

Consolidated Financial Statements

May 15, 2007

(For the year ended March 31, 2007)

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 28, 2007

Scheduled Date of Commencement of Dividend Payments: June 29, 2007

Scheduled Date of Filing of Securities Report: June 29, 2007

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

(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 (loss)	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY ended March 2007	631,608	35.7	76,007	86.4	73,002	65.3	37,358	-
FY ended March 2006	465,386	(2.3)	40,775	(25.4)	44,151	(17.1)	(16,582)	-

	Net income (loss) per share	Diluted net income (loss) per share	Return on equity	Recurring profit/Total capital	Operating profit/Net sales
	Yen	Yen	%	%	%
FY ended March 2007	234.68	-	24.8	16.8	12.0
FY ended March 2006	(104.17)	-	(11.7)	10.2	8.8

Reference: Equity in earnings of affiliates in FY 2007: -2,320 million yen, FY 2006: 512 million yen.

(2) Consolidated financial position

(Amounts less than one million yen are omitted)

	Total assets	Shareholders' equity	Equity ratio	Equity per share
	Million yen	Million yen	%	Yen
FY ended March 2007	454,819	185,784	37.0	1,054.99
FY ended March 2006	412,803	133,622	32.4	839.44

Reference: Shareholders' equity: FY2007: 168,143 million yen, FY 2006: - million yen

Note: Shareholders' equity for FY 2006 does not include minority interests.

(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 2007	63,308	(15,930)	(17,018)	75,166
FY ended March 2006	56,971	(11,266)	(47,946)	44,612

2. Dividend Status

(Base date)	Dividend per share			Total cash dividends (annual)	Dividend payout ratio (consolidated)	Dividend on equity ratio (consolidated)
	End of interim period	End of FY	Annual			
	Yen	Yen	Yen	Million yen	%	%
FY ended March 2006	0.00	15.00	15.00	2,390	-	1.7
FY ended March 2007	15.00	35.00	50.00	7,968	21.3	5.3
FY ended March 2008 (estimated)	30.00	50.00	80.00	-	29.7	-

3. Estimation of Business Results for the Year Ending March 31, 2008 (April 1, 2007 through March 31, 2008)

(% 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		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
FY 2008 interim	320,200	4.5	29,900	(13.0)	29,000	(9.3)	15,400	(8.6)	96.62
FY ending March 2008	706,700	11.9	82,200	8.1	80,000	9.6	43,000	15.1	269.80

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) 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: Yes

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

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

FY 2007: 159,543,915 shares, FY 2006: 159,543,915 shares

(ii) Total treasury stock at the end of the FY

FY 2007: 164,521 shares, FY 2006: 363,850 shares

(Reference) Summary of Non-Consolidated Financial Statements

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

(1) Non-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 ended March 2007	624,553	36.6	74,745	89.1	74,183	91.4	39,597	-
FY ended March 2006	457,135	(2.6)	39,534	(28.0)	38,752	(25.2)	(33,346)	-

	Net income (loss) per share	Diluted net income (loss) per share
	Yen	Yen
FY ended March 2007	248.45	-
FY ended March 2006	(209.23)	-

(2) Non-consolidated financial position

(Amounts less than one million yen are omitted)

	Total assets	Shareholders' equity	Equity ratio	Equity per share
	Million yen	Million yen	%	Yen
FY ended March 2007	444,020	167,796	37.8	1,052.81
FY ended March 2006	409,721	133,106	32.5	835.15

Reference: Shareholders' equity: FY2007: 167,796 million yen, FY 2006: - million yen

2. Estimation of business results for the year ending March 31, 2008

	Net sales		Operating profit		Recurring profit		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
FY 2008 interim	316,900	4.9	29,200	(12.9)	28,300	(14.6)	15,000	(19.3)	94.12
FY ending March 2008	700,000	12.1	80,600	7.8	78,600	6.0	42,200	6.6	264.78

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)

	FY 2006 (March 31, 2006)	FY 2007 (March 31, 2007)	Increase/decrease
<Assets>			
I Current assets			
Cash and cash equivalents	44,612	75,166	30,554
Trade receivables and accounts receivable for completed projects	8,114	9,594	1,479
Operating loans	10,426	8,501	(1,924)
Marketable securities	155	29	(125)
Real estate for sale/property inventories	7,524	27,765	20,241
Payout for construction in progress	35,249	8,818	(26,430)
Other inventories	638	722	83
Deferred tax assets	10,827	5,076	(5,750)
Prepaid expenses	-	21,819	21,819
Other accounts receivable	22,564	22,075	(489)
Other	24,893	8,273	(16,619)
Allowance for doubtful accounts	(1,487)	(1,289)	197
Total	163,518	186,555	23,036
II Fixed assets			
1. Tangible assets			
(1) Buildings and structures	129,255	124,647	
Accumulated depreciation	45,588	44,021	
Net	83,666	80,626	(3,040)
(2) Land	107,216	118,255	11,038
(3) Construction in progress	1,964	4,397	2,433
(4) Other	13,206	12,129	
Accumulated depreciation	9,540	8,296	
Net	3,665	3,832	167
Total	196,512	207,112	10,599
2. Intangible assets			
	579	569	(10)
3. Investments and other assets			
(1) Investment securities	11,046	7,934	(3,112)
(2) Long-term loans	2,930	2,281	(649)
(3) Deferred tax assets	1,901	3,074	1,172
(4) Long-term receivables	2,835	2,125	(710)
(5) Long-term prepaid expenses	33,035	42,727	9,691
(6) Other	3,349	4,942	1,592
(7) Allowance for doubtful accounts	(3,064)	(2,575)	488
Total	52,035	60,509	8,473
Total fixed assets	249,128	268,190	19,062
III Deferred assets			
1. Business establishment expenses			
	9	-	(9)
2. Bond issuance expenses			
	146	73	(73)
Total	156	73	(83)
Total assets	412,803	454,819	42,016

	FY 2006 (March 31, 2006)	FY 2007 (March 31, 2007)	Increase/decrease
<Liabilities>			
I Current liabilities			
Accounts payable including payables for completed projects	81,231	77,392	(3,839)
Short-term borrowings	20,348	16,518	(3,829)
Bonds due within one year	1,435	1,126	(308)
Unpaid expenses	9,503	13,287	3,783
Accrued expensed	23	30	6
Accrued income taxes	4,423	27,021	22,598
Advances received	37,626	46,744	9,117
Customer advances for projects in progress	42,061	23,529	(18,531)
Allowance for employees' bonuses	2,487	2,798	311
Other	6,534	8,465	1,931
Total	205,674	216,914	11,239
II Long-term liabilities			
Bonds	11,327	8,194	(3,133)
Long-term borrowings	31,402	27,320	(4,082)
Retirement benefit reserves	3,246	4,111	864
Retirement benefit reserves for directors	-	2,986	2,986
Reserves for rents due on leaseback agreements	-	533	533
Lease/guarantee deposits received	9,801	8,974	(827)
Other	76	-	(76)
Total	55,855	52,120	(3,734)
Total liabilities	261,530	269,035	7,505
<Minority interests>			
Minority interests	17,651	-	-
<Shareholders' equity>			
I Share capital	55,640	-	-
II Capital surplus	33,759	-	-
III Retained earnings	53,123	-	-
IV Net unrealized gains on "other securities"	714	-	-
V Translation adjustments	(9,418)	-	-
VI Treasury stock	(197)	-	-
Total shareholders' equity	133,622	-	-
Total liabilities, minority interests and shareholders' equity	412,803	-	-
<Shareholders' equity>			
I Shareholders' equity			
Share capital	-	55,640	-
Capital surplus	-	34,104	-
Retained earnings	-	85,700	-
Treasury stock	-	(96)	-
Total	-	175,348	-
II Valuation and translation adjustments			
Net unrealized gains on "other securities"	-	532	-
Translation adjustments	-	(7,737)	-
Total	-	(7,205)	-
III Minority interests	-	17,641	-
Total shareholders' equity	-	185,784	-
Total liabilities and shareholders' equity	-	454,819	-

Consolidated Statements of Operations

(Million yen)

	FY 2006 (Apr. 2005 - March 2006)	FY 2007 (Apr. 2006 - March 2007)	Increase/decrease
I Net sales			
Sales from Construction Contracting Division	195,202	316,117	
Sales from Leasing Division	249,695	277,163	
Sales from Other Division	20,488	38,328	
Total	465,386	631,608	166,221
II Cost of sales			
Cost of sales from Construction Contracting Division	129,397	209,395	
Cost of sales from Leasing Division	203,664	228,119	
Cost of sales from Other Division	20,866	37,197	
Total	353,928	474,713	120,785
Gross profit	111,458	156,895	45,436
III Selling, general and administrative expenses			
Advertising expenses	8,265	8,564	
Sales commission expense	2,909	3,429	
Transfer to allowance for bad debt	1,653	1,035	
Directors' compensation	425	547	
Salary and bonuses	25,714	30,218	
Provision for accrued bonuses	1,752	1,983	
Provision for retirement bonuses	861	999	
Provision for accrued retirement benefit for directors	-	196	
Rent expense	4,101	4,580	
Depreciation and amortization	1,293	1,246	
Taxes and public charges	2,391	3,455	
Other	21,314	24,628	
Total	70,683	80,887	10,204
Operating profit	40,775	76,007	35,232
IV Non-operating profit			
Interest income	53	50	
Gain on sales of investment securities	125	166	
Equity in earnings of affiliates	512	-	
Income from cancellation of resort memberships	11	19	
Gain from cancellation of contracted work	174	70	
Valuation gain on interest-rate swap	233	122	
Foreign exchange gain	4,780	501	
Other	601	566	
Total	6,493	1,497	(4,996)
V Non-operating expenses			
Interest expenses	2,300	1,332	
Other financial expenses	-	606	
Equity-method investment loss	-	2,320	
Other	815	242	
Total	3,116	4,502	1,385
Recurring profit	44,151	73,002	28,850
VI Extraordinary income			
Gain on sales of property, plant and equipment	13	7	
Gain on sales of affiliates' stock	31	2,514	
Gain on sales of affiliates' bonds	-	1,119	
Reversal of allowance for doubtful receivables	24	83	
Total	68	3,725	3656
VII Extraordinary losses			
Loss on sales of property, plant and equipment	10	16	
Loss on disposal of property, plant and equipment	453	215	
Impairment loss	65,480	3,009	
Loss on devaluation of investment securities	-	210	
Transfer to allowance for bad debt	831	710	
Provision for accrued retirement benefit for directors	-	2,789	
Provision for accrued rents on leaseback properties	-	446	
Other	187	-	
Total	66,963	7,397	(59,565)
Net income (loss) before taxes and adjustments	(22,743)	69,329	92,072
Income taxes	261	26,437	
Income tax rehabilitation	729	-	
Income taxes-deferred	(8,023)	4,662	
Net	(7,032)	31,100	38,132
Minority interests	871	871	(0)
Net income (loss)	(16,582)	37,358	53,940

3. Consolidated Statements of Cash Flows

(Million yen)

	FY 2006 (Apr. 2005 - March 2006)	FY 2007 (Apr. 2006 - March 2007)	Increase/decrease
I Cash flows from operating activities			
Net income (loss) before taxes and adjustments	(22,743)	69,329	
Depreciation expenses	4,565	4,559	
Increase (decrease) in allowance for doubtful accounts	1,737	159	
Increase (decrease) in retirement benefit reserves for directors	-	2,986	
Interest and dividend income	(256)	(136)	
Interest expense	2,518	1,332	
Foreign exchange loss (gain)	(4,780)	(501)	
Equity method loss (income)	(512)	2,320	
Loss on sales of tangible fixed assets	10	16	
Write-offs of tangible fixed assets	453	215	
Impairment loss	65,480	3,009	
Gain on sales of affiliates' stock	(31)	(2,514)	
Gain on sales of affiliates' bonds	-	(1,119)	
Gain on sales of investment securities	(125)	(166)	
Loss on devaluation of investment securities	-	210	
Decrease (increase) in accounts receivable	42,237	914	
Decrease (increase) in inventories	(39,212)	-	
Decrease (increase) in real estate for sales	-	(18,554)	
Decrease (increase) in expenses from uncompleted works	-	26,430	
Decrease (increase) in long-term prepaid expenses	(7,345)	(12,366)	
Increase (decrease) in accounts payable	(10,208)	(2,571)	
Increase (decrease) in amount received for uncompleted works	33,328	(18,531)	
Increase (decrease) in advances received	9,294	9,093	
Increase (decrease) in guarantee deposits received	(1,761)	(780)	
Increase (decrease) in accrued consumption tax	(1,166)	2,923	
Other	699	2,769	
Subtotal	72,181	69,028	(3,153)
Interest and dividends received	228	129	
Interest paid	(2,356)	(1,290)	
Income taxes paid	(13,081)	(4,559)	
Net cash provided by operating activities	56,971	63,308	6,336
II Cash flows from investing activities			
Payment for purchase of tangible fixed assets	(13,193)	(21,830)	
Proceeds from sales of tangible fixed assets	914	8	
Fees paid related to sale and disposal of tangible fixed assets	(34)	(119)	
Payment for purchase of affiliates' stock	-	(1,100)	
Proceeds from sales of affiliates' stock	-	4,109	
Proceeds from sales of affiliates' bonds	-	2,880	
Payment for purchase of investment securities	(2,827)	(792)	
Proceeds from sales of investment securities	2,835	1,000	
Payment for loans made	(1,381)	(1,378)	
Proceeds from collection of loans	2,843	3,646	
Other	(422)	(2,355)	
Net cash used in investing activities	(11,266)	(15,930)	(4,663)
III Cash flows from financing activities			
Proceeds from short-term debt	17,750	34,190	
Repayment of short-term debt	(28,564)	(32,454)	
Proceeds from long-term debt	10,680	13,000	
Repayment of long-term debt	(42,703)	(22,655)	
Proceeds from issuance of privately placed bonds	13,259	-	
Payment for purchase depreciation of privately placed bonds	(13,667)	(2,006)	
Payment for redemptions of privately placed bonds	(1,435)	(1,435)	
Dividends paid to minority shareholders	(873)	(873)	
Payment for purchase of treasury stock	(1)	(2)	
Dividends paid for shareholders	(2,390)	(4,781)	
Net cash used in financing activities	(47,946)	(17,018)	30,927
IV Effect of exchange rate changes on cash and cash equivalents	0	195	194
V Net increase (decrease) in cash and cash equivalents	(2,240)	30,554	32,794
VI Cash and cash equivalents at beginning of period	46,852	44,612	(2,240)
VII Cash and cash equivalents at end of period	44,612	75,166	30,554

4. Segment Information

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

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
I. Net sales and operating profit (loss)							
(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
II. Assets, Depreciation, Impairment losses and Capital expenditures							
Assets	76,486	183,930	59,393	20,461	340,272	72,531	412,803
Depreciation	429	1,977	1,902	69	4,378	186	4,565
Impairment losses	-	16,970	47,131	-	64,102	1,377	65,480
Capital expenditures	134	11,231	1,704	20	13,091	136	13,228

FY 2007 (April 1, 2006 through March, 2007)

(Million yen)

	Apartment Construction Subcontracting Division	Leasing Division	Hotel Resort Division	Other Division	Total	Eliminations/ Unallocated	Consolidated
I. Net sales and operating profit (loss)							
(1) Sales to customers	316,117	277,163	7,140	31,187	631,608	-	631,608
(2) Intra-group sales and transfers	-	2	3,701	-	3,704	(3,704)	-
Total	316,117	277,166	10,842	31,187	635,313	(3,704)	631,608
Operating expenses	241,502	270,134	13,471	30,095	555,204	396	555,601
Operating profit (loss)	74,614	7,031	(2,628)	1,091	80,108	(4,101)	76,007
II. Assets, Depreciation, Impairment losses and Capital expenditures							
Assets	51,339	207,580	55,868	40,424	355,213	99,606	454,819
Depreciation	387	1,999	1,889	76	4,353	206	4,559
Impairment losses	-	3,009	-	-	3,009	-	3,009
Capital expenditures	241	5,064	932	228	6,466	15,385	21,851

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
- (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

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

(Million yen)

	FY 2006	FY 2007	Main component
Operating expenses unable to be allocated included in "eliminations/unallocated"	3,695	4,101	Management expenses of the General Affairs Department of the Company submitting the consolidated financial statements.
Amount of corporate assets included in "Elimination or Corporate"	72,531	99,606	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.