

Consolidated Financial Statements

May 15, 2008

(For the year ended March 31, 2008)

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 27, 2008

Scheduled Date of Commencement of Dividend Payments: June 30, 2008

Scheduled Date of Filing of Securities Report: June 30, 2008

1. Results of FY 2008 (April 1, 2007 through March 31, 2008)

(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 2008	672,973	6.5	71,402	(6.1)	60,847	(16.7)	342	(99.1)
FY ended March 2007	631,608	35.7	76,007	86.4	73,002	65.3	37,358	-

	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 2008	2.15	-	0.2	12.8	10.6
FY ended March 2007	234.68	-	24.8	16.8	12.0

Reference: Equity in earnings of affiliates in FY 2008: 104 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 ended March 2008	493,956	170,155	33.4	1,036.43
FY ended March 2007	454,819	185,784	37.0	1,054.99

Reference: Shareholders' equity: FY2008: 165,185 million yen, FY 2007: 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 ended March 2008	11,745	148	(26,779)	60,965
FY ended March 2007	63,308	(15,930)	(17,018)	75,166

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			
FY ended March 2007	Yen 15.00	Yen 35.00	Yen 50.00	Million yen 7,968	% 21.3	% 5.3
FY ended March 2008	30.00	50.00	80.00	12,750	3,720.9	7.7
FY ended March 2009 (estimated)	30.00	30.00	60.00	-	29.1	-

3. Estimation of Business Results for the Year Ending March 31, 2009 (April 1, 2008 through March 31, 2009)

(% 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 2009 interim	355,500	12.1	28,000	(8.6)	26,900	(7.8)	10,100	-	63.37
FY ending March 2009	765,000	13.7	72,100	1.0	70,000	15.0	32,900	-	206.43

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 2008: 159,543,915 shares, FY 2007: 159,543,915 shares

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

FY 2008: 165,059 shares, FY 2007: 164,521 shares

(Reference) Summary of Non-Consolidated Financial Statements

1. Results of FY 2008 (April 1, 2007 through March 31, 2008)

(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 2008	666,472	6.7	71,007	(5.0)	61,813	(16.7)	3,164	(92.0)
FY ended March 2007	624,553	36.6	74,745	89.1	74,183	91.4	39,597	-

	Net income per share	Diluted net income per share
	Yen	Yen
FY ended March 2008	19.85	-
FY ended March 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 ended March 2008	483,200	160,187	33.2	1,005.07
FY ended March 2007	444,020	167,796	37.8	1,052.81

Reference: Shareholders' equity: FY 2008: 160,187 million yen, FY 2007: 167,796 million yen

2. Estimation of Business Results for the Year Ending March 31, 2009

(% 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 2009 interim	351,600	12.1	27,700	(7.4)	26,700	(7.6)	10,000	-	62.74
FY ending March 2009	758,200	13.8	71,500	0.7	69,500	12.4	32,000	911.3	200.78

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 2007 (March 31, 2007)	FY 2008 (March 31, 2008)	Increase (decrease)
<Assets>			
I Current assets			
Cash and cash equivalents	75,166	60,965	(14,201)
Trade receivables and accounts receivable for completed projects	9,594	15,159	5,564
Operating loans	8,501	15,789	7,287
Marketable securities	29	14	(14)
Real estate for sale/property inventories	27,765	37,819	10,053
Payout for construction in progress	8,818	11,792	2,973
Other inventories	722	750	28
Prepaid expenses	21,819	24,628	2,809
Deferred tax assets	5,076	12,085	7,008
Other accounts receivable	22,075	28,058	5,983
Other	8,273	13,068	4,794
Allowance for doubtful accounts	(1,289)	(1,448)	(158)
Total	186,555	218,684	32,128
II Fixed assets			
1. Tangible assets			
(1) Buildings and structures	124,647	122,984	
Accumulated depreciation	44,021	46,427	
Net	80,626	76,556	(4,069)
(2) Land	118,255	116,295	(1,959)
(3) Construction in progress	4,397	1,901	(2,496)
(4) Other	12,129	13,471	
Accumulated depreciation	8,296	9,100	
Net	3,832	4,370	537
Total	207,112	199,124	(7,987)
2. Intangible assets	569	622	52
3. Investments and other assets			
(1) Investment securities	7,934	9,082	1,147
(2) Long-term loans	2,281	2,399	118
(3) Deferred tax assets	3,074	3,388	314
(4) Long-term accounts receivables	2,125	4,015	1,890
(5) Long-term prepaid expenses	42,727	53,356	10,628
(6) Other	4,942	5,442	499
(7) Allowance for doubtful accounts	(2,575)	(2,164)	410
Total	60,509	75,519	15,010
Total fixed assets	268,190	275,265	7,074
III Deferred assets			
1. Business establishment expenses	-	6	6
2. Bond issuance expenses	73	-	(73)
Total	73	6	(67)
Total assets	454,819	493,956	39,136

	FY 2007 (March 31, 2007)	FY 2008 (March 31, 2008)	Increase/ decrease
<Liabilities>			
I Current liabilities			
Accounts payable including payables for completed projects	77,392	89,523	12,131
Short-term borrowings	16,518	16,221	(297)
Bonds due within one year	1,126	5,094	3,968
Unpaid expenses	13,287	9,635	(3,652)
Accrued expenses	30	25	(4)
Accrued income taxes	27,021	14,308	(12,713)
Advances received	46,744	98,496	51,752
Customer advances for projects in progress	23,529	21,752	(1,777)
Allowance for employees' bonuses	2,798	3,243	444
Allowance for indemnification of completed projects	-	1,041	1,041
Other	8,465	9,278	813
Total	216,914	268,621	51,707
II Long-term liabilities			
Bonds	8,194	-	(8,194)
Long-term borrowings	27,320	28,395	1,074
Retirement benefit reserves	4,111	5,064	953
Retirement benefit reserves for directors	2,986	1,592	(1,394)
Reserves for rents due on leaseback agreements	533	399	(134)
Lease/guarantee deposits received	8,974	19,727	10,752
Total	52,120	55,179	3,058
Total Liabilities	269,035	323,800	54,765
<Shareholders' equity>			
I Shareholders' equity			
Share capital	55,640	55,640	-
Capital surplus	34,104	34,104	-
Retained earnings	85,700	76,211	(9,488)
Treasury stock	(96)	(98)	(1)
Total	175,348	165,858	(9,490)
II Valuation and translation adjustments			
Net unrealized gains on "other securities"	532	89	(442)
Translation adjustments	(7,737)	(762)	6,975
Total	(7,205)	(672)	6,532
III Minority interests			
	17,641	4,970	(12,671)
Total shareholders' equity	185,784	170,155	(15,629)
Total liabilities and shareholders' equity	454,819	493,956	39,136

2. Consolidated Statements of Income

(Million yen)

	FY 2007 (April 2006– March 2007)	FY 2008 (April 2007– March 2008)	Increase (decrease)
I Net sales			
Sales from Apartment Construction Subcontracting Division	316,117	327,540	
Sales from Leasing Division	277,163	302,731	
Sales from Other Division	38,328	42,701	
Total	631,608	672,973	41,364
II Cost of sales			
Cost of sales from Apartment Construction Subcontracting Division	209,395	217,263	
Cost of sales from Leasing Division	228,119	253,583	
Cost of sales from Other Division	37,197	40,206	
Total	474,713	511,053	36,340
Gross profit	156,895	161,919	5,024
III Selling, general and administrative expenses			
Advertising expenses	8,564	8,153	
Sales commission expense	3,429	2,998	
Transfer to allowance for bad debt	1,035	835	
Directors' compensation	547	581	
Salary and bonuses	30,218	34,920	
Provision for accrued bonuses	1,983	2,219	
Provision for retirement bonuses	999	1,214	
Provision for accrued retirement benefit for directors	196	164	
Rent expense	4,580	5,477	
Depreciation and amortization	1,246	2,018	
Taxes and public charges	3,455	3,915	
Other	24,628	28,016	
Total	80,887	90,516	9,629
Operating profit	76,007	71,402	(4,604)
IV Non-operating profit			
Interest income	50	246	
Gain on sales of investment securities	166	4	
Equity in earnings of affiliates	-	104	
Income from cancellation of resort memberships	19	7	
Gain from cancellation of contracted work	70	107	
Valuation gain on interest-rate swap	122	19	
Foreign exchange gain	501	-	
Gain on consumption tax	-	255	
Insurance income	-	201	
Other	566	655	
Total	1,497	1,602	105
V Non-operating expenses			
Interest expenses	1,332	1,462	
Other financial expenses	606	851	
Equity-method investment loss	2,320	-	
Foreign exchange loss	-	9,533	
Other	242	309	
Total	4,502	12,157	7,655
Recurring profit	73,002	60,847	(12,154)

VI Extraordinary income			
Gain on sales of property, plant and equipment	7	4,465	
Gain on sales of affiliates' stock	2,514	-	
Gain on sales of affiliates' bonds	1,119	560	
Reversal of allowance for doubtful receivables	83	144	
Total	3,725	5,170	1,445
VII Extraordinary losses			
Loss on sales of property, plant and equipment	16	120	
Loss on disposal of property, plant and equipment	215	142	
Impairment loss	3,009	701	
Loss on devaluation of investment securities	210	906	
Transfer to allowance for bad debt	710	794	
Advances received adjustment	-	47,754	
Consumption taxes from previous fiscal year	-	594	
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	
Total	7,397	53,593	46,195
Net income before taxes and adjustments	69,329	12,424	(56,905)
Income taxes	26,437	17,449	
Income tax rehabilitation	-	1,414	
Income taxes-deferred	4,662	(7,039)	
Total	31,100	11,824	(19,275)
Minority interests	871	257	(614)
Net income	37,358	342	(37,015)

3. Consolidated Statements of Changes in Shareholders' Equity

FY 2007 (April 1, 2006 through March 31, 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	33,759	53,123	(197)	142,325	714	(9,418)	(8,703)	17,651	151,273
Changes of items 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

FY 2008 (April 1, 2007 through March 31, 2008)

(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, 2007	55,640	34,104	85,700	(96)	175,348	532	(7,737)	(7,205)	17,641	185,784
Changes of items during the fiscal year										
Dividends from retained earnings			(10,359)		(10,359)					(10,359)
Net income			342		342					342
Acquisition of treasury stock				(1)	(1)					(1)
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						(442)	6,975	6,532	(12,671)	(6,138)
Total changes during the fiscal year	-	-	(9,488)	(1)	(9,490)	(442)	6,975	6,532	(12,671)	(15,629)
Balance as of March 31, 2008	55,640	34,104	76,211	(98)	165,858	89	(762)	(672)	4,970	170,155

4. Consolidated Statements of Cash Flows

(Million yen)

	FY 2007 (April 2006– March 2007)	FY 2008 (April 2007– March 2008)	Increase (decrease)
I Cash flows from operating activities			
Net income before taxes and adjustments	69,329	12,424	(56,905)
Depreciation expenses	4,559	5,163	603
Increase (decrease) in allowance for doubtful accounts	159	590	431
Increase (decrease) in retirement benefit reserves for directors	2,986	(1,394)	(4,380)
Interest and dividend income	(136)	(338)	(202)
Interest expense	1,332	1,462	129
Foreign exchange loss (gain)	(501)	9,533	10,035
Equity in earnings of affiliated companies (income)	2,320	(104)	(2,425)
Gain on sales of tangible fixed assets	-	(4,465)	(4,465)
Loss on sales of tangible fixed assets	16	120	104
Write-offs of tangible fixed assets	215	142	(73)
Impairment loss	3,009	701	(2,307)
Gain on sales of affiliates' stock	(2,514)	-	2,514
Gain on sales of affiliates' bonds	(1,119)	(560)	558
Gain on sales of investment securities	(166)	(4)	161
Loss on devaluation of investment securities	210	906	696
Decrease (increase) in accounts receivable	914	(21,745)	(22,659)
Decrease (increase) in real estate for sales	(18,554)	(11,237)	7,316
Decrease (increase) in expenses from uncompleted works	26,430	(2,973)	(29,403)
Decrease (increase) in long-term prepaid expenses	(12,366)	(12,465)	(98)
Increase (decrease) in accounts payable	(2,571)	12,225	14,797
Increase (decrease) in amount received for uncompleted works	(18,531)	(1,777)	16,754
Increase (decrease) in advances received	9,093	51,804	42,710
Increase (decrease) in guarantee deposits received	(780)	10,567	11,347
Increase (decrease) in accrued consumption tax	2,923	(3,155)	(6,078)
Other	2,769	(725)	(3,494)
Subtotal	69,028	44,695	(24,333)
Interest and dividends received	129	367	237
Interest paid	(1,290)	(1,476)	(185)
Income taxes paid	(4,559)	(31,840)	(27,280)
Net cash provided by operating activities	63,308	11,745	(51,562)
II Cash flows from investing activities			
Payment for purchase of tangible fixed assets	(21,830)	(6,887)	14,942
Proceeds from sales of tangible fixed assets	8	12,144	12,135
Fees paid related to sale and disposal of tangible fixed assets	(119)	(179)	(59)
Payment for purchase of affiliates' stock	(1,100)	-	1,100
Proceeds from sales of affiliates' stock following change in scope of consolidation	4,109	-	(4,109)
Proceeds from sales of affiliates' bonds	2,880	-	(2,880)
Payment for purchase of investment securities	(792)	(3,393)	(2,600)
Proceeds from sales of investment securities	1,000	730	(269)
Payment for loans made	(1,378)	(369)	1,009
Proceeds from collection of loans	3,646	202	(3,443)
Other	(2,355)	(2,101)	254
Net cash used in investing activities	(15,930)	148	16,078
III Cash flows from financing activities			
Proceeds from short-term debt	34,190	78,610	44,420
Repayment of short-term debt	(32,454)	(82,388)	(49,934)
Proceeds from long-term debt	13,000	22,000	9,000
Repayment of long-term debt	(22,655)	(17,454)	5,201
Payment for purchase depreciation of privately placed bonds	(2,006)	(3,100)	(1,093)
Payment for redemptions of privately placed bonds	(1,435)	(1,126)	308
Dividends paid to minority shareholders	(873)	(475)	398
Payment for redemption of investment in minority interests	-	(12,484)	(12,484)
Payment for purchase of treasury stock	(2)	(1)	0
Dividends paid for shareholders	(4,781)	(10,359)	(5,578)
Net cash used in financing activities	(17,018)	(26,779)	(9,760)
IV Effect of exchange rate changes on cash and cash equivalents	195	(405)	(600)
V Net increase (decrease) in cash and cash equivalents	30,554	(15,290)	(45,845)
VI Cash and cash equivalents at beginning of period	44,612	75,166	30,554
VII Increase in cash and cash equivalents accompanying change in scope of consolidation	-	1,089	1,089
VIII Cash and cash equivalents at end of period	75,166	60,965	(14,201)

5. Segment Information

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

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
I. Net sales and operating profit							
(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
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

FY 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

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 2007	FY 2008	Main component
Operating expenses unable to be allocated included in "eliminations/unallocated"	4,101	4,534	Management expenses of the General Affairs Department of the Company submitting the consolidated financial statements.
Amount of corporate assets included in "Elimination or Corporate"	99,606	95,473	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.