

Consolidated Financial Statements (Japanese Accounting Standard)

July 30, 2010

(For the three months ended June 30, 2010)

Name of Company Listed: **Leopalace21 Corporation**
 Code Number: 8848
 (URL: <http://eg.leopalace21.com>)
 Representative: Position: President and CEO
 Name of Contact Person: Position: General Manager

Stock Listings: Tokyo Stock Exchange
 Location of Head Office: Tokyo

Name: Eisei Miyama
 Name: Masumi Iwakabe
 Telephone: +81-3-5350-0216
 Scheduled Date of Commencement of Dividend Payments: –

Scheduled Date of Filing of Quarterly Report: August 10, 2010
 Supplemental Explanatory Material Prepared: Yes
 Results Briefing Held: None

1. Results for the Three Months Ended June 30, 2010 (April 1, 2010 through June 30, 2010)

(1) Consolidated financial results

(Amounts less than one million yen are omitted)

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

	Net sales		Operating income (loss)		Recurring income (loss)		Net income (loss)	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended June 30, 2010	112,634	(12.6)	(12,886)	–	(15,971)	–	(13,629)	–
Three months ended June 30, 2009	128,918	11.3	(10,212)	–	(11,572)	–	(5,226)	–

	Net income (loss) per share	Diluted net income (loss) per share
	Yen	Yen
Three months ended June 30, 2010	(89.70)	–
Three months ended June 30, 2009	(34.53)	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Equity per share
	Million yen	Million yen	%	Yen
As of June 30, 2010	349,418	60,199	17.2	396.01
As of March 31, 2010	396,511	70,979	17.9	466.76

Note: Shareholders' equity: As of June 30, 2010: 60,190 million yen; As of March 31, 2010: 70,890 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, 2010	–	0.00	–	0.00	0.00
FY ending March 31, 2011	–	–	–	–	–
FY ending March 31, 2011 (Forecast)	–	0.00	–	0.00	0.00

Note: Revision of dividend forecast in this period (Y/N): None

3. Estimation of Business Results for the Fiscal Year Ending March 31, 2011 (April 1, 2010 through March 31, 2011)

(Amounts less than one million yen are omitted)

(Percentages presented refer to changes compared with the previous full-year and six-month period results, respectively)

	Net sales		Operating income		Recurring income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Six months ending September 30, 2010	277,200	(10.7)	2,000	–	1,000	–	800	–	5.27
FY ending March 31, 2011	564,700	(9.0)	5,300	–	3,400	–	3,000	–	19.75

Note: Revision of consolidated business results forecasts in this period (Y/N): None

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
Note: Indicates whether there was any change in a specific subsidiary related to a change in the scope of consolidation during the subject accounting period.
- (2) Use of simplified accounting procedures or accounting procedures specific to the preparation of quarterly financial statements: Yes
Note: Indicates whether simplified accounting procedures or special accounting procedures in the preparation of the consolidated quarterly financial statements were applied.
- (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.: None
(ii) Changes other than (i) above: Yes
Note: Indicates whether there were any changes in accounting principles and procedures or reporting methods, related to the preparation of the consolidated financial statements, noted in "Significant Changes Fundamental to the Preparation of Financial Statements."
- (4) Total number of outstanding shares (Common stock)
(i) Total number of outstanding shares at term end (Includes treasury stock)
As of June 30, 2010: 159,543,915 shares
As of March 31, 2010: 159,543,915 shares
(ii) Total treasury stock at term end
As of June 30, 2010: 7,552,090 shares
As of March 31, 2010: 7,667,387 shares
(iii) Average number of outstanding shares during the period
For the three months ended June 30, 2010: 151,944,238 shares
For the three months ended June 30, 2009: 151,378,105 shares

Indication regarding the status of quarterly review procedures

These financial statements are not subject to quarterly review procedures under the Financial Instruments and Exchange Act. The review of these financial statements in accordance with the Financial Instruments and Exchange Act was being conducted at the time of disclosure.

Note on the proper use of the business forecasts contained in this report, and other disclaimers.

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.

1. Consolidated Balance Sheets

(Million yen)

	June 30, 2010	March 31, 2010
<Assets>		
Current assets		
Cash and cash equivalents	42,472	72,431
Trade receivables	4,332	8,179
Accounts receivable for completed projects	2,220	4,736
Operating loans	5,149	5,482
Real estate for sale/property inventories	1,219	1,371
Real estate for sale in process	1,764	2,584
Payment for construction in progress	1,610	1,184
Raw materials and supplies	519	593
Prepaid expenses	27,212	27,894
Deferred tax assets	6,142	6,142
Other accounts receivable	757	3,207
Other	11,839	13,503
Allowance for doubtful accounts	(933)	(896)
Total	104,308	146,416
Fixed assets		
Property, plant and equipment		
Buildings and structures (net)	65,686	63,437
Land	96,638	96,293
Leased assets (net)	4,141	4,376
Construction in progress	387	3,367
Other (net)	3,569	3,256
Total	170,422	170,731
Intangible assets	7,126	6,385
Investments and other assets		
Investment securities	6,383	6,930
Long-term loans	1,102	1,101
Deferred tax assets	7,560	7,482
Bad debt	5,217	5,203
Long-term prepaid expenses	46,477	51,242
Other	5,722	5,894
Allowance for doubtful accounts	(4,990)	(4,966)
Total	67,473	72,889
Total fixed assets	245,023	250,006
Deferred assets	85	89
Total assets	349,418	396,511

(Million yen)

	June 30, 2010	March 31, 2010
<Liabilities>		
Current liabilities		
Accounts payable	2,967	2,704
Accounts payable for completed projects	9,705	43,375
Short-term borrowings	45,900	30,000
Bonds due within one year	560	560
Lease obligations	1,209	1,196
Unpaid expenses	8,033	10,440
Accrued expenses	140	4
Accrued income taxes	294	1,594
Advances received	89,013	98,543
Customer advances for projects in progress	13,025	9,425
Allowance for employees' bonuses	1,817	3,065
Reserve for warranty obligations on completed projects	351	326
Asset retirement obligations	37	40
Other	4,726	7,134
Total	177,783	208,410
Long-term liabilities		
Bonds	3,160	3,160
Long-term debt	19,395	22,761
Lease obligations	3,394	3,639
Retirement benefit reserves	7,425	7,306
Provision for apartment vacancy loss	31,688	31,728
Lease/guarantee deposits received	43,952	46,104
Asset retirement obligations	59	61
Long-term accounts payable	1,238	1,185
Other	1,121	1,174
Total	111,435	117,121
Total liabilities	289,218	325,532
<Net assets>		
Shareholders' equity		
Common stock	55,640	55,640
Capital surplus	33,855	33,894
Retained earnings	(19,292)	(5,663)
Treasury stock	(6,050)	(6,142)
Total	64,153	77,728
Valuation and translation adjustments		
Net unrealized gains on "other securities"	6	124
Deferred gains or losses on hedges	(4)	(5)
Translation adjustments	(3,963)	(6,957)
Total	(3,962)	(6,838)
Share subscription rights	8	88
Total net assets	60,199	70,979
Total liabilities and net assets	349,418	396,511

2. Consolidated Statements of Operations

(Million yen)

	Three months ended June 30, 2010 (Apr. 2010–June 2010)	Three months ended June 30, 2009 (Apr. 2009–June 2009)
Net sales	* ¹ 112,634	* ¹ 128,918
Cost of sales	109,590	119,185
Gross profit	3,043	9,733
Selling, general and administrative expenses	* ² 15,930	* ² 19,946
Operating income (loss)	(12,886)	(10,212)
Non-operating income		
Interest income	12	25
Equity in earnings of affiliated companies	–	3
Other	283	227
Total	295	255
Non-operating expenses		
Interest expenses	383	245
Commission fee	190	204
Foreign exchange loss	2,658	1,009
Equity in losses of affiliated companies	53	–
Other	94	155
Total	3,380	1,614
Recurring income (loss)	(15,971)	(11,572)
Extraordinary income		
Gain on sale of property, plant and equipment	0	70
Reversal of allowance for doubtful receivables	3	89
Reversal of allowance for employees' bonuses	* ³ 2,605	–
Reversal of allowance for retirement benefits for directors	–	92
Reversal of share subscription rights	82	–
Total	2,691	252
Extraordinary losses		
Loss on sale of property, plant and equipment	–	39
Loss on disposal of property, plant and equipment	49	169
Impairment loss	228	96
Transfer to allowance for bad debt	3	–
Total	281	305
Income (loss) before taxes and minority interests	(13,562)	(11,625)
Income taxes	66	(6,398)
Net income (loss)	(13,629)	(5,226)

3. Consolidated Statements of Cash Flows

(Million yen)

	Three months ended June 30, 2010 (Apr. 2010–June 2010)	Three months ended June 30, 2009 (Apr. 2009–June 2009)
Cash flows from operating activities		
Income (loss) before taxes and minority interests	(13,562)	(11,625)
Depreciation	1,541	1,512
Increase (decrease) in allowance for doubtful accounts	76	7
Increase (decrease) in retirement benefit reserves for directors	–	(96)
Increase (decrease) in provision for apartment vacancy loss	(40)	2,203
Interest expense	383	245
Foreign exchange loss (gain)	2,658	1,009
Equity in losses (earnings) of affiliated companies	53	(3)
Loss (gain) on sale of property, plant and equipment	(0)	(30)
Write-offs of property, plant and equipment	49	169
Impairment loss	228	96
Loss (gain) on sale of investment securities	(30)	(1)
Decrease (increase) in accounts receivable	8,961	3,906
Decrease (increase) in real estate for sale	971	5,970
Decrease (increase) in work in process	(426)	(4,520)
Decrease (increase) in long-term prepaid expenses	5,193	3,976
Increase (decrease) in accounts payable	(35,733)	(42,137)
Increase (decrease) in customer advances for projects in progress	3,600	9,139
Increase (decrease) in advances received	(9,530)	(9,716)
Increase (decrease) in guarantee deposits received	(2,086)	(1,478)
Increase (decrease) in accrued consumption taxes	464	(1,537)
Other	(2,042)	123
Subtotal	(39,269)	(42,784)
Interest and dividends received	51	33
Interest paid	(256)	(149)
Income taxes paid	(1,468)	(13,266)
Net cash provided by (used in) operating activities	(40,943)	(56,167)

(Million yen)

	Three months ended June 30, 2010 (Apr. 2010–June 2010)	Three months ended June 30, 2009 (Apr. 2009–June 2009)
Cash flows from investing activities		
Purchase of property, plant and equipment	(881)	(2,940)
Proceeds from sale of property, plant and equipment	281	661
Payment for purchase of intangible assets	(880)	(1,360)
Payment for purchase of investment securities	(19)	(53)
Proceeds from sale of investment securities	385	104
Payment for loans	(2)	(90)
Proceeds from collection of loans	1	1
Other	(3,197)	(4)
Net cash provided by (used in) investing activities	(4,314)	(3,682)
Cash flows from financing activities		
Proceeds from short-term debt	16,500	30,500
Repayment of long-term debt	(3,965)	(10,383)
Repayment of finance lease obligations	(290)	(406)
Proceeds from disposal of treasury stock	53	–
Payment for purchase of treasury stock	(0)	(0)
Net cash provided by (used in) financing activities	12,297	19,710
Effect of exchange rate changes on cash and cash equivalents	(117)	402
Net increase (decrease) in cash and cash equivalents	(33,078)	(39,736)
Cash and cash equivalents at beginning of period	72,031	78,375
Cash and cash equivalents at end of period	38,953	38,638

4. Notes Regarding the Premise of the Company as a Going Concern

There are no relevant items.

5. Segment Information

Segment Information by Business Type

Three Months Ended June 30, 2009 (April 1, 2009 through June 30, 2009)

(Million yen)

	Apartment Construction Subcontracting Division	Leasing Division	Hotel Resort Division	Residential Sales Division	Other Division	Total	Eliminations/ Unallocated	Consolidated
Net sales and operating income (loss)								
Net sales								
(1) Sales to customers	33,841	85,116	1,822	6,063	2,075	128,918	–	128,918
(2) Inter-segment sales and transfers	–	57	907	–	–	964	(964)	–
Total	33,841	85,173	2,730	6,063	2,075	129,883	(964)	128,918
Operating income (loss)	2,002	(9,521)	(158)	(588)	(856)	(9,121)	(1,090)	(10,212)

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, company housing services, and broadband business
- (3) Hotel Resort Division-----Hotel and resort management, sales of resort club memberships, etc.
- (4) Residential Sales Division-----Sales of residential houses, etc.
- (5) Other Division-----Silver business, financing secured with real estate, small-claims and short-term insurance businesses

3. Changes in accounting policies

Accounting Standards for Construction Contracts

With effect from subject fiscal year, the Company applied the Accounting Standards for Construction Contracts (ASBJ Statement No. 15, issued on December 27, 2007) and the Guidance on Application of Accounting Standards for Construction Contracts (ASBJ Guidance No. 18, issued on December 27, 2007). As a result of this change, sales increased ¥13,306 million in the Apartment Construction Subcontracting Division and ¥28 million in the Other Division respectively, compared with the application of the previous accounting method. Operating income increased ¥3,476 million in the Apartment Construction Subcontracting Division, and decreased ¥6 million in the Other Division.

Segment Information

1. Overview of Reportable Segments

The Leopalace21 Group's reportable segments allow it to acquire financial data separated into the various components of the Company. The scope of the segments is reviewed on a regular basis in order to allow the Board of Directors to determine the allocation of management resources, and evaluate earnings performance.

Leopalace21 has five reportable segments, the "Leasing Division," "Apartment Construction Subcontracting Division," "Hotel Resort Division," "Residential Sales Division" and "Other Division."

The "Leasing Division" operations comprise the leasing and maintenance of apartment buildings and other properties, repair work, broadband internet service, 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. The "Other Division" comprises the Silver business operating nursing care and other facilities, the small-claims and short-term insurance businesses providing insurance for apartment residents, and the finance business.

2. Operating Revenues and Earnings (or Loss) by Reportable Segment

Three Months Ended June 30, 2010 (April 1, 2010 through June 30, 2010)

(Million yen)

	Leasing Division	Apartment Construction Subcontracting Division	Hotel Resort Division	Residential Sales Division	Other Division	Total	Adjustment (Note 1)	Amount on Consolidated Statements of Operations (Note 2)
Net sales and operating income (loss)								
Net sales								
(1) Sales to customers	85,687	21,820	1,880	1,140	2,104	112,634	–	112,634
(2) Inter-segment sales and transfers	81	–	594	–	12	688	(688)	–
Total	85,768	21,820	2,474	1,140	2,117	113,322	(688)	112,634
Segment earnings (or loss)	(9,745)	(2,019)	(112)	99	(379)	(12,158)	(728)	(12,886)

Notes: 1. The segment earnings (or loss) adjustment of (¥728) million includes (¥688) million in intersegment eliminations, and (¥40) million in corporate expenses not allocated to reportable segments. Corporate expenses consist mainly of general administrative expenses for administrative departments that are not part of reportable segments.

2. Segment earnings (or loss) are adjusted to the operating income figure on the Consolidated Statements of Operations.

3. Information Regarding Impairment of Fixed Assets, Goodwill, and Other Aspects by Reportable Segment

(Significant Impairments of Fixed Assets)

In the "Leasing Division" and "Hotel Resort Division" segments, the book value of leased apartments and domestic hotels, for which profitability has declined markedly as a result of such factors as sluggishness in the leasing market or a continuous decline in land prices, is impaired to its recoverable value. During the subject three-month period, such impairment losses amounted to ¥188 million in the Leasing Division and ¥39 million in the Hotel Resort Division.

(Information Regarding Goodwill)

There are no relevant items.

(Additional Information)

From the first quarter of the subject fiscal year, Leopalace21 has applied "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No. 17, March 27, 2009), and "Guidance on the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No. 20, March 21, 2008).

6. Notes Regarding Marked Changes in the Amount of Shareholders' Equity

There are no relevant items.

7. Other Notable Items

Items related to the quarterly consolidated statements of operations

Three months ended June 30, 2009 (Apr. 2009–June 2009)	Three months ended June 30, 2010 (Apr. 2010–June 2010)																																														
<p>*1. As per the nature of the Group's business, in the Apartment Construction Subcontracting Division, many construction contracts are concluded in March to coincide with the busiest time of the year in terms of demand for leased units, while in the Leasing Division, the monthly total of units under management increases with the completion of apartment buildings. As a result, the Leopalace21 Group's sales are subject to seasonal fluctuation.</p>	<p>*1. Same as on the left.</p>																																														
<p>*2. The principal expense items and amounts in SG&A expenses are as follows.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Advertising costs</td> <td style="text-align: right;">¥1,651 million</td> </tr> <tr> <td>Sales commissions</td> <td style="text-align: right;">457</td> </tr> <tr> <td>Allowance for doubtful accounts</td> <td style="text-align: right;">97</td> </tr> <tr> <td>Executive compensation</td> <td style="text-align: right;">81</td> </tr> <tr> <td>Salaries and bonuses</td> <td style="text-align: right;">7,199</td> </tr> <tr> <td>Allowance for employees' bonuses</td> <td style="text-align: right;">1,160</td> </tr> <tr> <td>Allowance for asset retirement obligations</td> <td style="text-align: right;">421</td> </tr> <tr> <td>Allowance for retirement benefits for directors</td> <td style="text-align: right;">30</td> </tr> <tr> <td>Rental expenses</td> <td style="text-align: right;">1,267</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">431</td> </tr> <tr> <td>Taxes and public charges</td> <td style="text-align: right;">748</td> </tr> <tr> <td>Other</td> <td style="text-align: right;">6,397</td> </tr> </table>	Advertising costs	¥1,651 million	Sales commissions	457	Allowance for doubtful accounts	97	Executive compensation	81	Salaries and bonuses	7,199	Allowance for employees' bonuses	1,160	Allowance for asset retirement obligations	421	Allowance for retirement benefits for directors	30	Rental expenses	1,267	Depreciation	431	Taxes and public charges	748	Other	6,397	<p>*2. The principal expense items and amounts in SG&A expenses are as follows.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Advertising costs</td> <td style="text-align: right;">¥628 million</td> </tr> <tr> <td>Sales commissions</td> <td style="text-align: right;">58</td> </tr> <tr> <td>Allowance for doubtful accounts</td> <td style="text-align: right;">76</td> </tr> <tr> <td>Executive compensation</td> <td style="text-align: right;">67</td> </tr> <tr> <td>Salaries and bonuses</td> <td style="text-align: right;">6,391</td> </tr> <tr> <td>Allowance for employees' bonuses</td> <td style="text-align: right;">873</td> </tr> <tr> <td>Allowance for asset retirement obligations</td> <td style="text-align: right;">303</td> </tr> <tr> <td>Rental expenses</td> <td style="text-align: right;">893</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">441</td> </tr> <tr> <td>Taxes and public charges</td> <td style="text-align: right;">735</td> </tr> <tr> <td>Other</td> <td style="text-align: right;">5,461</td> </tr> </table>	Advertising costs	¥628 million	Sales commissions	58	Allowance for doubtful accounts	76	Executive compensation	67	Salaries and bonuses	6,391	Allowance for employees' bonuses	873	Allowance for asset retirement obligations	303	Rental expenses	893	Depreciation	441	Taxes and public charges	735	Other	5,461
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—	<p>*3. As an additional measure to cut expenses to achieve the medium-term management plan, during the subject three-month period the Company decided to significantly reduce the amounts of summer bonuses to employees.</p>																																														