

Consolidated Financial Statements

November 4, 2008

(For the six months ended September 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

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Scheduled Date of Filing of Half Year Report: November 13, 2008

1. Results for the Six Months ended September 30, 2008 (April 1, 2008 through September 30, 2008)

(1) Consolidated financial results

(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 | % |
| Six months ended September 30, 2008 | 355,352 | - | 29,803 | - | 30,562 | - | 12,280 | - |
| Six month ended September 30, 2007 | 317,108 | 3.5 | 30,644 | (10.8) | 29,178 | (8.7) | (11,848) | - |

| | Net income (loss) per share | Diluted net income (loss) per share |
|--|-----------------------------|-------------------------------------|
| | Yen | Yen |
| Six months ended September 30, 2008 | 77.05 | - |
| Six month ended September 30, 2007 | (74.34) | - |

(2) Consolidated financial position

| | Total assets | Net assets | Equity ratio | Equity per share |
|--|----------------|----------------|--------------|------------------|
| | Million yen | Million yen | % | Yen |
| Six months ended September 30, 2008 | 508,745 | 164,068 | 32.2 | 1,029.43 |
| FY ended March 31, 2008 | 493,956 | 170,155 | 33.4 | 1,036.43 |

Note: Shareholders' equity: As of September 30, 2008: 164,068 million yen; As of March 31, 2008: 165,185 million yen

2. Dividend Status

| (Base date) | Dividend per share | | | | |
|-------------------------------------|--------------------|--------------------|--------------------|-----------|--------|
| | End of 1st quarter | End of 2nd quarter | End of 3rd quarter | End of FY | Annual |
| | Yen | Yen | Yen | Yen | Yen |
| FY ended March 31, 2008 | - | 30.00 | - | 50.00 | 80.00 |
| FY ending March 31, 2009 | - | 30.00 | - | - | - |
| FY ending March 31, 2009 (forecast) | - | - | - | 30.00 | 60.00 |

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

3. Estimation of Business Results for the Fiscal Year Ending March 31, 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)

| | Net sales | | Operating profit | | Recurring profit | | Net income | | Net income per share |
|--------------------------|-------------|------|------------------|-----|------------------|------|-------------|---|----------------------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Yen |
| FY ending March 31, 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 period (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)
 - As of September 30, 2008: 159,543,915 shares
 - As of March 31, 2008: 159,543,915 shares
 - (ii) Total treasury stock at term end
 - As of September 30, 2008: 165,519 shares
 - As of March 31, 2008: 165,059 shares
 - (iii) Average number of outstanding shares during the period
 - For the six months ended September 30, 2008: 159,378,692 shares
 - For the six months ended September 30, 2007: 159,379,368 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.

(Reference) Summary of Non-Consolidated Financial Statements

1. Results for the Three Months of the Fiscal Year Ending March 31, 2009 (July 1, 2008 through September 30, 2008)

(1) Non-consolidated financial results (For three months) (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 | |
|--|----------------|------|------------------|------|------------------|------|---------------|---|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| Three months ended September 30, 2008 | 239,539 | – | 31,438 | – | 29,195 | – | 13,012 | – |
| Three months ended September 30, 2007 | 207,594 | 26.9 | 32,081 | 61.7 | 28,185 | 47.0 | (13,152) | – |

| | Net income per share | Diluted net income per share |
|--|----------------------|------------------------------|
| | Yen | Yen |
| Three months ended September 30, 2008 | 81.64 | – |
| Three months ended September 30, 2007 | (82.52) | – |

1. Consolidated Balance Sheets

(Million yen)

| | September 30, 2008 | March 31, 2008 |
|-------------------------------------|--------------------|----------------|
| <Assets> | | |
| Current assets | | |
| Cash and cash equivalents | 85,101 | 60,965 |
| Accounts receivable | 3,832 | 6,381 |
| Receivables for completed projects | 2,740 | 8,777 |
| Operating loans | 12,019 | 15,789 |
| Real estate for sales | 7,668 | 8,590 |
| Real estate for sales in process | 25,305 | 29,229 |
| Payout for construction in progress | 15,705 | 11,792 |
| Raw materials and supplies | 641 | 750 |
| Prepaid expenses | 26,183 | 24,628 |
| Deferred tax assets | 12,085 | 12,085 |
| Other accounts receivable | 28,285 | 28,058 |
| Other | 14,155 | 13,083 |
| Allowance for doubtful accounts | (1,441) | (1,448) |
| Total | 232,284 | 218,684 |
| Fixed assets | | |
| Tangible assets | | |
| Buildings and structures (net) | 73,959 | 76,556 |
| Land | 116,900 | 116,295 |
| Construction in progress | 1,243 | 1,901 |
| Other (net) | 4,090 | 4,370 |
| Total | 196,194 | 199,124 |
| Intangible assets | 689 | 622 |
| Investments and other assets | | |
| Investment securities | 7,142 | 9,082 |
| Long-term loans | 762 | 2,399 |
| Deferred tax assets | 3,493 | 3,388 |
| Long-term accounts receivable | 5,598 | 4,015 |
| Long-term prepaid expenses | 59,873 | 53,356 |
| Other | 7,258 | 5,442 |
| Allowance for doubtful accounts | (4,557) | (2,164) |
| Total | 79,572 | 75,519 |
| Total fixed assets | 276,456 | 275,265 |
| Deferred assets | 5 | 6 |
| Total assets | 508,745 | 493,956 |

(Million yen)

| | September 30, 2008 | March 31, 2008 |
|---|--------------------|----------------|
| <Liabilities> | | |
| Current liabilities | | |
| Accounts payable | 2,868 | 2,613 |
| Payables for completed projects | 86,436 | 86,909 |
| Short-term borrowings | 22,959 | 16,221 |
| Bonds due within one year | – | 5,094 |
| Unpaid expenses | 9,464 | 9,635 |
| Accrued expenses | 21 | 25 |
| Accrued income taxes | 13,610 | 14,308 |
| Advances received | 83,579 | 98,496 |
| Customer advances for projects in progress | 22,630 | 21,752 |
| Allowance for employees' bonuses | 3,726 | 3,243 |
| Allowance for indemnification of completed projects | 1,061 | 1,041 |
| Other | 8,262 | 9,278 |
| Total | 254,621 | 268,621 |
| Long-term liabilities | | |
| Long-term borrowings | 31,143 | 28,395 |
| Retirement benefit reserves | 5,608 | 5,064 |
| Retirement benefit reserves for directors | 1,217 | 1,592 |
| Reserves for rents due on leaseback agreements | 505 | 399 |
| Long-term lease/guarantee deposits received | 51,277 | 19,727 |
| Other | 303 | – |
| Total | 90,055 | 55,179 |
| Total liabilities | 344,677 | 323,800 |
| <Net assets> | | |
| Shareholders' equity | | |
| Share capital | 55,640 | 55,640 |
| Capital surplus | 34,104 | 34,104 |
| Retained earnings | 80,522 | 76,211 |
| Treasury stock | (98) | (98) |
| Total | 170,169 | 165,858 |
| Valuation and translation adjustments | | |
| Net unrealized gains on "other securities" | (85) | 89 |
| Deferred gains or losses on hedges | (14) | – |
| Translation adjustments | (6,001) | (762) |
| Total | (6,100) | (672) |
| Minority interests | – | 4,970 |
| Total net assets | 164,068 | 170,155 |
| Total liabilities and net assets | 508,745 | 493,956 |

2. Consolidated Statements of Operations

(Million yen)

| | Six months ended September 30, 2008 (Apr. 2008 – Sep. 2008) |
|---|---|
| Net sales | 355,352 |
| Cost of sales | 277,871 |
| Gross profit | 77,481 |
| Selling, general and administrative expenses | 47,678 |
| Operating profit | 29,803 |
| Non-operating profit | |
| Interest income | 79 |
| Equity in earnings of affiliates | 170 |
| Foreign exchange gain | 1,436 |
| Other | 430 |
| Total | 2,117 |
| Non-operating expenses | |
| Interest expenses | 584 |
| Financial expenses | 412 |
| Other | 361 |
| Total | 1,358 |
| Recurring profit | 30,562 |
| Extraordinary income | |
| Gain on sales of property, plant and equipment | 0 |
| Reversal of allowance for doubtful receivables | 244 |
| Total | 244 |
| Extraordinary losses | |
| Loss on sales of property, plant and equipment | 0 |
| Loss on disposal of property, plant and equipment | 92 |
| Loss on devaluation of real estate for sales | 2,560 |
| Impairment loss | 402 |
| Loss on devaluation of investment securities | 1,918 |
| Transfer to allowance for bad debt | 237 |
| Total | 5,211 |
| Net income before taxes and adjustments | 25,595 |
| Income taxes | 13,315 |
| Net income | 12,280 |

(Million yen)

| | Three month ended September 30, 2008 (Jul. 2008 – Sep. 2008) |
|---|--|
| Net sales | 239,539 |
| Cost of sales | 183,624 |
| Gross profit | 55,914 |
| Selling, general and administrative expenses | 24,476 |
| Operating profit | 31,438 |
| Non-operating profit | |
| Interest income | 50 |
| Equity in earnings of affiliates | 137 |
| Other | 264 |
| Total | 453 |
| Non-operating expenses | |
| Interest expenses | 317 |
| Financial expenses | 223 |
| Foreign exchange loss | 1,854 |
| Other | 301 |
| Total | 2,696 |
| Recurring profit | 29,195 |
| Extraordinary income | |
| Gain on sales of property, plant and equipment | 0 |
| Reversal of allowance for doubtful receivables | 26 |
| Total | 27 |
| Extraordinary losses | |
| Loss on disposal of property, plant and equipment | 27 |
| Impairment loss | 389 |
| Loss on devaluation of investment securities | 1,470 |
| Transfer to allowance for bad debt | 219 |
| Total | 2,106 |
| Net income before taxes and adjustments | 27,115 |
| Income taxes | 14,103 |
| Net income | 13,012 |

3. Consolidated Statements of Cash Flows

(Million yen)

| | Six months ended September 30, 2008 (Apr. 2008 – Sep. 2008) |
|---|---|
| Cash flows from operating activities | |
| Net income before taxes and adjustments | 25,595 |
| Depreciation expenses | 2,460 |
| Increase (decrease) in allowance for doubtful accounts | 2,386 |
| Increase (decrease) in retirement benefit reserves for directors | (375) |
| Interest expense | 584 |
| Foreign exchange loss (gain) | (1,436) |
| Equity in earnings of affiliated companies | (170) |
| (Gain) loss on sales of tangible fixed assets | 0 |
| Write-offs of tangible fixed assets | 92 |
| Impairment loss | 402 |
| Loss on devaluation of real estate for sales | 2,560 |
| (Gain) loss on devaluation of investment securities | 1,918 |
| Decrease (increase) in accounts receivable | 10,693 |
| Decrease (increase) in real estate for sales | 1,291 |
| Decrease (increase) in work in process | (3,913) |
| Decrease (increase) in long-term prepaid expenses | (7,741) |
| Increase (decrease) in accounts payable | (1,470) |
| Increase (decrease) in customer advances for projects in progress | 878 |
| Increase (decrease) in advances received | (14,879) |
| Increase (decrease) in guarantee deposits received | 31,517 |
| Increase (decrease) in accrued consumption taxes | 1,101 |
| Other | (558) |
| Subtotal | 50,935 |
| Interest and dividends received | 358 |
| Interest paid | (583) |
| Income taxes paid | (14,332) |
| Net cash used in operating activities | 36,378 |
| Cash flows from investing activities | |
| Payment for purchase of tangible fixed assets | (2,433) |
| Proceeds from sales of tangible fixed assets | 3 |
| Payment for purchase of investment securities | (197) |
| Proceeds from sales of investment securities | 61 |
| Payment for loans made | (325) |
| Proceeds from collection of loans | 300 |
| Other | (633) |
| Net cash used in investing activities | (3,226) |

(Million yen)

| | Six months ended September 30, 2008 (Apr. 2008 – Sep. 2008) |
|---|---|
| Cash flows from financing activities | |
| Proceeds from short-term debt | 9,000 |
| Repayment of short-term debt | (6,200) |
| Proceeds from long-term debt | 18,000 |
| Repayment of long-term debt | (11,313) |
| Payment for redemption of bonds | (5,094) |
| 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 | (8,547) |
| Effect of exchange rate changes on cash and cash equivalents | (468) |
| Net increase (decrease) in cash and cash equivalents | 24,136 |
| Cash and cash equivalents at beginning of period | 60,965 |
| Cash and cash equivalents at end of period | 85,101 |

4. Segment Information

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

Results for the Three Months Ended September 30, 2008 (July 1, 2008 through September 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 | 147,669 | 83,589 | 1,604 | 6,676 | 239,539 | – | 239,539 |
| (2) Inter-segment sales and transfers | – | 71 | 1,202 | – | 1,273 | (1,273) | – |
| Total | 147,669 | 83,660 | 2,807 | 6,676 | 240,812 | (1,273) | 239,539 |
| Operating profit (loss) | 34,436 | 2,454 | 21 | (4,425) | 32,487 | (1,048) | 31,438 |

Results for the Six Months Ended September 30, 2008 (April 1, 2008 through September 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 | 174,426 | 164,700 | 2,820 | 13,405 | 355,352 | – | 355,352 |
| (2) Inter-segment sales and transfers | – | 103 | 2,595 | – | 2,699 | (2,699) | – |
| Total | 174,426 | 164,804 | 5,415 | 13,405 | 358,052 | (2,699) | 355,352 |
| Operating profit (loss) | 34,404 | 3,218 | (10) | (5,166) | 32,446 | (2,642) | 29,803 |

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 ¥3,611 million compared to that under the former method.