

Consolidated Financial Statements

(For six months ended September 30, 2009)

November 2, 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

Telephone: +81-3-5350-0216

Scheduled Date of Filing of Half Year Report: November 13, 2009

1. Results for the Six Months Ended September 30, 2009 (April 1, 2009 through September 30, 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	%
Six months ended September 30, 2009	310,390	(12.7)	(6,872)	–	(11,850)	–	(12,239)	–
Six months ended September 30, 2008	355,352	–	29,803	–	30,562	–	12,280	–

	Net income (loss) per share	Diluted net income (loss) per share
	Yen	Yen
Six months ended September 30, 2009	(80.85)	–
Six months ended September 30, 2008	77.05	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Equity per share
	Million yen	Million yen	%	Yen
As of September 30, 2009	450,763	141,045	31.3	931.15
As of March 31, 2009	467,300	146,442	31.3	967.40

(Note) Shareholders' equity: As of September 30, 2009: 140,955 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	639,400	(12.8)	(11,100)	–	(17,100)	–	(19,100)	–	(126.17)

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: Yes
- (4) Total number of outstanding shares (Common stock)
 - (i) Total number of outstanding shares at term end (Includes treasury stock)
 - As of September 30, 2009: 159,543,915 shares
 - As of March 31, 2009: 159,543,915 shares
 - (ii) Total treasury stock at term end
 - As of September 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 six months ended September 30, 2009: 151,378,077 shares
 - For the six months ended September 30, 2008: 159,378,692 shares

*Total treasury stock at term end includes 3,597,100 shares owned by the employee stockholding association.

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)

	September 30, 2009	March 31, 2009
<Assets>		
Current assets		
Cash and cash equivalents	77,545	78,375
Trade receivables	4,137	6,793
Accounts receivable for completed projects	4,234	2,678
Operating loans	7,438	10,043
Real estate for sale/property inventories	2,676	7,560
Real estate for sale in process	14,957	21,266
Payment for construction in progress	13,166	14,925
Raw materials and supplies	553	597
Prepaid expenses	27,901	27,671
Deferred tax assets	8,046	8,046
Other accounts receivable	2,297	2,596
Other	11,180	12,932
Allowance for doubtful accounts	(1,139)	(1,472)
Total	172,996	192,015
Fixed assets		
Property, plant and equipment		
Buildings and structures (net)	67,728	66,529
Land	116,411	114,914
Leased assets (net)	4,413	3,498
Construction in progress	3,303	2,884
Other (net)	3,808	3,516
Total	195,664	191,343
Intangible assets	4,640	3,027
Investments and other assets		
Investment securities	6,125	6,103
Long-term loans	1,087	995
Deferred tax assets	5,467	5,474
Bad debt	6,079	4,563
Long-term prepaid expenses	57,324	61,132
Other	7,598	8,123
Allowance for doubtful accounts	(6,319)	(5,483)
Total	77,362	80,909
Total fixed assets	277,667	275,280
Deferred assets	100	4
Total assets	450,763	467,300

(Million yen)

	September 30, 2009	March 31, 2009
<Liabilities>		
Current liabilities		
Accounts payable	3,042	3,586
Accounts payable for completed projects	41,933	59,000
Short-term borrowings	44,895	17,492
Bonds due within one year	560	–
Lease obligations	1,073	792
Unpaid expenses	7,097	11,187
Accrued expenses	25	19
Accrued income taxes	281	13,258
Advances received	83,034	97,945
Customer advances for projects in progress	11,639	14,835
Allowance for employees' bonuses	3,847	3,759
Reserve for warranty obligations on completed projects	695	1,123
Other	6,542	8,429
Total	204,670	231,432
Long-term liabilities		
Bonds	3,440	–
Long-term debt	31,319	22,897
Lease obligations	3,756	3,006
Retirement benefit reserves	6,813	6,193
Retirement benefit reserves for directors	–	1,281
Provision for apartment vacancy loss	9,093	4,620
Lease/guarantee deposits received	48,636	50,870
Long-term accounts payable	1,185	–
Other	803	555
Total	105,048	89,425
Total liabilities	309,718	320,857
<Net assets>		
Shareholders' equity		
Common stock	55,640	55,640
Capital surplus	34,104	34,104
Retained earnings	61,173	73,412
Treasury stock	(6,542)	(6,541)
Total	144,377	156,616
Valuation and translation adjustments		
Net unrealized gains on "other securities"	78	17
Deferred losses on hedges	(6)	(7)
Translation adjustments	(3,493)	(10,183)
Total	(3,421)	(10,173)
Share subscription rights	90	–
Total net assets	141,045	146,442
Total liabilities and net assets	450,763	467,300

2. Consolidated Statements of Operations

(Million yen)

	Six months ended September 30, 2009 (Apr. 2009–Sep. 2009)	Six months ended September 30, 2008 (Apr. 2008–Sep. 2008)
Net sales	310,390	355,352
Cost of sales	277,663	277,871
Gross profit	32,727	77,481
Selling, general and administrative expenses	39,600	47,678
Operating income (loss)	(6,872)	29,803
Non-operating income		
Interest income	52	79
Equity in earnings of affiliated companies	92	170
Foreign exchange gain	–	1,436
Other	395	430
Total	539	2,117
Non-operating expenses		
Interest expenses	550	584
Commission fee	412	412
Foreign exchange loss	4,258	–
Other	296	361
Total	5,517	1,358
Recurring income (loss)	(11,850)	30,562
Extraordinary income		
Gain on sale of property, plant and equipment	70	0
Reversal of allowance for doubtful receivables	323	244
Reversal of allowance for retirement benefits for directors	92	–
Total	486	244
Extraordinary losses		
Loss on sale of property, plant and equipment	192	0
Loss on disposal of property, plant and equipment	327	92
Loss on devaluation of real estate for sale	–	2,560
Impairment loss	194	402
Loss on devaluation of investment securities	–	1,918
Transfer to allowance for bad debt	17	237
Total	732	5,211
Income (loss) before taxes and minority interests	(12,096)	25,595
Income taxes	142	13,315
Net income (loss)	(12,239)	12,280

3. Consolidated Statements of Cash Flows

(Million yen)

	Six months ended September 30, 2009 (Apr. 2009–Sep. 2009)	Six months ended September 30, 2008 (Apr. 2008–Sep. 2008)
Cash flows from operating activities		
Income (loss) before taxes and minority interests	(12,096)	25,595
Depreciation	3,072	2,460
Increase (decrease) in allowance for doubtful accounts	503	2,386
Increase (decrease) in retirement benefit reserves for directors	(96)	(375)
Increase (decrease) in provision for apartment vacancy loss	4,473	–
Interest expense	550	584
Foreign exchange loss (gain)	4,258	(1,436)
Equity in earnings of affiliated companies	(92)	(170)
Loss (gain) on sale of property, plant and equipment	121	0
Write-offs of property, plant and equipment	327	92
Impairment loss	194	402
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	–	1,918
Decrease (increase) in accounts receivable	2,601	10,693
Decrease (increase) in real estate for sale	10,542	1,291
Decrease (increase) in work in process	1,758	(3,913)
Decrease (increase) in long-term prepaid expenses	3,419	(7,741)
Increase (decrease) in accounts payable	(19,847)	(1,470)
Increase (decrease) in customer advances for projects in progress	(3,196)	878
Increase (decrease) in advances received	(14,889)	(14,879)
Increase (decrease) in guarantee deposits received	(2,316)	31,517
Increase (decrease) in accrued consumption taxes	(1,675)	1,101
Other	1,825	(558)
Subtotal	(20,562)	50,935
Interest and dividends received	85	358
Interest paid	(537)	(583)
Income taxes paid	(14,081)	(14,332)
Net cash provided by (used in) operating activities	(35,095)	36,378

(Million yen)

	Six months ended September 30, 2009 (Apr. 2009–Sep. 2009)	Six months ended September 30, 2008 (Apr. 2008–Sep. 2008)
Cash flows from investing activities		
Purchase of property, plant and equipment	(4,115)	(2,433)
Proceeds from sale of property, plant and equipment	997	3
Payment for purchase of intangible assets	(1,771)	–
Payment for purchase of investment securities	(115)	(197)
Proceeds from sale of investment securities	111	61
Payment for loans	(93)	(325)
Proceeds from collection of loans	2	300
Other	(436)	(633)
Net cash used in investing activities	(5,421)	(3,226)
Cash flows from financing activities		
Proceeds from short-term debt	37,799	9,000
Repayment of short-term debt	(15,000)	(6,200)
Proceeds from long-term debt	32,000	18,000
Repayment of long-term debt	(18,974)	(11,313)
Proceeds from issuance of bonds	3,903	–
Repayment of lease obligations	(379)	–
Redemption of bonds	–	(5,094)
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 (used in) financing activities	39,350	(8,547)
Effect of exchange rate changes on cash and cash equivalents	336	(468)
Net increase (decrease) in cash and cash equivalents	(830)	24,136
Cash and cash equivalents at beginning of period	78,375	60,965
Cash and cash equivalents at end of period	77,545	85,101

4. Segment Information

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

Six months ended September 30, 2008 (April 1, 2008 through September 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	174,426	164,700	2,820	13,405	355,352	–	355,352
(2) Inter-segment sales and transfers	–	103	2,595	–	2,699	(2,699)	–
Total	174,426	164,804	5,415	13,405	358,052	(2,699)	355,352
Operating income (loss)	34,404	3,218	(10)	(5,166)	32,446	(2,642)	29,803

Six months ended September 30, 2009 (April 1, 2009 through September 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	120,635	170,782	3,347	11,270	4,355	310,390	–	310,390
(2) Inter-segment sales and transfers	–	136	1,749	–	–	1,886	(1,886)	–
Total	120,635	170,918	5,097	11,270	4,355	312,277	(1,886)	310,390
Operating income (loss)	16,414	(17,846)	(481)	(788)	(2,253)	(4,956)	(1,916)	(6,872)

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 six-month period statements. As a result, compared to the previous method, net sales for the Other Division segment during the subject six-month period decreased ¥11,270 million, and the segment operating loss decreased ¥788 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 six-month period increased ¥6,123 million in the Leasing Division segment and ¥1,188 million in the Hotel Resort Division segment, and decreased ¥7,312 million in the Other Division segment. Operating losses declined ¥1,022 million in the Leasing Division segment, and increased ¥46 million in the Hotel Resort Division segment, and ¥975 million in the Other Division segment.

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

Six months ended September 30, 2008 (April 1, 2008 through September 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	174,426	170,289	4,099	2,787	3,749	355,352	–	355,352
(2) Inter-segment sales and transfers	–	103	2,595	–	–	2,699	(2,699)	–
Total	174,426	170,393	6,694	2,787	3,749	358,052	(2,699)	355,352
Operating income (loss)	34,404	3,382	215	(4,262)	(1,293)	32,446	(2,642)	29,803

5. Changes in accounting procedures

Six months ended September 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 ¥3,611 million.

Six months ended September 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 ¥6,057 million and ¥254 million, respectively. Operating income in the Apartment Construction Subcontracting Division segment increased ¥1,616 million, and the operating loss in the Other Division segment decreased ¥66 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," 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 income reported in the Leasing Division for the second quarter of the previous fiscal year (July 1–September 30, 2008) was ¥63 million higher compared with the new method. However, operating income reported in the Leasing Division for the first half of the previous fiscal year (April 1–September 30, 2008) was ¥802 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 3,597,100 shares in the Company as of the end of the subject six-month period.