

Consolidated Financial Statements (Japanese Accounting Standards)

February 3, 2012

(For the nine months ended December 31, 2011)

Name of Company Listed: **Leopalace21 Corporation**

Stock Listing: Tokyo Stock Exchange

Code Number: 8848

Location of Head Office: Tokyo

(URL: <http://eg.leopalace21.com>)

Representative:

Position: President and CEO

Name: Eisei Miyama

Contact Person:

Position: General Manager

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Scheduled Date of Filing of Quarterly Report: February 8, 2012

Scheduled Date of Commencement of Dividend Payments: –

Supplemental Explanatory Material Prepared: Yes

Results Briefing Held: None

1. Results for the Nine Months Ended December 31, 2011 (April 1, 2011 through December 31, 2011)

(1) Consolidated financial results

(Amounts less than one million yen are omitted)
(Percentages represent changes from the same period last year)

	Net sales		Operating income(loss)		Recurring loss		Net loss	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended December 31, 2011	332,450	(6.9)	1,248	–	(2,578)	–	(2,061)	–
Nine months ended December 31, 2010	357,036	(17.8)	(20,464)	–	(29,183)	–	(27,835)	–

Note: Comprehensive loss: Nine months ended December 31, 2011: (1,014) million yen, –%;
Nine months ended December 31, 2010: (24,935) million yen, –%

	Net loss per share	Diluted net income (loss) per share
	Yen	Yen
Nine months ended December 31, 2011	(12.20)	–
Nine months ended December 31, 2010	(182.20)	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Equity per share
	Million yen	Million yen	%	Yen
As of December 31, 2011	258,291	32,101	12.4	189.69
As of March 31, 2011	298,274	33,040	11.1	195.91

Note: Shareholders' equity: As of December 31, 2011: 32,082 million yen; As of March 31, 2011: 33,025 million yen

2. Dividend Status

	Dividend per share					
	(Base date)	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, 2011		–	0.00	–	0.00	0.00
FY ending March 31, 2012		–	0.00	–	–	–
FY ending March 31, 2012 (Forecast)		–	–	–	0.00	0.00

Note: Restatement of most recent dividend forecast (Y/N): None

3. Estimation of Business Results for the Fiscal Year Ending March 31, 2012 (April 1, 2011 through March 31, 2012)

(Amounts less than one million yen are omitted)
(Percentages represent changes compared with the previous full-year)

	Net sales		Operating income		Recurring income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
FY ending March 31, 2012	459,100	-5.2	4,700	–	400	–	900	–	5.32

Note: Restatement of most recent consolidated business results forecasts (Y/N): Yes

For details see "Notice Concerning Revision of Earnings Forecasts" released separately this same date (February 3, 2012).

4. Other

- (1) Changes in major subsidiaries during the period (Change in specific subsidiaries as a result of a change in the scope of consolidation):
None
- (2) Use of accounting procedures specific to the preparation of quarterly financial statements: Yes
- (3) Changes in accounting policies, changes in accounting estimates, restatements
 - (i) Changes in accounting policies accompanying revision of accounting standards, etc.: None
 - (ii) Changes in accounting policies other than (i) above: None
 - (iii) Changes in accounting estimates: None
 - (iv) Restatements: None
- (4) Total number of outstanding shares (Common stock)
 - (i) Total number of outstanding shares at term end (Include treasury stock)
 - As of December 31, 2011: 175,443,915 shares
 - As of March 31, 2011: 175,443,915 shares
 - (ii) Total treasury stock at term end
 - As of December 31, 2011: 6,313,189 shares
 - As of March 31, 2011: 6,867,850 shares
 - (iii) Average number of outstanding shares during the period
 - For the nine months ended December 31, 2011: 168,925,434 shares
 - For the nine months ended December 31, 2010: 152,771,805 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 completed 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.

Supplemental Explanatory Material on quarterly financial statements is scheduled to be posted on the Company's homepage on February 3, 2012.

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1. Qualitative Information on Financial Results for the Nine Months Ended December 31, 2011

(1) Qualitative information on consolidated business results

(Million yen)

	Nine months ended December 31, 2010	Nine months ended December 31, 2011	change
Net Sales	357,036	332,450	(24,586)
Operating income (loss)	(20,464)	1,248	21,712
Recurring loss	(29,183)	(2,578)	26,604
Net loss	(27,835)	(2,061)	25,773

During the cumulative third quarter of the fiscal year under review, the Japanese economy showed signs of gradual recovery, yet retained a fair share of uncertainty, reflecting an economic downturn overseas against the backdrop of European sovereign debt crisis as well as its impact on foreign exchange rates and stock prices. New housing starts have been trending downward on a year-on-year basis, indicating that the housing industry also faces continuing pressure.

In this environment, the Leopalace Group sought to secure sales in its leasing business by increasing various ancillary revenues. Net sales in the construction business recorded a significant decline due to measures for curbing apartment supply as a result of the shift to the leasing business. Operating profit improved considerably thanks to a recovery in the occupancy rate as a result of strengthened corporate sales, among other factors, and also because of a rigorous focus on cost reduction and other initiatives.

As a result, net sales for the cumulative third quarter under review amounted to ¥332,450 million (down 6.9% year on year). The Company posted an operating income of ¥1,248 million (compared to operating loss amounted to ¥20,464 million in the same period of the previous fiscal year), mainly due to a decrease in reserve for apartment vacancy loss of 10,649 million. The recurring loss was ¥2,578 million (improving ¥26,604 million year on year), primarily reflecting foreign exchange losses of ¥3,167 million due to the revaluation of overseas subsidiaries, etc. at the end of the period. The net loss was ¥2,061 million (improving ¥25,773 million year on year).

The business performance of the Group tends to be subject to seasonal fluctuations. This reflects the facts that many of the contract agreements in the apartment construction subcontracting business are those that require the completion of the apartment in the fourth quarter, the peak season for demand for moving into apartments, and that the number of units under management increases with the completion of apartments in the leasing business.

(Million yen)

	Net sales			Operating Income (loss)		
	Nine months ended December 31, 2010	Nine months ended December 31, 2011	change	Nine months ended December 31, 2010	Nine months ended December 31, 2011	change
Leasing Division	261,924	279,840	17,916	(24,049)	2,971	27,020
Apartment Construction Subcontracting Division	80,162	40,859	(39,303)	7,252	1,697	(5,555)
Hotels & Resort Division	5,064	4,339	(725)	(1,075)	(1,151)	(76)
Elderly Care Division	5,769	6,581	812	(1,159)	(589)	569
Others	4,116	829	(3,286)	292	112	(180)
Adjustments	–	–	–	(1,725)	(1,790)	(65)
Total	357,036	332,450	(24,586)	(20,464)	1,248	21,712

(i) Leasing Business

The occupancy rate at the end of the third quarter under review was 80.54% (up 0.83 points from the end of the same period last year), and the average occupancy rate during the third quarter of this fiscal year was 80.70% (up 1.32 points from the same period last year). This was primarily the result of controlling the number of units supplied, as well as increasing contacts to attract customers through the expansion of franchise offices (Leopalace Partners) and boosting corporate sales.

In the leasing business, the Company continued to focus on expanding franchise offices and acquiring corporate contracts. It also took other action, such as expanding auxiliary income (Maintenance Service for Household Appliances and Electronics and Broadband

Maintenance Service, etc.), improving rent per apartment by installing apartment security and other systems, reviewing the master lease rent based on market rents, and reducing costs through the review of programmed property management services.

The number of units under management at the end of the third quarter under review was 561,000 (decreasing 10,000 from the end of the previous fiscal year), and the number of direct offices was 166 (increasing 2). The number of franchise offices was 180 (increasing 59).

As a result of the above, net sales amounted to ¥279,840 million (up 6.8% year on year), and operating income was ¥2,971 million (compared to operating loss amounted to ¥24,049 million in the same period of the previous fiscal year).

(ii) Apartment Construction Subcontracting Business

Orders received in the cumulative third quarter under review were ¥3,826 million (down 90.8% year on year), and orders received outstanding were ¥85,402 million (down 41.2%).

In the apartment construction subcontracting business, the Company focused its activities to win orders in areas where solid demand for apartments was anticipated, aiming to contribute to higher income in the leasing business. It also promoted sales of built-for-sale products that did not have an impact on the number of units supplied, as well as the installation of a solar power system, etc. that would increase product value.

The Company meanwhile took steps to reduce costs by lowering material procurement costs and reviewing the deployment of offices and personnel. The number of offices at the end of the third quarter under review was 51 (down 24 from the end of the previous fiscal year).

As a result, net sales came to ¥40,859 million (down 49.0% year on year), and operating income was ¥1,697 million (down 76.6%).

(iii) Hotel Resort Business

Net sales in resort facilities in Guam and hotels in Japan were ¥4,339 million (down 14.3% year on year), and the operating loss was ¥1,151 million (increasing ¥76 million in loss)

(iv) Elderly Care Business

Net sales were ¥6,581 million (improving 14.1% year on year), and operating loss was 589 million (improving ¥569 million).

(v) Other Businesses

In other businesses such as the small-claims and short-term insurance business, the residential sales business and the finance business, net sales were ¥829 million (down 79.8% year on year), and the operating income was ¥112 million (down 61.6% year on year) .

(2) Qualitative information on consolidated financial position

(Million yen)

	As of March 31, 2011	As of December 31, 2011	change
Total Assets	298,274	258,291	(39,982)
Total liabilities	265,233	226,190	(39,042)
Net Assets	33,040	32,101	(939)

Total assets at the end of the third quarter under review declined ¥39,982 million from the end of the previous fiscal year, to ¥258,291 million. This was mainly attributable to decreases in cash and cash equivalents of ¥12,646 million, prepaid expenses of ¥3,422 million, buildings and structures of ¥3,631 million, and long-term prepaid expenses of ¥12,485 million.

Total liabilities decreased ¥39,042 million from the end of the previous fiscal year, to ¥226,190 million. This primarily reflected an increase of ¥7,679 million in the balance of interest-bearing debt, to ¥51,538 million, and decreases in advances received of ¥18,854 million, reserve for apartment vacancy loss of ¥10,649 million, and lease/guarantee deposits received of ¥14,744 million.

Net assets were down ¥939 million from the end of the previous fiscal year, to ¥32,101 million, chiefly due to a decline of ¥1,176 million in the negative balance of foreign currency translation adjustments and a fall of ¥2,061 million in retained earnings because of the posting of a net loss. The ratio of shareholders' equity to assets rose 1.3 points from the end of the previous fiscal year, to 12.4%.

(3) Qualitative information on consolidated results forecasts

Leopalace21, in consideration of recent performance, has revised its full-year forecasts for the Fiscal Year ending March 31, 2012 from those announced on May 13, 2011. For details see "Notice Concerning Revision of Earnings Forecasts" released separately this same date (February 3, 2012).

(4) Events that could have a significant impact on the Company's management

The Group had recorded an operating loss and a net loss for two fiscal years in a row until the previous fiscal year and ultimately posted a net loss of ¥2,061 million in the cumulative third quarter under review as well, although results improved significantly and an operating profit amounted to ¥1,248 million in the subject period. To improve this situation, the Group is executing a number of measures to steadily improve its operations and is pursuing the following initiatives to rapidly achieve profitability:

- Expand and strengthen the offices of Leoplace Partners, while improving the occupancy rate and increasing net sales by strengthening corporate sales, etc.
- Improve the value of products and increase income by installing apartment security systems and solar power systems, etc.
- Reduce property management costs by reviewing propane gas charges, routine cleaning costs, and outsourcing costs of water-purifier tanks, etc.
- Reduce selling, general, and administrative expenses by reviewing the deployment of offices and personnel and launching strategies for more efficient advertisement and sales promotion
- Strengthen marketing and business planning and improve efficiency in administrative divisions by streamlining the organizational arrangement

2. Matters Relating to Summary Information (other)

(1) Changes in significant subsidiaries during the cumulative third quarter under review

Not applicable

(2) Application of accounting methods specific to the preparation of quarterly consolidated financial statements

Tax expenses are calculated by multiplying net income before income taxes by a reasonably estimated effective tax rate, after applying the tax effect accounting to net income before income taxes for the consolidated fiscal year that includes the third quarter under review.

As taxable income is not expected to arise in the current consolidated fiscal year, the amount equivalent to three fourths of the estimated annual amount of corporate inhabitant tax on per capita basis is recorded as tax expenses for the cumulative third quarter under review.

(3) Changes in accounting policies and changes, revisions and restatement of accounting estimates

Not applicable

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Million yen)

	December 31, 2011	March 31, 2011
<Assets>		
Current assets		
Cash and cash equivalents	28,027	40,674
Trade receivables	3,859	6,259
Accounts receivable for completed projects	822	2,117
Operating loans	3,383	4,311
Securities	9	-
Real estate for sale/property inventories	13	13
Real estate for sale in process	70	104
Payment for construction in progress	1,171	586
Raw materials and supplies	474	457
Prepaid expenses	20,456	23,878
Deferred tax assets	3,473	3,712
Other accounts receivable	497	1,234
Other	9,371	11,872
Allowance for doubtful accounts	(971)	(1,005)
Total	70,662	94,219
Fixed assets		
Property, plant and equipment		
Buildings and structures (net)	55,559	59,191
Land	84,401	84,851
Leased assets (net)	2,804	3,510
Construction in progress	213	66
Other (net)	2,021	2,665
Total	145,000	150,284
Intangible assets	7,258	7,588
Investments and other assets		
Investment securities	6,697	6,534
Long-term loans	582	601
Bad debt	2,379	4,452
Long-term prepaid expenses	21,736	34,222
Deferred tax assets	2,212	2,269
Other	4,735	3,102
Allowance for doubtful accounts	(3,039)	(5,077)
Total	35,304	46,105
Total fixed assets	187,564	203,979
Deferred assets	65	75
Total assets	258,291	298,274

(Million yen)

	December 31, 2011	March 31, 2011
<Liabilities>		
Current liabilities		
Accounts payable	2,563	2,699
Accounts payable for completed projects	7,629	12,634
Short-term borrowings	45,265	34,502
Bonds due within one year	560	560
Lease obligations	1,264	1,230
Unpaid expenses	8,390	11,685
Accrued expenses	101	4
Accrued income taxes	174	426
Advances received	78,299	97,154
Customer advances for projects in progress	7,011	4,055
Reserve for warranty obligations on completed projects	71	133
Reserve for fulfillment of guarantees	215	135
Reserve for disaster losses	388	1,189
Reserve for switch to terrestrial digital broadcasts	484	1,188
Asset retirement obligations	27	30
Other	4,402	6,090
Total	156,850	173,719
Long-term liabilities		
Bonds	2,320	2,600
Long-term debt	165	2,227
Lease obligations	1,962	2,738
Retirement benefit reserves	7,977	7,873
Reserve for apartment vacancy loss	21,955	32,605
Lease/guarantee deposits received	11,290	26,035
Asset retirement obligations	50	47
Long-term advances received	22,306	14,830
Long-term other payable	11	1,210
Other	1,299	1,344
Total	69,339	91,513
Total liabilities	226,190	265,233
<Net assets>		
Shareholders' equity		
Common stock	56,562	56,562
Capital surplus	33,961	34,334
Retained earnings	(48,613)	(46,552)
Treasury stock	(5,057)	(5,502)
Total	36,852	38,842
Accumulated other comprehensive income		
Net unrealized gains on "other securities"	71	204
Deferred gains or losses on hedges	-	(3)
Foreign currency translation adjustments	(4,841)	(6,018)
Total	(4,770)	(5,817)
Share subscription rights	19	15
Total net assets	32,101	33,040
Total liabilities and net assets	258,291	298,274

(2) Consolidated Statements of Operations and Consolidated Statements of Comprehensive Income

Consolidated Statements of Operations

(Million yen)

	Nine months ended December 31, 2011 (Apr. 2011–Dec. 2011)	Nine months ended December 31, 2010 (Apr. 2010–Dec. 2010)
Net sales	332,450	357,036
Cost of sales	295,434	334,000
Gross profit	37,015	23,036
Selling, general and administrative expenses	35,767	43,500
Operating income(loss)	1,248	(20,464)
Non-operating income		
Interest income	37	46
Income from the sale of investment real estate	–	90
Gain on bad debt recovered	418	–
Gain on adjustment of accounts payable	411	–
Other	323	465
Total	1,190	601
Non-operating expenses		
Interest expenses	988	1,255
Commission fee	474	713
Foreign exchange loss	3,167	6,693
Equity in losses of affiliated companies	190	190
Other	196	467
Total	5,017	9,320
Recurring loss	(2,578)	(29,183)
Extraordinary income		
Gain on sale of property, plant and equipment	0	196
Reversal of allowance for doubtful receivables	–	155
Reversal of allowance for employees' bonuses	–	2,605
Reversal of share subscription rights	–	82
Reversal of provision for accrued retirement benefit for directors	1,185	–
Total	1,185	3,040
Extraordinary losses		
Loss on sale of property, plant and equipment	0	14
Loss on disposal of property, plant and equipment	55	84
Impairment loss	77	577
Loss on sale of investment securities	–	51
Transfer to allowance for bad debt	–	60
Loss on cancellation of structured deposits	–	753
Disaster loss	4	–
Total	137	1,542

	Nine months ended December 31, 2011 (Apr. 2011–Dec. 2011)	Nine months ended December 31, 2010 (Apr. 2010–Dec. 2010)
Loss before income tax	(1,529)	(27,685)
Income taxes	531	149
Net loss	(2,061)	(27,835)

Consolidated Statements of Comprehensive Income

(Million yen)

	Nine months ended December 31, 2011 (Apr. 2011–Dec. 2011)	Nine months ended December 31, 2010 (Apr. 2010–Dec. 2010)
Net loss	(2,061)	(27,835)
Other comprehensive income		
Net unrealized gains on “other securities”	(132)	(69)
Foreign currency translation adjustments	1,176	2,967
Share of other comprehensive income of associates	3	1
Total	1,047	2,899
Comprehensive income	(1,014)	(24,935)
(Breakdown)		
Comprehensive income attributable to shareholders of the parent entity	(1,014)	(24,935)

(3) Notes Regarding the Premise of the Company as a Going Concern

There are no relevant items.

(4) Segment Information

Segment Information by Business Type

i Nine Months Ended December 31, 2010 (April 1, 2010 through December 31, 2010)

Operating Revenues and Earnings (or Loss) by Reportable Segment

(Million yen)

	Reportable Segment					Others (Note 1)	Total	Adjustments (Note 2)	Consolidated Total (Note 3)
	Leasing Division	Apartment Construction Subcontracting Division	Hotels & Resort Division	Elderly Care Division	Segment Total				
Net sales									
(1) Sales to customers	261,924	80,162	5,064	5,769	352,920	4,116	357,036	-	357,036
(2) Inter-segment sales and transfers	284	-	1,343	-	1,628	37	1,665	(1,665)	-
Total	262,208	80,162	6,408	5,769	354,549	4,153	358,702	(1,665)	357,036
Segment earnings (loss)	(24,049)	7,252	(1,075)	(1,159)	(19,031)	292	(18,739)	(1,725)	(20,464)

Notes: 1. The "Others" classification is the business segment not included in reportable segments, and comprises such businesses as the small-claims and short-term insurance business, residential sales business and financing businesses.

2. The segment profit (loss) adjustment of (¥1,725) million includes (¥38) million in inter-segment eliminations, and (¥1,763) 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.

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

ii Nine Months Ended December 31, 2011 (April 1, 2011 through December 31, 2011)

(1) Operation Revenue and Earnings (or Loss) by Reportable Segment

(Million yen)

	Reportable Segment					Others (Note 1)	Total	Adjustments (Note 2)	Consolidated Total (Note 3)
	Leasing Division	Apartment Construction Subcontracting Division	Hotels & Resort Division	Elderly Care Division	Segment Total				
Net sales									
(1) Sales to customers	279,840	40,859	4,339	6,581	331,620	829	332,450	-	332,450
(2) Inter-segment sales and transfers	265	-	1,043	-	1,309	45	1,354	(1,354)	-
Total	280,106	40,859	5,383	6,581	332,930	874	333,805	(1,354)	332,450
Segment earnings (loss)	2,971	1,697	(1,151)	(589)	2,927	112	3,039	(1,790)	1,248

Notes: 1. The "Others" classification is the business segment not included in reportable segments, and comprises such businesses as the small-claims and short-term insurance business, residential sales business and financing businesses.

2. The segment profit (loss) adjustment of (¥1,790) million includes (¥8) million in inter-segment eliminations, and (¥1,799) 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.

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

(2) Change in Reportable Segment

The "Elderly Care Division" had been included in the "Others" category until the first quarter of this fiscal year, but was classified in a reportable segment from the previous period (for the six months ended September 30, 2011) because its quantitative importance has increased.

The "Residential Sales Division" business had been a reportable segment until the previous fiscal year, but was included in the "Others" category from the first quarter of this fiscal year because its importance has diminished due to contraction of the business. Sales amounted to ¥3,345 million and segment earnings amounted to ¥156 million during the nine months ended December 31, 2010, and sales amounted to ¥49 million and segment earnings amounted to ¥13 million during the nine months ended December 31, 2011 in the "Residential Sales Division" business. Accordingly, the numbers for the nine months ended December 31, 2010 were reclassified appropriately.

(5) Note Regarding Significant Changes in Shareholders' Equity

There are no relevant items.