

Consolidated Financial Statements

February 2, 2007

(For FY 2007 3rd Quarter ended December 31, 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: Yoshiteru Kitagawa
Name: Masumi Iwakabe
Telephone: +81-3-5350-0216

1. Notes to Preparation of These Financial Statements

- (1) Adoption of simplified accounting practices: Yes
Simplified reporting standards were adopted for a portion of reserve funds, etc.
- (2) Changes in accounting treatment from the most recent consolidated fiscal year: No
- (3) Changes in the scope of consolidation and application of the equity method: Yes

2. Results of FY 2007 3rd Quarter (April 1, 2006 through December 31, 2006)

(1) Consolidated financial results

(Amounts less than one million yen are omitted)

	Net sales		Operating profit		Recurring profit		Net income (loss)	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY 2007 3rd quarter	418,518	35.3	39,453	107.0	37,221	68.9	20,534	-
FY 2006 3rd quarter	309,419	11.4	19,055	30.1	22,031	85.9	(25,286)	-
Ref. FY 2006	465,386		40,775		44,151		(16,582)	

	Net income (loss) per share	Diluted net income (loss) per share
	Yen	Yen
FY 2007 3rd quarter	129.00	-
FY 2006 3rd quarter	(158.85)	-
Ref. FY 2006	(104.17)	-

Note: The percentage figures accompanying net sales, operating profit, etc. represent the change from the same period last year.

(2) Consolidated financial position

	Total assets	Shareholders' equity	Equity ratio	Equity per share
	Million yen	Million yen	%	Yen
FY 2007 3rd quarter	401,712	167,867	37.3	941.03
FY 2006 3rd quarter	375,233	124,527	33.2	782.31
Ref. FY 2006	412,803	133,622	32.4	839.44

Note: Shareholders' equity for FY 2006 3Q and FY 2006 does not include minority interests.

[Consolidated cash flows]

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Million yen	Million yen	Million yen	Million yen
FY 2007 3rd quarter	17,386	(12,453)	202	49,775
FY 2006 3rd quarter	15,151	(11,648)	(13,361)	37,125
Ref. FY 2006	56,971	(11,266)	(47,946)	44,612

3. Estimation of Business Results for FY 2007 (April 1, 2006 through March 31, 2007)

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

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

[Qualitative Data and Other Information Regarding Estimation of Business Results]

Results for the third quarter of the present term were close to the initially projected results, so the forecasts for FY 2007 remain unchanged.

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 as a result actual performance may differ materially from these forecasts.

(Reference materials)

1. (Summary) Consolidated Quarterly Balance Sheets

(Million yen)

	FY 2006 3rd quarter (As of Dec. 31, 2005)	FY 2007 3rd quarter (As of Dec.31, 2006)	Increase (Decrease) from FY 2006	FY 2006 (As of Mar. 31, 2006)
<Assets>				
I Current assets				
Cash and cash equivalents	37,125	49,775	12,650	44,612
Trade receivables and accounts receivable for completed projects	6,501	4,771	(1,729)	8,114
Operating loans	10,821	8,911	(1,909)	10,426
Real estate for sale/property inventories	5,601	19,916	14,314	7,524
Payout for construction in progress	10,433	12,105	1,671	35,249
Other inventories	590	807	217	638
Deferred tax assets	18,867	2,955	(15,911)	10,827
Other accounts receivable	10,236	12,419	2,183	22,564
Prepaid expenses	18,496	21,410	2,913	18,824
Other	6,223	7,718	1,494	6,224
Allowance for doubtful accounts	(1,459)	(1,310)	148	(1,487)
Total	123,438	139,481	16,043	163,518
II Fixed assets				
Tangible assets				
Buildings and structures	83,413	80,700	(2,713)	83,666
Land	109,579	119,536	9,956	107,216
Construction in progress	3,022	4,345	1,323	1,964
Other	3,434	3,516	82	3,665
Total	199,449	208,099	8,649	196,512
Intangible assets	582	570	(12)	579
Investments and other assets				
Investment securities	9,885	7,785	(2,100)	11,046
Long-term loans receivable	5,133	2,585	(2,548)	2,930
Deferred tax assets	2,959	2,599	(359)	1,901
Long-term trade receivables	11,884	3,395	(8,489)	2,835
Long-term prepaid expenses	30,136	37,216	7,079	33,035
Other	3,342	3,728	386	3,349
Allowance for doubtful accounts	(11,767)	(3,843)	7,924	(3,064)
Total	51,574	53,466	1,892	52,035
Total fixed assets	251,606	262,136	10,529	249,128
III Deferred assets	188	94	(93)	156
Total assets	375,233	401,712	26,479	412,803

(Million yen)

	FY 2006 3rd quarter (As of Dec. 31, 2005)	FY 2007 3rd quarter (As of Dec. 31, 2006)	Increase (Decrease) from FY 2006	FY 2006 (As of Mar. 31, 2006)
<Liabilities>				
I Current liabilities				
Accounts payable including payables for completed projects	29,725	35,899	6,174	81,231
Short-term borrowings	26,020	26,478	457	20,348
Bonds due within one year	1,435	1,435	-	1,435
Unpaid expenses	10,044	10,908	864	9,503
Accrued expenses	87	145	58	23
Accrued income taxes	3,950	10,009	6,058	4,423
Advances received	28,731	36,279	7,548	37,626
Customer advances for projects in progress	42,268	50,229	7,961	42,061
Allowance for employees' bonuses	1,287	1,353	66	2,487
Other	5,049	5,881	832	6,534
Total	148,600	178,620	30,020	205,674
II Long-term liabilities				
Bonds	12,045	10,610	(1,435)	11,327
Long-term borrowings	58,948	31,205	(27,743)	31,402
Retirement benefit reserves	3,080	3,889	809	3,246
Lease/guarantee deposits received	9,884	9,518	(365)	9,801
Other	65	-	(65)	76
Total	84,023	55,223	(28,799)	55,855
Total liabilities	232,623	233,844	1,221	261,530
<Minority interests>				
Minority interests	18,082	-	-	17,651
<Shareholders' equity>				
I Share capital	55,640	-	-	55,640
II Capital surplus	33,759	-	-	33,759
III Retained earnings	44,419	-	-	53,123
IV Net unrealized gains on "other securities"	783	-	-	714
V Translation adjustments	(9,878)	-	-	(9,418)
VI Treasury stock	(197)	-	-	(197)
Total shareholders' equity	124,527	-	-	133,622
Total liabilities, minority interests and shareholders' equity	375,233	-	-	412,803
< Shareholders' equity>				
I Shareholders' equity				
Share capital	-	55,640	-	-
Capital surplus	-	33,759	-	-
Retained earnings	-	68,876	-	-
Treasury stock	-	(199)	-	-
Total	-	158,077	-	-
II Valuation and translation adjustments				
Net unrealized gains on "other securities"	-	463	-	-
Translation adjustments	-	(8,749)	-	-
Total	-	(8,285)	-	-
III Minority interests				
	-	18,075	-	-
Total shareholders' equity	-	167,867	-	-
Total liabilities and shareholders' equity	-	401,712	-	-

2. (Summary) Consolidated Quarterly Statements of Operations

(Million yen)

	FY 2006 3rd quarter (Apr. 2005 - Dec. 2005)	FY 2007 3rd quarter (Apr. 2006 - Dec. 2006)	Increase (Decrease)	FY 2006 (Apr. 2005 - Mar. 2006)
I Net sales	309,419	418,518	109,098	465,386
II Cost of sales	239,083	321,014	81,930	353,928
Gross profit	70,335	97,503	27,167	111,458
III Selling, general and administrative expenses	51,280	58,049	6,769	70,683
Operating profit	19,055	39,453	20,398	40,775
IV Non-operating profit (loss)	5,801	1,538	(4,262)	6,493
V Non-operating expenses	2,825	3,771	946	3,116
Recurring profit	22,031	37,221	15,189	44,151
VI Extraordinary income	41	3,693	3,652	68
VII Extraordinary losses	63,761	2,788	(60,973)	66,963
Net income (loss) before taxes and adjustments	(41,689)	38,127	79,816	(22,743)
Tax expense	(17,056)	16,938	33,995	(7,032)
Minority interests	653	653	(0)	871
Net income (loss)	(25,286)	20,534	45,821	(16,582)

3. (Summary) Quarterly Statements of Cash Flows

(Million yen)

	FY 2006 3rd quarter (Apr. 2005 - Dec. 2005)	FY 2007 3rd quarter (Apr. 2006 - Dec. 2006)	FY 2006 (Apr. 2005 - Mar. 2006)
I Cash flows from operating activities			
Net income (loss) before taxes and adjustments	(41,689)	38,127	(22,743)
Depreciation expenses	3,413	3,403	4,565
Increase (decrease) in allowance for doubtful accounts	1,260	648	1,737
Interest expense	2,002	1,016	2,518
Foreign exchange loss (gain)	(4,997)	(819)	(4,780)
Equity method loss (income)	377	2,156	(512)
Loss on sales of tangible fixed assets	0	0	10
Write-offs of tangible fixed assets	407	162	453
Impairment loss	62,375	1,944	65,480
Gain on sales of affiliates' stock	(31)	(2,514)	(31)
Gain on sales of affiliates' bonds	-	(1,067)	-
Gain on sales of investment securities	(74)	(87)	(125)
Decrease (increase) in accounts receivable	55,784	14,755	42,237
Decrease (increase) in inventories	(12,426)	10,506	(39,212)
Decrease (increase) in long-term prepaid expenses	(4,076)	(5,775)	(7,345)
Increase (decrease) in accounts payable	(59,765)	(44,708)	(10,208)
Increase (decrease) in amount received for uncompleted works	33,535	8,168	33,328
Increase (decrease) in advances received	429	(1,345)	9,294
Increase (decrease) in guarantee deposits received	(1,673)	(661)	(1,761)
Increase (decrease) in accrued consumption tax	(2,185)	1,190	(1,166)
Other	(3,297)	(2,466)	443
Subtotal	29,369	22,631	72,181
Interest and dividends received	129	92	228
Interest paid	(1,813)	(866)	(2,356)
Income taxes paid	(12,533)	(4,471)	(13,081)
Net cash provided by operating activities	15,151	17,386	56,971
II Cash flows from investing activities			
Payment for purchase of tangible fixed assets	(11,255)	(19,270)	(13,193)
Proceeds from sales of tangible fixed assets	0	7	914
Payment for purchase of subsidiaries' stock	-	(1,100)	-
Proceeds from sales of subsidiaries' stock	-	4,109	-
Proceeds from sales of affiliates' bonds	-	2,880	-
Payment for purchase of investment securities	(1,948)	(791)	(2,827)
Proceeds from sales of investment securities	2,680	850	2,835
Payment for loans made	(1,184)	(1,281)	(1,381)
Proceeds from collection of loans	73	3,245	2,843
Other	(12)	(1,103)	(457)
Net cash used in investing activities	(11,648)	(12,453)	(11,266)
III Cash flows from financing activities			
Proceeds from short-term debt	17,750	32,190	17,750
Repayment of short-term debt	(18,750)	(26,758)	(28,564)
Proceeds from long-term debt	8,680	13,000	10,680
Repayment of long-term debt	(17,299)	(12,503)	(42,703)
Proceeds from issuance of privately placed bonds	13,259	-	13,259
Payment for purchase depreciation of privately placed bonds	(13,667)	-	(13,667)
Payment for redemptions of privately placed bonds	(717)	(717)	(1,435)
Dividends paid to minority shareholders	(225)	(225)	(873)
Payment for purchase of treasury stock	(1)	(1)	(1)
Dividends paid for shareholders	(2,390)	(4,781)	(2,390)
Net cash provided by (used in) financing activities	(13,361)	202	(47,946)
IV Effect of exchange rate changes on cash and cash equivalents	130	27	0
V Net increase (decrease) in cash and cash equivalents	(9,727)	5,163	(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	37,125	49,775	44,612

4. Segment Information

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

FY 2007 3rd quarter (April 1, 2006 through December 31, 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	195,747	200,677	5,332	16,760	418,518	-	418,518
(2) Intra-group sales and transfers	-	2	2,932	-	2,934	(2,934)	-
Total	195,747	200,679	8,265	16,760	421,452	(2,934)	418,518
Operating expenses	153,480	198,514	9,904	16,959	378,859	205	379,064
Operating profit (loss)	42,266	2,165	(1,638)	(199)	42,593	(3,140)	39,453

FY 2006 (April 1, 2005 through March 31, 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	195,202	249,695	8,339	12,149	465,386	-	465,386
(2) Intra-group sales and transfers	-	3	2,529	-	2,532	(2,532)	-
Total	195,202	249,699	10,869	12,149	467,919	(2,532)	465,386
Operating expenses	155,749	241,619	13,536	12,542	423,449	1,162	424,611
Operating profit (loss)	39,452	8,079	(2,667)	(393)	44,470	(3,695)	40,775

Notes: 1. Leoplace21 began disclosing segment information for third quarter from the subject quarter, so year-on-year comparisons are not available.

2. The above segments are defined according to our own internal management system.

3. 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

4. That portion of operating expenses that involves write-offs and unallocatable expenses in the eliminations/unallocated category are accounted as management expenses of the General Affairs Department of the Company submitting the consolidated financial statements.

Current third quarter	3,140 million yen
Previous consolidated FY	3,695 million yen