

Consolidated Financial Statements

July 31, 2008

(For FY 2009 1st Quarter ended June 30, 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 Listings: Tokyo Stock Exchange
 Location of Head Office: Tokyo
 Name: Yoshiteru Kitagawa
 Name: Masumi Iwakabe
 Telephone: +81-3-5350-0216

1. Results of FY 2009 1st Quarter (April 1, 2008 through June 30, 2008)

(1) Consolidated financial results (Cumulative)

(Amounts less than one million yen are omitted)

(The percentage figures represent the change from the same period last year)

	Net sales		Operating profit		Recurring profit		Net income (loss)	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY 2009 1st quarter	115,813	-	(1,634)	-	1,367	-	(732)	-
FY 2008 1st quarter	109,513	(23.3)	(1,436)	-	992	(92.2)	1,304	(79.7)

	Net income (loss) per share	Diluted net income (loss) per share
	Yen	Yen
FY 2009 1st quarter	(4.59)	-
FY 2008 1st quarter	8.18	-

(2) Consolidated financial position

	Total assets	Shareholders' equity	Equity ratio	Equity per share
	Million yen	Million yen	%	Yen
FY 2009 1st quarter	457,173	146,936	32.1	921.93
FY 2008	493,956	170,155	33.4	1,036.43

Note: Shareholders' equity: FY 2009 1Q: 146,936 million yen, FY 2008: 165,185 million yen

2. Dividend Status

(Base date)	Dividend per share				
	End of 1st quarter	End of interim period	End of 3rd quarter	End of FY	Annual
	Yen	Yen	Yen	Yen	Yen
FY 2008	-	30.00	-	50.00	80.00
FY 2009	-	-	-	-	-
FY 2009 (forecast)	-	30.00	-	30.00	60.00

Note: Revision of dividend forecast in this quarter (Y/N): None

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

(Amounts less than one million yen are omitted)

(Percentages presented refer to changes compared with the previous full-year and interim period results, respectively)

	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	-	28,000	-	26,900	-	10,100	-	63.37
FY 2009	765,000	13.7	72,100	1.0	70,000	15.0	32,900	-	206.43

Note: Revision of consolidated business results forecasts in this quarter (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: None
- (4) Total number of outstanding shares (Common stock)
 - (i) Total number of outstanding shares at term end (Includes treasury stock)
FY 2009 1Q: 159,543,915 shares, FY 2008: 159,543,915 shares
 - (ii) Total treasury stock at term end
FY 2009 1Q: 165,166 shares, FY 2008: 165,059 shares
 - (iii) Average number of outstanding shares during the period (Cumulative period to this quarter)
FY 2009 1Q: 159,378,815 shares, FY 2008 1Q: 159,379,394 shares

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 Quarterly Balance Sheets

(Million yen)

	FY 2009 1st quarter (As of June 30, 2008)	FY 2008 (As of Mar. 31, 2008)
<Assets>		
Current assets		
Cash and cash equivalents	50,532	60,965
Accounts receivable	3,242	6,381
Receivables for completed projects	1,161	8,777
Operating loans	14,588	15,789
Real estate for sales	8,051	8,590
Real estate for sales in process	26,901	29,229
Payout for construction in progress	19,472	11,792
Raw materials and supplies	589	750
Prepaid expenses	26,245	24,628
Deferred tax assets	12,891	12,085
Other accounts receivable	9,485	28,058
Other	15,051	13,083
Allowance for doubtful accounts	(1,305)	(1,448)
Total	186,909	218,684
Fixed assets		
Tangible assets		
Buildings and structures (net)	71,042	76,556
Land	116,621	116,295
Construction in progress	2,764	1,901
Other (net)	3,913	4,370
Total	194,341	199,124
Intangible assets		
Other	691	622
Total	691	622
Investments and other assets		
Investment securities	8,521	9,082
Long-term loans	2,624	2,399
Deferred tax assets	3,432	3,388
Long-term accounts receivable	2,443	4,015
Long-term prepaid expenses	53,079	53,356
Other	7,412	5,442
Allowance for doubtful accounts	(2,288)	(2,164)
Total	75,224	75,519
Total fixed assets	270,257	275,265
Deferred assets	5	6
Total assets	457,173	493,956

(Million yen)

	FY 2009 1st quarter (As of June 30, 2008)	FY 2008 (As of Mar. 31, 2008)
<Liabilities>		
Current liabilities		
Accounts payable	2,826	2,613
Payables for completed projects	22,456	86,909
Short-term borrowings	29,026	16,221
Bonds due within one year	5,094	5,094
Unpaid expenses	9,146	9,635
Accrued expenses	170	25
Accrued income taxes	97	14,308
Advances received	90,141	98,496
Customer advances for projects in progress	43,229	21,752
Allowance for employees' bonuses	5,157	3,243
Allowance for indemnification of completed projects	996	1,041
Other	6,438	9,278
Total	214,781	268,621
Long-term liabilities		
Long-term borrowings	38,067	28,395
Retirement benefit reserves	5,328	5,064
Retirement benefit reserves for directors	1,633	1,592
Reserves for rents due on leaseback agreements	444	399
Long-term lease/guarantee deposits received	49,887	19,727
Other	95	-
Total	95,455	55,179
Total liabilities	310,236	323,800
<Net assets>		
Shareholders' equity		
Share capital	55,640	55,640
Capital surplus	34,104	34,104
Retained earnings	67,510	76,211
Treasury stock	(98)	(98)
Total	157,157	165,858
Valuation and translation adjustments		
Net unrealized gains on "other securities"	13	89
Deferred gains or losses on hedges	32	-
Translation adjustments	(10,266)	(762)
Total	(10,220)	(672)
Minority interests	-	4,970
Total net assets	146,936	170,155
Total liabilities and net assets	457,173	493,956

2. Consolidated Quarterly Statements of Operations

(Million yen)

	FY 2009 1st quarter (Apr. 2008 – June 2008)
Net sales	115,813
Cost of sales	94,246
Gross profit	21,566
Selling, general and administrative expenses	23,201
Operating profit (loss)	(1,634)
Non-operating profit	
Interest income	29
Equity in earnings of affiliates	33
Foreign exchange gain	3,291
Other	165
Total	3,518
Non-operating expenses	
Interest expenses	267
Financial expenses	189
Other	60
Total	517
Recurring profit	1,367
Extraordinary income	
Reversal of allowance for doubtful receivables	217
Total	217
Extraordinary losses	
Loss on sales of property, plant and equipment	0
Loss on disposal of property, plant and equipment	65
Loss on devaluation of real estate for sales	2,560
Impairment loss	12
Loss on devaluation of investment securities	448
Transfer to allowance for bad debt	18
Total	3,104
Net income (loss) before taxes and adjustments	(1,519)
Income taxes	(787)
Net income (loss)	(732)

3. Consolidated Quarterly Statements of Cash Flows

(Million yen)

	FY 2009 1st quarter (Apr. 2008–June 2008)
Cash flows from operating activities	
Net income (loss) before taxes and adjustments	(1,519)
Depreciation expenses	1,215
Increase (decrease) in allowance for doubtful accounts	(18)
Increase (decrease) in retirement benefit reserves for directors	40
Interest expense	267
Foreign exchange loss (gain)	(3,291)
Equity in earnings of affiliated companies	(33)
(Gain) loss on sales of tangible fixed assets	0
Write-offs of tangible fixed assets	65
Impairment loss	12
Loss on devaluation of real estate for sales	2,560
(Gain) loss on devaluation of investment securities	448
Decrease (increase) in accounts receivable	30,785
Decrease (increase) in real estate for sales	(963)
Decrease (increase) in work in process	(7,680)
Decrease (increase) in long-term prepaid expenses	64
Increase (decrease) in accounts payable	(64,456)
Increase (decrease) in customer advances for projects in progress	21,477
Increase (decrease) in advances received	(8,291)
Increase (decrease) in guarantee deposits received	30,303
Increase (decrease) in accrued consumption taxes	418
Other	(4,921)
Subtotal	(3,517)
Interest and dividends received	126
Interest paid	(109)
Income taxes paid	(14,317)
Net cash used in operating activities	(17,818)
Cash flows from investing activities	
Payment for purchase of tangible fixed assets	(1,595)
Proceeds from sales of tangible fixed assets	2
Proceeds from sales of investment securities	51
Payment for loans made	(224)
Proceeds from collection of loans	0
Other	(175)
Net cash used in investing activities	(1,940)

(Million yen)

	FY 2009 1st quarter (Apr. 2008–June 2008)
Cash flows from financing activities	
Proceeds from short-term debt	9,000
Repayment of short-term debt	(2,000)
Proceeds from long-term debt	18,000
Repayment of long-term debt	(2,523)
Payment for redemption of investment in minority interests	(4,970)
Payment for purchases of treasury stock	(0)
Dividends paid for shareholders	(7,968)
Net cash provided by financing activities	9,537
Effect of exchange rate changes on cash and cash equivalents	(211)
Net increase (decrease) in cash and cash equivalents	(10,432)
Cash and cash equivalents at beginning of period	60,965
Cash and cash equivalents at end of period	50,532

4. Segment Information

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

FY 2009 1st quarter (April 1, 2008 through June 30, 2008)

(Million yen)

	Apartment Construction Subcontracting Division	Leasing Division	Hotel Resort Division	Other Division	Total	Eliminations/ Unallocated	Consolidated
Net sales and operating profit (loss)							
Net sales							
(1) Sales to customers	26,757	81,111	1,215	6,729	115,813	-	115,813
(2) Intra-segment sales and transfers	-	32	1,392	-	1,425	(1,425)	-
Total	26,757	81,143	2,608	6,729	117,239	(1,425)	115,813
Operating profit (loss)	(32)	764	(32)	(740)	(41)	(1,593)	(1,634)

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 and 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. Changes in Accounting Procedures

Accounting standard for valuation of inventory assets

From the subject accounting period Leopalace21 has applied Accounting Standards Board of Japan (ASBJ) Statement No. 9 *Accounting Standard for Measurement of Inventories*. In accordance with this change, the operating loss for the Other division has increased ¥276 million compared to that under the former method.

(Reference)

1. (Summary) Consolidated Quarterly Balance Sheets

FY 2008 1st Quarter (April 1, 2007 through June 30, 2007)

(Million yen)

	FY 2008 1st quarter (Apr. 2007–June 2007)
I Net sales	109,513
II Cost of sales	88,738
Gross profit	20,775
III Selling, general and administrative expenses	22,212
Operating profit (loss)	(1,436)
IV Non-operating profit	2,965
V Non-operating expenses	536
Recurring profit (loss)	992
VI Extraordinary income	568
VII Extraordinary losses	0
Net income before taxes and adjustments	1,561
Tax expense	194
Minority interests	62
Net income	1,304

2. (Summary) Consolidated Quarterly Statements of Cash Flows

FY 2008 1st Quarter (April 1, 2007 through June 30, 2007)

(Million yen)

	FY 2008 1st quarter (Apr. 2007–June 2007)
I Cash flows from operating activities	
Net income (loss) before taxes and adjustments	1,561
Depreciation expenses	1,232
Increase (decrease) in allowance for doubtful accounts	(24)
Increase (decrease) in retirement benefit reserves for directors	47
Interest expense	328
Foreign exchange loss (gain)	(2,293)
Equity in (earnings) losses of affiliated companies	(13)
Loss on sales of tangible fixed assets	0
Write-offs of tangible fixed assets	0
Gain on sales of affiliates' bonds	(560)
Gain on sales of investment securities	(4)
Decrease (increase) in accounts receivable	17,065
Decrease (increase) in real estate for sales	(4,971)
Decrease (increase) in work in process	(4,312)
Decrease (increase) in long-term prepaid expenses	1,027
Increase (decrease) in accounts payable	(41,684)
Increase (decrease) in customer advances for projects in progress	23,135
Increase (decrease) in advances received	(4,412)
Increase (decrease) in guarantee deposits received	(218)
Increase (decrease) in accrued consumption taxes	(3,068)
Other	(3,704)
Subtotal	(20,871)
Interest and dividends received	61
Interest paid	(215)
Income taxes paid	(27,059)
Net cash used in operating activities	(48,085)
II Cash flows from investing activities	
Payment for purchase of tangible fixed assets	(2,188)
Proceeds from sales of tangible fixed assets	0
Payment for purchase of investment securities	(1,283)
Proceeds from sales of investment securities	208
Payment for loans made	(104)
Proceeds from collection of loans	1
Other	(599)
Net cash used in investing activities	(3,965)

(Million yen)

	FY 2008 1st quarter (Apr. 2007-June 2007)
III Cash flows from financing activities	
Proceeds from short-term debt	40,610
Repayment of short-term debt	(2,186)
Repayment of long-term debt	(1,273)
Dividends paid to minority shareholders	(225)
Dividends paid for shareholders	(5,578)
Net cash provided by financing activities	31,347
IV Effect of exchange rate changes on cash and cash equivalents	(13)
V Net increase (decrease) in cash and cash equivalents	(20,717)
VI Cash and cash equivalents at beginning of period	75,166
VII Cash and cash equivalents of newly consolidated subsidiaries	1,089
VIII Cash and cash equivalents at end of period	55,539

3. Segment Information

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

FY 2008 1st quarter (April 1, 2007 through June 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)							
Net sales							
(1) Sales to customers	31,112	70,781	1,902	5,717	109,513	-	109,513
(2) Intra-segment sales and transfers	-	0	967	-	967	(967)	-
Total	31,112	70,782	2,869	5,717	110,481	(967)	109,513
Operating expenses	28,395	73,317	2,647	6,096	110,457	493	110,950
Operating profit (loss)	2,717	(2,534)	221	(379)	24	(1,460)	(1,436)