

Consolidated Financial Statements

February 2, 2009

(For the nine months ended December 31, 2008)

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 Listings: Tokyo Stock Exchange
 Location of Head Office: Tokyo

Name: Yoshiteru Kitagawa
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Scheduled Date of Filing of Quarterly Report: February 13, 2009

1. Results for the Nine Months Ended December 31, 2008 (April 1, 2008 through December 31, 2008)

(1) Consolidated financial results (Cumulative)

(Amounts less than one million yen are omitted)

(The percentage figures represent the change from the same period last year)

	Net sales		Operating profit		Recurring profit		Net income (loss)	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended December 31, 2008	473,481	-	24,782	-	17,600	-	2,941	-
Nine months ended December 31, 2007	426,452	1.9	31,017	(21.4)	28,525	(23.4)	(13,185)	-

	Net income (loss) per share	Diluted net income (loss) per share
	Yen	Yen
Nine months ended December 31, 2008	18.58	-
Nine months ended December 31, 2007	(82.73)	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Equity per share
	Million yen	Million yen	%	Yen
Nine months ended December 31, 2008	475,215	149,486	31.5	987.51
FY ended March 31, 2008	493,956	170,155	33.4	1,036.43

Note: Shareholders' equity: As of December 31, 2008: 149,486 million yen; As of March 31, 2008: 165,185 million yen

2. Dividend Status

(Base date)	Dividend per share				
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	End of FY	Annual
	Yen	Yen	Yen	Yen	Yen
FY ended March 31, 2008	-	30.00	-	50.00	80.00
FY ending March 31, 2009	-	30.00	-	-	-
FY ending March 31, 2009 (Forecast)	-	-	-	-	-

Note: Revision of dividend forecast in this period (Y/N): Yes

The dividend record date is fixed by the Company's Articles of Incorporation, but the amount of the dividend to be paid based on that date has not been determined at the present time.

3. Estimation of Business Results for the Fiscal Year Ending March 31, 2009 (April 1, 2008 through March 31, 2009)

(Amounts less than one million yen are omitted)

(Percentages presented refer to changes compared with the previous full-year)

	Net sales		Operating profit		Recurring profit		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
FY ending March 31, 2009	735,800	9.3	53,700	(24.8)	45,400	(25.4)	12,600	-	83.24

Note: Revision of consolidated business results forecasts in this period (Y/N): Yes

4. Other

- (1) Changes in major subsidiaries during the FY (Change in specific subsidiaries as a result of a change in the scope of consolidation): None
- (2) Use of simplified accounting procedures or accounting procedures specific to the preparation of quarterly financial statements: Yes
- (3) Changes in accounting principles, procedures or reporting methods used in preparation of these quarterly financial statements (Changes in important items concerning preparation of these quarterly financial statements)
 - (i) Changes accompanying revision of accounting standards, etc.: Yes
 - (ii) Changes other than (i) above: None
- (4) Total number of outstanding shares (Common stock)
 - (i) Total number of outstanding shares at term end (Includes treasury stock)
 - As of December 31, 2008: 159,543,915 shares
 - As of March 31, 2008: 159,543,915 shares
 - (ii) Total treasury stock at term end
 - As of December 31, 2008: 8,165,610 shares
 - As of March 31, 2008: 165,059 shares
 - (iii) Average number of outstanding shares during the period
 - For the nine months ended December 31, 2008: 158,335,544 shares
 - For the nine months ended December 31, 2007: 159,379,249 shares

*Explanations and special notes regarding the proper use of forecasts

1. Leopalace21 has revised its full-year forecasts for FY09/3 from those announced on May 15, 2008. For details see "Notice Concerning Revision of Earnings and Dividend Forecasts for the Fiscal Year Ending March 31, 2009" released separately this same date (February 2, 2009).
2. The business forecasts and other forward-looking statements contained in this report are based on information currently available to the Company and on certain assumptions that Leopalace21 has judged to be reasonable. Readers should be aware that a variety of factors might cause actual results to differ significantly from these forecasts.
3. The projected year-end dividend for FY09/3 is undetermined at the present time, due to the uncertainty of future results. Leopalace21 plans to announce its dividend forecast in the financial statement for FY09/3, to be disclosed in early May, 2009.
4. From the subject fiscal year Leopalace21 has applied "Accounting Standards for Quarterly Financial Statements" (The Accounting Standards Board of Japan (ASBJ) Statement No. 12) and "Guidance on Accounting Standards for Quarterly Financial Reporting" (ASBJ Guidance No. 14). Quarterly consolidated financial statements were prepared in accordance with the revised "Regulations for Quarterly Consolidated Financial Statements", in reference to the supplementary provision Article 7-1-5 of the "Cabinet Office Ordinance amending part of the Regulation for Terminology, Forms and Preparation of Financial Statements" (Cabinet Office Ordinance No. 50, August 7, 2008).

1. Consolidated Balance Sheets

(Million yen)

	December 31, 2008	March 31, 2008
<Assets>		
Current assets		
Cash and cash equivalents	54,174	60,965
Accounts receivable	5,023	6,381
Receivables for completed projects	675	8,777
Operating loans	10,840	15,789
Real estate for sales	10,077	8,590
Real estate for sales in process	25,685	29,229
Payout for construction in progress	42,304	11,792
Raw materials and supplies	664	750
Prepaid expenses	26,675	24,628
Deferred tax assets	12,085	12,085
Other accounts receivable	403	28,058
Other	14,236	13,083
Allowance for doubtful accounts	(1,385)	(1,448)
Total	201,460	218,684
Fixed assets		
Tangible assets		
Buildings and structures (net)	72,234	76,556
Land	117,502	116,295
Construction in progress	3,608	1,901
Other (net)	3,851	4,370
Total	197,197	199,124
Intangible assets	702	622
Investments and other assets		
Investment securities	6,770	9,082
Long-term loans	861	2,399
Deferred tax assets	3,383	3,388
Long-term accounts receivable	5,250	4,015
Long-term prepaid expenses	56,278	53,356
Other	8,374	5,442
Allowance for doubtful accounts	(5,070)	(2,164)
Total	75,849	75,519
Total fixed assets	273,749	275,265
Deferred assets	4	6
Total assets	475,215	493,956

(Million yen)

	December 31, 2008	March 31, 2008
<Liabilities>		
Current liabilities		
Accounts payable	3,085	2,613
Payables for completed projects	39,149	86,909
Short-term borrowings	40,159	16,221
Bonds due within one year	–	5,094
Unpaid expenses	8,965	9,635
Accrued expenses	142	25
Accrued income taxes	336	14,308
Advances received	86,226	98,496
Customer advances for projects in progress	51,452	21,752
Allowance for employees' bonuses	1,956	3,243
Allowance for indemnification of completed projects	1,072	1,041
Other	5,807	9,278
Total	238,354	268,621
Long-term liabilities		
Long-term borrowings	28,820	28,395
Retirement benefit reserves	5,900	5,064
Retirement benefit reserves for directors	1,251	1,592
Reserves for rents due on leaseback agreements	477	399
Long-term lease/guarantee deposits received	50,461	19,727
Other	461	–
Total	87,373	55,179
Total liabilities	325,728	323,800
<Net assets>		
Shareholders' equity		
Share capital	55,640	55,640
Capital surplus	34,104	34,104
Retained earnings	66,402	76,211
Treasury stock	(6,541)	(98)
Total	149,606	165,858
Valuation and translation adjustments		
Net unrealized gains on "other securities"	62	89
Deferred gains or losses on hedges	(13)	–
Translation adjustments	(168)	(762)
Total	(119)	(672)
Minority interests	–	4,970
Total net assets	149,486	170,155
Total liabilities and net assets	475,215	493,956

2. Consolidated Statements of Operations

(Million yen)

	Nine months ended December 31, 2008 (Apr. 2008–Dec. 2008)
Net sales	473,481
Cost of sales	379,235
Gross profit	94,245
Selling, general and administrative expenses	69,462
Operating profit	24,782
Non-operating profit	
Interest income	102
Equity in earnings of affiliates	211
Other	630
Total	944
Non-operating expenses	
Interest expenses	860
Financial expenses	600
Foreign exchange loss	6,070
Other	594
Total	8,127
Recurring profit	17,600
Extraordinary income	
Gain on sales of property, plant and equipment	0
Reversal of allowance for doubtful receivables	321
Total	322
Extraordinary losses	
Loss on sales of property, plant and equipment	0
Loss on disposal of property, plant and equipment	108
Loss on devaluation of real estate for sales	2,560
Impairment loss	510
Loss on devaluation of investment securities	2,737
Transfer to allowance for bad debt	248
Total	6,166
Net income before taxes and adjustments	11,756
Income taxes	8,814
Net income	2,941

3. Consolidated Statements of Cash Flows

(Million yen)

	Nine months ended December 31, 2008 (Apr. 2008–Dec. 2008)
Cash flows from operating activities	
Net income before taxes and adjustments	11,756
Depreciation expenses	3,716
Increase (decrease) in allowance for doubtful accounts	2,843
Increase (decrease) in retirement benefit reserves for directors	(340)
Interest expense	860
Foreign exchange loss (gain)	6,070
Equity in earnings of affiliated companies	(211)
(Gain) loss on sales of tangible fixed assets	0
Write-offs of tangible fixed assets	108
Impairment loss	510
Loss on devaluation of real estate for sales	2,560
(Gain) loss on devaluation of investment securities	2,737
Decrease (increase) in accounts receivable	41,070
Decrease (increase) in real estate for sales	(1,995)
Decrease (increase) in work in process	(30,512)
Decrease (increase) in long-term prepaid expenses	(4,682)
Increase (decrease) in accounts payable	(46,999)
Increase (decrease) in customer advances for projects in progress	29,700
Increase (decrease) in advances received	(12,235)
Increase (decrease) in guarantee deposits received	30,719
Increase (decrease) in accrued consumption taxes	(246)
Other	(5,362)
Subtotal	30,069
Interest and dividends received	427
Interest paid	(730)
Income taxes paid	(22,871)
Net cash provided by operating activities	6,894
Cash flows from investing activities	
Payment for purchase of tangible fixed assets	(5,546)
Proceeds from sales of tangible fixed assets	3
Payment for purchase of investment securities	(398)
Proceeds from sales of investment securities	71
Payment for loans made	(425)
Proceeds from collection of loans	301
Other	(1,859)
Net cash used in investing activities	(7,854)

(Million yen)

	Nine months ended December 31, 2008 (Apr. 2008–Dec. 2008)
Cash flows from financing activities	
Proceeds from short-term debt	29,000
Repayment of short-term debt	(9,000)
Proceeds from long-term debt	18,000
Repayment of long-term debt	(13,636)
Payment for redemption of bonds	(5,094)
Payment for redemption of investment in minority interests	(4,970)
Payment for purchases of treasury stock	(6,443)
Dividends paid for shareholders	(12,750)
Net cash used in financing activities	(4,894)
Effect of exchange rate changes on cash and cash equivalents	(936)
Net increase (decrease) in cash and cash equivalents	(6,791)
Cash and cash equivalents at beginning of period	60,965
Cash and cash equivalents at end of period	54,174

4. Segment Information

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

Results for the Nine Months Ended December 31, 2008 (April 1, 2008 through December 31, 2008)

(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	200,391	248,234	3,951	20,903	473,481	–	473,481
(2) Inter-segment sales and transfers	–	164	3,701	–	3,865	(3,865)	–
Total	200,391	248,398	7,652	20,903	477,346	(3,865)	473,481
Operating profit (loss)	33,771	2,180	(525)	(6,992)	28,433	(3,650)	24,782

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, repairs and company housing services
- (3) Hotel Resort Division-----Hotel and resort management, sales of resort club memberships, etc.
- (4) Other Division-----Residential business, broadband business, silver business, financial services (real-estate loans, etc.)

3. Changes in Accounting Procedures

Accounting standard for valuation of inventory assets

From the subject accounting period Leopalace21 has applied Accounting Standards Board of Japan (ASBJ) Statement No. 9 *Accounting Standard for Measurement of Inventories*. In accordance with this change, the operating loss for the Other Division has increased ¥4,252 million compared to that under the former method.

(Reference)

1. (Summary) Consolidated Statements of Operations

Nine Months Ended December 31, 2007 (April 1, 2007 through December 31, 2007)

(Million yen)

	Nine months ended December 31, 2007 (Apr. 2007–Dec. 2007)
I Net sales	426,452
II Cost of sales	330,290
Gross profit	96,162
III Selling, general and administrative expenses	65,144
Operating profit	31,017
IV Non-operating profit	1,286
V Non-operating expenses	3,778
Recurring profit	28,525
VI Extraordinary income	5,145
VII Extraordinary losses	51,402
Net income (loss) before taxes and adjustments	(17,731)
Tax expense	(4,733)
Minority interests	186
Net income (loss)	(13,185)

2. (Summary) Consolidated Statements of Cash Flows

Nine Months Ended December 31, 2007 (April 1, 2007 through December 31, 2007)

(Million yen)

	Nine months ended December 31, 2007 (Apr. 2007–Dec. 2007)
I Cash flows from operating activities	
Net income (loss) before taxes and adjustments	(17,731)
Depreciation expenses	3,818
Increase (decrease) in allowance for doubtful accounts	(291)
Increase (decrease) in retirement benefit reserves for directors	(1,433)
Interest expense	1,093
Foreign exchange loss (gain)	1,877
Equity in (earnings) losses of affiliated companies	(138)
Gain on sales of tangible fixed assets	(4,464)
Loss on sales of tangible fixed assets	120
Write-offs of tangible fixed assets	64
Impairment loss	158
Gain on sales of affiliates' bonds	(560)
Gain on sales of investment securities	(4)
loss on devaluation of investment securities	684
Decrease (increase) in accounts receivable	7,284
Decrease (increase) in real estate for sales	(11,119)
Decrease (increase) in work in process	(8,807)
Decrease (increase) in long-term prepaid expenses	(4,138)
Increase (decrease) in accounts payable	(49,403)
Increase (decrease) in customer advances for projects in progress	25,896
Increase (decrease) in advances received	40,219
Increase (decrease) in guarantee deposits received	216
Increase (decrease) in accrued consumption taxes	(4,154)
Other	(6,185)
Subtotal	(27,000)
Interest and dividends received	189
Interest paid	(936)
Income taxes paid	(30,422)
Net cash used in operating activities	(58,169)
II Cash flows from investing activities	
Payment for purchase of tangible fixed assets	(4,677)
Proceeds from sales of tangible fixed assets	12,144
Payment for purchase of investment securities	(3,383)
Proceeds from sales of investment securities	721
Payment for loans made	(322)
Proceeds from collection of loans	2
Other	(1,920)
Net cash provided by investing activities	2,565

(Million yen)

	Nine months ended December 31, 2007 (Apr. 2007–Dec. 2007)
III Cash flows from financing activities	
Proceeds from short-term debt	78,610
Repayment of short-term debt	(44,848)
Proceeds from long-term debt	17,000
Repayment of long-term debt	(7,595)
Payment for redemptions of privately placed bonds	(563)
Dividends paid to minority shareholders	(225)
Payment for redemption of investment in minority interests	(12,484)
Payment for purchases of treasury stock	(1)
Dividends paid for shareholders	(10,359)
Net cash provided by financing activities	19,532
IV Effect of exchange rate changes on cash and cash equivalents	(126)
V Net increase (decrease) in cash and cash equivalents	(36,197)
VI Cash and cash equivalents at beginning of period	75,166
VII Cash and cash equivalents of newly consolidated subsidiaries	1,089
VIII Cash and cash equivalents at end of period	40,059

3. Segment Information

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

Nine Months Ended December 31, 2007 (April 1, 2007 through December 31, 2007)

(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	178,657	221,932	4,702	21,160	426,452	-	426,452
(2) Intra-segment sales and transfers	-	14	2,981	-	2,996	(2,996)	-
Total	178,657	221,947	7,683	21,160	429,448	(2,996)	426,452
Operating expenses	143,991	221,110	8,152	21,737	394,991	442	395,434
Operating profit (loss)	34,665	836	(468)	(576)	34,456	(3,439)	31,017