owners under a 30-year master leasing system. For these, we are proposing optional approaches to the form of the agreements and the rent we pay to owners, and are considering alternatives that take owners' needs into account.

	Measures	Details
Increase sales	Improve occupancy rates	Expand and strengthen Leopalace Partners franchise sales offices, and strengthen corporate sales
	Enhance the value of properties	Install security systems and photovoltaic power generation systems
Reduce costs	Reduce property management costs	Reduce costs including propane gas fees, janitorial fees, garbage collection fees, septic tank contractor expenses, etc.
	Optimize master lease rents	Adjust master lease rents based on market prices
	Reduce sales costs	Drastically review the Partners system through the establishment of the Leopalace Partners Sales Department as a controlling department

● Strategic topics

Aiming for a stock-based business structure to ensure stable earnings

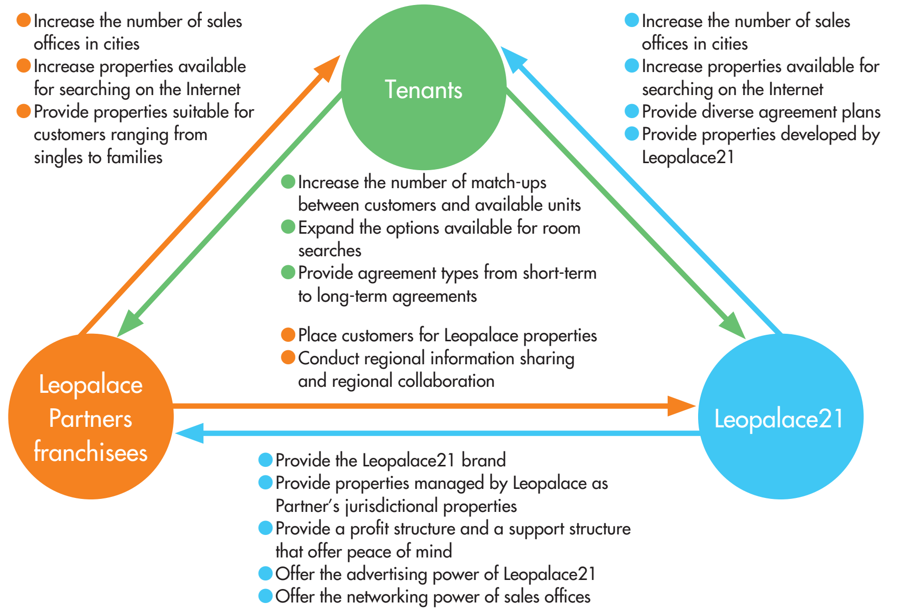
We are enacting a number of enhancement initiatives to create an earnings structure focusing on the Leasing Business.

Strengthening the Leopalace Partners franchising program

The Company began operation of its unique Leopalace Partners franchise system in June 2010 as a new channel for increasing tenants. This system aims to create a win-win-win relationship among franchisees, tenants, and the Company, and as a leasing strategy provides support for the independence of our employees who wish to open their own franchise sales offices.

While we hold down the number of costly directly managed sales offices, we will link the expansion of Leopalace Partners franchise sales offices to the improvement and stabilization of occupancy rates through increased points of contacts for securing customers, as well as to the conversion of fixed expenses to variable expenses and to the reduction of SG&A expenses. Leopalace21 will gradually expand its number of franchise sales offices from the 121 in operation at the end of March 2011. To prevent a drop in tenant placement ability, we intend to maintain our directly managed sales offices at 155 in fiscal 2011, only 1 less than the number at the end of March 2011. We have been steadily growing our number of apartment agreements since the introduction of Leopalace Partners franchise sales offices in June 2010. In May 2011 we established a new Leopalace Partners Sales Department to further provide support for the opening of Leopalace Partners franchise sales offices.

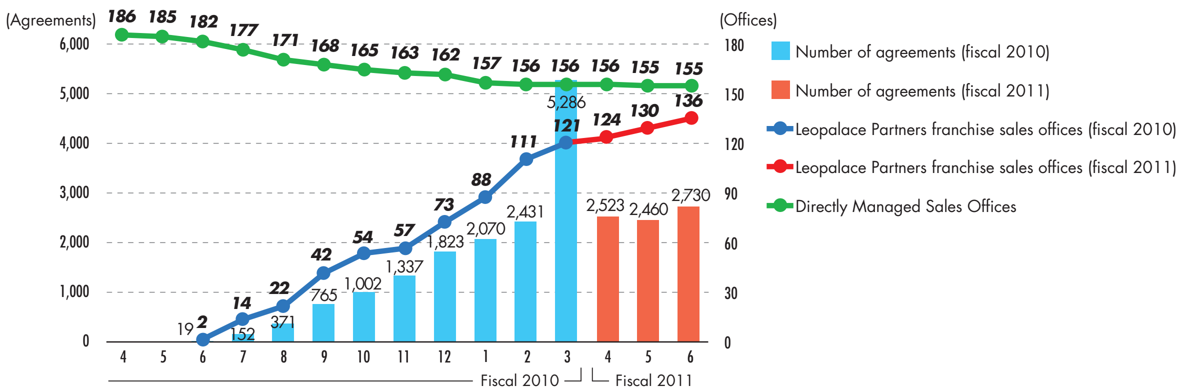
Leopalace Partners Structure




Leopalace Partners, Nagoya Minami Office


Leopalace Partners, Kirishima Office

Number of Directly Managed and Leopalace Partners Franchise Sales Offices, and the Number of Agreements (June 2010 – June 2011)

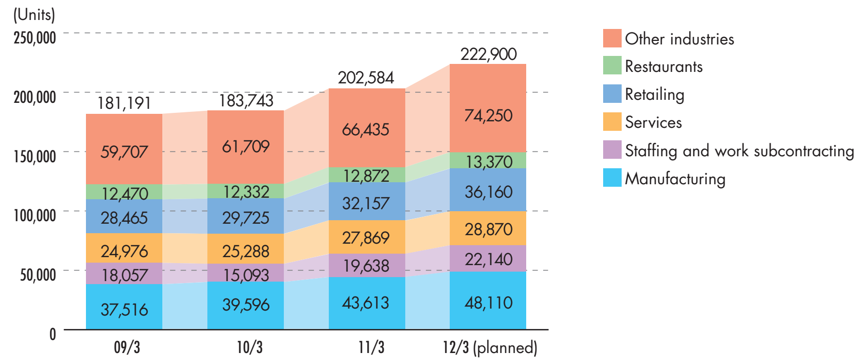


Strengthen corporate sales

One characteristic of the Company is its particularly strong corporate sales within the leased housing industry. Companies that do not have dormitories or company housing, and even those that do, have an interest in outsourcing as a way of reducing the costs of new construction or renovation of aging facilities. After the collapse of Lehman Brothers, corporate use of our properties saw a temporary decline. However, out of 571,656 units managed by the Company at the end of March 2011, a record high of 202,584 units (about 35.4%) were under corporate agreement.

In the development of our corporate sales we will conduct our own surveys of demand trends, and will strengthen our sales approach, led by Leopalace21 upper managers, toward industries with expected future demand (services, retailing, restaurants, manufacturing, etc.). As additional measures to capture corporate customers by enhancing convenience, we will reinforce collaboration with our subsidiary Leopalace Leasing Corporation, a corporate housing agency, and further introduce family-style apartments.

Number of Units in Corporate Use, by Industry



Our number of units under corporate agreement was 180 thousand at the time of the Lehman Brothers crisis, but has since reached a record high of 202 thousand units at the end of March 2011.

(1) Implement own surveys of corporate customer demand trends

Industries and sectors for which future demand is anticipated: Services, retailing, restaurants, manufacturing

Strengthen sales approach toward industries with anticipated demand

(2) Strengthen collaboration with corporate housing agency Leopalace Leasing Corporation

Provision of corporate housing agency services:
Improve convenience and capture corporate customers
Acquire customers for family-type rooms

Strengthen sales ability through collaboration between corporate sales department and corporate housing agency

Initiatives to enhance the value of properties

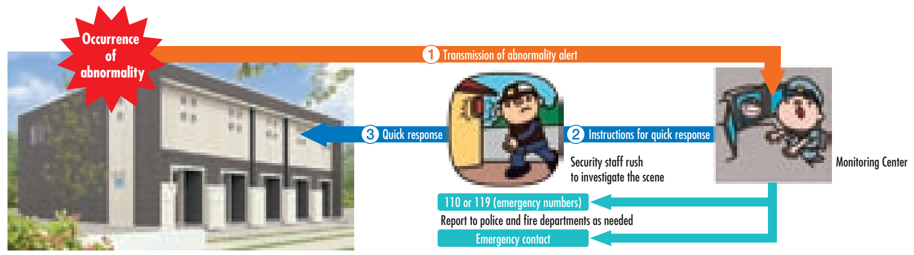
Acquiring tenants, possibly the greatest challenge facing the Company, requires that our properties themselves be the choice of tenants from among all properties available in a severely competitive leased housing market. From fiscal 2011 we have implemented several innovative measures to continue enhancing the value of our properties.

(1) Apartment security systems

With "24-hour, 365-day safety and security" as our motto, we are collaborating with two major security firms to install security systems (crime prevention, fire monitoring, and emergency alerts) in newly built properties and in our managed properties nationwide, thus enabling secure and comfortable living for tenants. We are also offering optional services to protect the security of seniors living alone. We plan to install security systems in all of the roughly 570 thousand units of our existing managed properties, a groundbreaking approach in leased housing.

(2) Photovoltaic power generation systems

With "safety and security of the global environment" as our motto, we are installing photovoltaic power generation systems in newly built properties and in our managed properties nationwide. The generated power is used for common services in apartments, and excess power can be sold by owners to generate income. Apart from our own properties, we are simultaneously introducing the systems to owners' houses and to apartments managed by other companies. This introduction of photovoltaic power generation will expand our business while contributing to the universal issue of CO_2 reduction.



Security systems diagram


Photovoltaic power generation system

A Management Structure Built on CSR

●CSR

Our business shoulders the enormous social mission of providing housing, the most basic form of infrastructure for human life. As our business is involved with both tenants and owners over long spans of time, it is important that we sustain stable growth as a company. In order to do so, we must have the trust of society. As such, we undertake a range of initiatives to carry out growth in harmony with society, acting as a good corporate citizen. These initiatives include reviewing and improving our management structure and business activities, support for conservation of the global environment, and contributions to local communities.

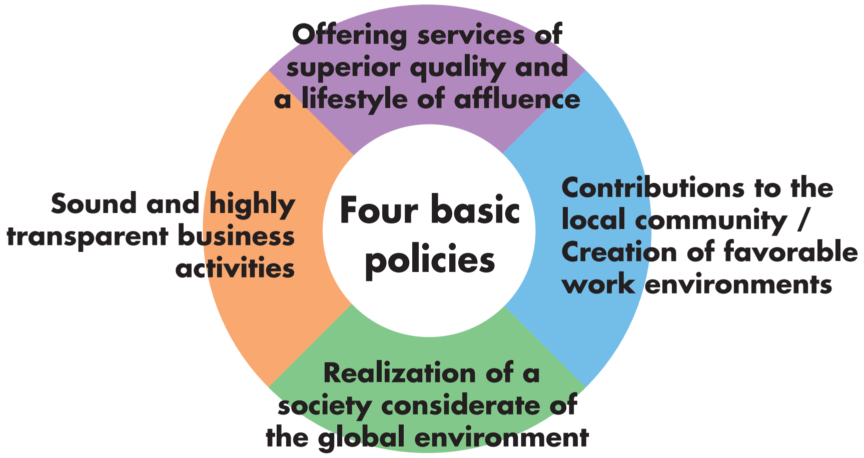
Among our business activities in recent years, we are working to aid single-person tenants by preparing systems to respond promptly to unexpected trouble, and to provide a safe and secure living environment through security systems. We are also moving ahead with measures including expanded product options allowing us to offer comfortable dwellings to families, seniors, and people of foreign nationality, creating safe and secure living environments for all.

CSR Declaration

We, as a corporate citizen, are determined to respond to the expectations of all stakeholders, including customers, aiming at developing together and contributing to the realization of a sustainable society.

Basic CSR Policy

As a corporate citizen determined to contribute to the realization of a sustainable society, we have established four basic policies.



1. Offering services of superior quality and a lifestyle of affluence
By presenting new lifestyles, we offer our customers safe, secure, and comfortable living environments.

2. Contributions to the local community / Creation of favorable work environments
By participating in activities that contribute to society, we support the development of local communities while we deepen communication with members of the community. We also create a better working environment for employees.

3. Realization of a society considerate of the global environment
We recognize the magnitude of the impact of our business activities on the global environment, and aim to achieve a sustainable society by reducing the environmental stress from all areas of our activities.

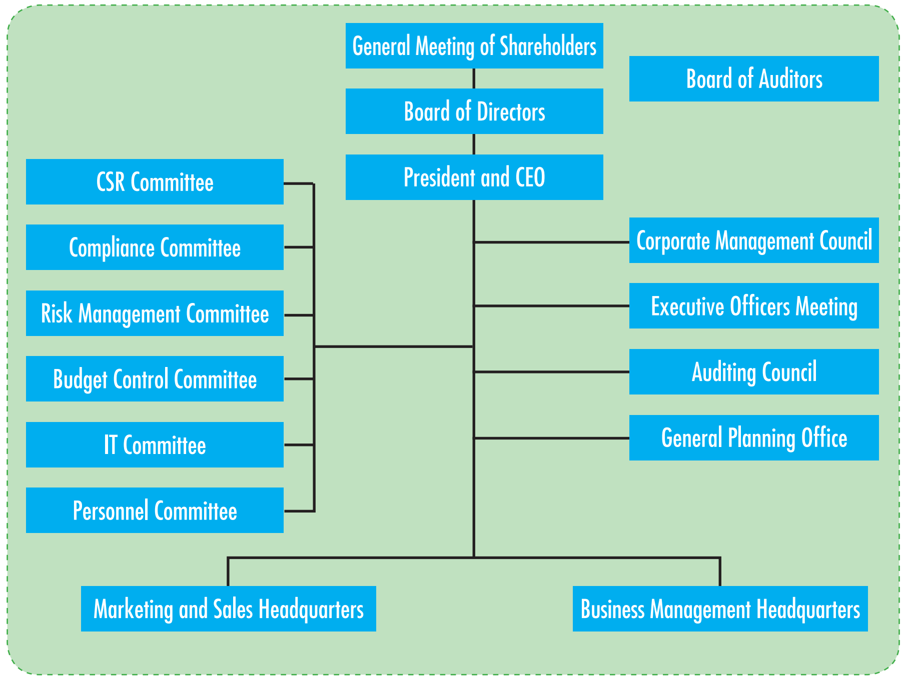
4. Sound and highly transparent business activities
To fulfill our responsibility to be accountable to the community, we are strengthening our corporate governance and enhancing compliance as we carry out sound and highly transparent business activities.

●A management structure built on CSR

Corporate governance

Leopalace21 is committed to the enhancement and strengthening of a management structure built on CSR, incorporating elements including corporate governance, compliance and risk management. We have prepared and strengthened our corporate governance, with the aim of establishing an efficient, fair, and transparent management structure and realizing higher corporate value for all stakeholders. As one component of this, we have subjected the executive actions by the Board of Directors, the Company's decision-making body, to monitoring by the Board of Auditors, thereby reinforcing checks and balances within our decision-making processes.

Corporate Governance Organization (As of June 29, 2011)



CSR promotion

We position CSR activities as a key issue for management, and have established basic policies through which we work toward CSR. Our CSR Committee, Compliance Committee, and Risk Management Committee cooperate to implement initiatives, keeping appropriate responses to the demands of the community in mind.

Compliance

The thorough enactment of compliance is an essential component of our business activities. For that reason, we have established a system to oversee compliance with laws and regulations within our business activities. We have established an internal Corporate Code of Ethics and an internal reporting system, as well as a Compliance Committee responsible for compliance practices. In addition, we have appointed a compliance officer within each of our business divisions and departments as we strive to ensure compliance at the working level.

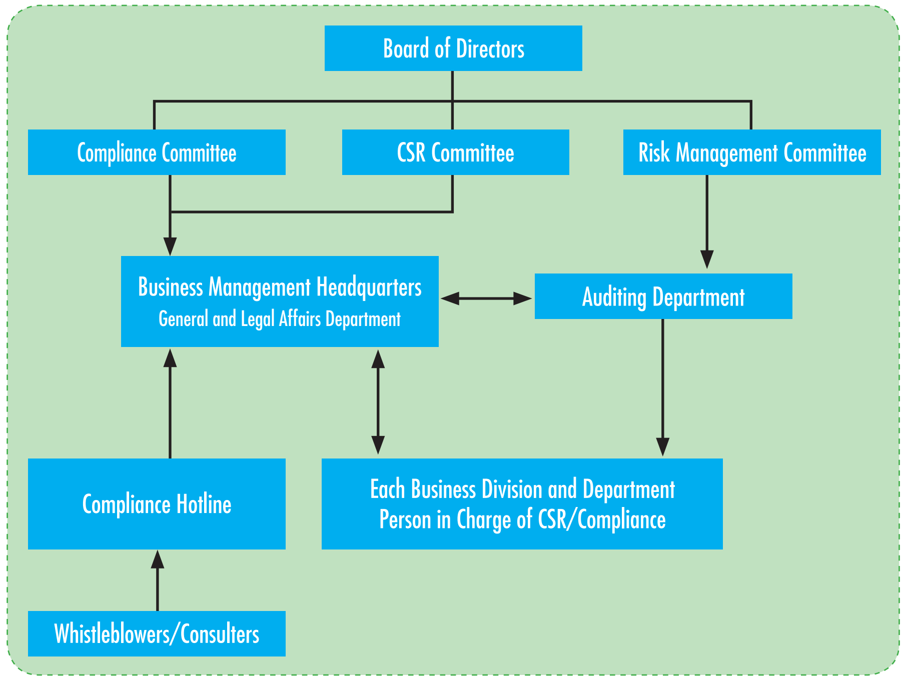
Risk management structure

Our Risk Management Committee is responsible for ascertaining and managing the risks that exist in our business, and correspondingly enacts risk management across the Company. In addition, our Auditing Department and auditors conduct inspections of each division's risk management status and make reports to corporate management and to the Risk Management Committee. This information is used in the consideration of corrective actions and countermeasures.

Internal audit system

Our Auditing Department is established as an internal auditing unit independent of each operations unit. We originally reinforced the functions of the Audit Department by placing it directly under the President and CEO. We have recently established a new Auditing Council to effect even greater strengthening of the Department, and will verify, evaluate, and improve its effectiveness in accordance with our basic policies for internal control systems.

Organization of CSR Promotion, Compliance and Risk Management
(As of June 29, 2011)



● Activities that contribute to the community: Acting as a good corporate citizen

As a company that provides housing, the most basic infrastructure for living, Leopalace21 aims to act as a good corporate citizen that is trusted by society. We will remain aware of what is best for our stakeholders, including local communities, as we conduct activities that contribute to society.

Response to disaster: Conducting CSR (housing assistance) through our business, especially in times of emergency

The Great East Japan Earthquake that occurred on March 11, 2011, resulted in extensive damage in the Tohoku and Kanto regions. Immediately after the earthquake, we opened the lobby of our Hotel Leopalace Sendai to nearby residents, sent aid in the form of donations, and provided disaster supplies as a part of long-term support activities.

As specific initiatives, we halved the rent for short-term residence for people moving into our managed properties from the afflicted region, and exempted initial expenses in the case of long-term residence. In addition, by mid-June we had constructed about 300 units of temporary housing, and turned these over to local governments.

We bear high expectations placed on us by people evacuating the afflicted areas, and by those entering the areas to assist in disaster recovery. As a company involved in the housing business, we will continue fighting to aid in relief and reconstruction in the disaster area by providing some measure of secure living to these people.

Construction of temporary housing

■ Responding to those of foreign nationality

Foreign students in Japan live with anxieties including the inability to fully communicate in an unknown land. To support these students, we have opened support desks for foreign nationals in ten locations in Japan. Moreover, at eight branches in China and elsewhere overseas we offer housing consultation to students before they set off for Japan.

Offering services of superior quality and a lifestyle of affluence

■ 24-hour apartment management support

From broken water pipes to a lost room key, unexpected troubles happen in the lives of single tenants. For such occurrences, we offer a 24-hour consultation hotline. We also offer on-site rapid response services where applicable.

Saitama Call Center

Contributions to local communities

■ City cleanup activities

All of our staff members working in local communities share a love of their cities and regions. To build deeper exchanges with owners and their families, local residents, and partner companies, our staff take part in ongoing city cleanup activities.

City cleanup activities in fiscal 2010

Eastern Japan
- Number of times: 1,976
- Total number of people: 13,200

Central Japan
- Number of times: 989
- Total number of people: 6,845

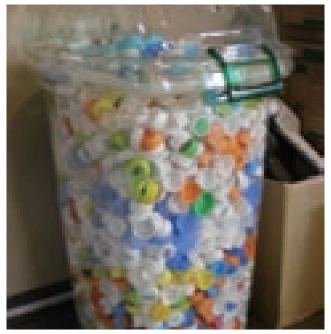
Western Japan
- Number of times: 527
- Total number of people: 3,433

Cleanup activities by the Okayama Branch

■ Donations, fundraising, and blood drives

All of our branches cooperate with the NPO Ecocap Movement, collecting PET bottle caps to donate the cost of vaccines*1 to save children in developing countries. We engage in used book collection (the Leopalace Recycle Reading program) and "Volunteer Vendor"*2 fundraising, and, as a company with many young employees, also conduct blood drives.

*1. 400 caps generate ¥10 toward polio vaccines, which cost ¥20 per vaccination.
*2. The purchase of drinks from vending machines utilizing this system automatically results in a ¥3 donation to the fund.



Ecocaps

Leopalace Recycle Reading program donations

"Volunteer Vendor"

Realization of a society considerate of the global environment

■ Initiatives to conserve electricity

Even small savings in electricity will, when multiplied by the approximate 570 thousand units of housing managed by the Company, add up to something significant. With that thought in mind, we continue devising steps to conserve electricity with the understanding and cooperation of tenants and owners.

Specifically, we are making a gradual switch from incandescent lighting to fluorescent or LED lighting in the common-use areas of our apartments. Furthermore, to promote environmental action by tenants, we placed stickers calling for energy conservation on power outlets in rooms. We also installed our original devices to automatically turn off room air conditioners after three hours of use. In addition, to meet our internal goals for electricity demand reduction and to make our due contribution to the alleviation of power shortages, we are taking part in the "Cool Biz" and "Warm Biz"* programs of season-appropriate office wear at all Company branches, and are continuing our initiative to stop unnecessary engine idling in company-owned cars.

* Cool Biz and Warm Biz: terms coined in Japan to describe acceptable deviations from official dress code for the sake of more season-appropriate attire.

Energy conservation awareness sticker affixed to outlet

■ Other initiatives

At all of our eight hotels in Japan, when a guest presents an Eco-Green Card without having used room amenities, we make a donation to the Organization for Industrial, Spiritual and Cultural Advancement-International (OISCA-International) equal to a portion of the room expenses saved. Moreover, we conduct recycling of old analog TVs, curtains, and microwave ovens. In addition, we conduct "green purchasing" of building materials and products, and as of March 31, 2011, have completed procurement of all 15 items identified for special procurement under the Law on Promoting Green Purchasing.

Eco-Green Card

Sound and highly transparent business activities

■ Education and training for employees

In order to gain the trust of all our stakeholders, Leopalace21 is striving to strengthen its corporate governance and enhance compliance. Regarding compliance in particular, we are working to enhance awareness and knowledge of compliance in every one of our employees through measures such as group training from lecturers inside and outside the Company, regular on-demand training via e-learning, and the publication of an internal newsletter on compliance.

CSR seminar for employees

■ Increasing management transparency

In order to fulfill our responsibility of being accountable to society and to earn the trust of all of our stakeholders, we at Leopalace21 work hard to reinforce our corporate governance, promote compliance, and undertake sound and transparent business activities.

Note: For details, see "A management structure built on CSR," p. 21.

Crisis Management and Risk Information

● Crisis management measures: Response during time of emergency

Confirming the extent of damage from the Great East Japan Earthquake

Under the management structure that supports our business activities, we enact a variety of crisis management measures. Following the Great East Japan Earthquake that struck on March 11, 2011, we immediately confirmed the extent of damage to the Company. Damaged properties totaled 2,373 units in 137 buildings (including 32 buildings within 30km of the Fukushima Daiichi Nuclear Power Station). Damages to furniture, appliances, and our own repairs to properties (30 buildings) have resulted in the recording of an extraordinary loss of ¥1,263 million.

Damaged properties by prefecture (number of damaged properties/number of managed properties)
(As of May 31, 2011)
Miyagi Prefecture: 63 buildings / 588 buildings
Fukushima Prefecture: 45 buildings / 623 buildings
(includes 32 buildings within 30km of nuclear plant)
Ibaraki Prefecture: 12 buildings / 1,059 buildings
Chiba Prefecture: 17 buildings / 2,297 buildings

Focus Topic

Company time line after the earthquake

March 11	•Earthquake occurred •Lobby of Hotel Leopalace Sendai opened to local residents
March 12	•Disaster Response Headquarters established •First report released on website
March 13	•Second report released on website
March 14	•Disaster Response Headquarters members entered disaster site •Safety of all Company employees confirmed
March 17	•Survey team of about 130 managing engineers initiated investigation of properties Survey targeted 2,342 buildings in cities experiencing intensity six or stronger earthquake •Request received from Ministry of Land, Infrastructure, Transport and Tourism for information on vacant rooms
March 18	•Our initiatives reported on our website
March 19	•Request for construction of temporary housing received from the Japan Prefabricated Construction Suppliers & Manufacturers Association •Survey of properties in Tochigi, Gunma, and Saitama Prefectures completed (391 buildings)
March 22	•Decision made on aid to afflicted owners and employee families
March 24	•Ongoing survey activities Iwate Prefecture survey completed (88 buildings) Miyagi Prefecture survey: 39% completed Ibaraki Prefecture survey: 48% completed •Ongoing investigation to confirm safety Owners: 94% confirmed Tenants: 63% confirmed
March 29	•Restoration Support Group established
March 31	•Restoration Support Group took over for Disaster Response Headquarters

● Risk information

Listed below are the principal risks that we believe could affect the Leopalace21 Group. However, this list is not all-inclusive and does not cover all the risks that could affect Group businesses. This list reflects the judgment of the Leopalace21 Group management as of the submission of the securities report (June 29, 2011).

1. Revenues

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

In addition, we post all orders for apartment construction when the contract is concluded, 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 thus adversely affect the Company's business results.

2. Cost of sales

Based on the Company's apartment lease contract, the Company concludes a master lease agreement with apartment owners and pays a fixed rent to the owner for a period of time stipulated in the initial contract. Therefore, fluctuations in the amount of rental income received from tenants during the contract period could adversely affect the Company's profitability.

3. Exchange rate fluctuations

The Leopalace21 Group includes overseas subsidiaries involved in the Hotel Resort Business, and as a result its 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 in line with fluctuations in the US dollar. Therefore it is possible that future fluctuations in exchange rates could affect the Group's business performance and financial position.

4. Net property, plant and equipment and real estate held for sale

Impairment losses or appraisal losses due to declines in the current market value of marketable securities, real estate for sale, fixed assets, or other assets could adversely affect the Company's business performance as well as its financial position. Moreover, with regard to the Company's Hotel Resort Business, there is 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. Allowance for doubtful accounts and bad debt expenses

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 made to its customers by financial institutions. Apartment and other loans where repayment has become doubtful are accounted for separately as bad debt, and a provision is separately made for bad debt in each such case; however, our business results could be affected if these debts cannot be collected, or if we should be obliged to honor claims pertaining to these loan guarantees.

6. Reserve for apartment vacancy loss

In order to prepare for a risk of losses due to an increase in apartment vacancies, Leopalace21 has established a "Reserve for apartment vacancy loss" fund equal to the amount of loss that may be expected to be incurred during a reasonably estimable period. The amount of this reserve is based on the rent levels set for individual leased units and occupancy rate forecasts calculated for the number of households and 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. Lease/guarantee deposits received

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. Leopalace21 also budgets for regular repair costs based on a detailed long-term plan. 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. Financial covenants

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

Leopalace21 is improving its business performance through the execution of the business plan, and continually implements to the best of its ability measures to avoid violating these financial covenants and the resulting forfeiture of the benefit of the term. However, should the Company forfeit the benefit of the term for its loans, this could have a major impact on the Company's operating performance.

9. Events that significantly impact the Company's management

The Leopalace21 Group recorded an operating loss of ¥23,607 million for fiscal 2010 (¥29,728 million in the previous fiscal year), and a net loss of ¥40,890 million (¥79,076 million in the previous fiscal year).

10. 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.

11. Other risks

The Group is aware that it incurs a variety of risks in the course of promoting its businesses, and it attempts to prevent, distribute or avoid risk whenever possible.

Nevertheless, the Group's business performance and financial position may be affected by changes in economic conditions, the real estate market, the financial and stock markets, legal regulations, natural disasters, and a variety of other factors.

Financial Section

Contents

Management's Discussion and Analysis

Operating environment

During the fiscal year ended March 31, 2011 (fiscal 2010), Japan's economy recovered gradually against a backdrop of various economic stimulus measures. However, this did not translate into full-fledged economic recovery due to employment concerns and prolonged deflation, while the Great East Japan Earthquake that occurred in March 2011 resulted in a difficult end to the fiscal year. In the housing industry, new housing starts in fiscal 2010 increased 5.6% from the previous fiscal year. However, the business environment remained challenging, with rented housing starts falling 6.3% year on year, for the second consecutive year of decline.

Net sales

Under these circumstances, the Group reported consolidated net sales of ¥484,391 million, down 21.9% from the previous fiscal year, reflecting the prolonged economic downturn and the Great East Japan Earthquake that struck during the peak business season.

By business segment, the Leasing Business accounted for 73.6% of total net sales, (an increase of 18.4 percentage points from the previous fiscal year) and the Apartment Construction Subcontracting Business 22.3% (a decrease of 16.0 percentage points), with both core businesses contributing a combined 95.9% of total net sales. The Hotel Resort Business accounted for 1.3% of total net sales (an increase of 0.3 percentage points), the Residential Sales Business 1.0% (a decrease of 3.0 percentage points), and the Others 1.8% (an increase of 0.3 percentage points).

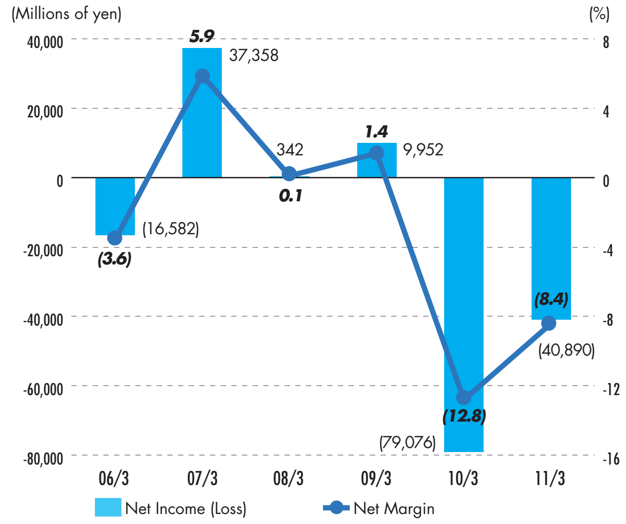
Earnings

The cost of sales was ¥448,392 million, a decrease of 21.4% from the previous fiscal year. As a result, gross profit was ¥35,999 million, a decrease of 27.5% from the previous fiscal year.

Selling, general and administrative expenses decreased 24.9% from the previous fiscal year to ¥59,606 million, due to cost reduction efforts. The Group posted an operating loss of ¥23,607 million. However, due to thorough cost-cutting and other measures, the operating loss narrowed ¥6,121 million compared with the previous fiscal year.

Although the Group booked profits from sale of idle assets and reversal of allowance for employees' bonuses, net loss in fiscal 2010 was ¥40,890 million due to the recording of an impairment loss and a disaster loss, as well as a partial reversal of deferred tax assets. However, this represented an improvement of ¥38,186 million over the previous fiscal year, when the Group incurred substantial losses related to business structure reform expenses and other expenses.

Net Income (Loss) and Net Margin



Segment information

Leasing Business

The number of units under management at the end of fiscal 2010 was approximately 572 thousand (an increase of around 20 thousand units from the previous fiscal year end), with an occupancy rate of 83.7% (an increase of 0.1 percentage points). However, due to delays in the start of various initiatives, the average occupancy rate during fiscal 2010 was 80.1% (a decrease of 2.2 percentage points).

In terms of sales, we are aiming to improve the occupancy rate by restricting the number of new units supplied, stepping up phone and online sales, and expanding our sales channels, including our franchising program (Leopalace Partners). Our directly managed sales offices at the end of fiscal 2010 numbered 164 (down 28 from the previous fiscal year end), while our franchise sales offices numbered 121.

In terms of profits, we responded to growth in the number of units under management without increasing fixed costs by reinforcing non-office sales via phone and online and by strengthening the franchising program. At the same time, we improved earnings through new initiatives including revisions to our maintenance service agreements for furniture and home appliances / broadband equipment, and also reviewed utility expenses for properties rented on a monthly basis. However, due to factors including delayed improvement in the occupancy rate, this business segment reported an operating loss in the year under review.

As a result of the above, net sales in the Leasing Business were ¥356,606 million (an increase of 4.2% from the previous fiscal year) and the operating loss was ¥30,094 million (an improvement of ¥17,781 million).

Apartment Construction Subcontracting Business

Orders received in fiscal 2010 totaled ¥44,280 million (a decrease of 73.6% from the previous fiscal year), reflecting stricter loan screenings by financial institutions, sluggish and cancelled orders accompanying the downswing in occupancy rates, and the impact of internal measures to curb supply. Orders outstanding totaled ¥120,298 million (a decrease of 34.5% from the previous fiscal year end).

In terms of products, the Group is developing product strategies targeting tenant segments and market areas with growth potential. Specifically, we are developing a product lineup covering conventional studio-type apartments through to family-type apartments and launching products aimed at urban markets. The Group is also introducing "owner-managed" properties that will not affect the number of units supplied. The number of sales offices in the Apartment Construction Subcontracting Business at the end of fiscal 2010 was 75 (a decrease of 37 offices from the previous fiscal year end).

In terms of profits, we are striving to reduce building material procurement costs and improve profitability by enhancing cost controls and process management. In the Apartment Construction Subcontracting Business, we are focusing on securing orders for projects that ensure stable earnings in the Leasing Business. In this way, we aim to generate operating income despite a downward trend in sales.

As a result, net sales in the Apartment Construction Subcontracting Business were ¥107,821 million (a decrease of 54.5% from the previous fiscal year) and operating income was ¥11,971 million (a decrease of 59.8%).

Hotel Resort Business

Net sales from Guam resort facilities and hotels in Japan were ¥6,492 million (a decrease of 3.6% from the previous fiscal year) and operating loss was ¥1,975 million (a deterioration of ¥650 million from the previous fiscal year).

Residential Sales Business

Net sales in the Residential Sales Business were ¥4,689 million (a decrease of 81.0% from the previous fiscal year) and operating income was ¥220 million (compared to an operating loss of ¥3,357 million in the previous fiscal year).

Others

Net sales in the Other Businesses, including the Silver (elderly care) business, small-claims and short-term insurance business, and financing business, were ¥8,783 million (a decrease of 8.7% from the previous fiscal year) and operating loss was ¥1,442 million (an improvement of ¥1,978 million over the previous fiscal year). The number of elderly care homes in the Silver business numbered 58 at the end of fiscal 2010 (an increase of 1 facility from the previous fiscal year end).

Financial position

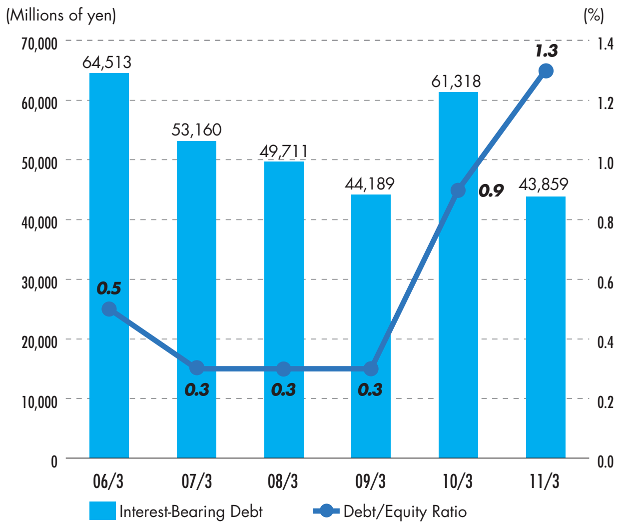
Total assets

Total assets at March 31, 2011, stood at ¥298,274 million, a decrease of ¥98,238 million from the previous fiscal year end. This primarily reflected the following decreases: cash and cash equivalents, ¥31,757 million; prepaid expenses, ¥4,016 million; land, ¥11,442 million; construction in progress, ¥3,300 million; long-term prepaid expenses, ¥17,020 million; and deferred tax assets, ¥7,643 million.

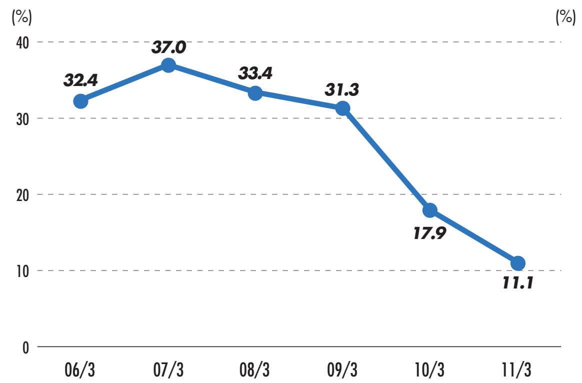
Liabilities

Total liabilities were ¥265,233 million, a decrease of ¥60,299 million from the previous fiscal year end. Although the Group booked ¥14,830 in long-term advances received, the decline in total liabilities mainly reflected the following decreases: accounts payable for completed projects, ¥30,741 million; customer advances for projects in progress, ¥5,370 million; interest-bearing debt, ¥17,460 million; and lease/guarantee deposits received, ¥20,069 million.

Interest-Bearing Debt and Debt/Equity Ratio



Equity Ratio



Net assets

Net assets totaled ¥33,041 million at March 31, 2011, a decrease of ¥37,938 million from the previous year end. Although there was an increase in equity of ¥1,844 million due to issuance of new shares, the decrease primarily reflected a net loss of ¥40,890 million for the fiscal year.

As a result, the equity ratio was 11.1% (compared with 17.9% at the end of the previous fiscal year) and net assets per share was ¥195.91 (compared with ¥466.76 at the end of the previous fiscal year).

Cash flows

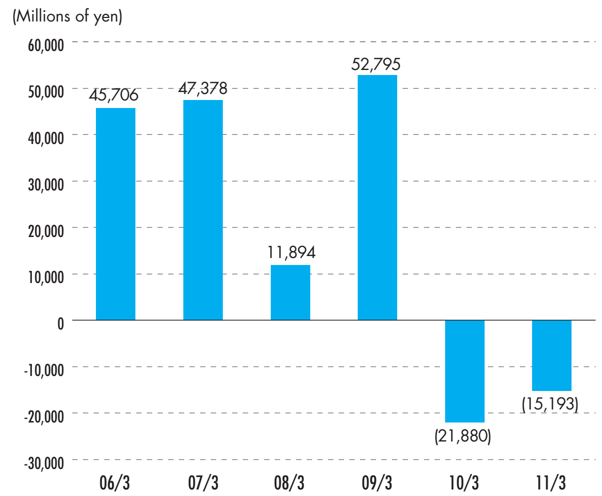
Operating activities used net cash of ¥28,337 million (an increase in cash used of ¥15,346 million compared with the previous fiscal year). This mainly reflected decrease in long-term prepaid expenses of ¥20,253 million and increase in advances received of ¥13,441 million, outweighed by loss before income taxes of ¥33,118 million and decrease in accounts payable of ¥31,706 million.

Investing activities provided net cash of ¥13,144 million (compared with cash used of ¥8,889 million in the previous fiscal year). This primarily reflected proceeds from sale of property, plant and equipment of ¥12,742 million.

Financing activities used net cash of ¥15,891 million (compared with cash provided of ¥15,281 million in the previous fiscal year). This chiefly reflected proceeds from issuance of common stock of ¥1,741 million, outweighed by repayment of interest-bearing debt of ¥17,790 million (net after deducting proceeds from debt).

As a result, cash and cash equivalents at March 31, 2011 decreased ¥31,540 million from the previous fiscal year end to ¥40,492 million.

Free Cash Flow



Basic policy on distribution of earnings

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

However, the Company regrets to announce its decision to suspend payment of a year-end dividend due to losses which led to negative retained earnings in fiscal 2010.

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

Consolidated Balance Sheets

Leopalace21 Corporation and consolidated subsidiaries
March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
ASSETS			
Current assets:			
Cash and cash equivalents (Notes 2-(2), 4, 5-(2))	**40,675**	72,432	**489,171**
Trade receivables (Note 5-(2))	**6,260**	8,180	**75,282**
Accounts receivable for completed projects (Note 5-(2))	**2,118**	4,737	**25,469**
Operating loans (Note 5-(2))	**4,311**	5,482	**51,850**
Marketable securities (Notes 2-(4), 6)	—	10	—
Real estate for sale / property inventories (Note 2-(3))	**14**	1,371	**167**
Real estate for sale in process (Note 11-(c))	**105**	2,584	**1,257**
Payment for construction in progress	**587**	1,184	**7,059**
Raw materials and supplies	**458**	594	**5,506**
Prepaid expenses	**23,878**	27,895	**287,174**
Deferred tax assets (Note 10)	**3,713**	6,142	**44,650**
Other accounts receivable	**1,235**	3,207	**14,850**
Other	**11,870**	13,495	**142,783**
Allowance for doubtful accounts (Note 2-(10))	**(1,005)**	(897)	**(12,091)**
Total current assets	**94,219**	146,416	**1,133,127**
Property, plant and equipment: (Notes 2-(6), 2-(23))			
Buildings and structures (Notes 11-(c), 8)	**108,931**	112,741	**1,310,057**
Accumulated depreciation	**(49,740)**	(49,303)	**(598,194)**
Net (Note 11-(c))	**59,191**	63,438	**711,863**
Land (Notes 11-(c), 8)	**84,851**	96,294	**1,020,461**
Leased assets (Note 2-(20))	**6,238**	5,923	**75,016**
Accumulated depreciation	**(2,727)**	(1,546)	**(32,800)**
Net	**3,511**	4,377	**42,216**
Construction in progress	**67**	3,367	**804**
Other (Note 20-(a))	**13,893**	13,882	**167,079**
Accumulated depreciation	**(11,228)**	(10,626)	**(135,029)**
Net	**2,665**	3,256	**32,050**
Total property, plant and equipment	**150,285**	170,732	**1,807,394**
Investments and other assets:			
Intangible assets (Note 2-(8))	**7,589**	6,385	**91,267**
Investment securities (Notes 2-(4), 5-(2), 6, 11-(c))	**6,534**	6,931	**78,583**
Long-term loans (Note 5-(2))	**601**	1,102	**7,232**
Bad debt (Notes 5-(2), 9)	**4,453**	5,204	**53,550**
Long-term prepaid expenses (Note 2-(9))	**34,223**	51,243	**411,577**
Deferred tax assets (Note 10)	**2,269**	7,482	**27,293**
Bond issuance cost	**76**	89	**909**
Other (Note 11-(c))	**3,103**	5,895	**37,314**
Allowance for doubtful accounts (Notes 2-(10), 5-(2))	**(5,078)**	(4,967)	**(61,065)**
Total investments and other assets	**53,770**	79,364	**646,660**
Total assets (Note 22)	**298,274**	396,512	**3,587,181**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable (Note 5-(2))	**2,699**	2,705	**32,461**
Accounts payable for completed projects (Note 5-(2))	**12,634**	43,375	**151,945**
Short-term borrowings (Notes 5-(2), 11)	**22,691**	9,720	**272,888**
Current portion of long-term debt (Notes 5-(2), 11)	**11,811**	20,281	**142,050**
Bonds due within one year (Note 5-(2))	**560**	560	**6,735**
Lease obligations (Notes 5-(2), 11-(a))	**1,230**	1,196	**14,794**
Accounts payable-other	**11,686**	10,440	**140,536**
Accrued expenses	**4**	4	**50**
Accrued income taxes	**427**	1,595	**5,130**
Advances received (Note 3-(2))	**97,154**	98,544	**1,168,421**
Customer advances for projects in progress	**4,055**	9,426	**48,771**
Allowance for employees' bonuses (Note 2-(11))	**—**	3,065	**—**
Reserve for warranty obligations on completed projects (Note 2-(14))	**134**	326	**1,609**
Reserve for fulfillment of guarantees (Note 2-(15))	**136**	—	**1,635**
Reserve for disaster losses (Note 2-(16))	**1,189**	—	**14,305**
Reserve for switch to terrestrial digital broadcasts (Note 2-(17))	**1,188**	—	**14,291**
Asset retirement obligations (Note 18)	**30**	40	**364**
Other	**6,092**	7,134	**73,250**
Total current liabilities	**173,720**	208,411	**2,089,235**
Long–term liabilities:			
Bonds (Note 5-(2))	**2,600**	3,160	**31,269**
Long-term debt (Notes 5-(2), 7-(2), 11)	**2,228**	22,762	**26,792**
Lease obligations (Notes 5-(2), 11-(a))	**2,739**	3,640	**32,937**
Retirement benefit reserves (Notes 2-(12), 13)	**7,874**	7,307	**94,691**
Reserve for apartment vacancy loss (Note 2-(13))	**32,605**	31,728	**392,126**
Lease/guarantee deposits received	**26,035**	46,104	**313,115**
Asset retirement obligations (Note 18)	**48**	61	**575**
Long-term advances received (Note 3-(2))	**14,830**	—	**178,354**
Long-term other payable	**1,210**	1,185	**14,553**
Other	**1,344**	1,175	**16,168**
Total long-term liabilities	**91,513**	117,122	**1,100,580**
Total liabilities	**265,233**	325,533	**3,189,815**
Net assets			
Shareholders' equity:			
Common stock: (Note 19) Authorized: 250,000,000 shares Issued: 175,443,915 shares	**56,563**	55,641	**680,251**
Capital surplus	**34,334**	33,894	**412,920**
Retained earnings	**(46,553)**	(5,663)	**(559,863)**
Treasury stock 6,867,850 shares (Note 19)	**(5,501)**	(6,143)	**(66,170)**
Total shareholders' equity	**38,843**	77,729	**467,138**
Accumulated other comprehensive income:			
Net unrealized gains on "other securities" (Note 2-(4))	**204**	124	**2,456**
Deferred gains or losses on hedges	**(3)**	(5)	**(39)**
Foreign currency translation adjustments (Note 2-(22))	**(6,019)**	(6,958)	**(72,381)**
Total accumulated other comprehensive income	**(5,818)**	(6,839)	**(69,964)**
Share subscription rights	**16**	89	**192**
Total net assets	**33,041**	70,979	**397,366**
Total liabilities and net assets	**298,274**	396,512	**3,587,181**

Consolidated Statements of Operations

Leopalace21 Corporation and consolidated subsidiaries
For the years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
Net sales (Note 22)	**484,391**	620,376	**5,825,507**
Cost of sales	**448,392**	570,749	**5,392,571**
Gross profit	**35,999**	49,627	**432,936**
Selling, general and administrative expenses	**59,606**	79,355	**716,846**
Operating loss (Note 22)	**(23,607)**	(29,728)	**(283,910)**
Other income (expenses):			
Interest and dividend income	**114**	176	**1,372**
Equity in earnings (loss) of affiliated companies	**(268)**	146	**(3,229)**
Foreign exchange losses (Note 2-(21))	**(5,561)**	(2,468)	**(66,881)**
Interest expenses	**(1,627)**	(1,196)	**(19,565)**
Commission fee	**(926)**	(841)	**(11,142)**
Gain on sale of property, plant and equipment (Note 14)	**2,046**	130	**24,609**
Gain on sale of investment securities	**65**	2	**776**
Gain from cancellation of contracted work	**50**	105	**597**
Rent income	**84**	137	**1,009**
Reversal of allowance for doubtful receivables	**254**	1,633	**3,060**
Reversal of allowance for retirement benefits for directors	**—**	92	**—**
Reversal of allowance for employees' bonuses (Note 2-(11))	**2,605**	—	**31,330**
Reversal of share subscription rights	**83**	—	**997**
Provision for apartment vacancy loss (Note 2-(13))	—	(10,343)	**—**
Loss on sale of property, plant and equipment (Note 15)	**(15)**	(226)	**(178)**
Loss on disposal of property, plant and equipment (Note 16)	**(101)**	(843)	**(1,217)**
Impairment loss (Note 8)	**(2,228)**	(3,238)	**(26,795)**
Loss on sale of investment securities	**(173)**	—	**(2,081)**
Loss on adjustment for changes of accounting standard for asset retirement obligations	**—**	(414)	**—**
Provision for bad debt	**(356)**	(73)	**(4,286)**
Business structure reform expenses	**—**	(29,856)	**—**
Loss on cancellation of structured deposits	**(754)**	—	**(9,065)**
Disaster loss (Note 2-(16))	**(1,263)**	—	**(15,187)**
Expenses for switch to terrestrial digital broadcasts	**(340)**	—	**(4,086)**
Provision for switch to terrestrial digital broadcasts (Note 2-(17))	**(1,188)**	—	**(14,291)**
Other-net	**(12)**	(722)	**(123)**
Loss before income taxes	**(33,118)**	(77,527)	**(398,286)**
Income taxes (Note 2-(19))			
Income tax—current	**208**	330	**2,500**
Income tax– refund	**(19)**	—	**(233)**
Income taxed—previous period	**—**	1,359	**—**
Income taxes—deferred	**7,583**	(140)	**91,202**
Total income taxes	**7,772**	1,549	**93,469**
Net loss	**(40,890)**	(79,076)	**(491,755)**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Comprehensive Income

Leopalace21 Corporation and consolidated subsidiaries
For the year ended March 31, 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
Net loss	**(40,890)**	—	**(491,755)**
Other comprehensive income (Note 3-(1)-(b))			
Net unrealized gains on "other securities"	**80**	—	**960**
Foreign currency translation adjustments (Note 2-(22))	**939**	—	**11,293**
Share of other comprehensive income in affiliates	**2**	—	**27**
Total	**1,021**	—	**12,280**
Comprehensive income (Note 3-1-(a))	**(39,869)**	—	**(479,475)**
Comprehensive income attributable to shareholders of the parent entity	**(39,869)**	—	**(479,475)**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Equity

Leopalace21 Corporation and consolidated subsidiaries
For the years ended March 31, 2011 and 2010

Millions of yen

	Shareholders' equity					Accumulated other comprehensive income					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on "other securities"	Deferred losses on hedges	Foreign currency translation adjustments	Total accumulated other comprehensive income	Share subscription rights	Total net assets
Balance as of March 31, 2009	55,641	34,105	73,413	(6,543)	156,616	17	(8)	(10,183)	(10,174)	—	146,442
Cash dividend											
Net loss			(79,076)		(79,076)						(79,076)
Purchase 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
Cash dividend											
Net loss			(40,890)		(40,890)						(40,890)
Issuance of new shares	922	922			1,844						1,844
Purchase of treasury stock				(0)	(0)						(0)
Disposal of treasury stocks		(482)		642	160						160
Net change of items other than shareholders' equity						80	2	939	1,021	(73)	948
Total change during period	922	440	(40,890)	642	(38,886)	80	2	939	1,021	(73)	(37,938)
Balance as of March 31, 2011	56,563	34,334	(46,553)	(5,501)	38,843	204	(3)	(6,019)	(5,818)	16	33,041

Thousands of U.S. dollars (Note 1)

	Shareholders' equity					Accumulated other comprehensive income					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on "other securities"	Deferred losses on hedges	Foreign currency translation adjustments	Total accumulated other comprehensive income	Share subscription rights	Total net assets
Balance as of March 31, 2010	669,160	407,625	(68,108)	(73,874)	934,803	1,496	(66)	(83,674)	(82,244)	1,070	853,629
Cash dividend											
Net loss			(491,755)		(491,755)						(491,755)
Issuance of new shares	11,091	11,091			22,182						22,182
Purchase of treasury stock				(0)	(0)						(0)
Disposal of treasury stocks		(5,796)		7,704	1,908						1,908
Net change of items other than shareholders' equity						960	27	11,293	12,280	(878)	11,402
Total change during period	11,091	5,295	(491,755)	7,704	(467,665)	960	27	11,293	12,280	(878)	(456,263)
Balance as of March 31, 2011	680,251	412,920	(559,863)	(66,170)	467,138	2,456	(39)	(72,381)	(69,964)	192	397,366

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, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
Cash flows from operating activities:			
Loss before income taxes	**(33,118)**	(77,527)	**(398,286)**
Depreciation	**6,451**	6,296	**77,587**
Increase (decrease) in allowance for doubtful accounts	**386**	(133)	**4,638**
Increase (decrease) in retirement benefit reserves for directors	**—**	(97)	**—**
Increase (decrease) in reserve for apartment vacancy loss	**877**	27,108	**10,549**
Interest and dividend income	**(114)**	(176)	**(1,372)**
Interest expense	**1,627**	1,196	**19,565**
Foreign exchange loss (gain)	**5,561**	2,468	**66,881**
Equity in losses (earnings) of affiliated companies	**268**	(146)	**3,229**
Loss (gain) on sale of property, plant and equipment	**(2,031)**	96	**(24,431)**
Write-offs of property, plant and equipment	**101**	843	**1,217**
Impairment loss	**2,228**	3,238	**26,795**
Disaster loss	**1,263**	—	**15,187**
Expense for switch to terrestrial digital broadcasts	**340**	—	**4,086**
Provision for switch to terrestrial digital broadcasts	**1,188**	—	**14,291**
Loss (gain) on sale of investment securities	**109**	(2)	**1,305**
Business structure reform expenses	**—**	29,856	**—**
Decrease (increase) in accounts receivable	**7,821**	(991)	**94,059**
Decrease (increase) in real estate for sale	**3,837**	24,221	**46,147**
Decrease (increase) in payment for construction in progress	**550**	3,537	**6,617**
Decrease (increase) in long-term prepaid expenses	**20,253**	9,348	**243,578**
Increase (decrease) in accounts payable	**(31,706)**	(15,358)	**(381,314)**
Increase (decrease) in customer advances for projects in progress	**(5,370)**	(5,410)	**(64,585)**
Increase (decrease) in advances received	**13,441**	621	**161,644**
Increase (decrease) in guarantee deposits received	**(19,692)**	(4,870)	**(236,824)**
Increase (decrease) in accrued consumption taxes	**2,518**	(1,870)	**30,288**
Other	**(1,992)**	177	**(23,967)**
Subtotal	**(25,204)**	2,425	**(303,116)**
Interest and dividends received	**113**	183	**1,360**
Interest paid	**(1,617)**	(1,213)	**(19,446)**
Income taxes paid	**(1,629)**	(14,386)	**(19,592)**
Net cash provided by (used in) operating activities	**(28,337)**	(12,991)	**(340,794)**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
Cash flows from investing activities:			
Payment for purchase of property, plant and equipment	**(1,354)**	(5,735)	**(16,282)**
Proceeds from sale of property, plant and equipment	**12,742**	1,536	**153,244**
Payment for purchase of intangible assets	**(1,897)**	(3,697)	**(22,818)**
Payment for purchase of investment securities	**(20)**	(836)	**(244)**
Proceeds from sale of investment securities	**993**	126	**11,947**
Payment for loans	**(69)**	(110)	**(826)**
Proceeds from collection of loans	**218**	5	**2,623**
Payments for time deposits	**(3,713)**	—	**(44,656)**
Proceeds from withdrawal of time deposits	**6,575**	—	**79,078**
Other	**(331)**	(178)	**(3,993)**
Net cash provided by (used in) investing activities	**13,144**	(8,889)	**158,073**
Cash flows from financing activities:			
Proceeds from short-term borrowings	**16,500**	37,799	**198,436**
Repayment of short-term borrowings	**(3,529)**	(28,080)	**(42,445)**
Proceeds from long-term debt	**—**	38,000	**—**
Repayment of long-term debt	**(29,003)**	(35,348)	**(348,804)**
Repayment of finance lease obligations	**(1,198)**	(906)	**(14,409)**
Proceeds from issuance of bonds	**—**	3,907	**—**
Payment for redemption of bonds	**(560)**	(280)	**(6,735)**
Proceeds from issuance of common stock	**1,741**	—	**20,939**
Proceeds from disposal of treasury stock	**158**	189	**1,907**
Payment for purchases of treasury stock	**(0)**	(0)	**0**
Net cash provided by (used in) financing activities	**(15,891)**	15,281	**(191,111)**
Effect of exchange rate changes on cash and cash equivalents	**(456)**	255	**(5,479)**
Net increase (decrease) in cash and cash equivalents	**(31,540)**	(6,344)	**(379,311)**
Cash and cash equivalents at beginning of year	**72,032**	78,376	**866,288**
Cash and cash equivalents at end of year (Note 4)	**40,492**	72,032	**486,977**

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, 2011 and 2010

1. Basis of Presenting Consolidated Financial Statements

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

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

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2011, which was ¥83.15 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 fiscal year’s presentation.

2. Summary of Significant Accounting Policies

(1) Consolidation

The accompanying consolidated financial statements as of March 31, 2011 include the accounts of the Company and its 9 (9 as of March 31, 2010) 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, 2011 and 2010. All significant intercompany balances and transactions have been eliminated.

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

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

(2) Cash and cash equivalents

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

(3) Inventories

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

Ending inventories are amounts after book value devaluation accompanying the decline in profitability and loss on devaluation of real estate for sale of ¥24 million is included in the cost of sales.

(4) 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
Software for internal use is amortized on a straight-line basis over the estimated useful life of 5 years.

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

(11) Allowance for employees' bonuses
Because the bonus system was revised from the current fiscal year so that the bonus calculation period matched the fiscal period, the Company does not record an allowance for employees' bonuses at the fiscal year end.
The Company decided to reduce the summer bonus amount to employees for the current fiscal year as an additional cost-cutting measure for accomplishing the Medium-term Management Plan. As a result, the Company recorded ¥2,605 million ($31,330 thousand) of reversal of the bonus allowance.

According to amendment of the bonus system, the bonus calculation periods have been changed as follows:
Bonus calculation period before change
   Summer bonus (previous year) October 1 until March 31
   Winter bonus (current year) April 1 until September 30
Bonus calculation period after change
   Summer bonus (current year) April 1 until September 30
   Winter bonus (current year) October 1 until March 31
As a result, operating loss in the consolidated statements of the current fiscal year and loss before income taxes have decreased by ¥209 million ($2,516 thousand).

(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 actuarial gain or loss is amortized commencing the year following the year in which the gain or loss is recognized by the straight-line method over 5 years, which is shorter than the average remaining years of service of the eligible employees.
Prior service cost is amortized commencing the year in which the cost is recognized by the straight-line method over 5 years, which is shorter than the average remaining years of service of the eligible employees.

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

(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 current rental income and expected future occupancy rates for each rental property managed by the leasing division of the Company.

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

(15) Reserve for fulfillment of guarantees
The Company's consolidated subsidiary Plaza Guarantee Co., Ltd., to provide for losses attributable to its lease guarantee business, is recording the amount of loss expected based on the rate of past guarantee fulfillments.

(16) Reserve for disaster losses
The Company, to provide for restoration costs and other losses stemming from the Great East Japan Earthquake, is recording the anticipated amount for such losses.

Disaster loss stated in the consolidated statement of operations is restoration costs and other losses arising from the Great East Japan Earthquake. The breakdown of it including ¥1,189 million ($14,305 thousand) of provision for disaster losses is as follows:

March 31, 2011	(Millions of yen)	(Thousands of U.S. dollars)
Loss on damage to property equipment under management	773	9,300
Company property repairs	125	1,502
Damage to work-in-progress property	47	565
Fixed cost for hotel business suspension period	16	192
Cost for other restoration assistance	302	3,628
Total	1,263	15,187

(17) Reserve for switch to terrestrial digital broadcasts
The estimated cost of purchasing applicable equipment is provided for expenditures resulting from the switchover to terrestrial digital broadcasts.

(18) Revenues and costs of construction contracts
In recognizing construction revenues and costs of constructions in process, the percentage-of-completion method is applied to such contracts in which the outcome of the construction activity is deemed certain by the end of the fiscal year ended March 31, 2011, 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.

(19) 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.

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

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

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

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

(23) 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 ¥1,709 million ($20,559 thousand) and ¥1,983 million as of March 31, 2011 and 2010, respectively.

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

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

3. Additional Information

(1) Accounting standards for presentation of comprehensive income
Starting from the year ended March 31, 2011, "Accounting Standards for Presentation of Comprehensive Income" (*Accounting Standard Board of Japan (ASBJ) Statement No. 25, June 30, 2010*) have been applied. However, the amount of valuation and translation adjustments and total valuation and translation adjustments in the previous year's consolidated balance sheets is stated in accumulated other comprehensive income and total accumulated other comprehensive income in the year 2010 of the current year's consolidated balance sheets.

Consolidated statements of comprehensive income

(a) Comprehensive income for the year ended March 31, 2010 was as follows:

March 31, 2010	(Millions of yen)
Comprehensive income attributable to shareholders of the parent entity	(75,741)
Total	(75,741)

(b) Other comprehensive income for the year ended March 31, 2010 was as follows:

March 31, 2010	(Millions of yen)
Net unrealized gains on "other securities"	107
Foreign currency translation adjustments	3,226
Share of other comprehensive income in affiliates	2
Total	3,335

(2) Revision of system of budgeting for future expenses incurred for repair and refurbishment of furniture and electrical appliances
During the current fiscal year, the Company revised its system of budgeting for future expenses incurred for repair and refurbishment of furniture and electrical appliances provided in apartments managed by the Company. According to this revision, the Company also amended the agreements for repair and refurbishment of furniture and electrical appliances with the apartment owners. As a result, the Company received the lump-sum reserve for repair and refurbishment of furniture and electrical appliances that the apartment owners had funded in their own accounts, and recognized rental income (¥9,142 million, $109,946 thousand) out of lump-sum reserve in the Leasing division for the maintenance services rendered by the Company during the year ended March 31, 2011. In addition, the Company recorded Advances received (¥9,024 million, $108,524 thousand) for the maintenance services rendered within one year and Long-term advances received (¥14,830 million, $178,354 thousand) for the maintenance services rendered after one year.

4. Cash and Cash Equivalents

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

	(Millions of yen)		(Thousands of U.S. dollars)
	2011	2010	2011
Cash and cash equivalents in the consolidated balance sheets	40,675	72,432	489,171
Time deposits with original maturities of more than three months	(183)	(400)	(2,194)
Cash and cash equivalents in the consolidated statements of cash flows	40,492	72,032	486,977

5. 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 Leasing Business and Apartment Construction Subcontracting 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.

Foreign currencies denominated loans originated in conjunction with overseas business development are exposed to exchange risk.

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

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

Loans payable, corporate bonds, and lease obligations related to finance lease transactions are mainly for the purpose of raising funds necessary for investment in facilities, and the longest repayment date is 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 "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 counterparty 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 Companies.

4) Supplementary explanations on fair value of financial instruments

Fair value of financial instruments are measured based on the quoted market price, or reasonably assessed value if a quoted market price is not available.
Fair value of financial instruments which quoted market price is not available is calculated based on fluctuating factor, and the value might differ if different assumptions are used.
In addition, the contract amount of the derivative transactions described in "7. 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, 2011 and 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))

March 31, 2011	(Millions of yen)		
	Carrying value	Fair value	Difference
(1) Cash and cash equivalents	40,675	40,675	—
(2) Trade receivables and accounts receivable for completed projects	8,378	8,378	—
(3) Investment securities	2,702	2,713	11
(4) Operating loans	4,311		
Allowance for doubtful accounts (*1)	(713)		
Net	3,598	4,318	720
(5) Long-term loans	601		
Allowance for doubtful accounts (*1)	(119)		
Net	482	482	—
(6) Bad debt	4,453		
Allowance for doubtful accounts (*1)	(4,441)		
Net	12	12	—
Total assets	55,847	56,578	731
(1) Accounts payable and accounts payable for completed projects	15,333	15,333	—
(2) Short-term borrowings	22,691	22,691	—
(3) Bonds (*2)	3,160	3,140	(20)
(4) Long-term debt (*2)	14,039	14,029	(10)
(5) Lease obligations	3,969	3,864	(105)
Total liabilities	59,192	59,057	(135)
Derivatives transaction not subject to the application of hedge accounting	—	—	—
Derivatives transactions subject to the application of hedge accounting	—	—	—
Total derivative transactions	—	—	—

March 31, 2010	(Millions of yen)		
	Carrying value	Fair value	Difference
(1) Cash and cash equivalents	72,432	72,432	—
(2) Trade receivables and accounts receivable 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)	43,043	43,016	(27)
(5) Lease obligations	4,836	4,696	(140)
Total liabilities	107,399	107,209	(190)
Derivatives transaction not subject to the application of hedge accounting	—	—	—
Derivatives transactions subject to the application of hedge accounting	—	—	—
Total derivative transactions	—	—	—

March 31, 2011	(Thousands of U.S. dollars)		
	Carrying value	Fair value	Difference
(1) Cash and cash equivalents	489,171	489,171	—
(2) Trade receivables and accounts receivable for completed projects	100,751	100,751	—
(3) Investment securities	32,500	32,632	132
(4) Operating loans	51,850		
Allowance for doubtful accounts (*1)	(8,580)		
Net	43,270	51,933	8,663
(5) Long-term loans	7,232		
Allowance for doubtful accounts (*1)	(1,430)		
Net	5,802	5,802	—
(6) Bad debt	53,550		
Allowance for doubtful accounts (*1)	(53,403)		
Net	147	147	—
Total assets	671,641	680,436	8,795
(1) Accounts payable and accounts payable for completed projects	184,406	184,406	—
(2) Short-term borrowings	272,888	272,888	—
(3) Bonds (*2)	38,004	37,766	(238)
(4) Long-term debt (*2)	168,842	168,722	(120)
(5) Lease obligations	47,731	46,460	(1,271)
Total liabilities	711,871	710,242	(1,629)
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 (¥11,811 million, $142,050 thousand) and the bonds to be redeemed within one year (¥560 million, $6,735 thousand) are respectively recorded as being included within long-term debts and bonds.

Notes:

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

Assets

Cash and cash equivalents
Trade receivables and accounts receivable for completed projects
These assets are stated at carrying amount as they are settled in the short-term and their fair values approximate their carrying amount.

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 "Note 6".

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

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

Liabilities

Accounts payable and accounts payable for completed projects
These liabilities are stated at carrying amount as they are settled in the short-term and their fair values approximate their carrying amount.

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

Bonds
Bonds issued by the Company are privately offered, and 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 7" below.

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

Item	(Millions of yen)		(Thousands of U.S. dollars)
	2011	2010	2011
Unlisted shares	1,848	2,127	22,223
Unlisted bonds (subordinate corporate bonds)	824	824	9,913
Subordinate beneficiary rights of loans and accounts receivable in trust	907	499	10,912
Contributions to limited investment partnerships	253	290	3,035
Total	3,832	3,740	46,083

As they have no market value, and as it is understood that it is extremely difficult to estimate their future cash flow, the above financial instruments are not included in “Assets: Investment Securities”.

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

March 31, 2011	(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	40,675	—	—	—
Trade receivables and Accounts receivable for completed projects	8,378	—	—	—
Investment securities				
Held-to-maturity bonds				
(1) Government and municipal bonds	—	700	—	—
(2) Corporate bonds	—	—	—	—
Other investment securities with maturities				
(1) Government and municipal bonds	—	599	545	—
(2) Bonds (Corporate bonds)	—	—	—	824
(3) Others	—	252	—	907
Operating loans	513	1,693	1,466	639
Long-term loans	17	57	24	503
Bad debts	—	—	—	4,453
Total	49,583	3,301	2,035	7,326

March 31, 2010	(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 receivable 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 investment securities with maturities				
(1) Government and municipal bonds	10	709	—	—
(2) Bonds (Corporate bonds)	—	—	—	824
(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

March 31, 2011	(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	489,171	—	—	—
Trade receivables and Accounts receivable for completed projects	100,751	—	—	—
Investment securities				
Held-to-maturity bonds				
(1) Government and municipal bonds	—	8,419	—	—
(2) Corporate bonds	—	—	—	—
Other investment securities with maturities				
(1) Government and municipal bonds	—	7,204	6,542	—
(2) Bonds (Corporate bonds)	—	—	—	9,912
(3) Others	—	3,034	—	10,912
Operating loans	6,173	20,361	17,634	7,682
Long-term loans	207	685	293	6,047
Bad debts	—	—	—	53,550
Total	596,302	39,703	24,469	88,103

6. Securities

(a) At March 31, 2011 and 2010, information with respect to “held-to-maturity securities” for which market prices were available was summarized as follows:

March 31, 2011	(Millions of yen)		
	Carrying value	Market value	Unrecognized gain (loss)
Unrecognized gain items:			
Government and municipal bonds	700	710	10
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	700	710	10
Unrecognized loss items:			
Government and municipal bonds	—	—	—
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	—	—	—
Total	700	710	10

March 31, 2010	(Millions of yen)		
	Carrying value	Market value	Unrecognized gain (loss)
Unrecognized gain items:			
Government and municipal bonds	599	610	11
Corporate bonds	—	—	—
Others	300	300	0
Subtotal	899	910	11
Unrecognized loss items:			
Government and municipal bonds	100	100	(0)
Corporate bonds	—	—	—
Others	200	177	(23)
Subtotal	300	277	(23)
Total	1,199	1,187	(12)

March 31, 2011	(Thousands of U.S. dollars)		
	Carrying value	Market value	Unrecognized gain (loss)
Unrecognized gain items:			
Government and municipal bonds	8,413	8,544	131
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	8,413	8,544	131
Unrecognized loss items:			
Government and municipal bonds	—	—	—
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	—	—	—
Total	8,413	8,544	131

(b) Investment securities classified as “other securities” as of March 31, 2011 and 2010 were as follows:

March 31, 2011	(Millions of yen)		
	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	831	447	384
Bonds:			
Government and municipal bonds	728	721	7
Corporate bonds	—	—	—
Others	—	—	—
Others	75	71	4
Subtotal	1,634	1,239	395
Securities whose acquisition cost exceeds their carrying value:			
Stock	12	13	(1)
Bonds:			
Government and municipal bonds	357	360	(3)
Corporate bonds	—	—	—
Others	—	—	—
Others	—	—	—
Subtotal	369	373	(4)
Total	2,003	1,612	391

March 31, 2010	(Millions of yen)		
	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	730	447	283
Bonds:			
Government and municipal bonds	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	639	646	(7)
Corporate bonds	—	—	—
Others	318	345	(27)
Others	141	166	(25)
Subtotal	1,110	1,170	(60)
Total	2,002	1,733	269

March 31, 2011	(Thousands of U.S. dollars)		
	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	9,994	5,376	4,618
Bonds:			
Government and municipal bonds	8,757	8,673	84
Corporate bonds	—	—	—
Others	—	—	—
Others	896	853	43
Subtotal	19,647	14,902	4,745
Securities whose acquisition cost exceeds their carrying value:			
Stock	146	156	(10)
Bonds:			
Government and municipal bonds	4,295	4,333	(38)
Corporate bonds	—	—	—
Others	—	—	—
Others	—	—	—
Subtotal	4,441	4,489	(48)
Total	24,088	19,391	4,697

(Note)
March 31, 2011
¥1,848 million ($22,223 thousand) of non-listed shares, ¥824 million ($9,913 thousand) of non-listed bonds (subordinate corporate bonds), ¥907 million ($10,912 thousand) of subordinate beneficiary rights to loans and money in trust, and ¥252 million ($3,035 thousand) of contributions to investment business limited partnerships are not included in the "other securities" amount given above because they have no market value and assigning them fair market prices is recognized to be extremely difficult.

March 31, 2010
¥2,127 million of non-listed shares, ¥824 million of non-listed bonds (subordinate corporate bonds), ¥499 million of subordinate beneficiary rights to loans and money in trust, and ¥290 million of contributions to investment business limited partnerships are not included in the "other securities" amount given above 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” and gain or loss on these sales for the years ended March 31, 2011 and 2010 were summarized as follows :

March 31, 2011	(Millions of yen)		
	Proceeds from sale	Gains	Losses
Stock	78	30	1
Bonds:			
Government and municipal bonds	—	—	—
Corporate bonds	—	—	—
Others	258	—	87
Others	192	35	33
Total	528	65	121

March 31, 2010	(Millions of yen)		
	Proceeds from sale	Gains	Losses
Stock	—	—	—
Bonds:			
Government and municipal bonds	—	—	—
Corporate bonds	—	—	—
Others	—	—	—
Others	97	2	—
Total	97	2	—

March 31, 2011	(Thousands of U.S. dollars)		
	Proceeds from sale	Gains	Losses
Stock	939	366	17
Bonds:			
Government and municipal bonds	—	—	—
Corporate bonds	—	—	—
Others	3,097	—	1,052
Others	2,309	410	387
Total	6,345	776	1,456

(d) Proceeds from sales of held-to-maturity debt for the year ended March 31, 2011 is as follows:

March 31, 2011	(Millions of yen)		
	Cost of sale	Proceeds from sale	Gain (loss)
Others (Structured bonds)	200	148	(52)
Reasons for sale	Change in management policy of surplus funds		

March 31, 2011	(Thousands of U.S. dollars)		
	Cost of sale	Proceeds from sale	Gain (loss)
Others (Structured bonds)	2,405	1,780	(625)
Reasons for sale	Change in management policy of surplus funds		

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

	(Millions of yen)		(Thousands of U.S. dollars)
	2011	**2010**	**2011**
Investment securities (stocks)	744	1,020	8,949

7. Derivative Transactions

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

Not applicable.

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

Interest rate-related derivatives

March 31, 2011

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	1,719	831	(Note)

March 31, 2010

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)

March 31, 2011

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 Pay fixed interest and receive floating interest	Long-term debt	20,673	9,994	(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.

8. Long-Lived Assets

The Companies recognized impairment loss on the following asset groups for the years ended March 31, 2011 and 2010:

March 31, 2011

Purpose	Category	Location	Impairment loss	
			(Millions of yen)	(Thousands of U.S. dollars)
Rental assets (Apartment buildings and others, 108 units)	Buildings and structures	Setagaya-ku, Tokyo, etc.	297	3,573
	Land		1,793	21,560
Hotel	Land	Sapporo city, Hokkaido	40	480
Idle assets (Training facilities and others, 2 units)	Buildings and structures	Miura city, Kanagawa, etc.	58	700
	Land		40	482
Total			2,228	26,795

March 31, 2010

Purpose	Category	Location	Impairment loss (Millions of yen)
Rental assets (Apartment buildings and others, 111 units)	Buildings and structures	Setagaya-ku, Tokyo, etc.	268
	Land		2,935
Business properties	Software and others	Nakano-ku, Tokyo	35
Total			3,238

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

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

Recoverable amounts of rental assets and hotels were measured by values in current use or net sales price based on publicly assessed values, which were calculated based on the present values of future cash flows, using a discount rate of 3.1%.

Recoverable amounts of idle assets were measured by net sales price based on real estate appraisal values.

9. Bad Debts

Bad debts are claims as stipulated under Article 32, Paragraph 1, and Item 10 of the Regulation concerning Financial Statements. Bad debt at March 31, 2011 and 2010 consisted of the following:

	(Millions of yen)		(Thousands of U.S. dollars)
	2011	**2010**	**2011**
Claims in bankruptcy	35	—	426
Claims in the process of bankruptcy	2,333	2,390	28,053
Bad debts	1,609	2,644	19,355
Others	476	170	5,716
Total	4,453	5,204	53,550

10. Income Taxes

(a) Significant components of deferred tax assets and liabilities as of March 31, 2011 and 2010 were as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	2011	2010	2011
Deferred tax assets:			
Loss carried forward for tax purposes	33,538	25,691	403,348
Impairment loss	21,414	29,877	257,534
Reserve for apartment vacancy loss	13,267	12,910	159,556
Advances from customers for rent income	11,329	2,119	136,252
Subsidiaries' foreign exchange loss	3,849	2,792	46,288
Retirement benefit reserves	3,204	2,973	38,530
Loss on devaluation of property, plant and equipment	1,630	1,630	19,599
Allowance for doubtful accounts	1,592	1,229	19,143
Deposits received	652	739	7,836
Loss on devaluation of securities	642	705	7,715
Sales promotion cost	581	610	6,990
Loss on devaluation of real estate for sale	560	2,067	6,736
Reserve for disaster losses	484	—	5,821
Reserve for switch to terrestrial digital broadcasts	484	—	5,815
Retirement benefit reserves for directors	482	482	5,800
Excess amortization on software	336	348	4,037
Other payables	181	361	2,178
Excess depreciation	161	153	1,932
Asset retirement obligations	157	—	1,888
Sales discount for construction contracts	120	148	1,442
Elimination of unrealized gain	82	95	980
Accrued enterprise tax	84	45	1,008
Reserve for fulfillment of guarantees	55	—	665
Reserve for warranty obligations on completed project	54	133	655
Bad debt loss	34	34	411
Low-value assets	8	23	99
Allowance for employees' bonuses	—	1,114	—
Loss on devaluation of real estate for investment	—	263	—
Others	130	699	1,576
Sub-total	95,110	87,240	1,143,834
Less: valuation allowance	(88,981)	(73,522)	(1,070,127)
Total deferred tax assets	6,129	13,718	73,707
Deferred tax liabilities:			
Net unrealized gain on "other securities"	(138)	(78)	(1,655)
Fixed asset retirement expenses	(9)	—	(109)
Others	—	(16)	—
Total deferred tax liabilities	(147)	(94)	(1,764)
Net deferred tax assets	5,982	13,624	71,943

(b) Reconciliation of the differences between the normal effective statutory tax rate and the actual effective tax rate for the years ended March 31, 2011 and 2010 was not stated since the Company posted loss before income taxes.

11. Short-Term Borrowings and Long-Term Debt

(a) Short-term borrowings, long-term debt and lease obligations at March 31, 2011 and 2010 consisted of the following:

	(Millions of yen)		(Thousands of U.S. dollars)
	2011	2010	2011
Short-term borrowings, with average interest rate of 2.75%	22,691	9,720	272,888
Current portion of long-term debt, with average interest rate of 2.16%	11,811	20,281	142,050
Current portion of lease obligations, with average interest rate of 4.43%	1,230	1,196	14,794
Long-term debt, due 2012 to 2013, with average interest rate of 2.17%	2,228	22,762	26,792
Lease obligations, long term, due 2012 to 2018, with average interest rate of 4.53%	2,739	3,640	32,937
Total	40,699	57,599	489,462

(Notes)

1. To calculate "Average interest rate," weighted average rates and fiscal year-end balances are used.
2. The redemption schedule of long-term loans payable and lease obligations (excluding current portion) for 5 years subsequent to March 31, 2011, is summarized in (b) below.

(b) 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
6,735	6,735	6,735	6,735	6,735

Schedule of loans

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 debt	2,228	—	—	—
Lease obligation	1,233	917	384	157

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 debt	26,792	—	—	—
Lease obligations	14,834	11,033	4,617	1,893

(c) Assets pledged as collateral for short-term borrowings and long-term debt at March 31, 2011 and 2010 were as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	2011	2010	2011
Real estate for sale/property inventories	—	1,157	—
Real estate for sale in process	20	2,289	241
Buildings and structures	58,351	32,880	701,760
Land	84,334	83,908	1,014,241
Investment securities	936	834	11,251
Others in Investments and other assets (Membership right)	420	420	5,051
Total	144,061	121,488	1,732,544

(d) Secured borrowings with pledge of collateral at March 31, 2011 and 2010 were as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	2011	2010	2011
Short-term borrowings	20,066	6,719	241,318
Current portion of long-term debt	11,811	20,281	142,050
Long-term debt	2,228	22,762	26,792
Total	34,105	49,762	410,160

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

	(Millions of yen)		(Thousands of U.S. dollars)
	2011	2010	2011
Deposit for operation stipulated in Building Lots and Buildings Transaction Business Act	25	35	301
Deposit for housing construction warranty	615	386	7,395
Deposit for housing defect warranty	100	89	1,198
Advanced payment certificate in accordance with Payment and Settlement Regulations	238	—	2,865

12. Commitment Line

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

	(Millions of yen)		(Thousands of U.S. dollars)
	2011	2010	2011
Total commitment available	16,500	16,500	198,437
Less amount utilized	16,500	—	198,437
Balance available	—	16,500	—

13. 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, 2011 and 2010 for the Companies' defined benefit plans:

	(Millions of yen)		(Thousands of U.S. dollars)
	2011	2010	2011
Projected benefit obligation	(7,538)	(7,736)	(90,657)
Unrecognized prior service cost	79	103	951
Unrecognized actuarial gain or loss	(415)	326	(4,985)
Retirement benefit reserves	(7,874)	(7,307)	(94,691)

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, 2010 and 2009.

	(Millions of yen)		(Thousands of U.S. dollars)
	2010	2009	2010
Pension assets	43,851	35,983	527,378
Projected benefit obligation	50,814	53,153	611,114
Difference	(6,963)	(17,170)	(83,736)

The main components of the difference are unrecognized prior service costs of ¥1,871 million ($22,505 thousand) and insufficient amount carried forward of ¥5,092 million ($61,231 thousand). The Company recognized the special annuity premium of ¥103 million ($1,237 thousand) and ¥130 million as an expense in the years ended March 31, 2011 and 2010, respectively. The ¥5,091 million ($61,231 thousand) of insufficient amount carried forward will be settled by increasing the rate of special annuity premium based on fiscal recalculation.

The annuity premium contributory proportion of the entire pension plan is 36% and 41% as of March 31, 2011 and 2010, 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, 2011 and 2010 were summarized as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	2011	2010	2011
Service cost	2,525	3,256	30,370
Interest cost	170	156	2,040
Amortization of actuarial gain or loss	132	217	1,591
Amortization of prior service cost	24	18	292
Total	2,851	3,647	34,293

(Notes) 1. In the year ended March 31, 2011, contributions to the welfare pension fund, which were recorded in service cost, were ¥1,375 million ($16,538 thousand), including ¥539 million ($6,480 thousand) of employee contribution.
2. 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	2011	2010
Periodical allocation of estimated retirement benefit	Same as right	Straight-line method
Discount rate	Same as right	2.2%
Amortization period of prior service cost	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.)
Amortization period of actuarial gain or loss	Same as right	5 years from the following fiscal year (Amortized evenly over a period not exceeding the expected average remaining working lives of the employee from the time of occurrence.)

14. Gain on Sale of Property, Plant and Equipment

Gain on sale of property, plant and equipment for the years ended March 31, 2011 and 2010 were as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	2011	2010	2011
Buildings and structures	45	130	537
Land	2,000	0	24,052
Others	1	0	20
Total	2,046	130	24,609

15. Loss on Sale of Property, Plant and Equipment

Loss on sale of property, plant and equipment for the years ended March 31, 2011 and 2010 were as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	2011	2010	2011
Buildings and structures	2	10	22
Land	—	216	—
Others	13	—	156
Total	15	226	178

16. Loss on Disposal of Property, Plant and Equipment

Loss on disposal of property, plant and equipment for the years ended March 31, 2011 and 2010 were as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	2011	2010	2011
Buildings and structures	89	805	1,072
Leased assets	0	4	0
Others	12	34	145
Total	101	843	1,217

17. Rental Properties

The Company possesses rental apartments in major cities and regions throughout Japan. Also, Leopalace Guam Corporation as a subsidiary company possesses rental housing within resorts, and Plaza Guarantee Co., Ltd. as a subsidiary company possesses rental buildings. For the year ended March 31, 2011, income arising from these rental properties was ¥4,764 million ($57,294 thousand), and impairment loss was ¥2,188 million ($26,315 thousand).

Also, the changes in book value of rental properties during the year ended March 31, 2011 and 2010, and the fair value as of March 31, 2011 and 2010 are as follows:

March 31, 2011 Millions of yen

Book Value			Fair Value
Balance as of March 31, 2010	Increase/Decrease	Balance as of March 31, 2011	
85,082	(12,031)	73,051	75,982

March 31, 2010 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

March 31, 2011 Thousands of U.S. dollars

Book Value			Fair Value
Balance as of March 31, 2010	Increase/Decrease	Balance as of March 31, 2011	
1,023,233	(144,694)	878,539	913,794

(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. The main decrease is sale of property, plant, and equipment (¥8,872 million, $106,699 thousand) and impairment loss (¥2,188 million, $26,315 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”.

18. 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
Asset retirement obligations are restoration obligations under real estate rental agreement for shop and term leasehold interest agreement for rental properties and asbestos removal expenses in company-owned apartments.

(2) Calculation method of the asset retirement obligations
For the restoration obligations under real estate rental agreement for shop, the estimated period of use at 5 years from its acquisition and the discount rate at 0.362% to 0.527% are used to calculate the amount of the asset retirement obligations.
For the restoration obligations under term leasehold interest agreement for rental properties, the estimated period of use at 11–30 years depending on the period of the agreements (useful lives of buildings according to the former Act on Land and Building Lease) and the discount rate at 1.329% to 2.301% are used to calculate the amount of the asset retirement obligations.
For asbestos removal expenses in company-owned apartments, the estimated period of removal at 3 years and the discount rate at 0.193% are used to calculate the amount of the asset retirement obligations.

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

	(Millions of yen)		(Thousands of U.S. dollars)
	2011	2010	2011
Balance at beginning of year	101	91	1,217
Increase due to acquisition of tangible fixed assets	5	9	62
Adjustments due to the passage of time	1	1	10
Decrease due to fulfillment of asset retirement obligations	(29)	—	(348)
Others	(0)	—	(2)
Balance at end of year	78	101	939

19. Supplemental Information on the Statement of Changes in Equity

Shares issued and treasury stocks for the year ended March 31, 2011 were as follows:

Type of shares	March 31, 2010	Increase	Decrease	March 31, 2011
Shares issued				
Common stock	159,543,915	15,900,000	—	175,443,915
Total	159,543,915	15,900,000	—	175,443,915
Treasury stock				
Common stock	7,667,387	63	799,600	6,867,850
Total	7,667,387	63	799,600	6,867,850

(Note)

1. Breakdown of amounts of increase is as follows:
   New shares issued through third-party allotment 15,900,000 shares
   Purchase of shares of less than one unit 63 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 799,600 shares
3. Number of treasury stock includes 2,298,900 shares held by the Trust Account as of the end of this fiscal year.

Shares issued 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 issued				
Common stock	159,543,915	—	—	159,543,915
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

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.

20. 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, 2011 and 2010, 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)
	2011	2010	2011
Acquisition cost			
Vehicles	7	7	86
Equipment	13,352	14,536	160,578
Accumulated depreciation			
Vehicles	5	4	62
Equipment	9,965	8,728	119,850
Net book value			
Vehicles	2	3	24
Equipment	3,387	5,808	40,728

(b) The amounts of outstanding future lease payments under finance lease subsequent to March 31, 2011 including the interest portion thereon were summarized as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	2011	2010	2011
Due within one year	2,056	2,535	24,727
Due after one year	1,665	3,722	20,022
Total	3,721	6,257	44,749

Annual lease expenses charged to income were ¥2,759 million ($33,183 thousand) and ¥3,188 million for the years ended March 31, 2011 and 2010, respectively.

(c) Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2011 and 2010 for finance lease transactions accounted for as operating leases were summarized as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	2011	2010	2011
Lease payment	2,759	3,188	33,183
Estimated amount of depreciation by the straight-line method over the lease period	2,418	2,768	29,074
Estimated interest cost by the interest method	230	359	2,767

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

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

(f) Future minimum lease payments related to non-cancelable operating leases subsequent to March 31, 2011 and 2010 were as follows:

March 31, 2011

	(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	284,838 (284,827)	21,959 (21,959)	262,879 (262,868)	3,425,590 (3,425,465)	264,090 (264,090)	3,161,500 (3,161,375)
Due after one year	1,035,629 (1,035,629)	33,482 (33,482)	1,002,147 (1,002,147)	12,454,957 (12,454,949)	402,676 (402,676)	12,052,281 (12,052,273)
Total	1,320,467 (1,320,456)	55,441 (55,441)	1,265,026 (1,265,015)	15,880,547 (15,880,414)	666,766 (666,766)	15,213,781 (15,213,648)

March 31, 2010

	(Millions of yen)		
	Future lease payments	Prepaid lease payments	Differences
Due within one year	279,727 (279,685)	25,395 (25,395)	254,332 (254,290)
Due after one year	1,183,488 (1,183,477)	50,300 (50,300)	1,133,188 (1,133,177)
Total	1,463,215 (1,463,162)	75,695 (75,695)	1,387,520 (1,387,467)

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

21. Contingent Liabilities

Contingent liabilities as of March 31, 2011 and 2010 were as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	2011	2010	2011
Contingent liabilities to financial institutions for customers who have a home mortgage	1,615	1,710	19,423
Contingent liabilities to financial institutions for customers who have a membership loan	22	30	264
Total	1,637	1,740	19,687

22. Segment Information

(1) Overview of Reportable Segments

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

The Companies have four reportable segments, the Leasing Division, Apartment Construction Subcontracting Division, Hotel Resort Division and Residential Sales Division.

The Leasing Division operations comprise the leasing and management of apartment buildings and other properties, repair work, broadband internet service, rent guarantee, and the company residence agency business. The Apartment Construction Subcontracting Division constructs apartments and other buildings on a contract basis. The Hotel Resort Division operates hotels and resort facilities, and sells resort memberships. The Residential Sales Division sells residential homes and other properties.

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

The accounting methods for reportable segments are basically the same as that presented in "Significant Items Fundamental to the Preparation of the Consolidated Financial Statements." The reportable segment profits (losses) represent operating income (loss). Inter-segment sales and transfers are based on prevailing market prices.

(3) Information Regarding Sales, Profits and Losses, Assets, and other Items by Reportable Segment for the years ended March 31, 2011 and 2010 were as follows:

March 31, 2011	(Millions of yen)								
	Reportable segment					Others	Total	Adjustments	Consolidated Total
	Leasing Division	Apartment Construction Subcontracting Division	Hotel Resort Division	Residential Sales Division	Segment Total				
Sales									
Sales to customers	356,606	107,821	6,492	4,689	475,608	8,783	484,391	–	484,391
Inter-segment sales and transfers	451	–	1,696	–	2,147	36	2,183	(2,183)	–
Total	357,057	107,821	8,188	4,689	477,755	8,819	486,574	(2,183)	484,391
Segment profit (loss)	(30,094)	11,971	(1,975)	220	(19,878)	(1,442)	(21,320)	(2,287)	(23,607)
Segment assets	156,272	22,069	45,728	119	224,188	7,591	231,779	66,495	298,274
Other items									
Depreciation	2,670	423	1,919	–	5,012	109	5,121	1,330	6,451
Increase in property, plant, and equipment, and intangible assets	385	95	405	–	885	61	946	2,636	3,582

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

2. Breakdown of adjustments is as follows:
Segment profit (or loss)

	(Millions of yen)	(Thousands of US dollars)
Inter-segment eliminations	46	558
Corporate expenses*	(2,333)	(28,062)
Total	(2,287)	(27,504)

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

Adjustments in segment assets (¥66,495 million, $799,699 thousand) consist mainly of surplus operating funds, long-term investment capital, and assets which do not belong to reportable segments.

Adjustments in the increase of property, plant, and equipment, and intangible assets (¥2,636 million, $31,701 thousand) consist of capital investments which do not belong to reportable segments.

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

March 31, 2010	(Millions of yen)								
	Reportable segment								
	Leasing Division	Apartment Construction Subcontracting Division	Hotel Resort Division	Residential Sales Division	Segment Total	Others	Total	Adjustments	Consolidated Total
Sales									
Sales to customers	342,316	237,062	6,734	24,644	610,756	9,620	620,376	—	620,376
Inter-segment sales and transfers	398	—	2,972	—	3,370	36	3,406	(3,406)	—
Total	342,714	237,062	9,706	24,644	614,126	9,656	623,782	(3,406)	620,376
Segment profit (loss)	(47,876)	29,745	(1,324)	(3,357)	(22,812)	(3,420)	(26,232)	(3,496)	(29,728)
Segment assets	183,178	30,735	55,912	3,996	273,821	10,020	283,841	112,671	396,512
Other items									
Depreciation	1,983	1,034	1,968	2	4,987	105	5,092	1,204	6,296
Increase in property, plant, and equipment, and intangible assets	1,580	41	3,071	3	4,695	1,495	6,190	5,182	11,372

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

2. Breakdown of adjustments is as follows:

Segment profit (or loss)

	(Millions of yen)
Inter-segment eliminations	91
Corporate expenses*	(3,587)
Total	(3,496)

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

Adjustments in segment assets (¥112,671 million) consist mainly of surplus operating funds, long-term investment capital, and assets which do not belong to reportable segments.

Adjustments in the increase of property, plant, and equipment, and intangible assets (¥5,183 million) consist of capital investments which do not belong to reportable segments.

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

March 31, 2011	(Thousands of U.S. dollars)								
	Reportable segment								
	Leasing Division	Apartment Construction Subcontracting Division	Hotel Resort Division	Residential Sales Division	Segment Total	Others	Total	Adjustments	Consolidated Total
Sales									
Sales to customers	4,288,709	1,296,705	78,073	56,391	5,719,878	105,629	5,825,507	—	5,825,507
Inter-segment sales and transfers	5,429	—	20,397	—	25,826	427	26,253	(26,253)	—
Total	4,294,138	1,296,705	98,470	56,391	5,745,704	106,056	5,851,760	(26,253)	5,825,507
Segment profit (loss)	(361,929)	143,972	(23,750)	2,643	(239,064)	(17,343)	(256,407)	(27,503)	(283,910)
Segment assets	1,879,395	265,405	549,948	1,435	2,696,183	91,299	2,787,482	799,699	3,587,181
Other items									
Depreciation	32,119	5,084	23,078	—	60,281	1,301	61,582	16,005	77,587
Increase in property, plant, and equipment, and intangible assets	4,628	1,136	4,875	—	10,639	741	11,380	31,701	43,081

Related information
For the year ended March 31, 2011

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

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

(2) Plant, property, and equipment

Millions of yen

Japan	Trust territory of U.S.A. Guam	People's Republic of China	Total
118,084	32,191	10	150,285

Thousands of U.S. dollars

Japan	Trust territory of U.S.A. Guam	People's Republic of China	Total
1,420,131	387,138	125	1,807,394

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

Information concerning impairment loss on fixed assets by reportable segments
For the year ended March 31, 2011

Millions of yen

	Leasing Division	Apartment Construction Subcontracting Division	Hotel Resort Division	Residential Sales Division	Other Division	Adjustments	Consolidated total
Impairment loss	2,090	—	40	—	—	98	2,228

Thousands of U.S. dollars

	Leasing Division	Apartment Construction Subcontracting Division	Hotel Resort Division	Residential Sales Division	Other Division	Adjustments	Consolidated total
Impairment loss	25,133	—	480	—	—	1,182	26,795

Note: Amount in "Adjustments" consists of idle assets (training facilities and others, 2 units).

Information concerning goodwill amortization and unamortized balance by reportable segments

For the year ended March 31, 2011

Not applicable.

Information concerning gain on negative goodwill by reportable segments

For the year ended March 31, 2011

Not applicable.

(Additional information)

For the year ended March 31, 2011

From the current fiscal year, the Companies adopt "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (*ASBJ Statement No.17, March 27, 2009)* and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (*ASBJ Guidance No.20, March 21, 2008).*

23. Amounts per Share

(a) The following tables set forth the net assets and net loss per share of common stock for the years ended March 31, 2011 and 2010.

	(Yen)		(U.S. dollars)
	2011	2010	2011
Net assets	195.91	466.76	2.36
Net loss			
Basic	(261.03)	(521.91)	(3.14)

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, 2011 and 2010 was as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	2011	2010	2011
Net assets	33,041	70,979	397,366
Amount not attributable to common stock	16	89	191
(new share subscription right)	(16)	(89)	(191)
Net assets attributable to common stock	33,025	70,890	397,175
Shares issued outstanding at end of year (Thousands of shares)	168,576	151,877	—

(c) Basis of computation of basic net loss per share for the years ended March 31, 2011 and 2010 was as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	2011	2010	2011
Net loss	(40,890)	(79,076)	(491,755)
Amount not attributable to common stock	—	—	—
Net loss attributable to common stock	(40,890)	(79,076)	(491,755)
Weighted-average shares during the year (Thousands of shares)	156,649	151,512	—
Dilutive securities that didn't have dilutive effects and therefore were not included in the calculation of diluted net income per share.	New share subscription right (710)	New share subscription right (1,712)	—

The Company recognizes stocks held by "Leopalace 21 Employee Stock Ownership Committee Trust Account" (2,298,900 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."

24. Related Party Transactions

The following tables set forth related party transactions for the years ended March 31, 2011 and 2010.
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For the year ended March 31, 2011

(a) Unconsolidated subsidiaries and affiliates

Attribute	Name	Address	Capital stock		Business or position	Percentage of share ownership	Relation
			(Millions of yen)	(Thousands of U.S. dollars)			
Affiliate	Toyo Miyama Kogyo Co., Ltd.	Kisarazu City, Chiba	100	1,203	Production and sales of building materials	50.0%	Purchases of building materials and others

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	13,254	159,394	Accounts payable for completed projects	1,232	14,821

(b) Directors and major individual shareholders

Attribute	Name	Address	Capital stock		Business or position	Percentage of share ownership	Relation
			(Millions of yen)	(Thousands of U.S. dollars)			
Directors and close relatives	Toshiko Miyoshi	—	—	—	—	—	Leasing of land and buildings
	Takeshi Yoshioka	—	—	—	—	—	Leasing of land and buildings
Company where major shareholders (individual) and close relatives have majority of voting rights	MDI	Nakano, Tokyo	100	1,203	Real estate business	—	Real estate brokerage

Attribute	Name	Transaction	Transaction amount		Account	Balance	
			(Millions of yen)	(Thousands of U.S. dollars)	(Millions of yen)	(Millions of yen)	(Thousands of U.S. dollars)
Directors and close relatives	Toshiko Miyoshi	Leasing of apartments	26	313	Long-term prepaid expenses	19	234
	Takeshi Yoshioka	Leasing of apartments	12	144	—	—	—
Company where major shareholders (individual) and close relatives have majority of voting rights	MDI	Brokerage of real estate held for sale	21	256	—	—	—

(Notes) 1. Consumption taxes were not included in transaction amounts but included in balance.
2. Conditions of transactions:
(a) Conditions of purchases of building materials are 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, Director of the Company.

4. Takeshi Yoshioka is a close relative of Yoshikazu Miike, Director of the Company.
5. MDI is a company where the major shareholder (Yusuke Miyama) of the Company and his close relative(s) have 100% of the voting rights. Yusuke Miyama is no longer one of the major individual shareholders after December 21, 2010.

For the year ended March 31, 2010

(a) Unconsolidated subsidiaries and affiliates

Attribute	Name	Address	Capital stock (Millions of yen)	Business or position	Percentage of share ownership	Relation
Affiliate	Toyo Miyama Kogyo Co., Ltd.	Kisarazu City, Chiba	100	Production and sales of building materials	50.0%	Purchases of building materials and others Interlocking directors

Attribute	Name	Transaction	Transaction amount (Millions of yen)	Account	Balance (Millions of yen)
Affiliate	Toyo Miyama Kogyo Co., Ltd.	Purchases of building materials and others	25,511	Accounts payable for completed projects	5,690

(b) Directors and major individual shareholders

Attribute	Name	Address	Capital stock (Millions of yen)	Business or position	Percentage of share ownership	Relation
Directors and close relatives	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 (Millions of yen)	Account	Balance (Millions of yen)
Directors and close relatives	Yoshiteru Kitagawa	Leasing of apartments	10	–	–
	Toshiko Miyoshi	Apartment construction subcontracting	193	–	–
		Leasing of apartments	15	Long-term prepaid expenses	25
	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. On 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.

Report of Independent Auditors

Grant Thornton Taiyo ASG

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To the Board of Directors of
LEOPALACE21 CORPORATION

We have audited the accompanying consolidated balance sheets of LEOPALACE21 CORPORATION (the "Company") and consolidated subsidiaries as of March 31, 2011 and 2010, and the related consolidated statements of operations, changes in equity and cash flows for the year then ended, and consolidated statement of comprehensive income for the year ended March 31, 2011, all 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 audits.

We conducted our audits 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 overall financial statement presentation. We believe that our audits provide 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 consolidated subsidiaries as of March 31, 2011 and 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Grant Thornton Taiyo ASG
Tokyo, Japan
June 29, 2011

Corporate Information

Corporate Data (As of March 31, 2011)

Company Name: Leopalace21 Corporation

Head Office: 2-54-11 Honcho, Nakano-ku, Tokyo 164-8622, Japan
TEL: +81-3-5350-0001 (Main Line)

Established: August 17, 1973

Paid-in Capital: ¥56,563 million

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

Number of Employees: 7,114 (consolidated basis)
6,240 (non-consolidated basis)

Board of Directors and Auditors (As of June 30, 2011)

Directors

President and CEO	Eisei Miyama
Director	Tadahiro Miyama
Director	Hiroyuki Miyata
Director	Yoshikazu Miike
Director	Kou Kimura
Director	Fumiaki Yamamoto
Director	Yuzuru Sekiya
Director (outside)	Tetsuji Taya

Auditors

Standing Auditor	Shinya Watanabe
Standing Auditor	Masumi Iwakabe
Auditor (outside)	Koichi Fujiwara
Auditor (outside)	Masahiko Nakamura

Major Shareholders (Top 10) (As of March 31, 2011)

Shareholders	Number of Shares	Percentage of Outstanding Shares
1. Jyu-seikatsu Realty Corporation	15,900,000	9.06%
2. Yusuke Miyama	11,810,974	6.73%
3. Stockholding Association for Leopalace21's Business Connections	5,680,300	3.24%
4. Leopalace21 Corporation	4,568,950	2.60%
5. Morgan Stanley & Co. International plc Standing Proxy, Morgan Stanley MUFG Securities Co., Ltd.	4,092,965	2.33%
6. Toyo Kanetsu K.K.	2,745,900	1.57%
7. Goldman Sachs International Standing Proxy, Goldman Sachs Japan Co., Ltd.	2,489,000	1.42%
8. Sumitomo Mitsui Banking Corporation, Trust Account	2,298,900	1.31%
9. Bank of New York GCM Client Account JPRDISGFEAC Standing Proxy, Bank of Tokyo-Mitsubishi UFJ	2,026,144	1.15%
10. Stockholding Association for Leopalace21's Employees	1,932,290	1.10%

Share Information (As of March 31, 2011)

Number of Shares:
Authorized: 250,000,000
Issued and Outstanding: 175,443,915

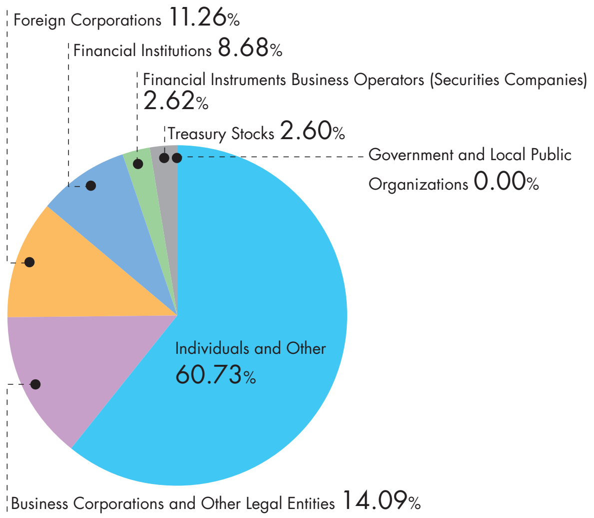
Number of Shareholders: 44,369

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

Transfer Agent: Mitsubishi UFJ Trust and Banking Corporation

Shareholder Composition (As of March 31, 2011)

Breakdown by Number of Shares



Group Companies (As of March 31, 2011)

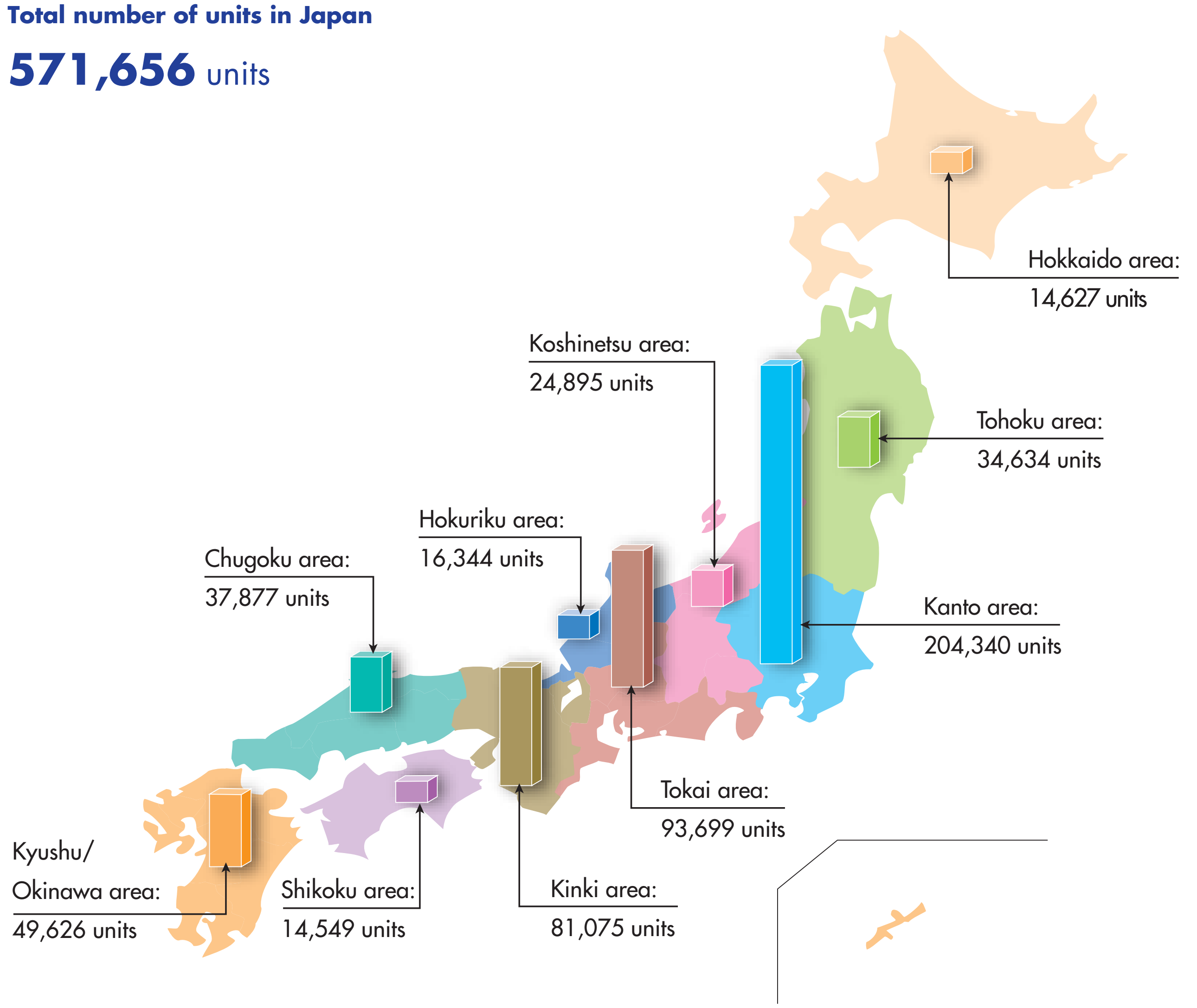
Company Name	Voting Rights (%)	Main Business
Consolidated Subsidiaries		
Leopalace Guam Corporation	100% owned	Hotel Resort Business
Leopalace Guam Distributing Corporation*	100% owned (indirectly)	Hotel Resort Business
Leopalace Guam Service Corporation*	100% owned (indirectly)	Hotel Resort Business
Leopalace Travel, Ltd.	100% owned	Hotel Resort Business
Leopalace Leasing Corporation	100% owned	Leasing Business
Plaza Guarantee Co., Ltd.	100% owned	Leasing Business / Others
Leopalace Insurance Co., Ltd. (Small-claims and short-term insurance business)	100% owned	Others (Small-claims and short-term insurance business)
Leopalace21 Business Consulting (Shanghai) Co., Ltd.	100% owned	Leasing Business
Leopalace Smile Co., Ltd.	100% owned	Others
Equity Method Affiliate		
Toyo Miyama Kogyo Co., Ltd.	50% owned	Apartment Construction Subcontracting Business

* Corporation having a legally certified liquor license in Guam

Number of apartment units under management by area (As of March 31, 2011)

Total number of units in Japan

571,656 units



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