

Consolidated Financial Statements

July 27, 2006

(For FY 2007 1st Quarter ended June 30, 2006)

Name of Company Listed: **Leopalace21 Corporation**

Code number: 8848

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

Representative:

Name of Contact Person:

Position: President and CEO

Position: General Manager

Stock Listings: Tokyo Stock Exchange

Location of Head Office: Tokyo

Name: Tomio Oba

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: No

2. Results of FY 2007 1st Quarter (April 1, 2006 through June 30, 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 1st quarter	142,714	111.0	14,535	-	12,782	-	6,422	-
FY 2006 1st quarter	67,625	(3.2)	(5,547)	-	(4,707)	-	(39,136)	-
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 1st quarter	40.34	-
FY 2006 1st quarter	(245.86)	-
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 1st quarter	380,174	155,101	36.2	863.53
FY 2006 1st quarter	355,404	108,284	30.5	680.26
Ref. FY 2006	412,803	133,622	32.4	839.44

Note: Shareholders' equity for FY 2006 1Q 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 1st quarter	(10,247)	(1,282)	15,648	48,729
FY 2006 1st quarter	(21,336)	(2,747)	3,790	26,602
Ref. FY 2006	56,971	(11,266)	(47,946)	44,612

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

	Net sales	Recurring profit	Net income
	Million yen	Million yen	Million yen
FY 2007 interim	295,800	30,000	16,000
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 first quarter of the present term were close to the initially projected results, so interim and full-year 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.

References: (Summary) Consolidated Quarterly Balance Sheets, (Summary) Consolidated Quarterly Statements of Operations, (Summary) Quarterly Statements of Cash Flows, and Segment Information

(Reference materials)

1. (Summary) Consolidated Quarterly Balance Sheets

(Million yen)

	FY 2006 1st quarter (As of June 30, 2005)	FY 2007 1st quarter (As of June 30, 2006)	Increase (Decrease) from FY 2006	FY 2006 (As of Mar. 31, 2006)
<Assets>				
I Current assets				
Cash and cash equivalents	26,602	48,729	22,126	44,612
Trade receivables and accounts receivable for completed projects	6,330	5,076	(1,253)	8,114
Operating loans	11,782	10,030	(1,752)	10,426
Real estate for sale/property inventories	1,529	11,726	10,196	7,524
Payout for construction in progress	7,916	8,895	978	35,249
Other inventories	478	686	207	638
Deferred tax assets	29,521	4,915	(24,605)	10,827
Other accounts receivable	9,012	15,080	6,068	22,564
Other	22,701	27,111	4,409	25,048
Allowance for doubtful accounts	(1,016)	(1,456)	(440)	(1,487)
Total	114,857	130,795	15,938	163,518
II Fixed assets				
Tangible assets				
Buildings and structures	82,653	82,122	(531)	83,666
Land	96,134	107,183	11,048	107,216
Construction in progress	6,558	3,181	(3,377)	1,964
Other	3,526	3,623	97	3,665
Total	188,874	196,110	7,236	196,512
Intangible assets	578	578	0	579
Investments and other assets				
Investment securities	10,735	10,242	(492)	11,046
Long-term loans receivable	4,771	2,272	(2,499)	2,930
Deferred tax assets	2,125	2,018	(107)	1,901
Long-term trade receivables	12,050	2,761	(9,288)	2,835
Long-term prepaid expenses	29,351	35,033	5,682	33,035
Other	3,298	3,425	126	3,349
Allowance for doubtful accounts	(11,406)	(3,200)	8,205	(3,064)
Total	50,927	52,553	1,626	52,035
Total fixed assets	240,379	249,242	8,863	249,128
III Deferred assets	167	135	(32)	156
Total assets	355,404	380,174	24,769	412,803

(Million yen)

	FY 2006 1st quarter (As of June 30, 2005)	FY 2007 1st quarter (As of June 30, 2006)	Increase (Decrease) from FY 2006	FY 2006 (As of Mar. 31, 2006)
<Liabilities>				
I Current liabilities				
Accounts payable including payables for completed projects	22,895	35,207	12,311	81,231
Short-term borrowings	39,077	39,925	847	20,348
Bonds due within one year	1,435	1,435	-	1,435
Unpaid expenses	9,215	10,780	1,564	9,503
Accrued expenses	99	123	23	23
Accrued income taxes	3,950	-	(3,950)	4,423
Advances received	26,323	35,343	9,019	37,626
Customer advances for projects in progress	29,807	37,770	7,962	42,061
Allowance for employees' bonuses	3,482	3,919	437	2,487
Other	5,336	5,995	658	6,534
Total	141,625	170,499	28,874	205,674
II Long-term liabilities				
Bonds	12,762	11,327	(1,453)	11,327
Long-term borrowings	61,914	30,090	(31,823)	31,402
Retirement benefit reserves	2,727	3,449	721	3,246
Lease/guarantee deposits received	10,322	9,627	(694)	9,801
Other	122	78	(43)	76
Total	87,848	54,572	(33,275)	55,855
Total liabilities	229,473	225,072	(4,401)	261,530
<Minority interests>				
Minority interests	17,646	-	-	17,651
<Shareholders' equity>				
I Share capital	55,640	-	-	55,640
II Capital surplus	33,759	-	-	33,759
III Retained earnings	30,569	-	-	53,123
IV Net unrealized gains on "other securities"	331	-	-	714
V Translation adjustments	(11,820)	-	-	(9,418)
VI Treasury stock	(196)	-	-	(197)
Total shareholders' equity	108,284	-	-	133,622
Total liability, minority interest and shareholder's equity	355,404	-	-	412,803
< Shareholders' equity>				
I Shareholders' equity				
Share capital	-	55,640	-	-
Capital surplus	-	33,759	-	-
Retained earnings	-	57,154	-	-
Treasury stock	-	(198)	-	-
Total	-	146,356	-	-
II Valuation and translation adjustments				
Net unrealized gains on "other securities"	-	515	-	-
Translation adjustments	-	(9,414)	-	-
Total	-	(8,899)	-	-
III Minority interests				
	-	17,644	-	-
Total shareholders' equity	-	155,101	-	-
Total liability, minority interest and shareholder's equity	-	380,174	-	-

2. (Summary) Consolidated Quarterly Statements of Operations

(Million yen)

	FY 2006 1st quarter (Apr. 2005 - June 2005)	FY 2007 1st quarter (Apr. 2006 - June 2006)	Increase (Decrease)	FY 2006 (Apr. 2005 - Mar. 2006)
I Net sales	67,625	142,714	75,088	465,386
II Cost of sales	56,965	108,736	51,771	353,928
Gross profit	10,660	33,977	23,317	111,458
III Selling, general and administrative expenses	16,207	19,441	3,234	70,683
Operating profit (loss)	(5,547)	14,535	20,083	40,775
IV Non-operating profit	1,675	246	(1,428)	6,493
V Non-operating expenses	834	2,000	1,165	3,116
Recurring profit (loss)	(4,707)	12,782	17,489	44,151
VI Extraordinary income	58	5	(52)	68
VII Extraordinary losses	60,975	222	(60,753)	66,963
Net income before taxes and adjustments	(65,624)	12,565	78,190	(22,743)
Tax expense	(26,706)	5,925	32,632	(7,032)
Minority interests	217	217	-	871
Net income (loss)	(39,136)	6,422	45,558	(16,582)

3. (Summary) Quarterly Statements of Cash Flows

(Million yen)

	FY 2006 1st quarter (Apr. 2005 - Jun. 2005)	FY 2007 1st quarter (Apr. 2006 - Jun. 2006)	FY 2006 (Apr. 2005 - Mar. 2006)
I Cash flows from operating activities			
Net income (loss) before taxes and adjustments	(65,624)	12,565	22,743
Depreciation expenses	1,110	1,136	4,565
Increase (decrease) in allowance for doubtful accounts	520	103	1,737
Interest expense	711	334	2,518
Foreign exchange loss (gain)	(1,545)	970	(4,780)
Equity method income	31	497	(512)
Loss on sale of tangible fixed assets	-	-	10
Write-offs of tangible fixed assets	0	118	453
Impairment loss	60,508	-	65,480
Gain on sale of shares of affiliated companies	-	-	(31)
Gain on sale of investment securities	(12)	(74)	(125)
Decrease (increase) in accounts receivable	55,966	11,436	42,237
Decrease (increase) in inventories	(5,740)	22,101	(39,212)
Decrease (increase) in long-term prepaid expenses	(2,130)	(2,871)	(7,345)
Increase (decrease) in accounts payable	(69,194)	(45,454)	(10,208)
Increase (decrease) in amount received for uncompleted works	21,074	(4,290)	33,328
Increase (decrease) in advances received	(1,992)	(2,356)	9,294
Increase (decrease) in guarantee deposits received	(923)	(156)	(1,761)
Increase (decrease) in accrued consumption tax	(1,277)	1,005	(1,166)
Other	220	(698)	443
Subtotal	(8,296)	(5,631)	72,181
Interest and dividends received	16	42	228
Interest paid	(622)	(221)	(2,356)
Income taxes paid	(12,434)	(4,437)	(13,081)
Net cash provided by (used in) operating activities	(21,336)	(10,247)	56,971
II Cash flows from investing activities			
Payment for purchase of tangible fixed assets	(1,423)	(1,684)	(13,193)
Proceeds from sale of tangible fixed assets	-	6	914
Payment for purchase of investment securities	(1,061)	(228)	(2,827)
Proceeds from sale of investment securities	120	297	2,835
Payment for loans made	(472)	(611)	(1,381)
Proceeds from collection of loans	1	1,271	2,843
Other	86	(333)	(457)
Net cash used in investing activities	(2,747)	(1,282)	(11,266)
III Cash flows from financing activities			
Proceeds from short-term debt	12,500	20,000	17,750
Repayment of short-term debt	(1,882)	(186)	(28,564)
Proceeds from long-term debt	-	-	10,680
Repayment of long-term debt	(4,214)	(1,549)	(42,703)
Proceeds from issuance of privately placed bonds	-	-	13,259
Payment for purchase depreciation of privately placed bonds	-	-	(13,667)
Payment for redemptions of privately placed bonds	-	-	(1,435)
Dividends paid to minority shareholders	(225)	(225)	(873)
Payment for purchase of treasury stock	(0)	(1)	(1)
Dividends paid for shareholders	(2,388)	(2,390)	(2,390)
Net cash provided by (used in) financing activities	3,790	15,648	(47,946)
IV Effect of exchange rate changes on cash and cash equivalents	43	(1)	0
V Net increase (decrease) in cash and cash equivalents	(20,250)	4,116	(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	26,602	48,729	44,612

4. Segment Information

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

FY 2007 1st quarter (April 1, 2006 through June 30, 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	72,585	64,278	2,121	3,728	142,714	-	142,714
(2) Intra-group sales and transfers	-	0	1,152	-	1,153	(1,153)	-
Total	72,585	64,279	3,274	3,728	143,867	(1,153)	142,714
Operating expenses	56,128	64,238	3,733	3,949	128,049	128	128,178
Operating profit (loss)	16,456	40	(458)	(220)	15,818	(1,282)	14,535

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 on a quarterly basis 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 first quarter	1,282 million yen
Previous consolidated FY	3,695 million yen