

Consolidated Financial Statements

November 16, 2006

(Six months ended September 30, 2006)

Name of Company Listed: **Leopalace21 Corporation**

Code number: 8848

(URL: <http://www.leopalace21.co.jp>)

Representative:

Position: President and CEO

Name of Contact Person:

Position: General Manager

Stock Listing: Tokyo Stock Exchange

Location of Head Office: Tokyo

Name: Tomio Oba

Name: Masumi Iwakabe

Telephone: +81-3-5350-0216

Date of the Meeting of the Board of Directors for Approval of Settlement of Accounts: November 16, 2006

Application of U.S. Accounting Standards: No

1. Results of FY 2007 Interim (April 1, 2006 through September 30, 2006)

(1) Consolidated financial results

(Amounts less than one million yen are omitted)

	Net sales		Operating profit		Recurring profit	
	Million yen	%	Million yen	%	Million yen	%
FY 2007 interim	306,360	33.0	34,372	68.7	31,961	44.1
FY 2006 interim	230,418	10.2	20,378	17.6	22,175	18.7
FY 2006	465,386		40,775		44,151	

	Net income (loss)		Net income (loss) per share		Diluted net income (loss) per share	
	Million yen	%	Yen		Yen	
FY 2007 interim	16,843	-	105.82		-	
FY 2006 interim	(24,321)	-	(152.79)		-	
FY 2006	(16,582)		(104.17)		-	

Notes: 1) Equity in earnings of affiliates in FY 2007 interim: (2,087) million yen, FY 2006 interim: 173 million yen, FY 2006: 512 million yen.

2) Average number of shares outstanding (consolidated) in FY 2007 interim: 159,179,809 shares, FY 2006 interim: 159,180,599 shares, FY 2006: 159,180,414 shares.

3) Change in accounting method: No.

4) The percentage figures accompanying net sales, operating profit, recurring profit and net income (loss) represent year-on-year changes.

(2) Consolidated financial position

(Amounts less than one million yen are omitted)

	Total assets	Shareholders' equity	Equity ratio	Equity per share
	Million yen	Million yen	%	Yen
FY 2007 interim	398,693	166,222	37.2	932.03
FY 2006 interim	389,544	124,160	31.9	780.00
FY 2006	412,803	133,622	32.4	839.44

Note: Number of shares outstanding in FY 2007 interim: 159,179,624 shares, FY 2006 interim: 159,180,430 shares, FY 2006: 159,180,065 shares.

(3) Consolidated cash flows

(Amounts less than one million yen are omitted)

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of year
	Million yen	Million yen	Million yen	Million yen
FY 2007 interim	23,104	(14,582)	(8,475)	44,685
FY 2006 interim	105	(4,923)	(7,543)	34,566
FY 2006	56,971	(11,266)	(47,946)	44,612

(4) Scope of consolidation and equity method

Consolidated subsidiaries	9 companies
Unconsolidated subsidiaries	None
Equity method affiliates	2 companies

(5) Change in scope of consolidation and equity method

Consolidated subsidiaries	(Newly applied)	None	(Excluded)	None
Equity method companies	(Newly applied)	None	(Excluded)	None

2. Estimation of business results for the year ending March 31, 2007

	Net sales	Recurring profit	Net income
	Million yen	Million yen	Million yen
FY ending March 2007	624,500	75,000	41,000

Reference: Estimated net income per share (full year): 257.57 yen.

Note: The above forecasts are based on information available to management on the day of the announcement. These statements involve a variety of uncertainties including assumptions about future economic conditions and exchange rate fluctuations, and as a result actual performance may differ materially from these forecasts.

1. Consolidated Balance Sheets

(Million yen)

	FY 2006 interim (Sep. 30, 2005)	FY 2007 interim (Sep. 30, 2006)	FY 2006 (Mar. 31, 2006)
<Assets>			
I Current assets			
Cash and cash equivalents	34,566	44,685	44,612
Trade receivables and accounts receivable for completed projects	29,538	5,855	8,114
Operating loans	11,190	9,394	10,426
Real estate for sale/property inventories	2,955	13,528	7,524
Payout for construction in progress	4,634	9,525	35,249
Other inventories	525	915	638
Prepaid expenses	-	20,391	-
Deferred tax assets	18,095	3,443	10,827
Other accounts receivable	22,275	19,878	22,564
Other	22,621	7,322	25,048
Allowance for doubtful accounts	(1,469)	(1,383)	(1,487)
Total	144,932	133,558	163,518
II Fixed assets			
1. Tangible assets			
(1) Buildings and structures	82,676	82,504	83,666
(2) Land	102,391	119,645	107,216
(3) Construction in progress	2,425	3,628	1,964
(4) Other	3,426	3,718	3,665
Total	190,920	209,497	196,512
2. Intangible assets			
	577	578	579
3. Investments and other assets			
(1) Long-term prepaid expenses	29,858	38,212	33,035
(2) Long-term trade receivable	12,126	3,251	2,835
(3) Deferred tax assets	3,115	4,395	1,901
(4) Other	19,502	12,796	17,327
Allowance for doubtful accounts	(11,666)	(3,712)	(3,064)
Total	52,936	54,943	52,035
Total fixed assets	244,434	265,019	249,128
III Deferred assets			
1. Business establishment expenses			
	17	4	9
2. Bond issuance expenses			
	159	110	146
Total	177	115	156
Total assets	389,544	398,693	412,803

(Million yen)

	FY 2006 interim (Sep. 30, 2005)	FY 2007 interim (Sep. 30, 2006)	FY 2006 (Mar. 31, 2006)
<Liabilities>			
I Current liabilities			
Accounts payable including payables for completed projects	69,138	68,346	81,231
Short-term borrowings	33,881	24,783	20,348
Bonds due within one year	1,435	1,435	1,435
Accrued income taxes	4,137	8,089	4,423
Advances received	26,774	34,674	37,626
Customer advances for projects in progress	13,630	29,341	42,061
Allowance for employees' bonuses	2,518	2,730	2,487
Other	14,152	17,628	16,061
Total	165,667	187,029	205,674
II Long-term liabilities			
Bonds	12,045	10,610	11,327
Long-term borrowings	56,784	21,827	31,402
Retirement benefit reserves	2,898	3,665	3,246
Lease/guarantee deposits received	10,048	9,259	9,801
Other	75	78	76
Total	81,851	45,441	55,855
Total liabilities	247,519	232,470	261,530
<Minority interests>			
Minority interests	17,864	-	17,651
<Shareholders' equity>			
I Share capital	55,640	-	55,640
II Capital surplus	33,759	-	33,759
III Retained earnings	45,384	-	53,123
IV Net unrealized gains on "other securities"	540	-	714
V Translation adjustments	(10,969)	-	(9,418)
VI Treasury stock	(196)	-	(197)
Total shareholders' equity	124,160	-	133,622
Total liabilities, minority interests and shareholders' equity	389,544	-	412,803
<Shareholders' equity>			
I Shareholders' equity			
Share capital	-	55,640	-
Capital surplus	-	33,759	-
Retained earnings	-	67,576	-
Treasury stock	-	(199)	-
Total	-	156,777	-
II Valuation and translation adjustments			
Net unrealized gains on "other securities"	-	486	-
Translation adjustments	-	(8,903)	-
Total	-	(8,416)	-
III Minority interests	-	17,862	-
Total shareholders' equity	-	166,222	-
Total liabilities and shareholders' equity	-	398,693	-

2. Consolidated Statements of Operations

(Million yen)

	FY 2006 interim (Apr. 2005 - Sep. 2005)	FY 2007 interim (Apr. 2006 - Sep. 2006)	FY 2006 (Apr. 2005 - Mar. 2006)
I Net sales	230,418	306,360	465,386
II Cost of sales	176,067	232,760	353,928
Gross profit	54,351	73,600	111,458
III Selling, general and administrative expenses			
Advertising expenses	3,283	4,159	8,265
Sales commission expense	1,359	1,267	2,909
Transfer to allowance for bad debt	684	819	1,653
Directors' compensation	204	203	425
Salary and bonuses	12,275	13,743	25,714
Provision for accrued bonuses	1,775	1,921	1,752
Provision for retirement bonuses	430	499	861
Rent expense	2,023	2,251	4,101
Depreciation and amortization	649	588	1,293
Taxes and public charges	1,096	1,776	2,391
Other	10,189	11,996	21,314
Total	33,972	39,227	70,683
Operating profit	20,378	34,372	40,775
IV Non-operating profit			
Equity in earnings of affiliates	173	-	512
Gain from cancellation of contracted work	46	43	174
Valuation gain on interest-rate swap	98	64	233
Foreign exchange gain	2,730	298	4,780
Other	478	338	792
Total	3,526	745	6,493
V Non-operating expenses			
Interest expenses	1,265	681	2,300
Equity-method investment loss	-	2,087	-
Other	463	387	815
Total	1,729	3,157	3,116
Recurring profit	22,175	31,961	44,151
VI Extraordinary income			
Gain on sales of property, plant and equipment	0	6	13
Gain on sales of affiliates' stock	31	-	31
Gain on sales of affiliates' bonds	-	1,067	-
Reversal of allowance for doubtful receivables	9	104	24
Total	40	1,178	68
VII Extraordinary losses			
Loss on sales of property, plant and equipment	-	-	10
Loss on disposal of property, plant and equipment	124	162	453
Impairment loss	61,298	1,944	65,480
Transfer to allowance for bad debt	827	561	831
Other	137	10	187
Total	62,387	2,678	66,963
Net income (loss) before taxes and adjustments	(40,171)	30,461	(22,743)
Income taxes	120	7,698	991
Income taxes-deferred	(16,406)	5,483	(8,023)
Minority interests	435	435	871
Net income (loss)	(24,321)	16,843	(16,582)

3. Consolidated Statements of Cash Flows

(Million yen)

	FY 2006 interim (Apr. 2005 - Sep. 2005)	FY 2007 interim (Apr. 2006 - Sep. 2006)	FY 2006 (Apr. 2005 - Mar. 2006)
I Cash flows from operating activities			
Net income (loss) before taxes and adjustments	(40,171)	30,461	(22,743)
Depreciation expenses	2,251	2,287	4,565
Increase (decrease) in allowance for doubtful accounts	1,184	539	1,737
Interest expense	1,414	681	2,518
Foreign exchange loss (gain)	(2,730)	(298)	(4,780)
Equity method loss (income)	(173)	2,087	(512)
Loss on sales of tangible fixed assets	-	-	10
Write-offs of tangible fixed assets	124	162	453
Impairment loss	61,298	1,944	65,480
Gain on sales of affiliates' stock	(31)	-	(31)
Gain on sales of affiliates' bonds	-	(1,067)	-
Gain on sales of investment securities	(70)	(74)	(125)
Decrease (increase) in accounts receivable	20,103	6,101	42,237
Decrease (increase) in inventories	(3,925)	19,446	(39,212)
Decrease (increase) in long-term prepaid expenses	(3,294)	(6,277)	(7,345)
Increase (decrease) in accounts payable	(22,317)	(12,960)	(10,208)
Increase (decrease) in amount received for uncompleted works	4,897	(12,719)	33,328
Increase (decrease) in advances received	(1,552)	(3,053)	9,294
Increase (decrease) in guarantee deposits received	(1,570)	(519)	(1,761)
Increase (decrease) in accrued consumption tax	(535)	1,842	(1,166)
Other	(1,181)	(530)	443
Subtotal	13,721	28,052	72,181
Interest and dividends received	123	67	228
Interest paid	(1,301)	(659)	(2,356)
Income taxes paid	(12,438)	(4,355)	(13,081)
Net cash provided by operating activities	105	23,104	56,971
II Cash flows from investing activities			
Payment for purchase of tangible fixed assets	(3,574)	(16,948)	(13,193)
Proceeds from sales of tangible fixed assets	0	7	914
Proceeds from sales of affiliates' bonds	-	2,880	-
Payment for purchase of investment securities	(1,303)	(383)	(2,827)
Proceeds from sales of investment securities	583	437	2,835
Payment for loans made	(756)	(927)	(1,381)
Proceeds from collection of loans	3	1,372	2,843
Other	123	(1,021)	(457)
Net cash used in investing activities	(4,923)	(14,582)	(11,266)
III Cash flows from financing activities			
Proceeds from short-term debt	17,500	21,200	17,750
Repayment of short-term debt	(11,022)	(20,372)	(28,564)
Proceeds from long-term debt	4,000	-	10,680
Repayment of long-term debt	(14,399)	(5,968)	(42,703)
Proceeds from issuance of privately placed bonds	9,716	-	13,259
Payment for purchase depreciation of privately placed bonds	(10,017)	-	(13,667)
Payment for redemptions of privately placed bonds	(717)	(717)	(1,435)
Payment for purchase of treasury stock	(0)	(1)	(1)
Dividends paid for shareholders	(2,377)	(2,390)	(2,390)
Dividends paid to minority shareholders	(225)	(225)	(873)
Net cash used in financing activities	(7,543)	(8,475)	(47,946)
IV Effect of exchange rate changes on cash and cash equivalents	74	26	0
V Net increase (decrease) in cash and cash equivalents	(12,286)	73	(2,240)
VI Cash and cash equivalents at beginning of period	46,852	44,612	46,852
VII Cash and cash equivalents at end of period	34,566	44,685	44,612

4. Segment Information

Our business results for each segment by business category are discussed below.

FY 2006 interim (April 1, 2005 through September 30, 2005)

(Million yen)

	Apartment Construction Subcontracting Division	Leasing Division	Hotel Resort Division	Other Division	Total	Eliminations/ Unallocated	Consolidated
Net sales and operating profit (loss)							
Net sales							
(1) Sales to customers	105,041	117,320	4,009	4,046	230,418	-	230,418
(2) Intra-group sales and transfers	-	1	1,295	-	1,296	(1,296)	-
Total	105,041	117,322	5,304	4,046	231,715	(1,296)	230,418
Operating expenses	82,241	116,024	6,470	4,716	209,452	587	210,039
Operating profit (loss)	22,800	1,298	(1,165)	(669)	22,262	(1,883)	20,378

FY 2007 interim (April 1, 2006 through September, 2006)

(Million yen)

	Apartment Construction Subcontracting Division	Leasing Division	Hotel Resort Division	Other Division	Total	Eliminations/ Unallocated	Consolidated
Net sales and operating profit (loss)							
Net sales							
(1) Sales to customers	160,210	130,565	4,187	11,398	306,360	-	306,360
(2) Intra-group sales and transfers	-	1	2,009	-	2,010	(2,010)	-
Total	160,210	130,566	6,196	11,398	308,371	(2,010)	306,360
Operating expenses	122,861	130,315	7,170	11,421	271,768	219	271,988
Operating profit (loss)	37,349	251	(974)	(22)	36,603	(2,230)	34,372

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

2. Segments and business content

(1) Apartment Construction Subcontracting Division-----Contract apartment construction

(2) Leasing Division-----Apartment leasing, management, related services and repairs

(3) Hotel Resort Division-----Hotel and resort management, sales of resort club memberships, etc.

(4) Other Division-----Financial services (real-estate loans, etc.), residential business, broadband business, silver business

3. That portion of operating expenses that involves write-offs and unallocatable expenses in the "eliminations/unallocated" category are accounted as follows

(Million yen)

	FY 2006 interim	FY 2007 interim	FY 2006	Main component
Operating expenses unable to be allocated included in "eliminations/unallocated"	1,883	2,230	3,695	Management expenses of the General Affairs Department of the Company submitting the consolidated financial statements.

Non-Consolidated Financial Statements

November 16, 2006

(Six months ended September 30, 2006)

Name of Company Listed: **Leopalace21 Corporation**

Stock Listing: Tokyo Stock Exchange

Code number: 8848

Location of Head Office: Tokyo

(URL: <http://www.leopalace21.co.jp>)

Representative: Position: President and CEO

Name: Tomio Oba

Name of Contact Person: Position: General Manager

Name: Masumi Iwakabe

Telephone: +81-3-5350-0216

Date of the Meeting of the Board of Directors for Approval of Settlement of Accounts: November 16, 2006

Starting Date for Dividend Payments: December 12, 2006

Adoption of Trading Lot System: Yes (1 trading unit is 100 shares)

1. Results of FY 2007 Interim (April 1, 2006 through September 30, 2006)

(1) Consolidated financial results

(Amounts less than one million yen are omitted)

	Net sales		Operating profit		Recurring profit	
	Million yen	%	Million yen	%	Million yen	%
FY 2007 interim	302,216	33.5	33,510	71.0	33,126	75.0
FY 2006 interim	226,454	10.0	19,592	12.5	18,933	19.7
FY 2006	457,135		39,534		38,752	

	Net income (loss)		Net income (loss) per share
	Million yen	%	Yen
FY 2007 interim	18,593	-	116.66
FY 2006 interim	(40,920)	-	(256.75)
FY 2006	(33,346)		(209.23)

Notes: 1) Average number of shares outstanding in FY 2007 interim: 159,379,809 shares, FY 2006 interim: 159,380,599 shares, FY 2006: 159,380,414 shares.

2) Change in accounting method: No.

3) The percentage figures accompanying net sales, operating profit, recurring profit and net income (loss) represent year-on-year changes.

(2) Non-consolidated financial position

(Amounts less than one million yen are omitted)

	Total assets	Shareholders' equity	Equity ratio	Equity per share
	Million yen	Million yen	%	Yen
FY 2007 interim	396,995	149,139	37.6	935.75
FY 2006 interim	388,555	125,387	32.3	786.72
FY 2006	409,721	133,106	32.5	835.15

Note: 1) Number of shares outstanding in FY 2007 interim: 159,379,624 shares, FY 2006 interim: 159,380,430 shares, FY 2006: 159,380,065 shares.

2) Number of shares of treasury stock in FY 2007 interim: 164,291 shares, FY 2006 interim: 163,485 shares, FY 2006: 163,850 shares.

2. Estimation of business results for the year ending March 31, 2007

	Net sales	Recurring profit	Net income
	Million yen	Million yen	Million yen
FY ending March 2007	616,000	73,000	40,000

Reference: Estimated net income per share (full year): 250.97 yen.

3. Dividends

- Cash dividend

	Dividend per share (yen)		
	Interim	Year-end	Full year
FY ended March 2006	-	15.00	15.00
FY ended March 2007 (actual)	15.00	-	30.00
FY ended March 2007 (estimate)	-	15.00	

Note: The above forecasts are based on information available to management on the day of the announcement. These statements involve a variety of uncertainties including assumptions about future economic conditions and exchange rate fluctuations, and as a result actual performance may differ materially from these forecasts.