

# Consolidated Financial Statements

(For the nine months ended December 31, 2009)

February 5, 2010

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

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

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Scheduled Date of Filing of Quarterly Report: February 12, 2010

## 1. Results for the Nine Months Ended December 31, 2009 (April 1, 2009 through December 31, 2009)

### (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	%
<b>Nine months ended December 31, 2009</b>	<b>434,409</b>	<b>(8.3)</b>	<b>(22,034)</b>	–	<b>(26,259)</b>	–	<b>(27,126)</b>	–
Nine months ended December 31, 2008	473,481	–	24,782	–	17,600	–	2,941	–

	Net income (loss) per share	Diluted net income (loss) per share
	Yen	Yen
<b>Nine months ended December 31, 2009</b>	<b>(179.16)</b>	–
Nine months ended December 31, 2008	18.58	–

### (2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Equity per share
	Million yen	Million yen	%	Yen
<b>As of December 31, 2009</b>	<b>418,690</b>	<b>122,524</b>	<b>29.2</b>	<b>806.98</b>
As of March 31, 2009	467,300	146,442	31.3	967.40

Note: Shareholders' equity: As of December 31, 2009: 122,432 million yen; As of March 31, 2009: 146,442 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	Yen
FY ended March 31, 2009	–	30.00	–	–	0.00	30.00
FY ending March 31, 2010	–	0.00	–	–	–	–
FY ending March 31, 2010 (Forecast)	–	–	–	–	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, 2010 (April 1, 2009 through March 31, 2010)

(Amounts less than one million yen are omitted)

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

	Net sales		Operating income (loss)		Recurring income (loss)		Net income (loss)		Net income (loss) per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
FY ending March 31, 2010	624,800	(14.8)	(28,200)	–	(33,300)	–	(35,100)	–	(231.82)

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: Yes
- (4) Total number of outstanding shares (Common stock)
  - (i) Total number of outstanding shares at term end (Includes treasury stock)
    - As of December 31, 2009: 159,543,915 shares
    - As of March 31, 2009: 159,543,915 shares
  - (ii) Total treasury stock at term end
    - As of December 31, 2009: 7,827,438 shares
    - As of March 31, 2009: 8,165,714 shares
  - (iii) Average number of outstanding shares during the period
    - For the nine months ended December 31, 2009: 151,411,060 shares
    - For the nine months ended December 31, 2008: 158,335,544 shares

Note: Total treasury stock at term end includes 3,258,600 shares owned by the employee stockholding association.

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

1. Leopalace21 has revised its full-year forecasts for the Fiscal Year ending March 31, 2010 from those announced on October 27, 2009. For details see "Notice Concerning Revision of Earnings Forecasts" released separately this same date (February 5, 2010).
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.

#### **Changes in accounting principles, procedures or reporting methods used in preparation of these quarterly financial statements** **Changes in accounting standards**

##### 1. Change in standard for recognizing revenues and costs relating to completed construction work

Prior to April 1, 2009, the Company applied the completed-contract method for recognizing revenues and costs relating to construction contracts. However, from the first quarter of the fiscal year ending March 31, 2010, the Company has applied ASBJ Statement No. 15 (December 27, 2007), "Accounting Standard for Construction Contracts" and ASBJ Guidance No. 18 (December 27, 2007), "Guidance on Accounting Standard for Construction Contracts." Accordingly, for construction contracts that commenced on or after April 1, 2009, the Company has applied the percentage-of-completion method in cases where the outcome of construction activity can be deemed certain during the course of operations in the third quarter ended December 31, 2009. In other cases, the Company applies the completed-contract method. The percentage of completion at the end of each quarter is estimated based on the percentage of the cost incurred compared with the estimated total cost and a standard revenue ratio.

As a result of this change, for the nine months ended December 31, 2009, net sales increased ¥19,033 million, and operating loss, recurring loss and loss before taxes and minority interests each decreased ¥5,278 million.

Any impact on segment information is noted in the relevant part of these statements.

##### 2. Provision for apartment vacancy loss

In the Company's Leasing Division, previously the Company computed the "Provision for rents due on the master lease agreements" by estimating master lease expenses due apartment owners compared with estimated rent income from apartment tenants over the period of the agreements. However, in light of the recent economic slowdown along with the increase in the number of rental properties managed by the Company, the decline in occupancy rates is expected to take on more significance. Considering the current trends in accounting treatment for the valuation of allowances and provisions, the Company decided to abolish the existing "Provision for rents due on master lease agreements" and replace it with the "Provision for apartment vacancy loss," which uses a valuation method based on expected rental income and historical vacancy rates. This change was implemented at the end of the fiscal year ended March 31, 2009.

Owing to the use of the previous provision method up to and including the third quarter of the fiscal year ended March 31, 2009, the operating loss, recurring loss and loss before taxes and minority interests for the period October 1–December 31, 2008, were each reported ¥269 million lower compared with the new method. Further, for the period April 1–December 31, 2008, operating income and recurring income were each reported ¥533 million lower compared with the new method, and income before taxes and minority interests was reported ¥3,381 million higher compared with the new method.

Any impact on segment information is noted in the relevant part of these statements.

# 1. Consolidated Balance Sheets

(Million yen)

	December 31, 2009	March 31, 2009
<b>&lt;Assets&gt;</b>		
<b>Current assets</b>		
Cash and cash equivalents	51,342	78,375
Trade receivables	5,593	6,793
Accounts receivable for completed projects	5,917	2,678
Operating loans	6,834	10,043
Real estate for sale/property inventories	2,718	7,560
Real estate for sale in process	9,155	21,266
Payment for construction in progress	18,077	14,925
Raw materials and supplies	528	597
Prepaid expenses	27,675	27,671
Deferred tax assets	8,046	8,046
Other accounts receivable	1,689	2,596
Other	12,579	12,932
Allowance for doubtful accounts	(1,039)	(1,472)
<b>Total</b>	<b>149,118</b>	<b>192,015</b>
<b>Fixed assets</b>		
Property, plant and equipment		
Buildings and structures (net)	64,952	66,529
Land	115,620	114,914
Leased assets (net)	4,451	3,498
Construction in progress	3,611	2,884
Other (net)	3,553	3,516
<b>Total</b>	<b>192,190</b>	<b>191,343</b>
Intangible assets	5,165	3,027
Investments and other assets		
Investment securities	6,141	6,103
Long-term loans	1,102	995
Deferred tax assets	5,467	5,474
Bad debt	6,597	4,563
Long-term prepaid expenses	52,396	61,132
Other	7,112	8,123
Allowance for doubtful accounts	(6,697)	(5,483)
<b>Total</b>	<b>72,120</b>	<b>80,909</b>
<b>Total fixed assets</b>	<b>269,475</b>	<b>275,280</b>
<b>Deferred assets</b>	<b>96</b>	<b>4</b>
<b>Total assets</b>	<b>418,690</b>	<b>467,300</b>

(Million yen)

	December 31, 2009	March 31, 2009
<b>&lt;Liabilities&gt;</b>		
<b>Current liabilities</b>		
Accounts payable	2,622	3,586
Accounts payable for completed projects	23,468	59,000
Short-term borrowings	32,503	17,492
Bonds due within one year	560	–
Lease obligations	1,145	792
Unpaid expenses	7,392	11,187
Accrued expenses	122	19
Accrued income taxes	112	13,258
Advances received	87,095	97,945
Customer advances for projects in progress	23,826	14,835
Allowance for employees' bonuses	1,568	3,759
Reserve for warranty obligations on completed projects	614	1,123
Other	5,390	8,429
<b>Total</b>	<b>186,421</b>	<b>231,432</b>
<b>Long-term liabilities</b>		
Bonds	3,440	–
Long-term debt	32,429	22,897
Lease obligations	3,748	3,006
Retirement benefit reserves	7,123	6,193
Retirement benefit reserves for directors	–	1,281
Provision for apartment vacancy loss	13,946	4,620
Lease/guarantee deposits received	47,006	50,870
Long-term accounts payable	1,185	–
Other	865	555
<b>Total</b>	<b>109,744</b>	<b>89,425</b>
<b>Total liabilities</b>	<b>296,165</b>	<b>320,857</b>
<b>&lt;Net assets&gt;</b>		
<b>Shareholders' equity</b>		
Common stock	55,640	55,640
Capital surplus	33,961	34,104
Retained earnings	46,286	73,412
Treasury stock	(6,270)	(6,541)
<b>Total</b>	<b>129,617</b>	<b>156,616</b>
<b>Valuation and translation adjustments</b>		
Net unrealized gains on "other securities"	80	17
Deferred losses on hedges	(5)	(7)
Translation adjustments	(7,259)	(10,183)
<b>Total</b>	<b>(7,185)</b>	<b>(10,173)</b>
<b>Share subscription rights</b>	<b>92</b>	<b>–</b>
<b>Total net assets</b>	<b>122,524</b>	<b>146,442</b>
<b>Total liabilities and net assets</b>	<b>418,690</b>	<b>467,300</b>

## 2. Consolidated Statements of Operations

(Million yen)

	Nine months ended December 31, 2009 (Apr. 2009–Dec. 2009)	Nine months ended December 31, 2008 (Apr. 2008–Dec. 2008)
<b>Net sales</b>	<b>434,409</b>	<b>473,481</b>
<b>Cost of sales</b>	<b>398,974</b>	<b>379,235</b>
<b>Gross profit</b>	<b>35,435</b>	<b>94,245</b>
<b>Selling, general and administrative expenses</b>	<b>57,469</b>	<b>69,462</b>
<b>Operating income (loss)</b>	<b>(22,034)</b>	<b>24,782</b>
Non-operating income		
Interest income	77	102
Equity in earnings of affiliated companies	113	211
Other	526	630
<b>Total</b>	<b>716</b>	<b>944</b>
Non-operating expenses		
Interest expenses	893	860
Commission fee	608	600
Foreign exchange loss	3,048	6,070
Other	391	594
<b>Total</b>	<b>4,941</b>	<b>8,127</b>
<b>Recurring income (loss)</b>	<b>(26,259)</b>	<b>17,600</b>
Extraordinary income		
Gain on sale of property, plant and equipment	130	0
Reversal of allowance for doubtful receivables	462	321
Reversal of allowance for retirement benefits for directors	92	–
<b>Total</b>	<b>684</b>	<b>322</b>
Extraordinary losses		
Loss on sale of property, plant and equipment	226	0
Loss on disposal of property, plant and equipment	541	108
Loss on devaluation of real estate for sale	–	2,560
Impairment loss	517	510
Loss on devaluation of investment securities	–	2,737
Transfer to allowance for bad debt	29	248
<b>Total</b>	<b>1,314</b>	<b>6,166</b>
<b>Income (loss) before taxes and minority interests</b>	<b>(26,890)</b>	<b>11,756</b>
Income taxes	235	8,814
<b>Net income (loss)</b>	<b>(27,126)</b>	<b>2,941</b>

### 3. Consolidated Statements of Cash Flows

(Million yen)

	Nine months ended December 31, 2009 (Apr. 2009–Dec. 2009)	Nine months ended December 31, 2008 (Apr. 2008–Dec. 2008)
<b>Cash flows from operating activities</b>		
Income (loss) before taxes and minority interests	(26,890)	11,756
Depreciation	4,654	3,716
Increase (decrease) in allowance for doubtful accounts	781	2,843
Increase (decrease) in retirement benefit reserves for directors	(96)	(340)
Increase (decrease) in provision for apartment vacancy loss	9,326	–
Interest expense	893	860
Foreign exchange loss (gain)	3,048	6,070
Equity in earnings of affiliated companies	(113)	(211)
Loss (gain) on sale of property, plant and equipment	96	0
Write-offs of property, plant and equipment	541	108
Impairment loss	517	510
Loss on devaluation of real estate for sale	–	2,560
Loss (gain) on sale of investment securities	(1)	–
Loss (gain) on devaluation of investment securities	–	2,737
Decrease (increase) in accounts receivable	835	41,070
Decrease (increase) in real estate for sale	16,303	(1,995)
Decrease (increase) in work in process	(3,151)	(30,512)
Decrease (increase) in long-term prepaid expenses	8,580	(4,682)
Increase (decrease) in accounts payable	(37,969)	(46,999)
Increase (decrease) in customer advances for projects in progress	8,990	29,700
Increase (decrease) in advances received	(10,834)	(12,235)
Increase (decrease) in guarantee deposits received	(3,997)	30,719
Increase (decrease) in accrued consumption taxes	(2,587)	(246)
Other	(3,120)	(5,362)
Subtotal	(34,194)	30,069
Interest and dividends received	93	427
Interest paid	(815)	(730)
Income taxes paid	(14,105)	(22,871)
<b>Net cash provided by (used in) operating activities</b>	<b>(49,022)</b>	<b>6,894</b>

(Million yen)

	Nine months ended December 31, 2009 (Apr. 2009–Dec. 2009)	Nine months ended December 31, 2008 (Apr. 2008–Dec. 2008)
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(4,789)	(5,546)
Proceeds from sale of property, plant and equipment	1,459	3
Payment for purchase of intangible assets	(2,376)	–
Payment for purchase of investment securities	(115)	(398)
Proceeds from sale of investment securities	118	71
Payment for loans	(109)	(425)
Proceeds from collection of loans	3	301
Other	(304)	(1,859)
<b>Net cash used in investing activities</b>	<b>(6,114)</b>	<b>(7,854)</b>
<b>Cash flows from financing activities</b>		
Proceeds from short-term debt	37,799	29,000
Repayment of short-term debt	(27,800)	(9,000)
Proceeds from long-term debt	38,000	18,000
Repayment of long-term debt	(23,458)	(13,636)
Proceeds from issuance of bonds	3,907	–
Redemption of bonds	–	(5,094)
Repayment of lease obligations	(631)	–
Refund of amount invested by minority interests	–	(4,970)
Proceeds from disposal of treasury stock	127	–
Payment for purchase of treasury stock	(0)	(6,443)
Dividends paid to shareholders	–	(12,750)
<b>Net cash provided by (used in) financing activities</b>	<b>27,945</b>	<b>(4,894)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>159</b>	<b>(936)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(27,032)</b>	<b>(6,791)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>78,375</b>	<b>60,965</b>
<b>Cash and cash equivalents at end of period</b>	<b>51,342</b>	<b>54,174</b>

## 4. Segment Information

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

### 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 income (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 income (loss)	33,771	2,180	(525)	(6,992)	28,433	(3,650)	24,782

### Nine months ended December 31, 2009 (April 1, 2009 through December 31, 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	150,009	255,899	4,952	16,672	6,875	434,409	–	434,409
(2) Inter-segment sales and transfers	–	206	2,358	–	–	2,565	(2,565)	–
Total	150,009	256,106	7,310	16,672	6,875	436,974	(2,565)	434,409
Operating income (loss)	17,284	(30,321)	(929)	(2,361)	(2,988)	(19,316)	(2,718)	(22,034)

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, financial services, small-claims and short-term insurance businesses

#### 3. Changes in business segments

The Residential Sales Division segment included in the Other Division segment was shown separately in the previous fiscal year, because the absolute value of the operating loss in this business reached 10% or more of the absolute value of the total operating income generated by the segment. In consideration of the continuity of the segments presented, figures for this business have again been shown separately in the subject nine-month period statements. As a result, compared to the previous method, net sales for the Other Division segment during the subject nine-month period decreased ¥16,672 million, and the segment operating loss decreased ¥2,361 million.

4. From the subject first quarter, to properly reflect the current status of business content following changes in the business management structure, the domestic hotel business that had been included in the Leasing Division segment was moved to the Hotel Resort Division segment, and the broadband business that had been included in the Other Division segment was moved to the Leasing Division segment.

As a result of this change, compared to the previous method, net sales for the subject nine-month period increased ¥9,198 million in the Leasing Division segment and ¥1,731 million in the Hotel Resort Division segment, and decreased ¥10,929 million in the Other Division segment. Operating losses declined ¥1,897 million in the Leasing Division segment, and increased ¥107 million in the Hotel Resort Division segment, and ¥1,789 million in the Other Division segment.

Segment information for the nine-month period of the previous fiscal year as per the business classifications used during the subject nine-month period are as follows.

**Nine months ended December 31, 2008 (April 1, 2008 through December 31, 2008)**

(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	200,391	256,685	5,834	4,789	5,780	473,481	–	473,481
(2) Inter-segment sales and transfers	–	164	3,701	–	–	3,865	(3,865)	–
Total	200,391	256,849	9,535	4,789	5,780	477,346	(3,865)	473,481
Operating income (loss)	33,771	2,527	(221)	(5,331)	(2,312)	28,433	(3,650)	24,782

5. Changes in accounting procedures

*Nine months ended December 31, 2008*

Accounting Standard for Measurement of Inventories

From the subject three-month period Leopalace21 has applied Accounting Standards Board of Japan (ASBJ) Statement No. 9 (July 5, 2006), "Accounting Standard for Measurement of Inventories." As a result of this change, compared to the previous standard, the operating loss for the subject nine-month period in the Other Division segment increased ¥4,252 million.

*Nine months ended December 31, 2009*

Standard for recognizing revenues and costs of construction contracts

As noted in "Changes in accounting principles, procedures or reporting methods used in preparation of these quarterly financial statements (page 2)," from the subject three-month period Leopalace21 has applied ASBJ Statement No. 15 (December 27, 2007), "Accounting Standard for Construction Contracts" and ASBJ Guidance No. 18 (December 27, 2007), "Guidance on Accounting Standard for Construction Contracts." As a result of this change, compared to the previous standard, net sales in the Apartment Construction Subcontracting Division and Other Division segments increased ¥18,417 million and ¥616 million, respectively. Operating income in the Apartment Construction Subcontracting Division segment increased ¥5,112 million, and the operating loss in the Other Division segment decreased ¥166 million.

Provision for apartment vacancy loss

As noted in "Changes in accounting principles, procedures or reporting methods used in preparation of these quarterly financial statements (page 2)," from the end of the previous fiscal year, to provide against losses on vacant units under master contracts, Leopalace21 changed its method for recording allowance for loss on vacant units to the amount of loss reasonably expected to be incurred during the estimable period, based on the predetermined lease rates of individual leased units and occupancy rate. Since this provision was determined using the former method through the third quarter of the previous fiscal year, operating loss reported in the Leasing Division for the third quarter of the previous fiscal year (October 1–December 31, 2008) was ¥269 million lower compared with the new method. However, operating income reported in the Leasing Division for the nine-month period of the previous fiscal year (April 1–December 31, 2008) was ¥533 million lower compared with the new method.

## 5. Other Information

### Accounting Treatment for ESOP Aligned with the Employee Stockholding Association

During the six-month period, Leopalace21 introduced an employee stock ownership plan (ESOP) structure aligned with the Company's employee stockholding association. This structure is intended to augment and strengthen corporate governance by enhancing the desire of employees to participate in the Company's decision-making, as well as to enhance the corporate value for Leopalace21 by heightening the work ethic for employees by providing them with an incentive to increase corporate value.

Under this plan, a trust established to hold and sell the Company's shares to the employee stockholding association ("the Trust") acquires from the Company a block of the Company's shares equivalent to the number of shares the employee stockholding association planned to acquire during the trust period, and sells it to the employee stockholding association.

Leopalace21 had transferred 3,597,100 shares of treasury stock to the Trust as of September 18, 2009. In the accounting treatment for disposal of these shares, since the Company guarantees the Trust's debt, from a conservative perspective emphasizing economic reality, the Company and the Trust are treated as a single body. Consequently, the Company's shares held by the Trust, the Trust's assets and liabilities, as well as its expenses and earnings, are included on the Company's consolidated balance sheet, statement of operations, and cash flow statement. The Trust held 3,258,600 shares in the Company as of the end of the subject nine-month period.