

Consolidated Financial Statements

July 31, 2009

(For the three months ended June 30, 2009)

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 Listings: Tokyo Stock Exchange
 Location of Head Office: Tokyo

Name: Yoshiteru Kitagawa
 Name: Masumi Iwakabe
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Scheduled Date of Commencement of Dividend Payments: –

1. Results for the Three Months Ended June 30, 2009 (April 1, 2009 through June 30, 2009)

(1) Consolidated financial results (Cumulative)

(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, 2009	128,918	11.3	(10,212)	–	(11,572)	–	(5,226)	–
Three months ended June 30, 2008	115,813	–	(1,634)	–	1,367	–	(732)	–

	Net income (loss) per share	Diluted net income (loss) per share
	Yen	Yen
Three months ended June 30, 2009	(34.53)	–
Three months ended June 30, 2008	(4.59)	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Equity per share
	Million yen	Million yen	%	Yen
As of June 30, 2009	430,732	145,811	33.9	963.22
As of March 31, 2009	467,300	146,442	31.3	967.40

Note: Shareholders' equity: As of June 30, 2009: 145,811 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	–	–	–	30.00
FY ending March 31, 2010	–	–	–	–	–	–
FY ending March 31, 2010 (Forecast)	–	5.00	–	12.00	17.00	17.00

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 and six-month period results, respectively)

	Net sales		Operating income		Recurring income (loss)		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Six months ending September 30, 2009	315,600	(11.2)	400	(98.7)	(350)	–	0	–	0.00
FY ending March 31, 2010	700,700	(4.4)	21,700	(56.7)	19,900	(57.5)	8,700	(12.6)	57.47

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
- (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: None
- (4) Total number of outstanding shares (Common stock)
 - (i) Total number of outstanding shares at term end (Includes treasury stock)
 - As of June 30, 2009: 159,543,915 shares
 - As of March 31, 2009: 159,543,915 shares
 - (ii) Total treasury stock at term end
 - As of June 30, 2009: 8,165,866 shares
 - As of March 31, 2009: 8,165,714 shares
 - (iii) Average number of outstanding shares during the period
 - For the three months ended June 30, 2009: 151,378,105 shares
 - For the three months ended June 30, 2008: 159,378,815 shares

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, 2009	March 31, 2009
<Assets>		
Current assets		
Cash and cash equivalents	38,638	78,375
Trade receivables	3,507	6,793
Accounts receivable for completed projects	4,531	2,678
Operating loans	9,498	10,043
Real estate for sale/property inventories	4,449	7,560
Real estate for sale in process	17,756	21,266
Payment for construction in progress	19,446	14,925
Raw materials and supplies	591	597
Prepaid expenses	27,642	27,671
Deferred tax assets	14,524	8,046
Other accounts receivable	1,875	2,596
Other	12,037	12,932
Allowance for doubtful accounts	(1,373)	(1,472)
Total	153,125	192,015
Fixed assets		
Property, plant and equipment		
Buildings and structures (net)	68,374	66,529
Land	116,975	114,914
Leased assets (net)	4,267	3,498
Construction in progress	3,544	2,884
Other (net)	3,933	3,516
Total	197,095	191,343
Intangible assets	4,309	3,027
Investments and other assets		
Investment securities	6,175	6,103
Long-term loans	1,065	995
Deferred tax assets	5,394	5,474
Bad debt	4,461	4,563
Long-term prepaid expenses	57,022	61,132
Other	7,668	8,123
Allowance for doubtful accounts	(5,589)	(5,483)
Total	76,198	80,909
Total fixed assets	277,603	275,280
Deferred assets	4	4
Total assets	430,732	467,300

(Million yen)

	June 30, 2009	March 31, 2009
<Liabilities>		
Current liabilities		
Accounts payable	3,237	3,586
Accounts payable for completed projects	18,442	59,000
Short-term borrowings	44,482	17,492
Lease obligations	982	792
Unpaid expenses	7,943	11,187
Accrued expenses	103	19
Accrued income taxes	934	13,258
Advances received	88,204	97,945
Customer advances for projects in progress	23,975	14,835
Allowance for employees' bonuses	5,731	3,759
Reserve for warranty obligations on completed projects	996	1,123
Other	5,534	8,429
Total	200,570	231,432
Long-term liabilities		
Long-term debt	16,025	22,897
Lease obligations	3,658	3,006
Retirement benefit reserves	6,523	6,193
Retirement benefit reserves for directors	–	1,281
Provision for apartment vacancy loss	6,824	4,620
Lease/guarantee deposits received	49,481	50,870
Long-term accounts payable	1,185	–
Other	654	555
Total	84,351	89,425
Total liabilities	284,921	320,857
<Net assets>		
Shareholders' equity		
Common stock	55,640	55,640
Capital surplus	34,104	34,104
Retained earnings	68,185	73,412
Treasury stock	(6,542)	(6,541)
Total	151,389	156,616
Valuation and translation adjustments		
Net unrealized gains on "other securities"	175	17
Deferred losses on hedges	(7)	(7)
Translation adjustments	(5,746)	(10,183)
Total	(5,578)	(10,173)
Total net assets	145,811	146,442
Total liabilities and net assets	430,732	467,300

2. Consolidated Statements of Operations

(Million yen)

	Three months ended June 30, 2009 (Apr. 2009–June 2009)	Three months ended June 30, 2008 (Apr. 2008–June 2008)
Net sales	128,918	115,813
Cost of sales	119,185	94,246
Gross profit	9,733	21,566
Selling, general and administrative expenses	19,946	23,201
Operating income (loss)	(10,212)	(1,634)
Non-operating income		
Interest income	25	29
Equity in earnings of affiliated companies	3	33
Foreign exchange gain	–	3,291
Other	227	165
Total	255	3,518
Non-operating expenses		
Interest expenses	245	267
Commission fee	204	189
Foreign exchange loss	1,009	–
Other	155	60
Total	1,614	517
Recurring income (loss)	(11,572)	1,367
Extraordinary income		
Reversal of allowance for doubtful receivables	89	217
Gain on sale of property, plant and equipment	70	–
Other	92	–
Total	252	217
Extraordinary losses		
Loss on sale of property, plant and equipment	39	0
Loss on disposal of property, plant and equipment	169	65
Loss on devaluation of real estate for sale	–	2,560
Impairment loss	96	12
Loss on devaluation of investment securities	–	448
Transfer to allowance for bad debt	–	18
Total	305	3,104
Income (loss) before taxes and minority interests	(11,625)	(1,519)
Income taxes	(6,398)	(787)
Net income (loss)	(5,226)	(732)

3. Consolidated Statements of Cash Flows

(Million yen)

	Three months ended June 30, 2009 (Apr. 2009–June 2009)	Three months ended June 30, 2008 (Apr. 2008–June 2008)
Cash flows from operating activities		
Income (loss) before taxes and minority interests	(11,625)	(1,519)
Depreciation	1,512	1,215
Increase (decrease) in allowance for doubtful accounts	7	(18)
Increase (decrease) in retirement benefit reserves for directors	(96)	40
Increase (decrease) in provision for apartment vacancy loss	2,203	–
Interest expense	245	267
Foreign exchange loss (gain)	1,009	(3,291)
Equity in earnings of affiliated companies	(3)	(33)
(Gain) loss on sale of property, plant and equipment	(30)	0
Write-offs of property, plant and equipment	169	65
Impairment loss	96	12
Loss on devaluation of real estate for sale	–	2,560
Loss (gain) on sale of investment securities	(1)	–
Loss on devaluation of investment securities	–	448
Decrease (increase) in accounts receivable	3,906	30,785
Decrease (increase) in real estate for sale	5,970	(963)
Decrease (increase) in work in process	(4,520)	(7,680)
Decrease (increase) in long-term prepaid expenses	3,976	64
Increase (decrease) in accounts payable	(42,137)	(64,456)
Increase (decrease) in customer advances for projects in progress	9,139	21,477
Increase (decrease) in advances received	(9,716)	(8,291)
Increase (decrease) in guarantee deposits received	(1,478)	30,303
Increase (decrease) in accrued consumption taxes	(1,537)	418
Other	123	(4,921)
Subtotal	(42,784)	(3,517)
Interest and dividends received	33	126
Interest paid	(149)	(109)
Income taxes paid	(13,266)	(14,317)
Net cash used in operating activities	(56,167)	(17,818)

(Million yen)

	Three months ended June 30, 2009 (Apr. 2009–June 2009)	Three months ended June 30, 2008 (Apr. 2008–June 2008)
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,940)	(1,595)
Proceeds from sale of property, plant and equipment	661	2
Payment for purchase of intangible assets	(1,360)	–
Payment for purchase of investment securities	(53)	–
Proceeds from sale of investment securities	104	51
Payment for loans	(90)	(224)
Proceeds from collection of loans	1	0
Other	(4)	(175)
Net cash used in investing activities	(3,682)	(1,940)
Cash flows from financing activities		
Proceeds from short-term debt	30,500	9,000
Repayment for short-term debt	–	(2,000)
Proceeds from long-term debt	–	18,000
Repayment for long-term debt	(10,383)	(2,523)
Repayment of lease obligations	(406)	–
Refund of amount invested by minority interests	–	(4,970)
Payment for purchase of treasury stock	(0)	(0)
Dividends paid to shareholders	–	(7,968)
Net cash provided by financing activities	19,710	9,537
Effect of exchange rate changes on cash and cash equivalents	402	(211)
Net increase (decrease) in cash and cash equivalents	(39,736)	(10,432)
Cash and cash equivalents at beginning of period	78,375	60,965
Cash and cash equivalents at end of period	38,638	50,532

4. Segment Information

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

Three Months Ended June 30, 2008 (April 1, 2008 through June 30, 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	26,757	81,111	1,215	6,729	115,813	-	115,813
(2) Inter-segment sales and transfers	-	32	1,392	-	1,425	(1,425)	-
Total	26,757	81,143	2,608	6,729	117,239	(1,425)	115,813
Operating income (loss)	(32)	764	(32)	(740)	(41)	(1,593)	(1,634)

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, financial services (real-estate loans, etc.), 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 three-month period statements. As a result, compared to the previous method, net sales for the Other Division segment during the subject three-month period decreased ¥6,063 million, and the segment operating loss decreased ¥588 million.

4. From the subject three-month period, 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 three-month period increased ¥3,173 million in the Leasing Division segment and ¥552 million in the Hotel Resort Division segment, and decreased ¥3,726 million in the Other Division segment. Operating losses declined ¥572 million in the Leasing Division segment, and increased ¥64 million in the Hotel Resort Division segment, and ¥507 million in the Other Division segment.

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

Three Months Ended June 30, 2008 (April 1, 2008 through June 30, 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	26,757	83,934	1,825	1,164	2,132	115,813	–	115,813
(2) Inter-segment sales and transfers	–	32	1,392	–	–	1,425	(1,425)	–
Total	26,757	83,967	3,218	1,164	2,132	117,239	(1,425)	115,813
Operating income (loss)	(32)	842	53	(648)	(256)	(41)	(1,593)	(1,634)

5. Changes in accounting procedures

Three months ended June 30, 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 in the Other Division segment increased ¥276 million.

Three months ended June 30, 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," 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 ¥13,306 million and ¥28 million, respectively. Operating income in the Apartment Construction Subcontracting Division segment increased ¥3,476 million, and the operating loss in the Other Division segment decreased ¥6 million.