

Consolidated Financial Statements

(Six months ended September 30, 2007)

November 22, 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

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Scheduled Date of Filing of Half Year Report: December 14, 2007

Scheduled Date of Commencement of Dividend Payments: December 7, 2007

1. Results of FY 2008 Interim (April 1, 2007 through September 30, 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 interim period)

	Net sales		Operating profit		Recurring profit		Net income (loss)	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY 2008 interim	317,108	3.5	30,644	(10.8)	29,178	(8.7)	(11,848)	-
FY 2007 interim	306,360	33.0	34,372	68.7	31,961	44.1	16,843	-
FY 2007	631,608	-	76,007	-	73,002	-	37,358	-

	Net income (loss) per share	Diluted net income (loss) per share
	Yen	Yen
FY 2008 interim	(74.34)	-
FY 2007 interim	105.82	-
FY 2007	234.68	-

Reference: Equity in earnings of affiliates in FY 2008 interim: 98 million yen, FY2007 interim: (2,087) million yen, FY 2007: (2,320) 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 2008 interim	470,755	163,755	32.8	967.49
FY 2007 interim	398,693	166,222	37.2	932.03
FY 2007	454,819	185,784	37.0	1,054.99

Reference: Shareholders' equity: FY 2008 interim: 154,198 million yen, FY2007 interim: 148,360 million yen, FY2007: 168,143 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 2008 interim	(26,533)	4,444	8,909	63,104
FY 2007 interim	23,104	(14,582)	(8,475)	44,685
FY 2007	63,308	(15,930)	(17,018)	75,166

2. Dividend Status

	Dividend per share			
	(Base date)	End of interim period	End of FY	Annual
		Yen	Yen	Yen
FY 2007		15.00	35.00	50.00
FY 2008 (actual)		30.00	-	80.00
FY 2008 (forecast)		-	50.00	

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

(% shown for full year indicate rate of gain or loss compared with 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	706,700	11.9	82,200	8.1	80,000	9.6	16,500	(55.8)	103.53

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
Newly applied: None Excluded: None
- (2) Changes in accounting principles, procedures or reporting methods used in preparation of Interim Financial Statements (changes in important items concerning preparation of Interim Financial Statements)
(i) Changes accompanying revision of accounting standards, etc.: Yes
(ii) Changes other than (i) 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 2008 interim: 159,543,915 shares, FY2007 interim: 159,543,915 shares, FY 2007: 159,543,915 shares
(ii) Total treasury stock at the end of the FY
FY 2008 interim: 164,624 shares, FY2007 interim: 364,291 shares, FY 2007: 164,521 shares

(Reference) Summary of Non-Consolidated Financial Statements

1. Results of FY 2008 Interim (April 1, 2007 through September 30, 2007)

- (1) Non-consolidated financial results (Amounts less than one million yen are omitted)
(% shown indicate rate of gain or loss compared with the previous FY interim period)

	Net sales		Operating profit		Recurring profit		Net income (loss)	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY 2008 interim	313,746	3.8	29,921	(10.7)	28,896	(12.8)	(11,790)	-
FY 2007 interim	302,216	33.5	33,510	71.0	33,126	75.0	18,593	-
FY 2007	624,553	-	74,745	-	74,183	-	39,597	-

	Net income (loss) per share
	Yen
FY 2008 interim	(73.98)
FY 2007 interim	116.66
FY 2007	248.45

- (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 2008 interim	461,084	150,287	32.6	942.96
FY 2007 interim	396,995	149,139	37.6	935.75
FY 2007	444,020	167,796	37.8	1,052.81

Reference: Shareholders' equity: FY 2007 interim: 150,287 million yen, FY2006 interim: 149,139 million yen, FY2007: 167,796 million yen

2. Estimation of Business Results for FY 2008 (April 1, 2007 through March 31, 2008)

(% shown for full year indicate rate of gain or loss compared with 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	700,000	12.1	80,600	7.8	78,600	6.0	16,700	(57.8)	104.78

Note: The above forecasts are based on information available to management on the day of the announcement. These statements involve a variety of uncertainties including assumptions about future economic conditions and exchange rate fluctuations, and as a result actual performance may differ materially from these forecasts.

1. Consolidated Balance Sheets

(Million yen)

	FY 2007 interim (Sep. 30, 2006)	FY 2008 interim (Sep. 30, 2007)	FY 2007 (Mar. 31, 2007)
<Assets>			
I Current assets			
Cash and cash equivalents	44,685	63,104	75,166
Trade receivables and accounts receivable for completed projects	5,855	9,381	9,594
Operating loans	9,394	11,903	8,501
Real estate for sale/property inventories	13,528	37,850	27,765
Payout for construction in progress	9,525	10,242	8,818
Other inventories	915	676	722
Deferred tax assets	20,391	22,248	21,819
Prepaid expenses	3,443	13,634	5,076
Other accounts receivable	19,878	23,008	22,075
Other	7,322	8,868	8,303
Allowance for doubtful accounts	(1,383)	(1,131)	(1,289)
Total	133,558	199,787	186,555
II Fixed assets			
1. Tangible assets			
(1) Buildings and structures	130,226	126,813	124,647
Accumulated depreciation	47,721	46,125	44,021
Net	82,504	80,687	80,626
(2) Land	119,645	115,446	118,255
(3) Construction in progress	3,628	1,081	4,397
(4) Other	13,441	13,709	12,129
Accumulated depreciation	9,723	9,030	8,296
Net	3,718	4,678	3,832
Total	209,497	201,893	207,112
2. Intangible assets	578	589	569
3. Investments and other assets			
(1) Long-term prepaid expenses	38,212	47,816	42,727
(2) Long-term receivables	3,251	1,968	2,125
(3) Deferred tax assets	4,395	2,717	3,074
(4) Other	12,796	18,370	15,157
(5) Allowance for doubtful accounts	(3,712)	(2,432)	(2,575)
Total	54,943	68,441	60,509
Total fixed assets	265,019	270,924	268,190
III Deferred assets			
1. Business establishment expenses	4	7	-
2. Bond issuance expenses	110	36	73
Total	115	43	73
Total assets	398,693	470,755	454,819

	FY 2007 interim (Sep. 30, 2006)	FY 2008 interim (Sep. 30, 2007)	FY 2007 (Mar. 31, 2007)
<Liabilities>			
I Current liabilities			
Accounts payable including payables for completed projects	68,346	82,331	77,392
Short-term borrowings	24,783	38,314	16,518
Bonds due within one year	1,435	8,757	1,126
Accrued income taxes	8,089	3,329	27,021
Advances received	34,674	86,036	46,744
Customer advances for projects in progress	29,341	22,171	23,529
Allowance for employees' bonuses	2,730	3,105	2,798
Allowance for indemnification of completed projects	-	1,299	-
Other	17,628	17,164	21,783
Total	187,029	262,508	216,914
II Long-term liabilities			
Bonds	10,610	-	8,194
Long-term borrowings	21,827	28,785	27,320
Retirement benefit reserves	3,665	4,563	4,111
Retirement benefit reserves for directors	-	1,514	2,986
Reserves for rents due on leaseback agreements	-	390	533
Lease/guarantee deposits received	9,259	9,238	8,974
Other	78	-	-
Total	45,441	44,491	52,120
Total liabilities	232,470	307,000	269,035
<Shareholders' equity>			
I Shareholders' equity			
Share capital	55,640	55,640	55,640
Capital surplus	33,759	34,104	34,104
Retained earnings	67,576	68,801	85,700
Treasury stock	(199)	(96)	(96)
Total	156,777	158,450	175,348
II Valuation and translation adjustments			
Net unrealized gains on other securities	486	392	532
Translation adjustments	(8,903)	(4,644)	(7,737)
Total	(8,416)	(4,252)	(7,205)
III Minority interests			
	17,862	9,556	17,641
Total shareholders' equity	166,222	163,755	185,784
Total liabilities and shareholders' equity	398,693	470,755	454,819

2. Consolidated Statements of Operations

(Million yen)

	FY 2007 interim (Apr. 2006 - Sep. 2006)	FY 2008 interim (Apr. 2007 - Sep. 2007)	FY 2007 (Apr. 2006 - Mar. 2007)
I Net sales	306,369	317,108	631,608
II Cost of sales	232,760	241,977	474,713
Gross profit	73,600	75,131	156,895
III Selling, general and administrative expenses			
Advertising expenses	4,159	3,950	8,564
Sales commission expense	1,267	999	3,429
Transfer to allowance for bad debt	819	318	1,035
Directors' compensation	203	244	547
Salary and bonuses	13,743	16,155	30,218
Provision for accrued bonuses	1,921	2,192	1,983
Provision for retirement bonuses	499	587	999
Provision for accrued retirement benefit for directors	-	86	196
Rent expense	2,251	2,709	4,580
Depreciation and amortization	588	927	1,246
Taxes and public charges	1,776	1,803	3,455
Other	11,996	14,510	24,628
Total	39,227	44,486	80,887
Operating profit	34,372	30,644	76,007
IV Non-operating profit			
Equity in earnings of affiliates	-	98	-
Gain from cancellation of contracted work	43	51	70
Valuation gain on interest-rate swap	64	19	122
Foreign exchange gain	298	-	501
Gain on consumption tax	-	255	-
Insurance income	-	201	-
Other	338	432	802
Total	745	1,057	1,497
V Non-operating expenses			
Interest expenses	681	709	1,332
Other financial expenses	-	379	606
Equity-method investment loss	2,087	-	2,320
Foreign exchange loss	-	1,273	-
Other	387	162	242
Total	3,157	2,524	4,502
Recurring profit	31,961	29,178	73,002
VI Extraordinary income			
Gain on sales of property, plant and equipment	6	4,464	7
Gain on sales of investment securities	-	560	-
Gain on sales of affiliates' stock	-	-	2,514
Gain on sales of affiliates' bonds	1,067	-	1,119
Reversal of allowance for doubtful receivables	104	120	83
Total	1,178	5,145	3,725
VII Extraordinary losses			
Loss on sales of property, plant and equipment	-	120	16
Loss on disposal of property, plant and equipment	162	44	215
Impairment loss	1,944	158	3,009
Loss on devaluation of investment securities	-	-	210
Transfer to allowance for bad debt	561	27	710
Advances received adjustment	-	47,754	-
Provision for accrued retirement benefit for directors	-	-	2,789
Provision for accrued rents on leaseback properties	-	-	446
Provision for allowance for indemnification of completed projects	-	1,378	-
Retirement benefits for directors	-	1,200	-
Other	10	-	-
Total	2,678	50,684	7,397
Net income (loss) before taxes and adjustments	30,461	(16,360)	69,329
Income taxes	7,698	3,468	26,437
Income taxes-deferred	5,483	(8,105)	4,662
Net	13,182	(4,637)	31,100
Minority interests	435	124	871
Net income (loss)	16,843	(11,848)	37,358

3. Consolidated Statements of Changes in Shareholders' Equity

FY 2007 Interim (April 1, 2006 through September 30, 2006)

(Million yen)

	Shareholders' equity					Valuation and translation adjustments			Minority interests	Total shareholders' equity
	Share capital	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on other securities	Translation adjustments	Total valuation and translation adjustments		
Balance as of March 31, 2006	55,640	33,759	53,123	(197)	142,325	714	(9,418)	(8,703)	17,651	151,273
Changes of items during the interim period										
Dividends from retained earnings (Note)			(2,390)		(2,390)					(2,390)
Interim net income			16,843		16,843					16,843
Purchases of treasury stock				(1)	(1)					(1)
Net changes of items other than shareholders' equity						(227)	515	287	210	498
Total changes during the interim period	-	-	14,453	(1)	14,451	(227)	515	287	210	14,949
Balance as of September 30, 2006	55,640	33,759	67,576	(199)	156,777	486	(8,903)	(8,416)	17,862	166,222

Note: These items for appropriation of earnings were approved at the ordinary general meeting of shareholders held in June 2006.

FY 2008 Interim (April 1, 2007 through September 30, 2007)

(Million yen)

	Shareholders' equity					Valuation and translation adjustments			Minority interests	Total shareholders' equity
	Share capital	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on other securities	Translation adjustments	Total valuation and translation adjustments		
Balance as of March 31, 2006	55,640	34,104	85,700	(96)	175,348	532	(7,737)	(7,205)	17,641	185,784
Changes of items during the interim period										
Dividends from retained earnings			(5,578)		(5,578)					(5,578)
Interim net loss			(11,848)		(11,848)					(11,848)
Purchases of treasury stock				(0)	(0)					(0)
Increase due to change in number of affiliates accounted for by the equity method			540		540					540
Decrease due to change in number of consolidated subsidiaries			(11)		(11)					(11)
Net changes of items other than shareholders' equity						(139)	3,093	2,953	(8,084)	(5,130)
Total changes during the interim period	-	-	(16,898)	(0)	(16,898)	(139)	3,093	2,953	(8,084)	(22,029)
Balance as of September 30, 2007	55,640	34,104	68,801	(96)	158,450	392	(4,644)	(4,252)	9,556	163,755

	Shareholders' equity					Valuation and translation adjustments			Minority interests	Total shareholders' equity
	Share capital	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on other securities	Translation adjustments	Total valuation and translation adjustments		
Balance as of March 31, 2006	55,640	33,759	53,123	(197)	142,325	714	(9,418)	(8,703)	17,651	151,273
Changes during the fiscal year										
Dividends from appropriation of earnings			(2,390)		(2,390)					(2,390)
Dividends from surplus			(2,390)		(2,390)					(2,390)
Net income			37,358		37,358					37,358
Acquisition of treasury stock				(2)	(2)					(2)
Disposal of treasury stock		345		104	449					449
Net changes of items other than shareholders' equity						(182)	1,680	1,497	(9)	1,488
Total changes during the fiscal year	-	345	32,576	101	33,023	(182)	1,680	1,497	(9)	34,511
Balance as of March 31, 2007	55,640	34,104	85,700	(96)	175,348	532	(7,737)	(7,205)	17,641	185,784

4. Consolidated Statements of Cash Flows

(Million yen)

	FY 2007 interim (Apr. 2006 - Sep. 2006)	FY 2008 interim (Apr. 2007 - Sep. 2007)	FY 2007 (Apr.1 2006 - Mar. 2007)
I Cash flows from operating activities			
Net income (loss) before taxes and adjustments	30,461	(16,360)	69,329
Depreciation expenses	2,287	2,493	4,559
Increase (decrease) in allowance for doubtful accounts	539	(302)	159
Increase (decrease) in retirement benefit reserves for directors	-	(1,472)	2,986
Interest expense	681	709	1,332
Foreign exchange loss (gain)	(298)	1,273	(501)
Equity method loss (income)	2,087	(98)	2,320
Gain on sales of tangible fixed assets	-	(4,464)	-
Loss on sales of tangible fixed assets	-	120	16
Write-offs of tangible fixed assets	162	44	215
Impairment loss	1,944	158	3,009
Gain on sales of affiliates' stock	-	-	(2,514)
Gain on sales of affiliates' bonds	(1,067)	-	(1,119)
Gain on sales of investment securities	(74)	(4)	(166)
Gain on sales of investment securities	-	(560)	-
Loss on devaluation of investment securities	-	-	210
Decrease (increase) in accounts receivable	6,101	(3,842)	914
Decrease (increase) in inventories	19,446	-	-
Decrease (increase) in real estate for sales	-	(10,084)	(18,554)
Decrease (increase) in expenses from uncompleted works	-	(1,424)	26,430
Decrease (increase) in long-term prepaid expenses	(6,277)	(5,108)	(12,366)
Increase (decrease) in accounts payable	(12,960)	4,655	(2,571)
Increase (decrease) in amount received for uncompleted works	(12,719)	(1,358)	(18,531)
Increase (decrease) in advances received	(3,053)	39,383	9,093
Increase (decrease) in guarantee deposits received	(519)	38	(780)
Increase (decrease) in accrued consumption tax	1,842	(2,549)	2,923
Other	(530)	151	2,633
Subtotal	28,052	1,398	69,028
Interest and dividends received	67	154	129
Interest paid	(659)	(712)	(1,290)
Income taxes paid	(4,355)	(27,373)	(4,559)
Net cash provided by (used in) operating activities	23,104	(26,533)	63,308
II Cash flows from investing activities			
Payment for purchase of tangible fixed assets	(16,948)	(3,514)	(21,830)
Proceeds from sales of tangible fixed assets	7	12,143	8
Payment for purchase of affiliates' stock	-	-	(1,100)
Proceeds from sales of affiliates' stock following change in scope of consolidation	-	-	4,109
Proceeds from sales of affiliates' bonds	2,880	-	2,880
Payment for purchase of investment securities	(383)	(3,283)	(792)
Proceeds from sales of investment securities	437	215	1,000
Payment for loans made	(927)	(197)	(1,378)
Proceeds from collection of loans	1,372	2	3,646
Other	(1,021)	(922)	(2,475)
Net cash provided by (used in) investing activities	(14,582)	4,444	(15,930)
III Cash flows from financing activities			
Proceeds from short-term debt	21,200	46,610	34,190
Repayment of short-term debt	(20,372)	(29,432)	(32,454)
Proceeds from long-term debt	-	12,500	13,000
Repayment of long-term debt	(5,968)	(6,417)	(22,655)
Payment for purchase depreciation of privately placed bonds	-	-	(2,006)
Payment for redemptions of privately placed bonds	(717)	(563)	(1,435)
Dividends paid to minority shareholders	(225)	(225)	(873)
Payment for redemptions of investment in minority shareholders	-	(7,984)	-
Payment for purchase of treasury stock	(1)	(0)	(2)
Dividends paid for shareholders	(2,390)	(5,578)	(4,781)
Net cash provided by (used in) financing activities	(8,475)	8,909	(17,018)
IV Effect of exchange rate changes on cash and cash equivalents	26	27	195
V Net increase (decrease) in cash and cash equivalents	73	(13,151)	30,554
VI Cash and cash equivalents at beginning of period	44,612	75,166	44,612
VII Increase in cash and cash equivalents from newly consolidated subsidiaries	-	1,089	-
VIII Cash and cash equivalents at end of period	44,685	63,104	75,166

5. Segment Information

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

FY 2007 interim (April 1, 2006 through September 30, 2006)

(Million yen)

	Apartment Construction Subcontracting Division	Leasing Division	Hotel Resort Division	Other Division	Total	Eliminations/ Unallocated	Consolidated
Net sales and operating profit (loss)							
(1) Sales to customers	160,210	130,565	4,187	11,398	306,360	-	306,360
(2) Inter-segment sales and transfers	-	1	2,009	-	2,010	(2,010)	-
Total	160,210	130,566	6,196	11,398	308,371	(2,010)	306,360
Operating expenses	122,861	130,315	7,170	11,421	271,768	219	271,988
Operating profit (loss)	37,349	251	(974)	(22)	36,603	(2,230)	34,372

FY 2008 interim (April 1, 2007 through September 30, 2007)

(Million yen)

	Apartment Construction Subcontracting Division	Leasing Division	Hotel Resort Division	Other Division	Total	Eliminations/ Unallocated	Consolidated
Net sales and operating profit (loss)							
(1) Sales to customers	156,889	144,284	3,332	12,602	317,108	-	317,108
(2) Inter-segment sales and transfers	-	8	2,071	-	2,079	(2,079)	-
Total	156,889	144,293	5,403	12,602	319,188	(2,079)	317,108
Operating expenses	121,533	145,857	5,457	13,269	286,117	345	286,463
Operating profit (loss)	35,356	(1,563)	(54)	(667)	33,070	(2,425)	30,644

FY 2007 (April 1, 2006 through March 31, 2007)

(Million yen)

	Apartment Construction Subcontracting Division	Leasing Division	Hotel Resort Division	Other Division	Total	Eliminations/ Unallocated	Consolidated
Net sales and operating profit (loss)							
(1) Sales to customers	316,117	277,163	7,140	31,187	631,608	-	631,608
(2) Inter-segment 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

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, company housing 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. That portion of operating expenses that involves write-offs and unallocatable expenses in the "eliminations/unallocated" category are accounted for as follows

(Million yen)

	FY 2007 interim	FY 2008 interim	FY 2007	Main component
Operating expenses unable to be allocated included in "eliminations/unallocated"	2,230	2,431	4,101	Management expenses of the General Affairs Department of the Company submitting the consolidated financial statements.