

Consolidated Financial Statements

May 15, 2009

(For the year ended March 31, 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 Listing: Tokyo Stock Exchange

Location of Head Office: Tokyo

Name: Yoshiteru Kitagawa

Name: Masumi Iwakabe

Telephone: +81-3-5350-0216

Scheduled Date of Annual Meeting of Stockholders: June 29, 2009

Scheduled Date of Filing of Securities Report: June 30, 2009

Scheduled Date of Commencement of Dividend Payments: –

1. Results of the Fiscal Year Ended March 31, 2009 (April 1, 2008 through March 31, 2009)

(1) Consolidated financial results

(Amounts less than one million yen are omitted)

(% shown indicate rate of gain or loss compared with the previous FY)

	Net sales		Operating profit		Recurring profit		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY ended March 31, 2009	733,235	9.0	50,156	(29.8)	46,785	(23.1)	9,951	–
FY ended March 31, 2008	672,973	6.5	71,402	(6.1)	60,847	(16.7)	342	(99.1)

	Net income per share	Diluted net income per share	Return on equity	Recurring profit/ Total capital	Operating profit/ Net sales
	Yen	Yen	%	%	%
FY ended March 31, 2009	63.54	–	6.4	9.7	6.8
FY ended March 31, 2008	2.15	–	0.2	12.8	10.6

Reference: Equity in earnings of affiliates in FY ended March 31, 2009: 324 million yen, FY ended March 31, 2008: 104 million yen.

(2) Consolidated financial position

(Amounts less than one million yen are omitted)

	Total assets	Net assets	Equity ratio	Equity per share
	Million yen	Million yen	%	Yen
As of March 31, 2009	467,300	146,442	31.3	967.40
As of March 31, 2008	493,956	170,155	33.4	1,036.43

Reference: Shareholders' equity: As of March 31, 2009: 146,442 million yen, As of March 31, 2008: 165,185 million yen.

(3) Consolidated cash flows

(Amounts less than one million yen are omitted)

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of year
	Million yen	Million yen	Million yen	Million yen
FY ended March 31, 2009	62,843	(10,048)	(33,885)	78,375
FY ended March 31, 2008	11,745	148	(26,779)	60,965

2. Dividend Status

(Base date)	Dividend per share					Total cash dividends (annual)	Dividend payout ratio (consolidated)	Dividend on equity ratio (consolidated)
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	End of FY	Annual			
	Yen	Yen	Yen	Yen	%	Million yen	%	%
FY ended March 31, 2008	–	30.00	–	50.00	80.00	12,750	3,720.9	7.7
FY ended March 31, 2009	–	30.00	–	–	30.00	4,781	47.2	3.0
FY ending March 31, 2010 (Estimated)	–	5.00	–	12.00	17.00		29.6	

3. Estimation of Business Results for the Fiscal Year Ending March 31, 2010 (April 1, 2009 through March 31, 2010)

(% shown for full year indicate rate of gain or loss compared with the previous FY, while those for the interim period indicate rate of gain or loss compared with the same term in the previous FY)

	Net sales		Operating profit		Recurring profit (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

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

New: — Eliminated: 1 company (SPC Leoplace REIT)

(2) Changes in accounting principles, procedures or reporting methods used in preparation of Financial Statements (changes in important items concerning preparation of Financial Statements)

(i) Changes accompanying revision of accounting standards, etc.: Yes

(ii) Changes other than (1) above: None

(3) Total number of outstanding shares (common stock)

(i) Total number of outstanding shares at term end (including treasury stock)

As of March 31, 2009: 159,543,915 shares, As of March 31, 2008: 159,543,915 shares

(ii) Total treasury stock at term end

As of March 31, 2009: 8,165,714 shares, As of March 31, 2008: 165,059 shares

(Reference) Summary of Non-Consolidated Financial Statements

1. Results of the Fiscal Year Ended March 31, 2009 (April 1, 2008 through March 31, 2009)

(1) Non-consolidated financial results

(Amounts less than one million yen are omitted)

	Net sales		Operating profit		Recurring profit		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY ended March 31, 2009	727,316	9.1	51,381	(27.6)	48,823	(21.0)	9,116	188.1
FY ended March 31, 2008	666,472	6.7	71,007	(5.0)	61,813	(16.7)	3,164	(92.0)

	Net income per share	Diluted net income per share
	Yen	Yen
FY ended March 31, 2009	58.21	—
FY ended March 31, 2008	19.85	—

(2) Non-consolidated financial position

(Amounts less than one million yen are omitted)

	Total assets	Net assets	Equity ratio	Equity per share
	Million yen	Million yen	%	Yen
As of March 31, 2009	469,632	150,053	32.0	991.25
As of March 31, 2008	483,200	160,187	33.2	1,005.07

Reference: Shareholders' equity: As of March 31, 2009: 150,053 million yen, As of March 31, 2008: 160,187 million yen.

2. Estimation of Non-consolidated Business Results for the Fiscal Year Ending March 31, 2010 (April 1, 2009 through March 31, 2010)

(% shown for full year indicate rate of gain or loss compared with the previous FY, while those for the interim period indicate rate of gain or loss compared with the same term in the previous FY)

	Net sales		Operating profit		Recurring profit (loss)		Net income (loss)		Net income per share (loss)
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Six months ending September 30, 2009	312,600	(11.3)	100	(99.7)	(850)	—	(500)	—	(3.30)
FY ending March 31, 2010	694,800	(4.5)	21,200	(58.4)	19,200	(60.4)	8,000	(12.2)	52.85

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 the Company 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)

	March 31, 2009	March 31, 2008
<Assets>		
Current assets		
Cash and cash equivalents	78,375	60,965
Trade receivables and accounts receivable for completed projects	—	15,159
Accounts receivable	6,793	-
Accrued receivables for completed projects	2,678	-
Operating loans	10,043	15,789
Marketable securities	153	14
Real estate for sale	7,560	37,819
Real estate for sale in process	21,266	-
Payout for construction in progress	14,925	11,792
Other inventories	-	750
Raw materials and supplies	597	-
Prepaid expenses	27,671	24,628
Deferred tax assets	8,046	12,085
Other accounts receivable	2,596	28,058
Other	12,778	13,068
Allowance for doubtful accounts	(1,472)	(1,448)
Total	192,015	218,684
Fixed assets		
Tangible assets		
Buildings and structures	112,757	122,984
Accumulated depreciation	(46,227)	(46,427)
Net	66,529	76,556
Land	114,914	116,295
Leased assets	3,989	-
Accumulated depreciation	(491)	-
Net	3,498	-
Construction in progress	2,884	1,901
Other	13,087	13,471
Accumulated depreciation	(9,570)	(9,100)
Net	3,516	4,370
Total	191,343	199,124
Intangible assets		
Other	3,027	622
Total	3,027	622
Investments and other assets		
Investment securities	6,103	9,082
Long-term loans	995	2,399
Long-term accounts receivable	4,563	4,015
Long-term prepaid expenses	61,132	53,356
Deferred tax assets	5,474	3,388
Other	8,123	5,442
Allowance for doubtful accounts	(5,483)	(2,164)
Total	80,909	75,519
Total fixed assets	275,280	275,265
Deferred assets		
Business establishment expenses	4	6
Total	4	6
Total assets	467,300	493,956

(Million yen)

	March 31, 2009	March 31, 2008
<Liabilities>		
Current liabilities		
Accounts payable including payables for completed projects	–	89,523
Accounts payable	3,586	–
Payables for completed projects	59,000	–
Short-term borrowings	17,492	16,221
Bonds due within one year	–	5,094
Lease obligations	792	–
Unpaid expenses	11,187	9,635
Accrued expenses	19	25
Accrued income taxes	13,258	14,308
Advances received	97,945	98,496
Customer advances for projects in progress	14,835	21,752
Allowance for employees' bonuses	3,759	3,243
Allowance for indemnification of completed projects	1,123	1,041
Other	8,429	9,278
Total	231,432	268,621
Long-term liabilities		
Long-term borrowings	22,897	28,395
Lease obligations	3,006	–
Retirement benefit reserves	6,193	5,064
Retirement benefit reserves for directors	1,281	1,592
Reserves for rents due on master lease agreements	–	399
Reserve for loss on apartments vacancies	4,620	–
Long-term lease/guarantee deposits received	50,870	19,727
Other	555	–
Total	89,425	55,179
Total liabilities	320,857	323,800
<Net assets>		
Shareholders' equity		
Share capital	55,640	55,640
Capital surplus	34,104	34,104
Retained earnings	73,412	76,211
Treasury stock	(6,541)	(98)
Total	156,616	165,858
Valuation and translation adjustments		
Net unrealized gains on "other securities"	17	89
Deferred gains or losses on hedges	(7)	–
Translation adjustments	(10,183)	(762)
Total	(10,173)	(672)
Minority interests	–	4,970
Total net assets	146,442	170,155
Total liabilities and net assets	467,300	493,956

2. Consolidated Statements of Operations

(Million yen)

	March 31, 2009 (April 2008–March 2009)	March 31, 2008 (April 2007–March 2008)
Net sales		
Sales from Apartment Construction Subcontracting Division	359,154	327,540
Sales from Leasing Division	334,560	302,731
Sales from Other Division	39,519	42,701
Total	733,235	672,973
Cost of sales		
Cost of sales from Apartment Construction Subcontracting Division	249,563	217,263
Cost of sales from Leasing Division	290,423	253,583
Cost of sales from Other Division	49,847	40,206
Total	589,833	511,053
Gross profits	143,401	161,919
Selling, general and administrative expenses		
Advertising expenses	8,115	8,153
Sales commission expense	3,306	2,998
Transfer to allowance for bad debt	3,518	835
Directors' compensation	555	581
Salary and bonuses	35,242	34,920
Provision for accrued bonuses	2,292	2,219
Provision for retirement bonuses	1,382	1,214
Provision for accrued retirement benefit for directors	140	164
Rent expense	5,398	5,477
Depreciation and amortization	1,939	2,018
Taxes and public charges	3,651	3,915
Other	27,700	28,016
Total	93,244	90,516
Operating profit	50,156	71,402
Non-operating profit		
Interest income	120	246
Dividend income	175	-
Gain on sale of investment securities	-	4
Equity in earnings of affiliates	324	104
Income from cancellation of resort memberships	-	7
Gain from cancellation of contracted work	100	107
Valuation gain on interest-rate swap	-	19
Gain on consumption tax	-	255
Insurance income	-	201
Other	547	655
Total	1,269	1,602
Non-operating expenses		
Interest expenses	1,224	1,462
Other financial expenses	-	851
Commission expense	780	-
Foreign exchange loss	1,876	9,533
Other	758	309
Total	4,640	12,157
Recurring profits	46,785	60,847

(Million yen)

	March 31, 2009 (April 2008–March 2009)	March 31, 2008 (April 2007–March 2008)
Extraordinary income		
Gain on sale of property, plant and equipment	0	4,465
Gain on sale of affiliates' stock	–	560
Reversal of allowance for bad debt	296	144
Reversal of provision for accrued rent on master lease properties	399	–
Total	695	5,170
Extraordinary losses		
Loss on sale of property, plant and equipment	0	120
Loss on disposal of property, plant and equipment	162	142
Loss on devaluation of real estate for sale	2,560	–
Impairment loss	2,807	701
Loss on devaluation of investment securities	3,405	906
Transfer to allowance for bad debt	786	794
Adjustment to advances received	–	47,754
Consumption taxes for previous period	–	594
Provision for accrued warranty obligations on completed projects	–	1,378
Reversal of reserve for loss on apartment vacancies	4,313	–
Payment of retirement benefits for directors	–	1,200
Total	14,035	53,593
Income before income taxes and minority interests	33,446	12,424
Income tax-current	21,502	17,449
Income tax refund	(0)	–
Income taxed-previous period	(0)	1,414
Income taxes-deferred	1,992	(7,039)
Total	23,494	11,824
Minority interests	–	257
Net income	9,951	342

3. Consolidated Statements of Changes in Net Assets

(Million yen)

	March 31, 2009 (April 2008–March 2009)	March 31, 2008 (April 2007–March 2008)
Shareholders' equity:		
Share capital:		
Balance at the previous year-end	55,640	55,640
Change in the fiscal year:		
Total	–	–
Balance at the current year-end	55,640	55,640
Capital surplus:		
Balance at the previous year-end	34,104	34,104
Change in the fiscal year:		
Total	–	–
Balance at the current year-end	34,104	34,104
Retained earnings:		
Balance at the previous year-end	76,211	85,700
Change in the fiscal year:		
Cash dividends	(12,750)	(10,359)
Net income	9,951	342
Increase due to decrease of affiliated companies	–	540
Decrease due to increase of consolidated subsidiaries	–	(11)
Total	(2,798)	(9,488)
Balance at the current year-end	73,412	76,211
Treasury stock, at cost:		
Balance at the previous year-end	(98)	(96)
Change in the fiscal year:		
Purchase of treasury stock	(6,443)	(1)
Total	(6,443)	(1)
Balance at the current year-end	(6,541)	(98)
Total shareholders' equity:		
Balance at the previous year-end	165,858	175,348
Change in the fiscal year:		
Cash dividends	(12,750)	(10,359)
Net income	9,951	342
Increase due to decrease of affiliated companies	–	540
Decrease due to increase of consolidated subsidiaries	–	(11)
Purchase of treasury stock	(6,443)	(1)
Total	(9,241)	(9,490)
Balance at the current year-end	156,616	165,858

(Million yen)

	March 31, 2009 (April 2008–March 2009)	March 31, 2008 (April 2007–March 2008)
Valuation and translation adjustments:		
Net unrealized holding gain on securities:		
Balance at the previous year-end	89	532
Change in the fiscal year:		
Net changes of items other than shareholders' equity	(72)	(442)
Total	(72)	(442)
Balance at the current year-end	17	89
Deferred gains or losses on hedges:		
Balance at the previous year-end	–	–
Change in the fiscal year:		
Net changes in items other than shareholders' equity	(7)	–
Total	(7)	–
Balance at the current year-end	(7)	–
Translation adjustments:		
Balance at the previous year-end	(762)	(7,737)
Change in the fiscal year:		
Net changes of items other than shareholders' equity	(9,420)	6,975
Total	(9,420)	6,975
Balance at the current year-end	(10,183)	(762)
Total valuation and translation adjustments:		
Balance at the previous year-end	(672)	(7,205)
Change in the fiscal year:		
Net changes of items other than shareholders' equity	(9,500)	6,532
Total	(9,500)	6,532
Balance at the current year-end	(10,173)	(672)
Minority interests:		
Balance at the previous year-end	4,970	17,641
Change in the fiscal year:		
Net changes of items other than shareholders' equity	(4,970)	(12,671)
Total	(4,970)	(12,671)
Balance at the current year-end	–	4,970
Total net assets:		
Balance at the previous year-end	170,155	185,784
Change in the fiscal year:		
Cash dividends	(12,750)	(10,359)
Net income	9,951	342
Purchase of treasury stock	(6,443)	(1)
Increase due to decrease of affiliated companies	–	540
Decrease due to increase of consolidated subsidiaries	–	(11)
Net changes of items other than shareholders' equity	(14,470)	(6,138)
Total	(23,712)	(15,629)
Balance at the current year-end	146,442	170,155

4. Consolidated Statements of Cash Flows

(Million yen)

	March 31, 2009 (April 2008–March 2009)	March 31, 2008 (April 2007–March 2008)
Cash flows from operating activities		
Net income before taxes and adjustments	33,446	12,424
Depreciation expenses	5,782	5,163
Increase (decrease) in allowance for doubtful accounts	3,637	590
Increase (decrease) in retirement benefit reserves for directors	(310)	(1,394)
Increase (decrease) in reserve for loss on apartment vacancies	4,620	–
Interest and dividend income	(296)	(338)
Interest expense	1,224	1,462
Foreign exchange loss (gain)	1,876	9,533
Equity in losses (earnings) of affiliated companies	(324)	(104)
Gain on sale of tangible fixed assets	–	(4,465)
Loss on sale of tangible fixed assets	–	120
Loss (gain) on sale of tangible fixed assets	0	–
Write-offs of tangible fixed assets	162	142
Loss on devaluation of real estate for sale	2,560	–
Impairment loss	2,807	701
Gain on sale of affiliates' bonds	–	(560)
Loss (gain) on sale of investment securities	–	(4)
Loss (gain) on devaluation of investment securities	3,405	906
Decrease (increase) in accounts receivable	35,868	(21,745)
Decrease (increase) in real estate for sale	4,941	(11,237)
Decrease (increase) in work in process	(3,133)	(2,973)
Decrease (increase) in long-term prepaid expenses	(10,854)	(12,465)
Increase (decrease) in accounts payable	(26,860)	12,225
Increase (decrease) in customer advances for projects in progress	(6,916)	(1,777)
Increase (decrease) in advances received	(505)	51,804
Increase (decrease) in guarantee deposits received	31,180	10,567
Increase (decrease) in accrued consumption taxes	1,549	(3,155)
Other	2,489	(725)
Subtotal	86,350	44,695
Interest and dividends received	603	367
Interest paid	(1,225)	(1,476)
Income taxes paid	(22,884)	(31,840)
Net cash provided by operating activities	62,843	11,745

(Million yen)

	March 31, 2009 (April 2008–March 2009)	March 31, 2008 (April 2007–March 2008)
Cash flows from investing activities		
Payment for purchase of tangible fixed assets	(5,374)	(6,887)
Proceeds from sale of tangible fixed assets	227	12,144
Fees paid related to sale and disposal of tangible fixed assets	–	(179)
Payment for purchase of intangible assets	(2,443)	–
Payment for purchase of investment securities	(498)	(3,393)
Proceeds from sale of investment securities	79	730
Payment for loans made	(536)	(369)
Proceeds from collection of loans	301	202
Other	(1,803)	(2,101)
Net cash used in (provided by) investing activities	(10,048)	148
Cash flows from financing activities		
Proceeds from short-term debt	29,000	78,610
Repayment of short-term debt	(29,000)	(82,388)
Proceeds from long-term debt	18,000	22,000
Repayment of long-term debt	(22,226)	(17,454)
Repayment of finance lease obligations	(400)	–
Payment for purchase and retirement of bonds	–	(3,100)
Payment for redemption of bonds	(5,094)	(1,126)
Dividends paid for minority shareholders	–	(475)
Payment for redemption of investment in minority interests	(4,970)	(12,484)
Payment for purchases of treasury stock	(6,443)	(1)
Dividends paid for shareholders	(12,750)	(10,359)
Net cash used in financing activities	(33,885)	(26,779)
Effect of exchange rate changes on cash and cash equivalents	(1,498)	(405)
Net increase (decrease) in cash and cash equivalents	17,410	(15,290)
Cash and cash equivalents at beginning of period	60,965	75,166
Cash and cash equivalents of newly consolidated subsidiaries	–	1,089
Cash and cash equivalents at end of period	78,375	60,965

5. Segment Information

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

Fiscal Year Ended March 31, 2008 (April 1, 2007 through March 31, 2008)

(Million yen)

	Apartment Construction Subcontracting Division	Leasing Division	Hotel Resort Division	Other Division	Total	Eliminations/ Unallocated	Consolidated
I. Net sales and operating profit							
(1) Sales to customers	327,540	302,731	6,071	36,629	672,973	-	672,973
(2) Inter-segment sales and transfers	-	22	4,200	-	4,222	(4,222)	-
Total	327,540	302,753	10,271	36,629	677,196	(4,222)	672,973
Operating expenses	254,272	299,717	11,388	35,984	601,363	207	601,570
Operating profit (loss)	73,267	3,036	(1,116)	645	75,833	(4,430)	71,402
II. Assets, depreciation, impairment losses and capital expenditures							
Assets	70,767	213,118	53,444	61,152	398,482	95,473	493,956
Depreciation	550	2,193	1,788	182	4,714	448	5,163
Impairment losses	-	701	-	-	701	-	701
Capital expenditures	575	4,021	652	178	5,428	1,494	6,923

Fiscal Year Ended March 31, 2009 (April 1, 2008 through March 31, 2009)

(Million yen)

	Apartment Construction Subcontracting Division	Leasing Division	Hotel Resort Division	Other Division	Total	Eliminations/ Unallocated	Consolidated
I. Net sales and operating profit							
(1) Sales to customers	359,154	334,560	5,610	33,908	733,235	-	733,235
(2) Inter-segment sales and transfers	-	216	4,605	-	4,821	(4,821)	-
Total	359,154	334,776	10,216	33,908	738,056	(4,821)	733,235
Operating expenses	289,042	336,315	11,021	46,738	683,117	(39)	683,078
Operating profit (loss)	70,112	(1,538)	(805)	(12,829)	54,938	(4,782)	50,156
II. Assets, depreciation, impairment losses and capital expenditures							
Assets	41,899	214,657	43,266	46,575	346,398	120,901	467,300
Depreciation	536	2,863	1,657	305	5,362	419	5,782
Impairment losses	-	2,807	-	-	2,807	-	2,807
Capital expenditures	278	5,379	489	1,452	7,598	4,154	11,753

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 and repairs, companyhousing services
- (3) Hotel Resort Division-----Hotel and resort management, sales of resort club memberships, etc.
- (4) Other Division-----Residential business, broadband business, silver business, financial services (real-estate loans, etc.)

3. Major items and amounts included in "Elimination or Corporate" are as follows.

(Million yen)

	FY ended March 31, 2008	FY ended March 31, 2009	Main component
Operating expenses unable to be allocated in "eliminations/unallocated"	4,534	4,992	Management expenses of the General Affairs Department of the Company submitting the consolidated financial statements.
Amount of corporate assets included in "Elimination or Corporate"	95,473	120,901	Surplus funds under management at submitting company (cash and deposits, marketable securities, etc.), long-term investment funds (investment securities, etc.), and assets related to management operations.