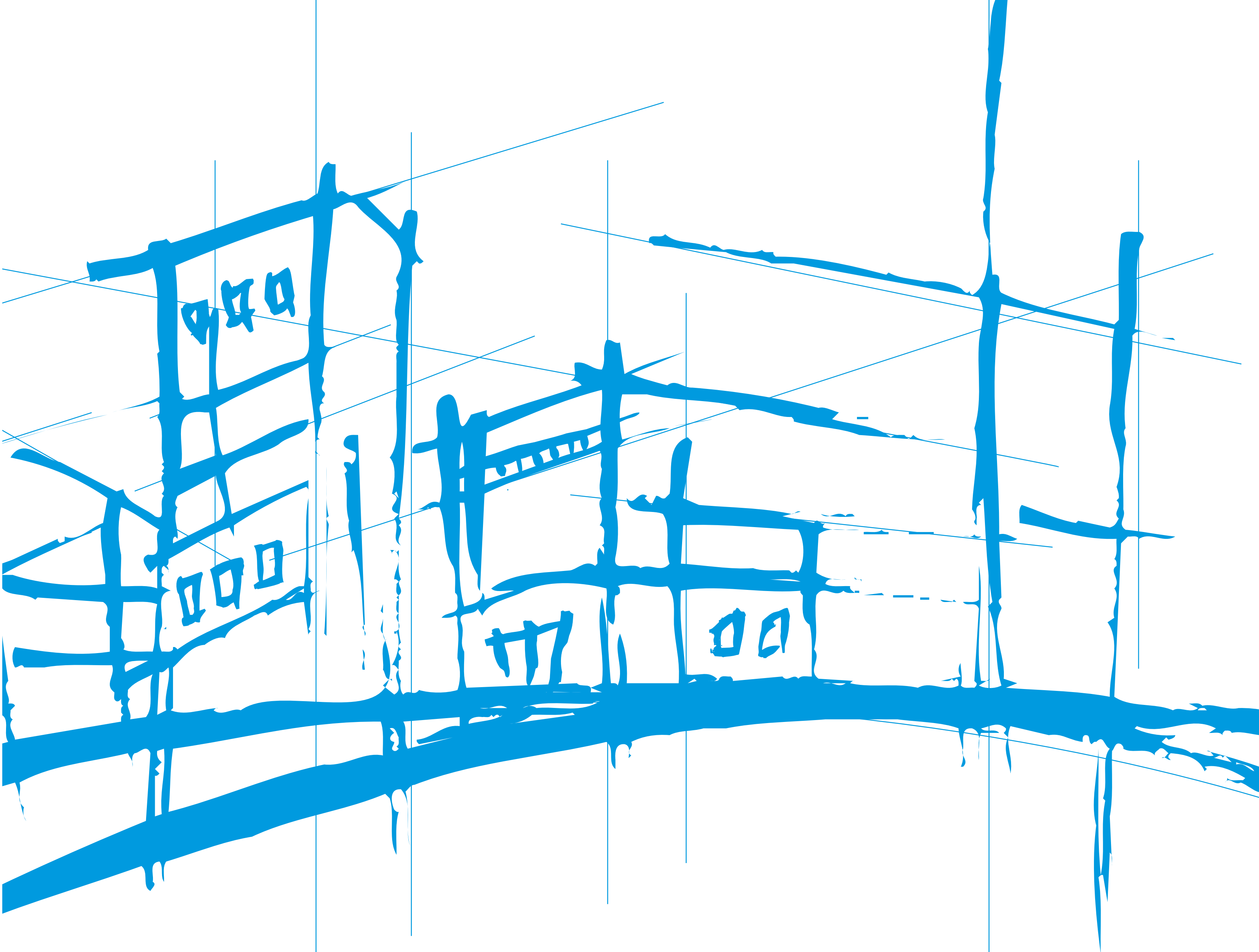
Annual Report 2009



Change for NEXT

Leopalace21

Annual Report 2009

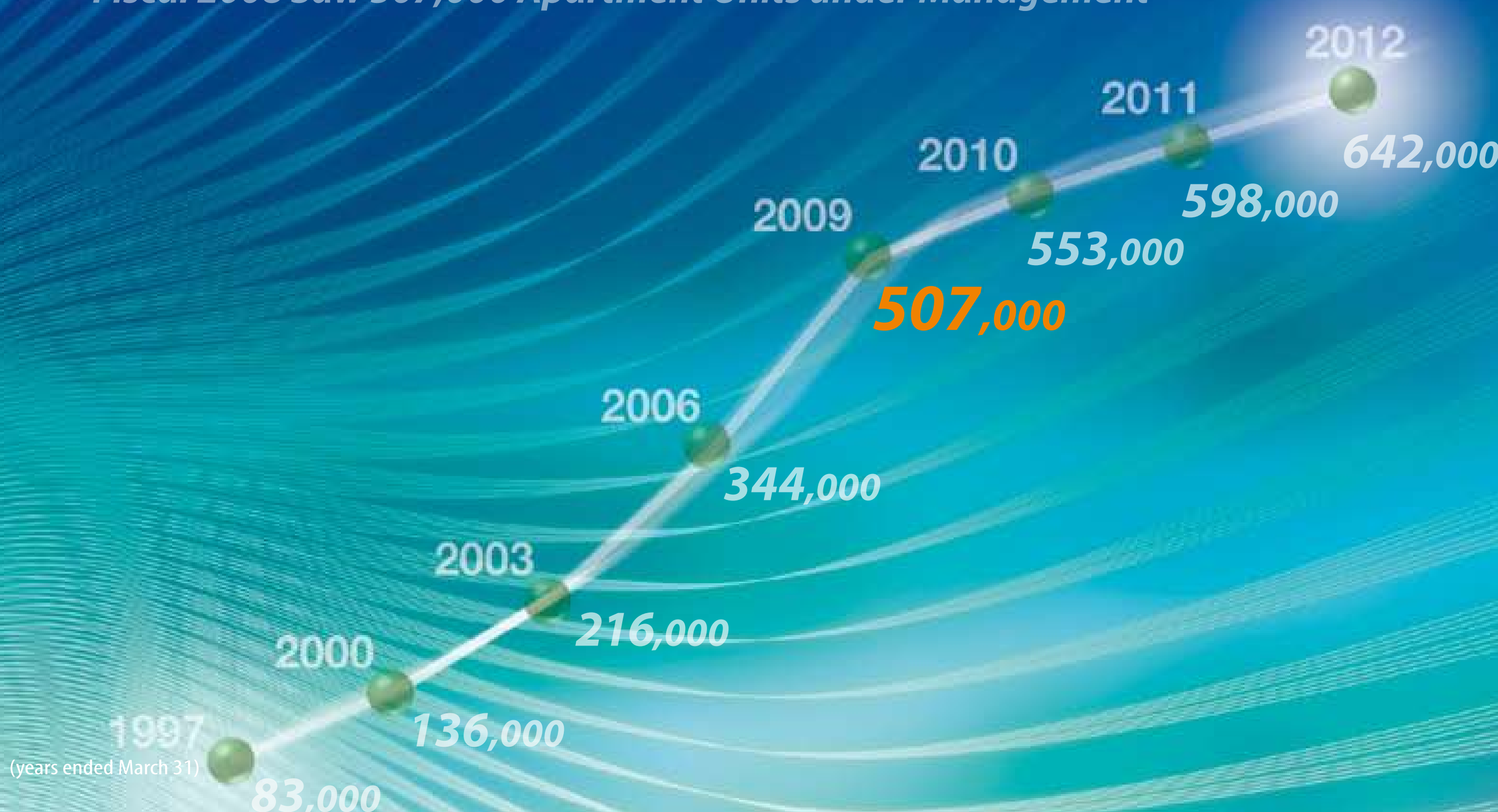
Leopalace21 Corporation

We help shape the dreams of people and society in terms of their vision of a home.

Leopalace21 has been in the apartment business since its founding in 1973, and over the years has developed a variety of businesses based on the principle of "Create New Value." We have established a new business model for the apartment business that, taking into account the perspectives of owners and residents, is growing to become the leading company in the industry, with more than 500,000 apartments under management throughout Japan.

Our mission is far from over. Leopalace21 will continue working to shape new dreams for people and their homes.

Fiscal 2008 Saw 507,000 Apartment Units under Management



New Medium-Term Management Plan,
"Change for Next"

A new stage of growth amid a rapidly changing business environment

In December 2006, Leopalace21 announced its five-year medium-term management plan, "United Spirit." However, since the global economic slowdown that began in the United States had a considerable impact on Leopalace21's business, we fundamentally revised the "United Spirit" plan and formulated the Medium-Term Plan, "Change for NEXT." The plan name reflects our desire to establish a solid business structure resistant to turbulent periods and less reliant on market conditions, as well as our commitment to boldly implementing change.

The aim of the new Medium-Term Management Plan is to fundamentally reform Leopalace21's operational structure over the next three years. It reflects a shift in strategy from expansion based on long-term macroeconomic indicators, such as demographics and population migration, to business strategies able to cope with abrupt changes in business conditions. Under the new management plan, Leopalace21 will clearly define the selection and concentration of businesses, concentrate management resources in the core businesses that account for 95% of sales, and establish a rock-solid business structure able to produce earnings growth even during difficult periods.

Difficult times call for proactive reform
Outline of the new management plan

The global economic crisis has had a considerable impact on the Japanese economy. Despite a recent upturn, for the foreseeable future the business environment for Leopalace21 is likely to be extremely difficult. Faced with such circumstances, Leopalace21 has made a concerted effort to formulate a new Medium-Term Management Plan.

One of the initial aspects of the plan is to strengthen governance through reform of the organizational structure. Business divisions are being consolidated into a Sales and Marketing General Headquarters and Related Businesses Headquarters, establishing a structure to promote governance and strategies for each business. The Management Committee will provide verification of management issues, ensuring careful monitoring of the progress of management and business strategies.

The operational flow will also be improved in order to cut selling, general and administrative (SG&A) expenses and other costs. We will concentrate management resources in core businesses, and improve earnings centered on the Leasing Business. Further, we will return to Leopalace21's original business model of *Motazaru Keiei* ("non-ownership management"). We will narrow the scope of capital expenditures and other investments, and raise asset efficiency to expand corporate value.

"Change for Next"

April 2009

March 2012

Basic Strategies: General Policies

- ✓ **Organizational Reform and Governance**
- ✓ **Concentration of Management Resources in Core Businesses**
- ✓ **Fundamental Revision of Our Cost Structure**
- ✓ **Return to Focus on *Motazaru Keiei*** ("non-ownership management")

Contents

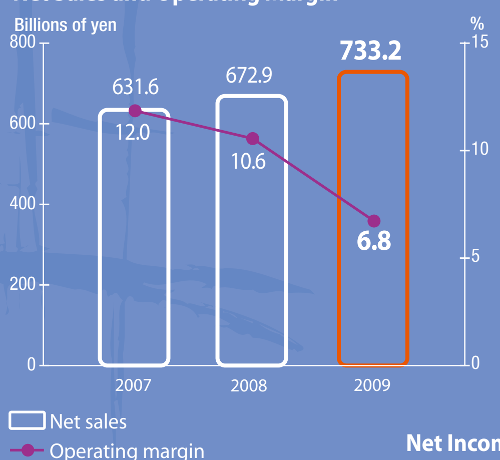
Consolidated Financial Highlights

Leopalace21 Corporation and its subsidiaries
Years ended March 31

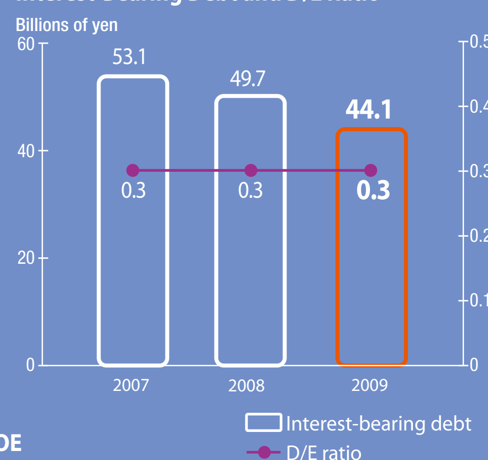
	Millions of yen, except where noted			Thousands of U.S. dollars, except where noted
	2009	2008	2007	**2009**
Net sales	**¥733,235**	¥672,974	¥631,608	**$7,464,475**
Operating income	**50,157**	71,403	76,007	**510,606**
EBITDA	**55,939**	76,566	80,567	**569,472**
Net income (loss)	**9,952**	342	37,358	**101,312**
Total assets*	**¥467,300**	¥493,956	¥454,820	**$4,757,207**
Total net assets*	**146,442**	170,155	185,785	**1,490,814**
Interest-bearing debt*	**44,188**	49,711	53,160	**449,851**
Total net assets per share (¥ and US$)*	**967.40**	1,036.43	1,054.99	**9.85**
Net income per share (¥ and US$)	**63.54**	2.15	234.68	**0.65**
Cash dividend per share (¥ and US$)	**30.00**	80.00	50.00	**0.31**
Equity Ratio (%)*	**31.3**	33.4	37.0	
Return on equity (ROE)(%)	**6.4**	0.2	24.8	
Return on assets (ROA)(%)*	**2.1**	0.1	8.6	
Payout ratio (%)*	**47.2**	3720.9	21.3	

Notes: 1. U.S. dollar amounts are translated from yen at the rate of ¥98.23 = US$1, the approximate rate prevailing at March 31, 2009.
2. EBITDA = Operating income + depreciation
3. Return on assets (ROA) = Net income/total assets x 100
4. Items marked with an asterisk are at the fiscal year-end.

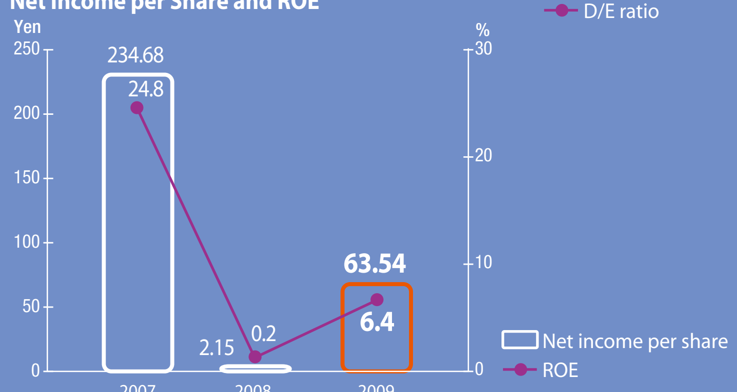
Net Sales and Operating Margin



Interest-Bearing Debt and D/E Ratio



Net Income per Share and ROE



Forward-Looking Statements

This report contains statements regarding forecasts of future earnings. Such statements are judgments based on certain preconditions and information available to management at the time of publication, and are not intended as a guarantee of future performance. Accordingly, actual revenue and earnings may differ substantially from these forecasts.

September 2009

Yoshiteru Kitagawa

Yoshiteru Kitagawa,
President and CEO

A New Medium-Term Management Plan for the Next Stage of Business Development

The rapid deterioration in corporate earnings and consumer spending during fiscal 2008 (ended March 2009) arising from the turmoil in the financial markets also had repercussions for Leopalace21. Although consolidated net sales rose year on year, revenues fell short of plan for the second consecutive year. In response to this result Leopalace21 launched "Change for NEXT," a new Medium-Term Management Plan designed to expand unit supply, raise the occupancy rate and maximize lease revenues to improve earnings in the Leasing Business, as well as to cut back operating expenses, and reallocate management resources.

Q How would you assess the market environment and Leopalace21's results during fiscal 2008?

Rising sales and declining profit during fiscal 2008

Despite the financial crisis, Leopalace21 posted consolidated net sales of ¥733,235 million for fiscal 2008 (ended March 2009), an increase of 9.0% from the previous fiscal year. Broken down by business segment, the Apartment Construction Subcontracting Business brought in ¥359,155 million (up 9.7% from a year earlier), and the Leasing Business ¥334,561 million (up 10.5%). Together these two core businesses account for 95% of sales. Consolidated operating income, however, was down 29.8% from the previous fiscal year to ¥50,157 million.The Apartment Construction Subcontracting Business suffered a sharp falloff in order volume from the second half of the subject fiscal year, but the introduction of new brands and other measures helped to offset the decline, and the segment's operating income for the full year amounted to ¥70,113 million. In the Leasing Business, however, an unexpectedly large number of corporate contracts were canceled beginning in the third quarter, and the segment posted an operating loss of ¥1,539 million. Related businesses* also ended with an operating loss of ¥13,635 million, so overall the profit from the Apartment Construction Subcontracting Business was offset by approximately ¥15,174 million due to losses in other businesses as well as the elimination of ¥4,782 million in inter-segment operating income.

Unexpected outflow of residents

The stock market decline, worsening unemployment and strong yen led to a sharp decrease in corporate earnings and consumer spending. Manufacturing lines were stopped, workers were temporarily sent home, laid off or had contracts canceled, and the resulting termination of leases had a considerable impact on the Leasing Business. Previous economic downturns had involved declines in land prices, financial difficulties and other problems, but there was never an outflow of residents on this scale before. If we had been able to maintain occupancy, conditions for our business would not have been so bad.

Q What is your overall assessment of the "United Spirit" plan that Leopalace21 followed through fiscal 2008?

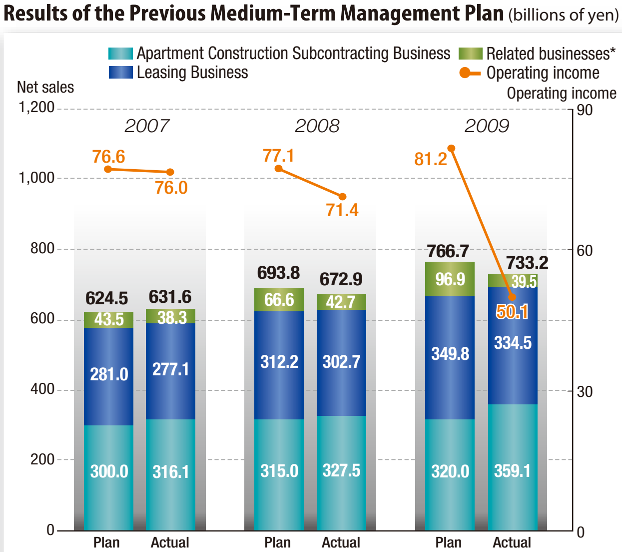
Achievements: 150,000 units added in three years

Leopalace21 had 344,000 units under management at the start of this three-year plan. By the end of the initial year this had increased to 388,000 units, then to 442,000 in the second and 507,000 in the third, for a total of more than 150,000 additional units over these three years. The increase in orders and units supplied in the Apartment Construction Subcontracting Business, and the additional units under management, helped establish Leopalace21's presence in the one-room studio apartment market. We estimate that as of the end of fiscal 2008, Leopalace21 had a 56.1% share of the market for supplying one-room studio apartments, and more than 10% of the units under management.

Shortfalls: Failure to reach final-year targets

The previous medium-term management plan was designed to consist of two phases. Looking back on phase one, from fiscal 2006 to fiscal 2008, in the initial year we mostly achieved our sales and earnings targets. We fell slightly short of target in year two, while in year three, although the fallout from the financial crisis placed considerable pressure on both sales and earnings, I believe we managed to keep the impact to a minimum. In the third year of the first phase of the plan, although sales in the Apartment Construction Subcontracting Business were 12 percentage points over plan, sales in the Leasing Business were 4 percentage points under, and related businesses were 59 percentage points under. On a consolidated basis, sales were 4 percentage points below plan. Consolidated operating income was hit particularly hard, falling short of plan

Results of the Previous Medium-Term Management Plan (billions of yen)



Note: Amounts are after inter-segment eliminations.

Issues That Emerged as a Result of the Abrupt Changes in the Business Environment

- ***Apartment Construction Subcontracting Business:*** **Expand supply to spur the profitability of Leasing Business**
- ***Leasing Business:*** **Establish structure to secure earnings through measures to maximize lease income and reduce operating expenses**
- ***Related businesses*:*** **Monitor status of business development and consider reallocation of management resources**

*Related businesses comprise Hotel Resort, Residential Sales and Other businesses.

figures by ¥31,100 million. Operating income was down in both core businesses. By the end of the first phase, building a structure to secure earnings in the Leasing Business, and the supply of units in the Apartment Construction Subcontracting Business to drive revenues for the Leasing Business, had emerged as management issues.

A business structure adaptable to changes in the external environment

During the course of the medium-term management plan over the past three years, Leopalace21 was exposed to many shifts that affected its management. These included a delay in establishing and implementing revisions to the Building Standards Law, a rise in prices for building materials amid appreciation of the yen and spike in the resources market, and the economic slowdown.

It became essential to respond to these changes in the external environment, along with adjustments to the medium-term management plan, including the measures in the second phase of the plan, and revisions to the business structure, products and services as well as to the organizational framework. We came to feel that it was necessary for us to establish a business foundation able to provide earnings growth over the long term, and to rework the medium-term management plan around the premise that we will be continually subjected to acute shifts in the business environment.

Q Tell us about the new Medium-Term Management Plan, “Change for NEXT."

Toward stable management and a new stage of growth

The focus of the new Medium-Term Management Plan, “Change for NEXT,” is to stabilize management to limit as much as possible any disruption to the plans and performance of core businesses. While the economy is beginning to brighten, the slump in consumer spending will not recover quickly, and we expect the difficult conditions for housing, condominium, and commercial real estate development to continue for some time.

For this reason the targets in the new Medium-Term Management Plan are conservative, and incorporate downside risks to the fullest extent possible. We are forecasting year-on-year declines in both sales and earnings for the initial year of the plan, but are committed to achieving recovery on both counts from the second year.

Management focused on asset efficiency

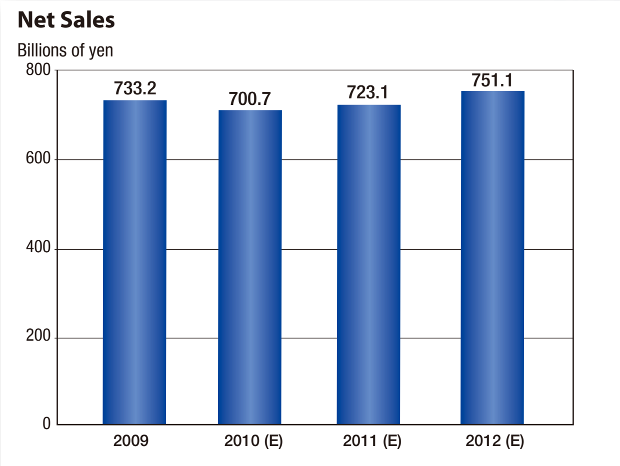
Leopalace21's plan is to maintain sales at fiscal 2008 levels over the next three years. We are targeting ¥700,700 million in net sales in the first year, ¥723,100 million in the second, and ¥751,100 million in the third. The assumptions behind these targets are flat levels for the Apartment Construction Subcontracting Business in anticipation of a slump in new construction demand, along with growth for the Leasing Business (8% to 10% annually) based on the stock of units under management. For operating income, we expect a year-on-year decline of more than 50% in the first year of the plan, and recovery to fiscal 2008 levels by the third year. By focusing on asset efficiency rather than business scale, we aim to increase ROE to 13.7% by the third year of the plan, compared to 6.4% in fiscal 2008.

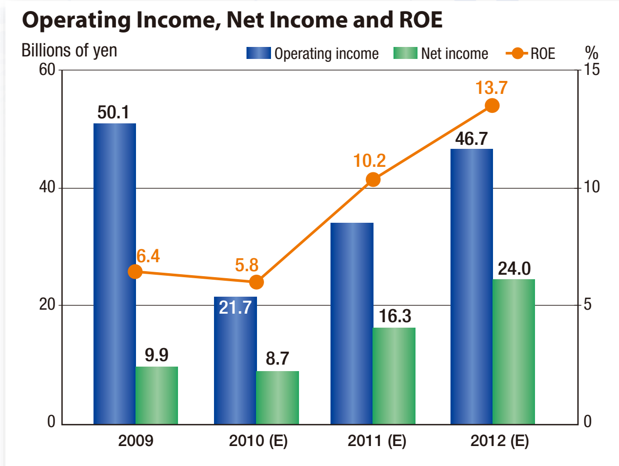
To help achieve these targets, Leopalace21 has established a Sales and Marketing General Headquarters, and will reform management to integrate the construction and leasing businesses. The Management Committee will enhance its framework for addressing individual management issues, along with monitoring and governance functions. We will also invest management resources in core businesses, and broaden the variety of our product offerings by expanding from mainly one-room studio apartments for young people to include large-scale, one-room and family-style units in suburban areas.

Revise business strategies to address changes in the business climate, overcome the present downturn in earnings, and increase corporate value

* The Company's model for core businesses is based on construction of apartments on behalf of property owners and entering master-lease agreements with these apartment owners. We then lease apartments to individual tenants. This model enables us to continue growing our business and earnings without requiring the Company to own the underlying assets or take on debt. We call this model *Motazaru Keiei* in Japanese.

Numerical Targets of the New Medium-Term Management Plan (Consolidated)





Q What specific measures are you planning for core and related businesses in the new Medium-Term Management Plan?

Core Businesses: Strengthen the supply lineup

Leopalace21 has achieved growth up to now through a large supply of mainly one-room studio apartments for young people. However, tenant turnover is considerable, with 300,000 cancellations and new contracts following cancellations each year. Around 20% of those who leave their apartments move to a larger residence. Products able to accommodate such residents would curb the number of tenants leaving, and stimulate new demand. Following this reasoning, Leopalace21 expanded from its specialty in providing one-room units in industrial districts and the three major urban areas of Tokyo, Nagoya and Osaka, and from fiscal 2008 introduced a private residence with attached lease units (Lavo cerna), a large-type one-room unit (LEPIDO), and a family-type unit (Lavo familia). Offering units suitable for family use, such as a large-type 1K (one room plus a kitchen), and large-type 1LDK (one room plus a living room/dining room/kitchen) and 2LDK (two rooms plus a living room/dining room/kitchen), allows Leopalace21 to provide a one-stop service for residents from one-room to family-use needs.

As part of this broadening of business, Leopalace21 has also expanded its supply area to include suburban areas of major urban areas, along with regional cities. This helps to distribute risk so that we do not lean too heavily on corporate demand or temporary staff, and enhances our ability to offer solutions to prospective new owners. It also helps to increase the earnings in the Leasing Business by securing a stable level of tenants, even if earnings decline in the Apartment Construction Subcontracting Business.

Note: See the Feature Story on pp. 10–15 and Overview of Operations on pp. 16–23 for further details on the new Medium-Term Management Plan, "Change for NEXT."

Related Businesses: Enhance monitoring

Leopalace21 will revise and clarify its priorities for the related businesses and subsidiaries. The business areas we will give special attention to are those with a close connection to core businesses and strong performance, mainly Leopalace Insurance Co., Ltd. and Leopalace Leasing Corporation.

Those businesses not closely related to the core businesses or that are showing weak performance, such as the domestic hotel and overseas resort businesses, will be placed under a program of enhanced monitoring, including cost reductions and curbs on new investment. The priority for these businesses will be improving earnings.

Q What measures are you taking for CSR?

CSR means providing even greater corporate value

Leopalace21 considers providing more corporate value for all stakeholders to be its highest management priority.The basis of this philosophy is corporate actions that provide efficient, fair, and transparent management. The new Medium-Term Management Plan lays out an organizational structure for effective corporate governance, with the CSR Committee overseeing the Administrative Headquarters and the Management Planning Headquarters, while the Compliance Committee and the Risk Management Committee focus on business activities. We are also considering bringing in outside directors to enhance management centered on corporate governance.

Leopalace21's corporate value lies in its ability to offer landowners a way to effectively utilize their assets, and to provide tenants with good-quality residences. A high degree of satisfaction with such supply and demand is the CSR that we believe we should offer society.

Q Finally, what message do you have for stakeholders?

Advice for Leopalace21 employees

I began working for Leopalace21 at the age of 22, inspired by the Company's founder. My success was in part due to the vigor of youth, but the relationships of trust I established with the founder and others were also significant. It is my hope that young people today form closer relationships with others. Such interactions reveal the degree to which you can express yourself successfully. Leopalace21 employees are in general serious people. Their average age is younger than that of our competitors, but they have earned a high level of trust from landowners. Leopalace21 employees conduct neighborhood cleanup activities together with owners for the apartment buildings and surrounding areas as part of our CSR program, and I believe that it is this interaction with owners that helps to deepen their communication skills.

The new Medium-Term Management Plan as a commitment to shareholders

The new Medium-Term Management Plan is our commitment to shareholders. We will work to enhance the value of the Apartment Construction Subcontracting and Leasing businesses that are at the heart of our business, with the aim of building a solid operating foundation that can weather the wide swings in the business climate. The only way to achieve this is to listen carefully and understand the needs of each individual customer, and address them one at a time. Through a concerted effort, we will raise our corporate value. I hope I can count on the understanding, support, and dedication of all stakeholders.

Interview with the Chief Financial Officer

Q What is the *Motazaru Keiei* concept?

Motazaru Keiei is our keyword for a return to the basics

After the collapse of the bubble economy in the 1990s, the industry began to realize that the focus on "ownership" was a product of an ever-increasing age. It was at this point that Leopalace21 decided to adopt a business model of "no assets, no debt." The new Medium-Term Management Plan, formulated under conditions not unlike those at that time, was a reaffirmation that "non-ownership management" was the essence of a going concern, and sought to return Leopalace21's focus to its core businesses. *Motazaru Keiei* is the keyword driving that process.

Through *Motazaru Keiei* management, we will:

- Curb capital expenditures and hold fixed costs level
- Increase current assets though sales activities
- Achieve ROA of 5% and an equity ratio of 38%
- Reach total assets turnover of 1.57 times

Management not dependent on the balance sheet

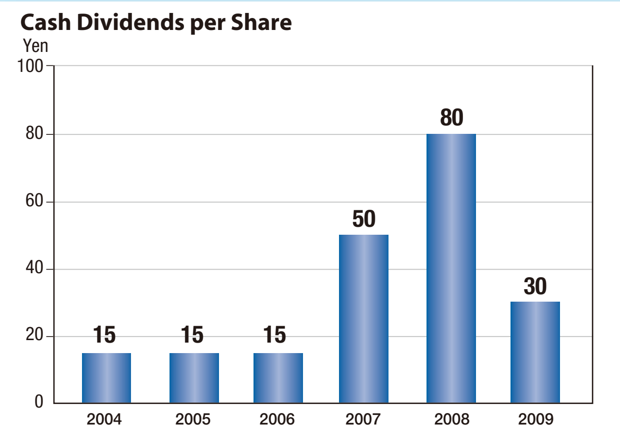
Leopalace21 does not eschew investment completely, of course. We make necessary investments, such as those to strengthen our core businesses. One specific example, part of a strategy to broaden the channels for acquiring tenants, was the creation of a website designed for real estate agents, and holding of regular meetings with agents to boost the average number of leases per agent from the current 1.2 to 2 or more. We also developed a website specifically for corporate customers, allowing employees to directly request units without involving the human resources department.

Leopalace21's network of owners and tenants is linked by the added value we provide. That is why building liquid assets through sales activities, or increasing fixed assets through capital expenditures, does not necessarily enhance our essential corporate value. We aim for management that does not depend on the balance sheet.

Q What are your policies regarding dividends and other forms of shareholder returns?

Maintaining a payout ratio of 30%

Leopalace21 places a high priority on providing returns to shareholders. Our policy calls for maintaining a payout ratio of 30%, and in fiscal 2008 we paid an interim dividend of ¥30 per share. However, considering our final results for the period, the payout ratio and an economic situation clouded by a lingering recessionary mood, we decided to forgo the year-end dividend. For fiscal 2009, we will strive to achieve the targets of the Medium-Term Management Plan, and expect to maintain a payout ratio of 30%. The same holds true for the shareholder special benefit program for Leopalace Resort.



Hiroyuki Miyata,
Senior Executive Officer, Head of the Administrative Headquarters

The Financial Crisis as Turning Point: A New Medium-Term Management Plan for a New Stage of Growth

The new Medium-Term Management Plan, "Change for NEXT," was formulated as Leopalace21 steered to avoid disaster amid the sudden shifts in the business environment brought on by the financial crisis. The new plan, developed as a return to the basics of the core businesses, lays out fundamental measures to be implemented according to a three-year roadmap. The aim of the plan is for Leopalace21 to make a concerted effort as a corporate group to revise the business structure to be adaptable to sudden shifts in the business climate, to improve profitability in the core and related businesses , and to implement other measures that will build a foundation for the next stage of growth.

Roadmap for the New Medium-Term Management Plan

April 2009 → April 2010 → April 2011 → March 2012

April 2009 – April 2010	April 2010 – April 2011	April 2011 – March 2012
● Reform business structure to allow response to sudden changes in the business environment	● Improve earnings through implementation of strategies for each business	● Move to next stage of growth on completion of business restructuring

Business/Financial Strategy

April 2009 – April 2010

- **Structural reform**
  Begin restructuring aimed at integrated management of the Apartment Construction Subcontracting and Leasing businesses. Strengthen administrative structure for related businesses, and establish committees to address specific management issues.
- **Core businesses (proactive marketing)**
  Increase variation in available units with sales of 1K, large 1K and family-type unit. Revise business and earnings structure for the Leasing Business.
- **Related businesses**
  Focus on priority businesses, consider reallocation of management resources.
- **Management streamlining**
  Reduce operating and fixed expenses.

April 2010 – April 2011

- **Core businesses**
  Offer broad range of units through a full product lineup, and secure new tenants.
- **Related businesses**
  Pursue external strategies through business tie-ups and outsourcing.

April 2011 – March 2012

- **Core businesses**
  Continue and accelerate integrated management of the Apartment Construction Subcontracting and Leasing businesses.

Target (Benefits)

April 2009 – April 2010

- Strengthen governance
- Secure orders for the Apartment Construction Subcontracting Business
- Improve income for the Leasing Business
- Concentrate management resources in core businesses
- Fundamentally reform the cost structure

April 2010 – April 2011

- Increase earnings for the Leasing Business
- Scale back related businesses

April 2011 – March 2012

- Achieve profitability for the Leasing Business

Main Points of the New Medium-Term Management Plan

A Fresh Start That Gets Back to Basics

The goal for the first year of the new Medium-Term Management Plan is to transform the business structure so that it is better able to adapt to sudden shifts in the business climate. Senior Managing Director Eisei Miyama, head of the Management Planning Headquarters, has noted, "The foundation of the new Medium-Term Management Plan, based on a careful reflection on the substantial damage to the previous management plan caused by the financial crisis, is to return squarely to the original business structure of the core businesses." The four main strategies to achieve this are: (1) strengthening corporate governance through organizational reform; (2) concentrating management resources into the two core businesses of Apartment Construction Subcontracting and Leasing; (3) fundamentally revising the cost structure; and (4) carefully managing numerical targets. The focus is on building an earnings structure that will be resilient even if the economy does not immediately recover.

Stronger Corporate Governance

Leopalace21 has two aims in strengthening corporate governance. The first is to organically separate management functions to allow for timely decision-making from a comprehensive perspective. Leopalace21 has grown to a size in which it manages more than 500,000 units, making control solely through top-down management difficult. Under the new Medium-Term Management Plan, Leopalace21 will establish five committees, including an IT Committee, Investment Committee, and Construction/Leasing Unification Committee. The Construction/Leasing Unification Committee, for example, will use information and feedback obtained from worksites and lease properties to consider the future direction of business from a variety of angles. The issues raised in committees will be submitted to the Management Committee for decision. "This process will enhance management transparency," says Director Miyama.

The other goal is to clarify roles and responsibilities. Specifically, the focus on core businesses will be clarified by unifying the leasing, subcontracting and construction divisions under a Sales and Marketing General Headquarters, and consolidating related businesses under a Related Businesses Headquarters. The idea is to streamline operations by shifting personnel in the business planning and administrative divisions to the sales divisions of core businesses.

Renewed Focus on *Motazaru Keiei* to Reduce Costs

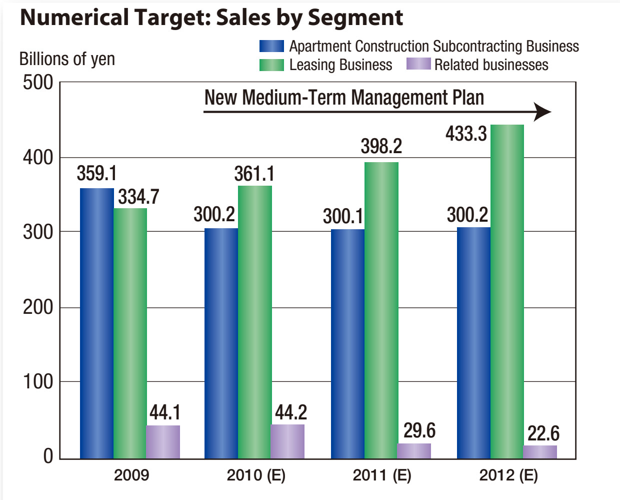
Leopalace21 is altering the fundamentals of its cost structure. This includes a renewed focus on *Motazaru Keiei*, the concept of earning profits without owning land or maintaining business offices. "Reform of the cost structure is vital," explains Director Miyama.

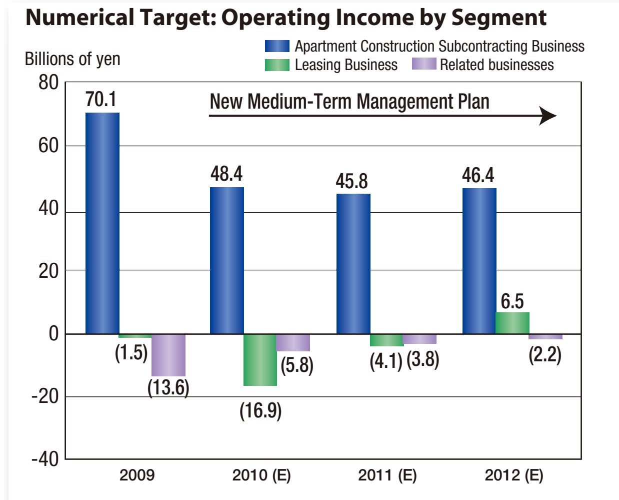
Eisei Miyama
Senior Managing Director, Head of the Management Planning Headquarters

"We want to determine the extent to which we can enhance performance by consolidating business offices, and incurring as little cost as possible." Leopalace21 has already consolidated 100 leasing office locations. The question then becomes how to find and attract tenants. "The alliances we have been forming with real estate agents since the latter half of 2008 have begun to produce results," says Miyama. Leopalace21 has many years of in-house experience with methods of attracting potential residents. However, with the number of units under management now more than 500,000, we have reached a new stage of stronger ties with real estate agents. For the new products launched on the market last year, Leopalace21 accepted the common industry practice of charging a security deposit and gratuity to the landlord. "This was to put us on the same page as the real estate agents," explains Miyama. "We have already begun to see the benefits, with the number of lease contracts in the first quarter for the new Medium-Term Management Plan up 1.3 to 1.4 times that of the same period of the previous fiscal year. Leopalace21 expects to lower the ratio of sales and general administrative expenses by around 2 percentage points by the third year of the new plan, equivalent to around ¥13,800 million.

Management of numerical targets will also be linked to the leasing asset liability management (ALM) system* currently in development. Once completed, the leasing ALM system will allow detailed cost control for each apartment complex on a nationwide level. Cost control will also allow for comprehensive management of earnings. Cost control and management of earnings for every apartment complex nationwide will enhance earnings in the Leasing Business, and provide growth for the Apartment Construction Subcontracting Business. The entirety of investment during the fiscal year ending March 2010 is being directed into this leasing ALM system and a hotel in Sendai. All other investment has been temporarily suspended.

* The leasing ALM system is an IT system to support optimal management of apartment units. See page 20 for details.





Note: Amounts shown are prior to inter-segment eliminations.

The Changing Nature of Leopalace21

Unification of the Leasing and Apartment Construction Subcontracting Businesses

The concentration of management resources and unification of core businesses is one of the major aims of the new Medium-Term Management Plan. Tadahiro Miyama, Executive Director of Management and head of the Sales and Marketing General Headquarters, explains that the unification stems from the decline in the occupancy rate since the financial crisis. As manufacturers implemented hiring freezes and other measures as part of the scaling back of production, areas where factories are located experienced widespread outflows of tenants. These outflows and the fall in the occupancy rate prompted Leopalace21 to revise the way it conducts business.

Up to this point, there has been a division between the Leasing Business and the Apartment Construction Subcontracting Business, despite both being under the same corporate umbrella. The Apartment Construction Subcontracting Business sold to the landowner, drawing profit from the construction of apartment buildings, while the Leasing Business focused on individuals and corporations, earning profit from leasing. The businesses functioned differently because of the difference in the customer target. However, in the current economic environment tenants no longer automatically fill the apartments being built, and it has become difficult to secure sufficient earnings with the two businesses acting separately. "Earnings in the Apartment Construction Subcontracting Business were considerable, which linked to the Company's growth," explains Director Miyama. "Going forward, however, it is important for us to consider the earnings from both businesses, and find a way to respond to shifts in the environment in a timely manner." Interaction between staff members of the Leasing and the Apartment Construction Subcontracting businesses has already begun. By thoroughly examining the characteristics of each particular area, including the reasons for the fluctuations in the occupancy rate, and by conducting in-depth planning and considering the requirements for apartment layouts, the exchange of detailed information between the two core businesses is helping drive the development of new products.

A "One-Stop Solution" Strategy

The unification of the Leasing Business and the Apartment Construction Subcontracting Business is also closely related to product strategies. A full 95% of the units managed by Leopalace21

Tadahiro Miyama
Executive Director of Management, Head of the Sales and Marketing General Headquarters

Residences for Changing Life Circumstances

1K
University students, new recruits, etc.
(including temporary housing)
→
Large-type 1K
Adults, DINKs, etc.
(including employees on extended assignment)
→
Family Units
Families, etc.
(including sharing with roommates)

are one-room (1K) apartments. The problem with a lineup consisting mainly of one-room units is that if tenants get married, there are few choices when it comes to finding a new residence, and so they move out. To address this problem, Leopalace21 has introduced large 1K and family-type units. These new products allow Leopalace21 to retain as customers the tenants who move from regular one-room units. This "one-stop solution" strategy is another of the central pillars of the new Medium-Term Management Plan.

The one-stop solution strategy allows Leopalace21 to develop new sales channels. "The focus of the Apartment Construction Subcontracting Business on one-room units limited the scope of sales to cities and other specific areas, and by offering family-type units we expand sales to new areas," says Director Miyama. "This will also change the image for Leopalace21 from a provider of one-room units to include families as well, and lead to growth in demand." By offering a full product lineup, the Apartment Construction Subcontracting Business will be able to expand its marketing from one-room units in major urban centers and government-designated cities to include family-type units in suburban areas.

Greater Emphasis on Corporate Marketing

Leopalace21 is also shifting its focus for corporate marketing to a one-stop solution strategy. Despite being the undisputed leader in one-room units, Leopalace21's share of the corporate market is only 10%. Director Miyama is confident that in the current recession Leopalace21 is able to offer corporations something that other housing companies cannot in terms of corporate dorms and company housing. With an eye toward increasing its market share, Leopalace21 is setting its sights on cuts in corporate benefit expenses, and offering a flexible response to the demand for corporate dorms and company housing. Along with expanding the product lineup, "Leopalace21 is able to offer a wide range of solutions as a provider of apartment rental services," stressed Director Miyama. This is because of the master lease agreements Leopalace21 has with apartment owners, together with the advantage of scale provided by more than 500,000 units under management. Leopalace21's nationwide chain of apartments allows it to offer units with a common standard and equal format. The ability to offer distinctive products is also a significant factor.

Monitoring Is the Watchword for Related Businesses' Strategies

Improving Earnings Is the Highest Priority

With the concentration of management resources in core businesses under the new Medium-Term Management Plan, Leopalace21 is prioritizing related businesses, and stepping up its monitoring. The strategic businesses under the previous medium-term management plan, including the Silver, Domestic Hotel, Overseas Resort, and Residential Sales businesses, have been consolidated under related businesses and designated as areas for increased monitoring. At the same time, Leopalace Insurance Co., Ltd. and Leopalace Leasing Corporation, because of their strong connection to core businesses, will be strategically developed as subsidiary businesses in alliance with the core businesses.

The person overseeing all the related businesses, with the exception of the subsidiary businesses of Leopalace Insurance and Leopalace Leasing, is Director Yoshikazu Miike. "I have been placed in charge of all the related businesses so that the other directors can focus on the core businesses," says Director Miike. "I will do my best to improve earnings in the Residential Sales, Silver, Domestic Hotel, and Overseas Resort businesses." Despite this huge responsibility, Miike says that "Finding ways to reduce losses and achieve profitability is a real challenge. I am looking forward to it."

Initiatives for Each Business

The businesses to be strengthened will be separated into those businesses where the priority is on improving the balance of revenue and expenditure, and those where the focus is on internal development in anticipation of a recovery in the economy. The former are the Silver and Residential Sales businesses. The main issue for the Silver Business is the low occupancy rate for facilities, due mainly to the time needed to reach resident target numbers. “We have built Azumien locations on the idle land of apartment owners, but have no plans to increase the number of facilities,” says Miike. The focus will be on raising the occupancy rate at the current business scale, and improving the balance of revenue and expenditure.

For the Residential Sales Business, which posted a loss of ¥10,665 million in the fiscal year ended March 2009, Leopalace21 plans to continue to conduct business at a minimal level, and will not acquire any new properties for sale.

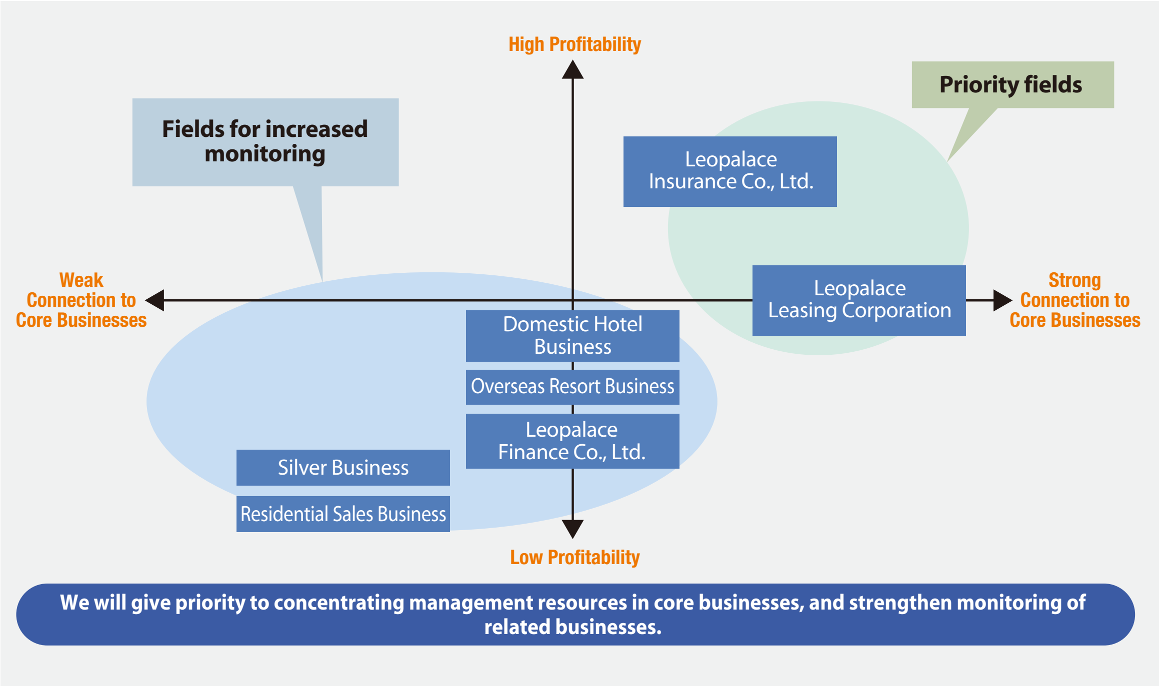
The Domestic Hotel Business has suffered from a decline in corporate demand due to the economic recession, and on the assumption that the economy will not recover quickly, the priority will be on increasing employee motivation and other internal reforms. The “Smile Campaign” is one example. The more employees smile,

Yoshikazu Miike
Director, Head of the Related Businesses Headquarters

the greater the customer satisfaction. The focus will be on such basic aspects of the service industry. This will also be implemented for the Silver and Overseas Resort businesses, says Director Miike. For the Overseas Resort Business, with travel to Guam down overall, Leopalace21 will strengthen its marketing by drawing on the strengths of its sports and general resort facilities, while also reforming operations and cutting costs.

Orientation of Related Businesses and Subsidiaries

■ Management resources will be concentrated in core businesses during the new Medium-Term Management Plan→**Related businesses will be prioritized.**



Japan's Rental Housing Market and Leopalace21

Outlook for Japan's Rental Housing Market

The number of Japanese households in leased residences rose by three million over the 15 years from 1990 to 2005. Despite such negative factors as stagnant population growth, a declining birthrate and an aging population, along with asset deflation, the rental housing market has continued to grow. The driver has been single person households. The number of households in privately owned rental housing rose from 10.21 million in 1990 to 13.00 million in 2005, with the proportion of single person households increasing by around 10 percentage points, from 4.91 million (48%) to 7.35 million (57%). These renters are mainly young persons up to 34 years old, and as the number of single person households rises in tandem with the trend toward later marriage and more people choosing to remain single, these young people accounted for 44% of renters as of 2005.

For the landowners who invest in these properties, during the era of rising land prices (until 1990) rental housing was a means of lowering taxes, while since the era of land price deflation (from 1990) it helped avoid higher taxes on idle residential land. Investors also turned to apartments in the face of falling stock prices and lower yields on bank deposits. Reductions in corporate benefits and cutbacks in corporate dormitories have also contributed to the increase in demand for rental housing.

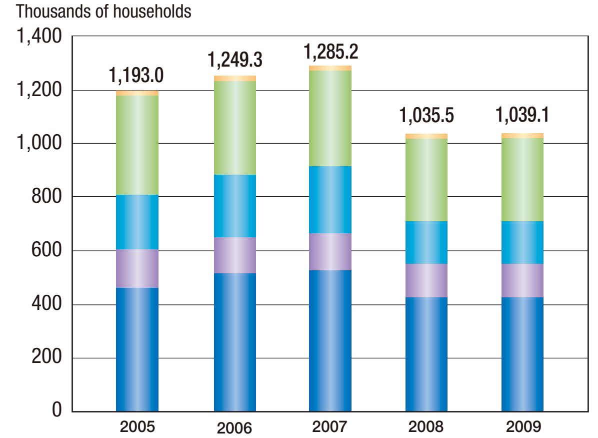
The Rise of Rental Housing Construction and Management Companies

Rental housing construction and management companies, such as Leopalace21 and Daito Trust Construction Co., Ltd., have since the latter half of the 1990s offered a package service for apartment construction and management. They provide landowners who would prefer not to manage their own rental property with rent guarantees and a master lease service (subleasing), as well as standardization of construction specifications for one-room units, and the acquisition of tenants. These companies provide enhanced convenience for renters by offering monthly and other short-term rentals, furnished apartments and other services, following a growth track using a business model that differentiates them from local property companies and building contractors.

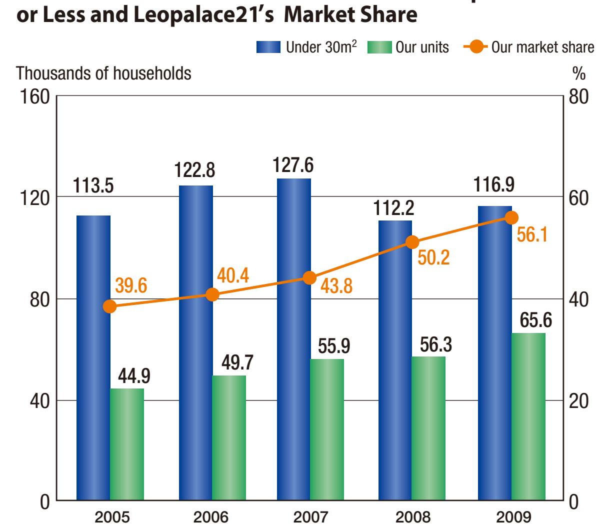
As of 2008, the three leading firms of Leopalace21, Daito Trust Construction Co., Ltd. and Sekisui House, Ltd. had a combined total of approximately 1.4 million units* under management. Leopalace21 had the top share (56%) of new housing starts for rental properties of 30 square meters or less.

* Source: *Shukan Zenkoku Chintai Jutaku Shimbun*, 2008 Nationwide Ranking of Number of Units under Management from 720 Companies (July 28, 2008).

New Housing Starts (by Use)



Number of Starts of Lease Residences of 30 Square Meters or Less and Leopalace21's Market Share



Sources: Housing Starts Statistics of the FY Ended March 2009; Ministry of Land, Infrastructure, Transport and Tourism; our figures.

Single Person Households Increasing, Growing Older

The number of single person households, including public housing, is anticipated to rise from 12.91 million in 2000 to 18.24 million by 2030, with the increase consisting mainly of middle-aged persons 35 and older, and elderly households 65 and older. Such long-term estimates are also part of the reason for Leopalace21's shift to housing for older residents and family-type units.

Overview of Operations

Leopalace21 is working to reform its business structure under its new Medium-Term Management Plan, “Change for NEXT.” We are concentrating management resources in the two core businesses that account for 95% of revenue (Apartment Construction Subcontracting and Leasing) in order to strengthen the foundations for a new stage of growth.

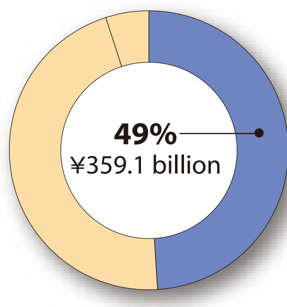
At a Glance

Core Businesses

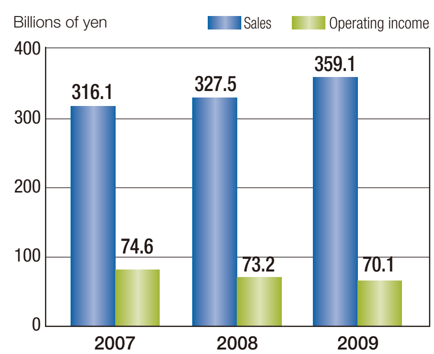
Apartment Construction Subcontracting Business

The Apartment Construction Subcontracting Business mainly handles construction under contract, providing landowners with one-room apartments that are low-cost, while offering energy efficiency, high durability, and stylish design. Finished buildings are managed by the Leasing Business on an all-inclusive 30-year contract. The business had 126 locations as of the year ended March 2009 (down four year on year).

Sales (Year ended March 31, 2009)



Sales and Operating Income



Related Businesses

Leopalace Leasing Corporation

Leopalace Leasing provides a corporate dormitory agency service to support the corporate strategies of the Leasing Business. It is also expected to be a stepping stone to the family-type apartment business. Established September 2006.

Leopalace Finance Co., Ltd.

Leopalace Finance provides real estate-backed loans and other financial services. Established April 2007.

Leopalace Insurance Co., Ltd.

Leopalace Insurance sells household goods insurance to individuals and corporate clients renting apartments through the Leasing Business’s nationwide network of leasing centers. Launched in March 2008.

Silver Business

The Silver (elderly care) Business plans and develops community-based elderly group homes, nursing homes, and other facilities to meet the demands of an aging society. Launched in January 2005, the business had 49 institutions as of the year ended March 2009.

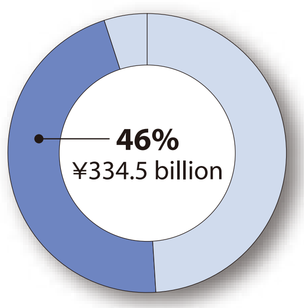
Overseas Resort Business

The Overseas Resort Business, operated by the wholly owned subsidiary Leopalace Guam Corporation, consists of the large-scale resorts Leopalace Resort Manenggon Hills Guam and the Westin Resort Guam.

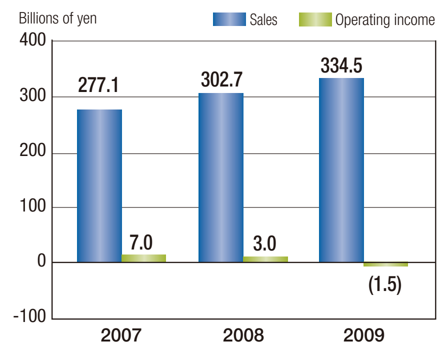
Leasing Business

The Leasing Business handles lease properties with a lease period of six months or longer, as well as monthly rental contracts for furnished apartments. With more than 500,000 units under management, Leopalace21 is looking to use the leasing ALM system to turn the business into a residential property asset management company. The business had 291 locations as of the year ended March 2009 (down 20 year on year), with 507,000 units under management (up 65,000). The Broadband Business, one of the former strategic businesses, was integrated into this business from the fiscal year ending March 2010.

Sales (Year ended March 31, 2009)



Sales and Operating Income (Loss)



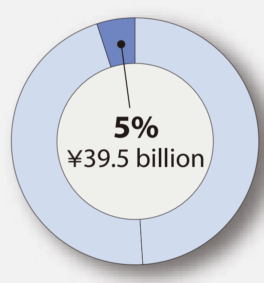
Domestic Hotel Business

The Domestic Hotel Business operates hotels in major cities throughout Japan, based on a model of reasonable prices and easy accessibility. Hotels also function as business offices for core businesses, and regional sales offices. There are eight hotels nationwide.

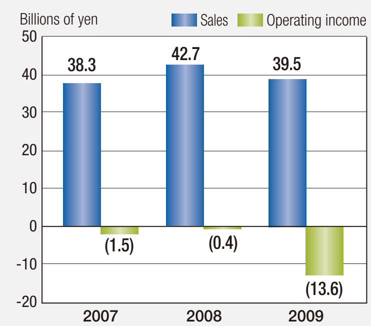
Residential Sales Business

The Residential Sales Business consists mainly of the detached home sales from the former Residential Business. Leopalace21 has placed a temporary freeze on new real estate investment.

Sales (Year ended March 31, 2009)



Sales and Operating Income (Loss)



Notes: 1.The segment results shown for our Hotel Resort Business, Residential Sales Business and Other Business are included within Related businesses.
2.Amounts shown in graphs are after inter-segment eliminations.

Core Businesses

Apartment Construction Subcontracting

Leopalace21 is pursuing a strategy of broadening its product lineup from mainstay one-room apartments to include large-scale, one-room and family-style units.

The impact of the economic recession and financial market turmoil

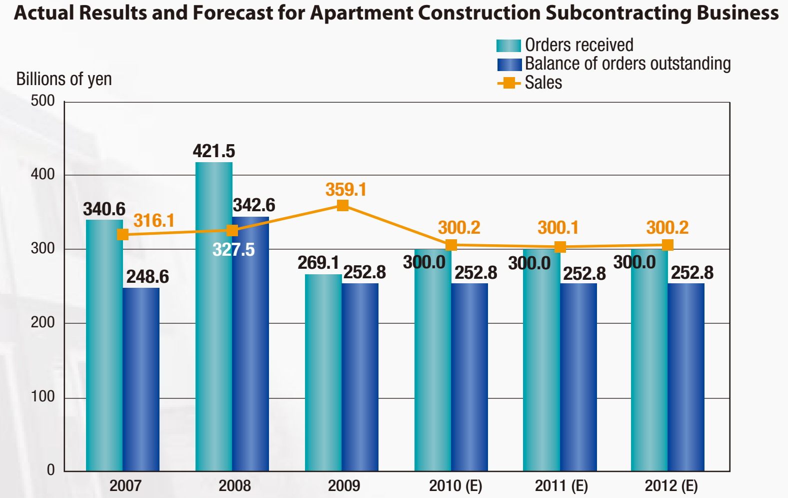
The turmoil in financial markets in the latter half of 2008 caused a rapid deterioration in the business environment for Leopalace21, including the collapse of the non-recourse loan market that provided our main source of financing. As a result, orders for the fiscal year ended March 2009 were down 36.2% year on year, a sharp decline from the 10% annual growth in orders Leopalace21 has recorded in recent years. Sales rose 9.7% from a year earlier to ¥359,155 million on the completion of apartment buildings from the order backlog at the end of the previous fiscal year, though operating income declined 4.3% to ¥70,113 million. The number of units available increased by 65,600 units, up 16.5% from a year earlier. As a result, Leopalace21 had a 56.1% share of housing starts of 30 square meters or less. Overall, the need to develop attractive products and implement strategic marketing to achieve a recovery in orders became clear.

Strengthening the product lineup

Leopalace21 has until now concentrated on building fully functional one-room (1K) units, incorporating such amenities as appliances, furnishings and broadband Internet connections, in Japan's three major urban areas (around Tokyo, Osaka and Nagoya). However, with the number of units available for the Leasing Business at over 500,000 units, the previous model of building and leasing standardized one-room (1K) apartments needs to be revised. It is also necessary for us to develop products that will allow Leopalace21 to address the needs of existing tenants seeking to move to a different residence, to provide company housing and meet other types of corporate demand, and to expand into a wider operating area.

In June 2008 Leopalace21 launched Lavo cerna, a private residence with attached lease units. This was followed by the launch in November 2008 of LEPIDO, a large-scale one-room unit, and in July 2008 by the family-type unit Lavo familia. The offering of a full product lineup allows Leopalace21 to expand its marketing operations into areas where it was previously difficult to win orders because the product did not meet certain conditions. The development of family-type and other large-scale units not only gives property owners a wider range of options, but is also beneficial in the securing of financing.

Actual Results and Forecast for Apartment Construction Subcontracting Business



Strengthening the product lineup and regional strategies

Secure orders and expand supply to spur the Leasing Business ▶ **Offer a full product lineup by introducing residences with attached lease units, large-type 1K and family-type units**

Offer a full product lineup with Specialized 1K units

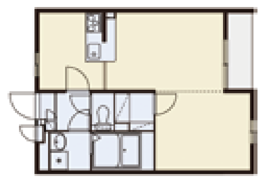
Traditional 1K
Leopalace21 Series
"Con Grazia"
($19.87m^2$–$23.18m^2$)

(Living area $12.4m^2$)

NEW
Residence with
Attached Lease Unit
LEO NEXT Series
"Lavo cerna"
($21.65m^2$–$56.04m^2$)

(Living area $33.0m^2$)

NEW
Large-type 1K
LEO NEXT Series
"LEPIDO"
($26.08m^2$–$37.26m^2$)



(Living area $20.13m^2$)

NEW
Family-type Unit
LEO NEXT Series
"Lavo familia"
($40.26m^2$–$56.45m^2$)

(Living area $30.58m^2$)

Urban areas (city centers, commercial districts) — Suburban areas (outlying neighborhoods, regional cities)

Increase supply in areas with high demand

One room upgrade | **Family use**

Broaden range of tenant targets with new products

Sales measures to achieve a recovery in demand

Leopalace21's new Medium-Term Management Plan, "Change for NEXT" incorporates a variety of measures aimed at achieving a recovery in demand. One of these is attracting more property owners with a fuller product lineup, in order to increase the number of new, repeat and referral customers. Specifically, we are expanding "Class L," a member service organization for apartment owners that works to deepen communication with apartment owners through such means as social gatherings, and a new support organization. The expansion of "Class L" will strengthen ties with existing apartment owners, while also helping to increase the number of repeat and referral customers.

To help ensure a smooth recovery in orders, Leopalace21 also launched new financing initiatives in response to the shock following the collapse of the non-recourse loan market. We have worked to stabilize financing since the latter half of 2008 by supporting the use of public financing from the Japan Housing Finance Agency, and affiliated loans.

Outlook for the next fiscal year

For the first fiscal year of the new Medium-Term Management Plan, ending March 2010, Leopalace21 plans to secure ¥300,000 million in orders, mainly by strengthening marketing focused on new products. The order backlog was down sharply at the end of the subject fiscal year compared to a year earlier, and we forecast sales for the fiscal year ending March 2010 to decline 16.4% year on year to ¥300,200 million. We anticipate that operating income will fall sharply, down 31% year on year to ¥48,400 million (¥70,113 million in the subject fiscal year). A cautious stance in the Apartment Construction Subcontracting Business in the new Medium-Term Management Plan has the revenue forecast for this business below that of the Leasing Business, but in terms of earnings we anticipate that the business will remain the earnings driver for the entire company over the next three years. (Forecast figures are prior to inter-segment transactions.)

Core Businesses

Leasing

Leopalace21 has implement a three-year program of measures, including innovation in marketing strategies, to turn around the decline in the occupancy rate caused by large numbers of lease cancellations.

Operating loss due to decline in the occupancy rate

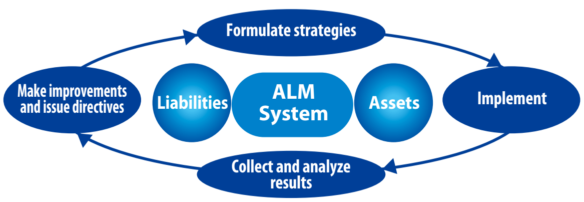
The number of units built under contract and managed by Leopalace21 nationwide reached 506,742 during the fiscal year ended March 2009. Geographically, most of these are concentrated in Japan's three major urban areas around Tokyo, Osaka and Nagoya, with these three regions accounting for 65.8% of the total. While the number of units under management has steadily risen, occupancy declined from the previous fiscal year, falling to 88.5% in the subject fiscal year as a result of large numbers of lease cancellations centered on manufacturing areas, stemming from the economic downturn. Sales rose 10.5% year on year to ¥334,561 million on the back of an increase in the number of units under management, but the business posted an operating loss of ¥1,539 million for the year due to the decline in occupancy rate. Improving the occupancy rate and earnings is a priority issue.

Measures to improve the occupancy rate and earnings

Leopalace21's new Medium-Term Management Plan incorporates a variety of measures aimed at improving the occupancy rate and earnings. The key is optimization of lease rates and maximization of lease income, along with effective marketing measures to support this. For the optimization of lease rates, it is important to develop a sophisticated capability to manage by area both assets, the lease fees earned from apartments, along with liabilities, the rent payments for the units. Leopalace21 is currently building a new asset liability management (ALM) system, which is expected to go into full-scale operation from spring 2010. This system will allow Leopalace21 to get a picture of the sales and earnings figures for each property in a timely manner. The ability to manage earnings by property will then allow Leopalace21 to analyze performance by area and product, which will be a major asset in terms of sales strategy.

Leasing Asset Liability Management (ALM) System

Leopalace21 is developing a comprehensive management system to help optimize apartment management through multifaceted analysis and monitoring. The system is scheduled to go into operation from May 2010.



Support for successful implementation of strategic measures

- Maximize total profit between Apartment Construction Subcontracting and Leasing businesses
- Find the best balance between leasing income and master lease expenses
- Lease reform to maximize lease income and occupancy
- Optimize property refurbishment costs

Increase earnings in the Leasing Business

Alliances with real estate agents

Leopalace21 is shifting its marketing strategy from expanding business locations and hiring more personnel in favor of integration of offices, and drawing on external resources such as real estate agents. Stronger ties with real estate agents are particularly necessary to secure residents for 1K units in regional cities. As part of its strategy to increase the number of affiliated agents and residence contracts concluded through real estate agents, Leopalace21 is implementing focused measures that include forming trade associations, and building a special website for affiliated firms. The number of affiliated agents reached 21,550 during the fiscal year ended March 2009, and we plan to expand this to 26,000 firms during the fiscal year ending March 2010.

Strengthening marketing to corporations

Corporate leases, which had accounted for more than 40% of all units under management during the previous fiscal year, declined following the large number of cancellations in the latter half of 2008. However, the economic slowdown has made cutting benefit costs a priority for companies. Leopalace21 is helping companies cut costs by pooling sublease properties nationwide to allow for a more flexible response to demand for corporate dormitories and housing. In addition to stronger marketing for existing 1K units, Leopalace21 plans to stimulate latent demand among corporate clients with its new large-scale 1K and family-type units. Further, to enhance sales efficiency Leopalace21 has revised its sales method of attracting residents by business location within a corporation, in favor of a greater focus on the head offices of corporate groups, and gaining lease contracts by corporate groups.

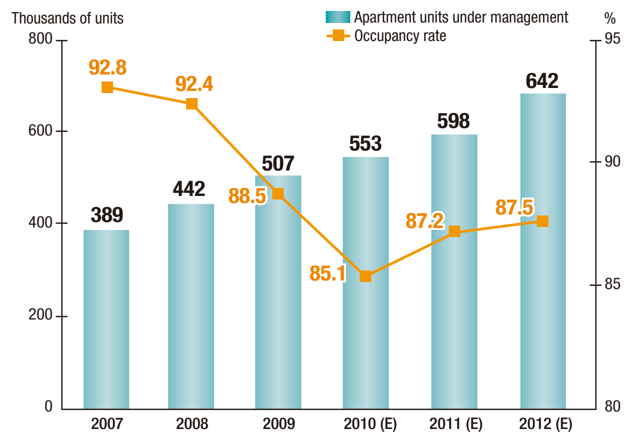
Attracting residents overseas

Japan's low birthrate, growing number of the elderly and declining population makes it impossible over the long term to rely solely on domestic demand. Leopalace21 opened an office in Seoul in 2002 to develop demand overseas, and now has three locations in South Korea (two in Seoul and one in Pusan), and one office in Taiwan (Taipei). In China we established a local subsidiary in Shanghai in July 2009, then opened an office in Beijing in August. We plan to open at three more locations in China as part of the new three-year Medium-Term Management Plan.

Outlook for the next fiscal year

Corporate earnings have begun to recover, but Leopalace21 maintains its cautious stance, and forecasts that the occupancy rate in the fiscal year ending March 2010 will fall 3.4 percentage points from the previous fiscal year to 85.1%.

Apartment Units under Management and Occupancy Rate



However, we anticipate that as a result of the launch of new products and various marketing measures that the occupancy rate will gradually rise from the second year of the new Medium-Term Management Plan. Sales for the fiscal year ending March 2010 are forecast to rise 7.9% year on year to ¥361,100 million, due mainly to an increase in the number of units under management, and the integration of the Broadband Business into the Leasing Business during the period. In terms of earnings, Leopalace21 forecasts an operating loss for the fiscal year ending March 2010 of ¥16,900 million, due to the impact from the decline in the occupancy rate. However, we expect earnings to gradually improve as a result of the integration of business offices and other efforts. (Forecast figures are prior to inter-segment transactions.)

Sales strategies

Establish a structure to secure earnings → Optimize lease rates; implements measures to retain and increase number of tenants

Makeup of managed properties, and strategies to maximize lease income and secure tenants

Existing properties (mainly 1K)

- (Regional cities): Maximize rent income by optimizing rent levels
  - Enhance use of real estate agents
  - Increase number of corporate clients
- (Major cities): Systematically revise rent levels in areas with high demand
  - Make securing tenants relatively easy

New properties supplied from FY2010/3

- 1K (Government-designated cities)
  - Freeze supply of 1K units except in government-designated cities
- Large-type 1K / Family-type (Nationwide): Increase earnings by raising rent levels
  - Latent demand among corporate clients; tenants already in 1K units move to new apartments

Related Businesses

Related businesses account for 5% of sales. Leopalace21 freezes or develops individual business fields, depending on the degree of their relation to core businesses. The swift restoration of profitability is a priority issue in the new three-year Medium-Term Management Plan.

Residential Sales

The Residential Sales Business comprises the former Residential Business and Strategic Real Estate Development Business, with revenue consisting mainly of sales of the residences of the former Residential Business. Leopalace21 entered the Residential Business in January 2005, expanding sales of residential units mainly in the three major urban areas of Tokyo, Osaka and Nagoya. However, the business environment deteriorated sharply with the weakening of the real estate market from the latter half of 2007, along with the impact from the financial crisis in the latter half of 2008, and sales for the fiscal year ended March 2009 amounted to ¥11,469 million, against a target of ¥15,000 million. Anticipating that demand would remain soft for the foreseeable future, Leopalace21 revised the earnings structure for the business, including ceasing new land purchases and liquidating inventories. New investment in the Strategic Real Estate Development Business has also been frozen in accordance with the policy of concentrating management resources in core businesses.

Silver Business (Elderly Care)

The Silver Business, like the former Residential Business, had grown at a rapid rate, with the number of facilities increasingly mainly in urban areas. The number of facilities rose by 14 during the fiscal year ended March 2009, to 49 locations. However, sales for the same period fell well below plan, declining 28.8% year on year to ¥7,953 million. The business also had operational difficulties, including a shortfall in the number of residents compared to plan. The key to success in the Silver Business is the operations once construction of the facility is completed. We are focusing on training care staff and building other types of operational expertise, and will step up efforts to attract residents and raise the occupancy rate.

Azumien Abiko
The facility opened in Abiko, Chiba in July 2008.

Overseas Resort

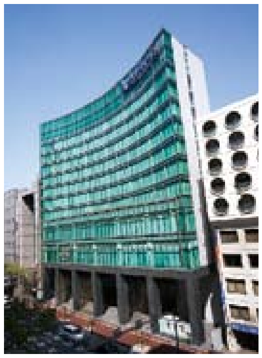
The Overseas Resort Business consists of the operation of a combined sports and hotel facility in Guam. Renovation of the resort and various measures to attract guests increased the utilization rate in the previous fiscal year, but the rate fell again as the number of tourists declined following the global economic recession in the latter half of 2008. Along with the appreciation in the value of the yen, sales for the fiscal year ended March 2009 were down 7.6% from the previous fiscal year to ¥5,611 million. The business posted an operating loss of ¥805 million. On a stand-alone basis, however, for the fiscal year ended December 2008 Leopalace Guam Corporation recorded sales of $79 million with operating income of $4.9 million, providing sufficient cash flow. Leopalace21 is drawing on the strengths of an integrated resort facility in an effort to improve the utilization rate, and continues to focus on cutting costs.

Leopalace Resort Manenggon Hills, a premier resort complete with numerous sports facilities.

Domestic Hotels

The Domestic Hotel Business consists of the operation of eight hotels in major cities throughout Japan. Despite the economic slowdown, drop in corporate demand and other factors that have weakened the business environment, Leopalace21 manages to improve the occupancy rate


Hotel Leopalace Nagoya, a stately urban resort, opened in 2001.


Hotel Leopalace Hakata, with its innovative glass wall facade.

through marketing measures tailored to each individual area, along with a range of initiatives that include short-term stays and attracting corporate business. We will continue to focus on reducing costs.

Three subsidiary businesses

The previous medium-term management plan included the establishment of three new subsidiaries that would support the core businesses. These are: (1) Leopalace Leasing Corporation, a corporate housing agency business to facilitate entry into the family-type apartment business; (2) Leopalace Insurance Co., Ltd., which provides insurance to residents of leased apartments, and (3) Leopalace Finance Co. Ltd., to support the Strategic Real Estate Development Business. Of these, Leopalace Leasing and Leopalace Insurance are working to provide support to solidify the foundation of the core businesses, and achieve profitability as quickly as possible.

Outlook for the next fiscal year

Sales in the related businesses are forecast to be on a par with the previous fiscal year at ¥44,200 million for the fiscal year ending March 2010, but in line with the revisions to Leopalace21's expansion strategy, sales are expected to fall to ¥29,600 million in the fiscal year ending March 2011, and to ¥22,600 million in the fiscal year ending March 2012. This is one of the steps in prioritizing improvement in earnings, a central issue for related businesses. Leopalace21 forecasts that the operating loss of ¥13,635 million in the fiscal year ended March 2009 will narrow to ¥5,800 million in the fiscal year ending March 2010, with gradual reductions thereafter. (Forecast figures are prior to inter-segment transactions.)

Current status and initiatives

Leopalace Leasing Corporation	Introductory one-room units are the mainstay product, with little differentiation from competitors for family-style units. ▶▶ ***We will begin offering family-style units, and focus on establishing a foundation for attracting corporate customers.***
Leopalace Insurance Co., Ltd.	There is potential to expand the business base linked to the Leasing Business, and secure stable cash flow. ▶▶ ***We will maintain the current sales structure, and work to achieve profitability as quickly as possible.***
Silver Business	Occupancy of facilities is low, with earnings in the operating division sluggish. ▶▶ ***We will halt orders for construction of new facilities, and focus on increasing occupancy at existing facilities.***
Overseas Resort Business	The number of visitors to Guam has declined since October 2008 as a result of the economic downturn. ▶▶ ***We will implement comprehensive measures to strengthen sales utilizing resort facilities and cut costs.***
Domestic Hotel Business	The business environment for the hotel industry overall has deteriorated with the economic slowdown and fall in corporate demand. ▶▶ ***We will focus on increasing occupancy rates and cutting costs.***
Residential Sales Business	Land prices are in a correction phase and we anticipate a boost from the government's economic measures, but expect demand to remain sluggish for the time being. ▶▶ ***We will dispose of current inventory, and refrain from new land purchases.***
Leopalace Finance Co., Ltd.	Deterioration in the secured loan market for real estate agents has generated bad debt. ▶▶ ***We will implement credit controls that strictly evaluate secured real estate, and provide bridge financing for apartment construction.***

Note: Leopalace Leasing Corporation and Leopalace Insurance Co., Ltd. are designated as priority fields in the new Medium-Term Management Plan due to their degree of relation to the core businesses. All other businesses are designated for enhanced monitoring.

We Are Taking the First Steps toward Realizing a Sustainable Society

Leopalace21 now has over 500,000 apartment units under management. It is no exaggeration to say that these apartments have become an essential part of Japan's social infrastructure. As our business has grown, the role that we play and the expectations placed on us have grown increasingly larger. What should we do to help resolve the issues surrounding people and their homes? What can we do today for the global environment? To make our vision a reality, in 2008 Leopalace21 implemented a full-scale CSR program.

Basic Policies for CSR

Leopalace21, conscious of its responsibilities as a corporate citizen, has established four basic policies to contribute to the development of a sustainable society.

Quality Service and Comfortable Living

We offer new lifestyles to provide our customers with safe, secure and comfortable living.

Contribution to Society and a Positive Work Environment

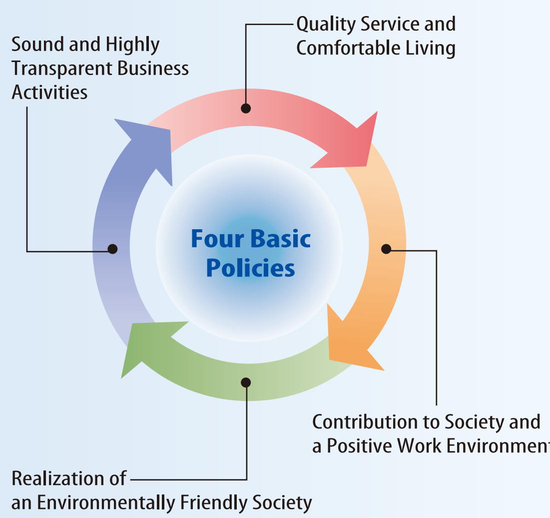
We participate in social action programs to enhance communication with society, and contribute to the development of local communities. We also ensure a positive work environment for our employees.

Realization of an Environmentally Friendly Society

We recognize that our business activities have a significant impact on the global environment, and seek to lessen the environmental load in all areas of our business to realize a sustainable society.

Sound and Highly Transparent Business Activities

We strengthen corporate governance, ensure compliance, and conduct sound and transparent business as part of our accountability to society.



Strengthening Corporate Governance

Leopalace21 considers the establishment and strengthening of corporate governance to be one of its highest management priorities, and aims for efficient, fair and highly transparent management.

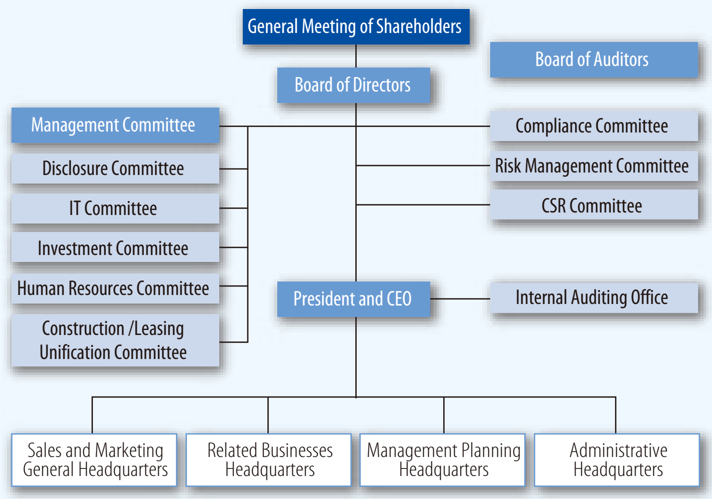
About the Board of Directors

The Board of Directors is the decision-making body. It holds a regular monthly meeting, with extraordinary meetings convened as necessary. The Board of Directors makes decisions on significant matters regarding management, and oversees the conduct of operations.

About the Board of Auditors

The Board of Auditors provides a check on decision making. It is composed of four auditors, two of whom are outside auditors. In accordance with the board's auditing plan, auditors attend important meetings of the Board of Directors, monitor the conduct of operations, and perform other duties to create an efficient and effective auditing structure.

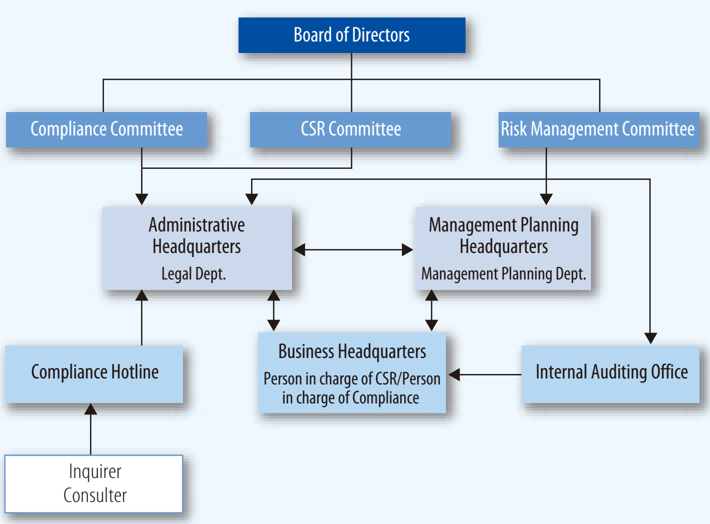
Corporate Governance Organizational Structure



Ensuring Compliance

Leopalace21 works to expand and strengthen its compliance structure by formulating a Corporate Code of Ethics, setting up an internal framework for reporting compliance violations, and establishing a Compliance Committee to advise the Board of Directors. As part of its program to strengthen compliance, Leopalace21 plans and implements a wide range of compliance-related measures, including the conduct of training sessions, and expanding the framework for information management.

CSR Promotion Structure (Compliance and Risk Management)



- In fiscal 2008, Leopalace21 conducted compliance seminars using e-learning tools.

Seminar Topics

- The Revised Road Traffic Act
- Workplace Harassment
- CSR and Corporate Ethics
- Protection of Personal Information

- A "Compliance Hotline" has been set up to counsel employees who have uncovered a legal or ethical violation. Information on the hotline is provided on a single card along with the Corporate Code of Ethics, which is distributed to all employees.

Leopalace21 conducts CSR activities at all its business locations.

These activities, based on the Four Basic Policies, must be conducted with the efforts of all employees, from directors on down. This section introduces the particular measures conducted at each workplace.

Quality Service and Comfortable Living

Convenient and Comfortable Residences

Leopalace21's Apartment Construction Subcontracting Division has acquired ISO 9001 quality control certification at the head office and all branch office locations. Along with these quality controls, we have incorporated security systems and barrier-free facilities as part of an ongoing effort to ensure our apartments are safe and secure.

Less Hassle for Finding an Apartment

All procedures can be conducted over the Internet, from application to payment. Systems are also in place to help foreigners and others without a ready guarantor find an apartment.

Support after Moving Day

Leopalace21 is bolstering its support framework to provide greater peace of mind, including operating a rapid response service to immediately deal with any housing problems, and a 24-hour medical consultation service to handle any health issues.

Sound and Highly Transparent Business Activities

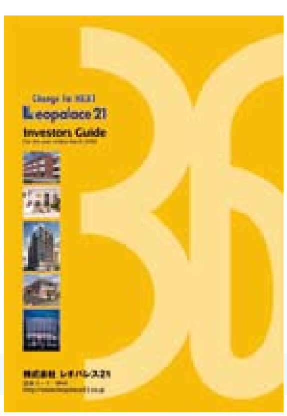
Well-Developed IR Program

Leopalace21 has a proactive IR program to provide shareholders and investors with timely and easy-to-understand disclosure.

For shareholders and individual investors:
Regularly issued reports; corporate briefings for individual investors

For institutional investors:
Publication of an Investors Guide (Japanese and English, annually); results briefings; overseas IR activities

Leopalace21 also conducts comprehensive IR activities, including updates to the IR site on the corporate homepage.



Compliance Measures

Leopalace21 creates original instructional materials tailored to the particular workplace.

Compliance Committee Secretariat
CSR Committee Secretariat

Leopalace21 believes that continued awareness and thorough knowledge is both necessary and essential to further compliance, and annually conducts group training sessions and e-learning programs based on social conditions. Through these programs, Leopalace21 seeks to foster an autonomous ethical sense, and ensure compliance in line with social norms. As the most effective texts for these educational programs are those that take account of the current state of the Company, all materials are created by committee secretariats. These activities also help ensure the continuation of company operations, and we intend to continue to strictly follow this program.

Contribution to Society and a Positive Work Environment

Contribution to Society

Keeping Neighborhoods Safe

Leopalace21 has registered 223 of its branch offices as Kodomo 110 locations, places where children can go to get help in times of trouble. We also work with owners to install security lights on the outside of buildings.

Clean-Up Campaigns

All Leopalace21 offices nationwide actively participate in local clean-up activities together with owners.

Social Contribution through Sport

Leopalace21's women's softball team visits local vocational and day-care centers during its nationwide touring schedule, helping to improve communication. Since March 2009, we have held soccer camps for kids in association with the Japan Professional Football League.

Participation in Blood Drives

Leopalace21 regularly conducts in-house blood drives. A total of 111 employees participated in the blood drive at the head office held in December 2008.

Creating a Positive Work Environment

Using Employee Feedback to Create a Vibrant Workplace

Yoshihisa Okazaki
Manager, Human Resources Department

The Human Resources Department considers employees to be important stakeholders for the Company, and strives to provide them with a positive work environment. One area of particular focus is creating a fair evaluation system. The greater motivation provided by a fair system leads to the Company's growth, which in turn provides benefits to investors and all stakeholders. Leopalace21 has recently launched a system in which employees make a self-assessment every six months, and hold an individual meeting with their supervisor, the results of which are linked to the appraisal. The system is still under development, and we will continue to incorporate employee feedback to improve the human resources system and create a more vibrant workplace.

Realization of an Environmentally Friendly Society

Leopalace21 works to lessen the environmental burden in its corporate activities, and to secure the cooperation of apartment residents in helping to conserve energy.

Leopalace21's Environmental Measures by the Numbers

20&28 ▶ *Office heating and cooling settings*

All of Leopalace21's branch offices participate in the "cool biz" and "warm biz" campaigns. The heating is set at 20ºC, and air conditioning at 28ºC.

61.11 ▶ *Percentage of water-saving faucets and shower heads*

Water-saving faucets and shower heads are being installed to reduce water consumption at apartments, with installation completed at 61.11% of all units (as of August 2008). All new apartment complexes have these facilities, and we are working to increase the percentage at existing buildings.

78.57 ▶ *Green purchasing rate*

Leopalace21's policy is to purchase building materials and fixtures in accordance with the Act on Promoting Green Purchasing. We have achieved a rate of 78.57% for specific procured items.

3,600 ▶ *Vehicles with stop idling stickers*

Stop idling stickers have been placed on the about 3,600 vehicles operated by Leopalace21 nationwide. Engines are turned off while at idle to conserve energy and reduce emissions.

Consolidated Six-Year Summary

Leopalace21 Corporation and consolidated subsidiaries
Years ended March 31

	Millions of yen, except where noted						Thousands of U.S. dollars, except where noted
	2009	2008	2007	2006	2005	2004	**2009**
For the year:							
Net sales	**¥733,235**	¥672,974	¥631,608	¥465,387	¥476,267	¥422,224	**$7,464,475**
Apartment Construction Subcontracting	**359,155**	327,541	316,117	195,202	248,033	225,011	**3,656,264**
Leasing	**334,561**	302,731	277,163	249,696	216,591	188,864	**3,405,891**
Hotel Resort	**5,611**	6,072	7,141	8,340	7,282	5,759	**57,121**
Residential Sales	**11,469**	11,281	14,150	1,745	140	—	**116,755**
Other	**22,439**	25,349	17,037	10,404	4,221	2,590	**228,444**
Cost of sales	**589,834**	511,054	474,713	353,928	357,546	313,085	**6,004,621**
Selling, general and administrative expenses	**93,244**	90,517	80,888	70,684	64,039	57,468	**949,248**
Operating income	**50,157**	71,403	76,007	40,775	54,682	51,671	**510,606**
EBITDA	**55,939**	76,566	80,567	45,340	60,538	56,922	**569,472**
Net income (loss)	**9,952**	342	37,358	(16,582)	33,262	20,960	**101,312**
At year-end:							
Total assets	**¥467,300**	¥493,956	¥454,820	¥412,804	¥453,434	¥421,164	**$4,757,207**
Total net assets	**146,442**	170,155	185,785	133,622	149,798	81,420	**1,490,814**
Interest-bearing debt	**44,188**	49,711	53,160	64,513	108,786	162,666	**449,851**
Amounts per share:							
Total net assets	**¥967.40**	¥1,036.43	¥1,054.99	¥839.44	¥941.06	¥585.82	**$9.85**
Net income (loss)	**63.54**	2.15	234.68	(104.17)	220.79	150.91	**0.65**
Cash dividends	**30.00**	80.00	50.00	15.00	15.00	15.00	**0.31**
Ratios:							
Equity ratio (%)	**31.3**	33.4	37.0	32.4	33.0	19.3	
Return on equity (ROE) (%)	**6.4**	0.2	24.8	(11.7)	28.8	28.0	
Return on assets (ROA) (%)	**2.1**	0.1	8.6	(3.8)	7.6	5.0	
Payout ratio (%)	**47.2**	3,720.9	21.3	—	6.8	9.9	
Debt/equity ratio	**0.3**	0.3	0.3	0.5	0.7	2.0	
Number of employees	**9,926**	8,678	7,409	6,868	6,457	5,702	

Notes: 1. U.S. dollar amounts are translated from yen at the rate of ¥98.23 = US$1, the approximate rate prevailing at March 31, 2009.
2. The Residential Sales division is classified separately from other divisions in the year ended March 31, 2009. Accordingly, the numbers for the years ended March, 2004, 2005, 2006, 2007 and 2008 were reclassified appropriately.
3. The amounts of total net assets for the years ended March 2004, 2005 and 2006 represent the value of total shareholders' equity and do not include minority interests.
4. Net loss for the year ended March 31, 2006 is the result of impairment losses posted after adoption of new accounting standards for impairment of property, plant and equipment.
5. EBITDA = Operating income + depreciation
6. Return on assets (ROA) = Net income/total assets x 100
7. Debt/equity ratio = Interest-bearing debt/(net assets – minority interests)

Operating Environment

During fiscal 2009 (the fiscal year ended March 31, 2009), the economic environment included declining share prices, a decline in employment, and appreciation of the yen due to the turmoil triggered by the U.S. financial markets, leading to a sharp decline in consumer spending and corporate earnings. The broad effects of the economic slowdown were not limited to decreased earnings for the financial and real estate industries and corporate bankruptcies, but extended also to industries such as automobiles and manufacturing.

In residential investment during the subject fiscal year, new housing starts exceeded one million, totaling 1,039,000 (up 0.3%) and including 444,000 leased homes (up 3.2%), reversing a 19.9% decline in the previous fiscal year. This reversal was a reaction to the large decline in the previous fiscal year due to the implementation of the revised Building Standards Law, and it is expected that a residential investment will continue to face challenges in the fiscal year ending March 31, 2010.

Under such circumstances, the Leopalace21 Group succeeded in boosting revenue from the previous fiscal year, but operating income declined. To respond to these changes in the operating environment and ensure continued corporate growth, Leopalace21 has created a new Medium-Term Management Plan, "Change for NEXT," and is working to rebuild its business platform.

Net Sales

Consolidated net sales for the subject fiscal year totaled ¥733,235 million (up 9.0%). By segment, sales in the Apartment Construction Subcontracting Business, one core segment, totaled ¥359,155 million (up 9.7%), and sales in the Leasing Business, another core segment, totaled ¥334,561 million (up 10.5%), representing increased revenue in both segments. This was a result of the higher number of leased properties following the completion of apartment construction for the large number of remaining orders at the end of the previous fiscal year.

However, sales for the Hotel Resort Business fell 7.6% due to the appreciation of the yen in the period, and totaled ¥5,611 million; the Residential Sales Business increased slightly by 1.7% to ¥11,469 million; and the Other Business (Silver, Broadband, Finance etc.) fell 11.5%, to ¥22,439 million.

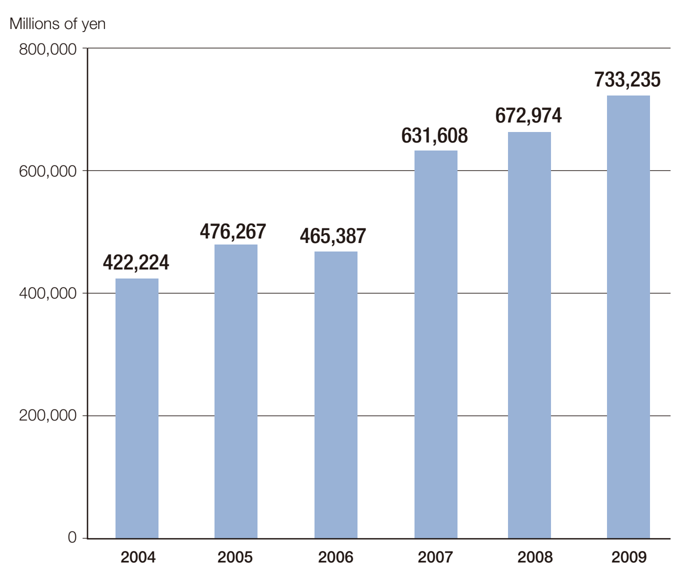
As a proportion of total sales by segment, the Apartment Construction Subcontracting Business accounted for 49.0% (up 0.3 percentage point year on year) and the Leasing Business 45.6% (up 0.6 percentage point), with these two segments accounting for 94.6% of total net sales. The Hotel Resort Business accounted for 0.8% (down 0.1 percentage point), the Residential Sales Business 1.6%, and the Other Business 3.1%.

Furthermore, the Residential Sales Business, which was formerly part of the Other Business, is shown as an independent category from the subject fiscal year. The comparison to the previous fiscal year is made after converting last year's sales to the new category.

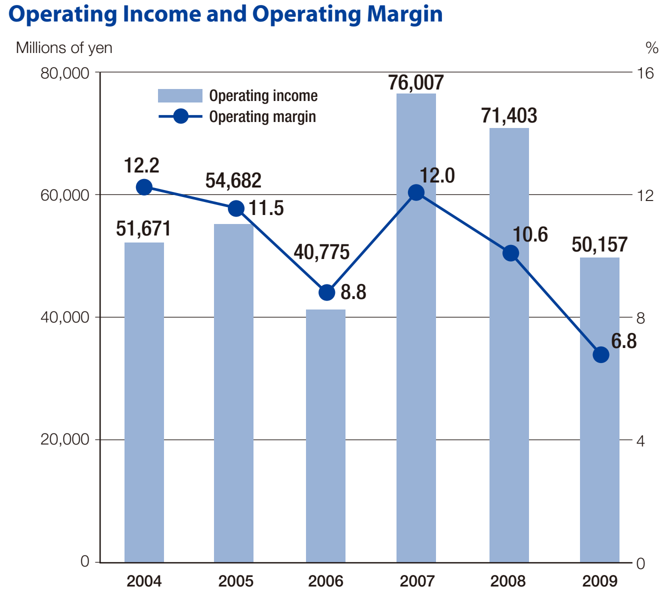
Earnings

The cost of sales expanded 15.4% year on year to ¥589,834 million, a higher rate of increase than net sales in the period. This was due to the delay in the implementation of the revised Building Standards Law and higher materials costs, leading to a 13.7% increase in the Apartment Construction Subcontracting Business and a 12.2% rise in the Leasing Business, as well as the capitalization of write-down on real estate for sales. As a result, the gross profit was ¥143,401 million with a gross margin of 19.6%, falling 4.5 percentage points year on year.

Net Sales



Operating Income and Operating Margin



Note: Decline in operating income and operating margin for the year ended March 31, 2006 is the result of the postponement of scheduled construction contracts.

Selling, general and administrative (SG&A) expenses rose 3.0% year on year to ¥93,244 million. While we sought to control rental and other costs, due to increased loss reserves and personnel costs, operating income totaled only ¥50,157 million for the subject fiscal year, falling 29.8% year on year.

The balance of other income (expenses) was net other expenses of ¥16,711 million, a considerable decrease from net other expenses of ¥58,979 million for the previous fiscal year, which had included a ¥47,755 million adjustment to advances received stemming from a change in accounting method for the Monthly Leopalace service, and ¥9,534 million in foreign exchange losses. The market decline during the fiscal year under review led to sharp losses from the downward revaluation of rental properties, with the number of such properties increasing (from 32 rental apartments in the previous fiscal year to 59 in the current fiscal year) and impairment loss totaling ¥2,808 million (compared to ¥702 million in the previous fiscal year). To reflect decreased occupancy rates, a provision for apartment vacancy loss of ¥4,314 million was recorded. However, foreign exchange losses from end-period, yen-based valuations of overseas subsidiaries totaled ¥1,877 million, a large year-on-year decrease. As a result, income before income taxes and minority interests for the subject fiscal year totaled ¥33,446 million (compared to ¥12,424 million in the previous fiscal year), with net income totaling ¥9,952 million (compared to ¥342 million in the previous fiscal year).

Return on assets (ROA) was 2.1% (compared to 0.1% in the previous fiscal year), and ROE was 6.4% (compared to 0.2% a year earlier).

Segment Information

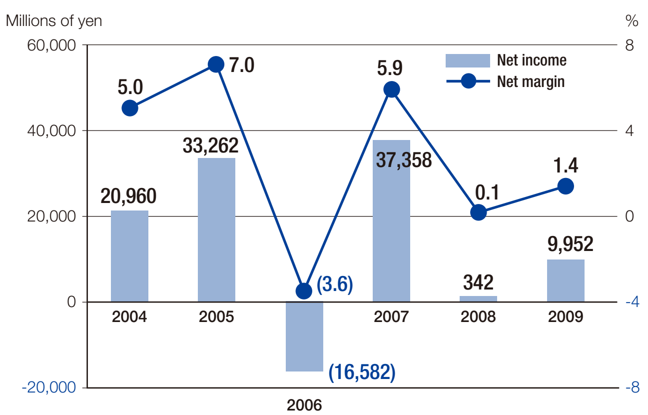
Apartment Construction Subcontracting

The Apartment Construction Subcontracting Business, one of the Group's two core businesses, remained strong in the first quarter of the subject fiscal year due to the clearing of orders from the previous fiscal year that remained at the end of the fiscal year. However, due to the turmoil in the financial markets, the securitization market disappeared for non-recourse loans, the driving force for subcontracted apartment loans and, reflecting the stricter investment stance taken by financial institutions, contract volume from the second quarter onward remained well below the previous year's level. As a result, contract volume totaled only ¥269,147 million (down 36.2% compared to the previous fiscal year), with the balance of contracts on hand totaling only ¥252,853 million (down 26.2% compared to the previous fiscal year).

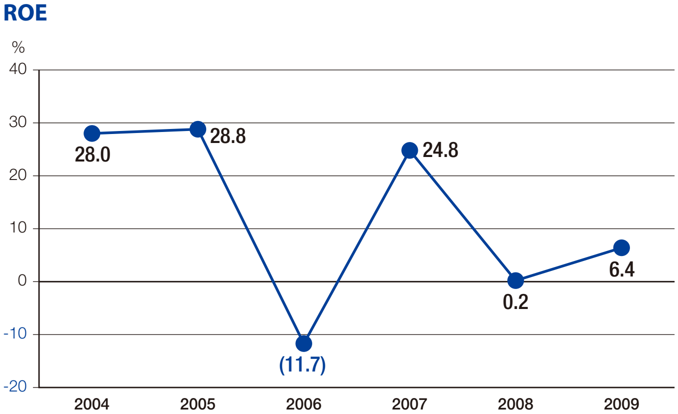
In response, the Group focused on the new LEO NEXT Series products and the urban-style rental housing, the Lavo Series, as well as family rental needs, an area in which the Group had struggled in the past, and housing with attached rental units. In addition, in November 2008 we released LEPIDO, which is designed as an emergency response to the need for products eligible to receive support from the Japan Housing Finance Agency. There were 204 orders for LEPIDO products at the end of the fiscal year under review, totaling ¥19,600 million in sales.

To respond to the demand for financing, the Group has shifted from non-recourse loans to recourse loans, streamlined sales locations and worked toward staffing optimization (the total number of sales locations decreased by four in the subject fiscal year to 126). Furthermore, while the increase in materials costs was absorbed by thorough controls on cost and production, it could not make up for

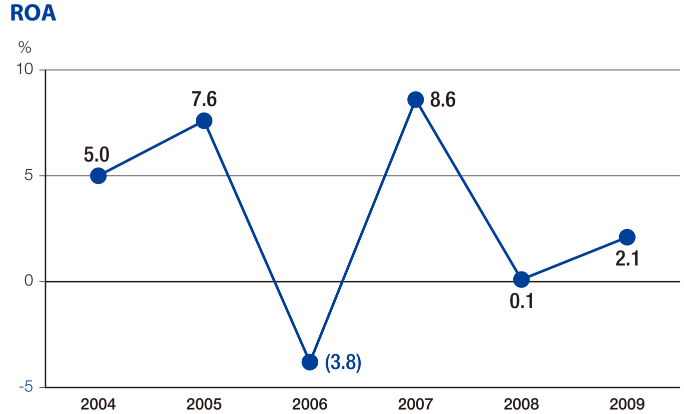
Net Income and Net Margin



ROE



ROA



Note: Net loss, negative ROE and ROA for the year ended March 31, 2006 are the result of impairment losses posted after adoption of new accounting standards for impairment of property, plant and equipment.

the rise in management costs including personnel costs, and the consequent decrease in operating margin.

As a result, sales totaled ¥359,155 million (up 9.7% from the previous fiscal year) and operating income amounted to ¥70,113 million (down 4.3% from the previous fiscal year).

Leasing

Apartment units under management have increased steadily, centered on the Tokyo metropolitan, Osaka and Nagoya metropolitan areas, and reached 507,000 apartment units at the end of the fiscal year (a year-on-year increase of 65,000 units). However, in response to the economic slowdown, major manufacturers have decreased or suspended production and carried out restructuring, resulting in large-scale cancellations of contract apartments due to the halt in hiring of subcontracted employees. As a result, the average occupancy rate for the subject fiscal year was 88.5%, falling 3.9 percentage points from the previous fiscal year (a reduction of around 20,000 units). This led to an operating loss of ¥1,539 million (compared to operating income of ¥3,037 million in the previous fiscal year), while sales increased to ¥334,561 million (up 10.5% compared to the previous fiscal year).

The Group responded with the December emergency release of the Leopalace21 Housing Support System in cooperation with the Ministry of Health Labour and Welfare's Employment Stabilization Funding program, which supported 1,051 cases at the end of the fiscal year under review. In response to the decrease in occupancy rates, reserve for apartment vacancy loss of ¥4,314 million was recorded. Furthermore, as a measure to improve occupancy rates, the Group has worked to enhance sales efforts for corporations, as well as lowered rental fees for certain properties to respond to vacancies. Following the conclusion of rental contracts, the rental fee prior to the lowered level was again revised. Rental fee revisions (increases) for properties that have passed a given period of time are also being steadily implemented. To increase operating efficiency of sales locations, the number of sales locations was set at 291 at the end of the fiscal year under review (a decrease of 20 sales locations compared to the previous fiscal year), and a subsidiary was established in China to respond to the demand of foreign exchange students to boost sales.

Hotel Resort

Operations remained steady for the integrated sports resort in Guam, Leopalace Resort Manenggon Hills Guam, and at the Westin Resort Guam. As a result of the appreciation of the yen during the period, however, sales totaled ¥5,611 million (down 7.6% from the previous fiscal year), resulting in an operating loss of ¥805 million (an improvement of ¥312 million compared to the previous fiscal year).

Residential Sales Business

As a result of the declining market, the capitalization of ¥8,664 million in loss on devaluation of real estate for sales affected earnings; although sales rose 1.7% from the previous fiscal year to ¥11,469 million, the Company recorded an operating loss of ¥10,665 million, a large increase from the operating loss of ¥1,209 million of the previous fiscal year.

Other

The Broadband Business has seen a steady expansion in subscriber numbers, and the number of care facilities for the Silver Business totaled 49 at the end of the subject fiscal year (an increase of 14 compared to the previous fiscal year). Leopalace Insurance Co., Ltd. also launched its resident insurance business in the subject fiscal year. As a result, sales for the Other Business totaled ¥22,439 million (down 11.5% compared to the previous fiscal year), resulting in an operating loss of ¥2,165 million (reversing ¥1,855 million in operating income in the previous fiscal year).

Financial Position

Total assets decreased ¥26,656 million (5.4%) from the end of the previous fiscal year to ¥467,300 million. This was a result of a decrease in current assets (¥26,669 million) and an increase in property, plant and equipment plus investments and other assets (¥13 million).

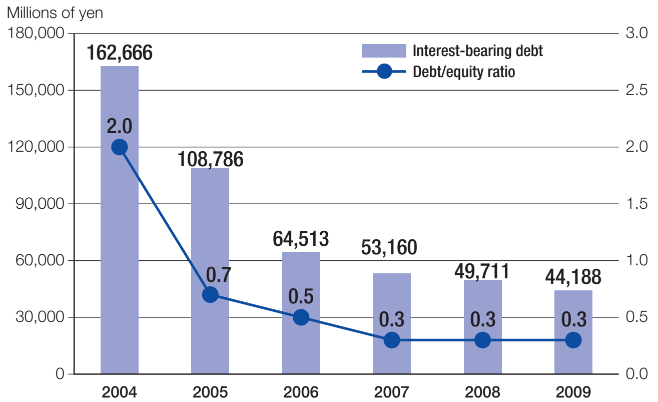
Regarding current assets, the cash and cash equivalents position expanded due to the decline of the market (increasing ¥17,411 million from the previous fiscal year). Trade receivables and accounts receivable for completed projects totaled ¥9,471 million; real estate for sale/property inventories totaled ¥7,560 million; all decreasing and totaling ¥192,015 million at the end of the subject fiscal year. Among property, plant and equipment plus investments and other assets, efforts were made to reduce total property, plant, and equipment (down ¥7,780 million from the previous fiscal year), and the Group dedicated itself to returning to *Motazaru Keiei**, limiting the increase of property, plant and equipment plus investments and other assets to ¥13 million. As a result, property, plant and equipment plus investments and other assets rose to ¥275,285 million.

Current liabilities decreased ¥37,189 million from the end of the previous fiscal year, totaling ¥231,433 million at the end of the subject fiscal year, as a result of decreased accounts payable including accounts payable for completed projects (¥59,001 million), and decreased customer advances for projects in progress (¥14,836 million). Long-term liabilities totaled ¥89,425 million at the end of the subject fiscal year (up ¥34,246 million compared to the previous fiscal year), resulting from a reduction in long-term debt of ¥5,498 million from the previous fiscal year, reserves for apartment vacancy loss, and an increase in lease/guarantee deposits received of ¥31,142 million. As a result, total liabilities amounted to ¥320,858 million (down ¥2,943 million compared to the previous fiscal year). Furthermore, the balance of interest-bearing debt, including debts to be paid within one year, totaled ¥44,188 million at the end of the subject fiscal year, declining ¥5,523 million from the previous fiscal year (down 11.1%).

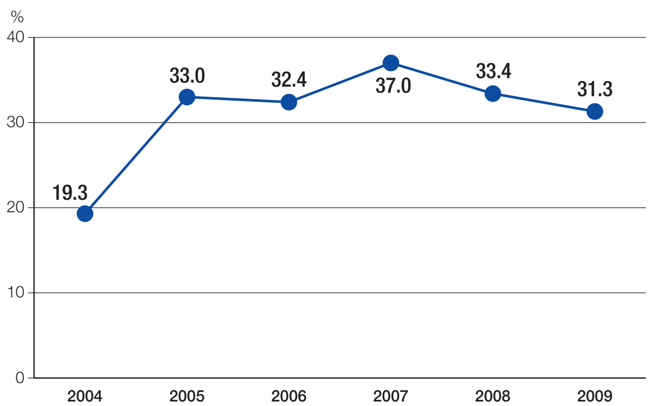
Total net assets amounted to ¥146,442 million, down ¥23,713 million (13.9%), following ¥6,444 million in share buybacks. As a result, the equity ratio stood at 31.3% (33.4% at the end of the previous fiscal year).

*The model for the Company's core businesses is based on construction of apartments on behalf of property owners and entering master-lease agreements with these apartment owners. We then lease apartments to individual tenants. This model enables us to continue growing our business and earnings without requiring the Company to own the underlying assets or take on debt. We call this model *Motazaru Keiei* in Japanese.

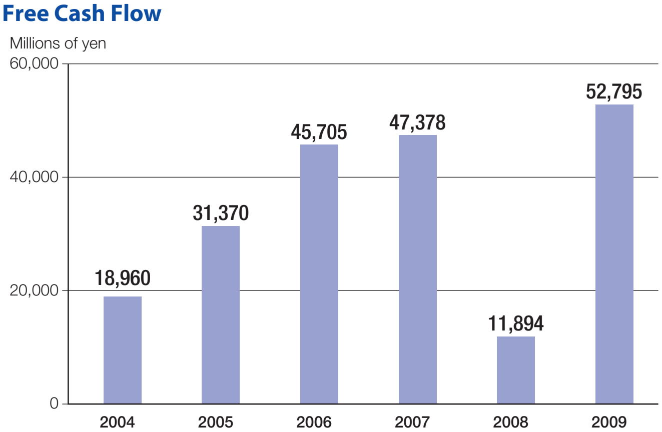
Interest-Bearing Debt and Debt/Equity Ratio



Equity Ratio



Free Cash Flow



Cash Flows

Net cash provided by operating activities amounted to ¥62,843 million (up ¥51,097 million from the previous fiscal year). This was the result of income before income taxes and minority interests of ¥33,446 million (up ¥21,022 million), a decrease of ¥26,860 million in accounts payable, and an increase of ¥31,180 million in guarantee deposits received.

Net cash used in investing activities amounted to ¥10,048 million (compared to net cash provided of ¥148 million in the previous fiscal year). The main factors were ¥5,375 million in purchase of property, plant and equipment including rental property and ¥2,444 million in purchase of intangible assets including core systems.

Net cash used in financing activities amounted to ¥33,885 million (an increase of ¥7,105 million from the previous fiscal year). This was due to ¥9,320 million in repayment for debt and the redemption of privately placed bonds (less proceeds from debt), ¥6,444 million in purchases of treasury stock, and ¥12,750 million in dividends paid to shareholders.

Basic Policy on Distribution of Earnings

Leopalace21 Corporation considers return of profit to shareholders to be a management priority, making it our policy to pay dividends at a payout ratio of 30%. While we again paid an interim dividend of ¥30 per share in the fiscal year under review, in consideration of the decline in full-year results and the lack of clarity on the future direction of the economy, we will not pay a year-end dividend (full-year dividend of ¥30 per share). For the next fiscal year, while the operating environment is likely to remain challenging, we plan to maintain our payout ratio of 30%.

Outlook for the Next Fiscal Year

In the fiscal year ending March 31, 2010, the first year of our new Medium-Term Management Plan, we began restructuring aimed at integrated management of the Apartment Construction Subcontracting and Leasing businesses. The Apartment Construction Subcontracting Business will focus on increasing new business centered on the new brand LEO NEXT, with a contract balance of ¥300,000 million planned, and as the contract balance for the fiscal year under review greatly declined from that of the previous year, we expect sales to reach only ¥300,000 million. In the Leasing Business, the occupancy rate declined due to the unexpectedly large amount of new vacancies resulting from the sharp economic slowdown, and the Group is working to enhance its corporate sales and utilization of real estate agents to improve the situation. At the same time, company-wide cost cutting is being carried out. The number of units under management is expected to increase by 46,000 units (553,000 units at the end of the fiscal year).

In an operating environment that remains challenging, our results forecasts for the next fiscal year are conservative. We forecast consolidated net sales of ¥700,700 million (down 4.4% from the fiscal year under review), operating income of ¥21,700 million (down 56.7%) and net income of ¥8,700 million (down 12.6%).

Business and Other Risks

Listed below are the principal risks that we believe could affect the Leopalace21 Group's business performance and financial position. However, this list is not all-inclusive and does not cover all the risks that could affect Group businesses. All forward-looking statements included herein reflect the judgment of the Leopalace21 Group management as of the end of the consolidated fiscal term under review.

Foreign Exchange Risk

The Leopalace21 Group includes overseas subsidiaries involved in the hotel and resort business, and as a result our business results may be affected by exchange rate fluctuations. Our consolidated subsidiary Leopalace Guam Corporation has borrowed funds in the form of yen-denominated loans from Leopalace21 for the purpose of acquiring facilities and equipment. Because the value of this debt is calculated each year as of the date of account settlement, the Company is subject to foreign exchange gain or loss. Therefore it is possible that future fluctuations in exchange rates could affect the Group's business performance and financial position.

Leasehold Deposits and Guarantee Deposits

Leopalace21 has long-term deposits from property owners held as an advance for apartment repair and renovation. These consist mainly of deposits received from property owners as a portion of future repair and renovation expenses, following the dissolution of Leopalace21 Owners Mutual Insurance Association. Leopalace21 makes a concerted effort as a leasing business operator to ensure the soundness of the apartment maintenance structure, through which properties fully leased from the owner are operated and maintained. However, an unexpected, large-scale repair or renovation could have an impact on Leopalace21's financial position.

Leopalace21 also has deposits for Leopalace Resort memberships related to the Guam resort business, most of which date to the opening of the resort complex in July 1993. The Leopalace21 Group works to increase member usage by improving facilities and member services, but should there be an unexpected number of requests for reimbursement of these deposits, this could have an impact on Leopalace21's financial position.

Tangible Fixed Assets, and Real Estate Properties for Sale

Because the Leopalace21 Group owns rental real estate and resort-related properties, tangible fixed assets account for a relatively high proportion (40.9%) of our total assets. We make every effort to sell idle assets or underperforming properties; however, in future fiscal terms we have plans to acquire or build new rental properties, and to replace or maintain facilities associated with our hotel and resort business, so we will need to make capital investments and replace facilities on an ongoing basis. As a result, the Group's business results could be affected if we post a loss on the sale or disposal of fixed assets, or impairment losses, as a result of changes in real estate prices, or if depreciation costs should rise significantly as a result of facility renewal. The Leopalace21 Group, because it includes a residential and other real estate sales business, owns real estate properties for sale. These properties are subject to fluctuations in the real estate market that could result in a loss on valuation of inventory assets or loss on sale, with the possibility that the Group's business results could be affected.

Loan Losses, and Provision for Bad Debt

The Company conducts financing activities, and carries on its books a balance for operating loans receivable comprising apartment construction loans and real estate equity loans. The Company also may guarantee the housing loans and membership fee loans offered to its customers by financial institutions. Apartment and other loans where repayment has become doubtful are accounted for separately as doubtful receivables (tangible), and a provision is made for bad debt in each such case; however, our business results could be affected if amounts of uncollectible debt should increase, or if we should be obliged to honor claims pertaining to these loan guarantees.

Seasonal Risk

The structure of Group businesses is such that net sales tend to be higher in the second half of the fiscal year than in the first, both in our Apartment Construction Subcontracting and Leasing businesses. In our Apartment Construction Subcontracting Business, a large majority of contracts call for completion by March, when leasing demand is at a peak. Leasing income is also higher in the second half of the year than in the first, because the number of apartment units under management rises steadily throughout the year as new apartments are completed. For this reason, we expect our business results in terms of both net sales and profits to be higher in the second half of the fiscal year.

Information Leaks

The Leopalace21 Group holds a great deal of information, including personal information obtained through the consent of, or as a result of non-disclosure agreements with, client companies. To control information security, the Company has drawn up the required information security guidelines, and set up a Compliance Committee to thoroughly educate our executive officers and employees about information security issues. Nevertheless, in the unlikely event that a leak of information of some type should occur, there is a possibility that the Group's reputation could be damaged, and that business performance might be affected.

Other Risks

The Group is aware that it incurs a variety of risks in the course of promoting its businesses, and it attempts to prevent, distribute or avoid risk whenever possible. Nevertheless, the Group's business performance and financial position may be affected by changes in economic conditions, the real estate market, the financial and stock markets, legal regulations, natural disasters, and a variety of other factors.

Consolidated Balance Sheets

Leopalace21 Corporation and consolidated subsidiaries
March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
ASSETS			
Current assets:			
Cash and cash equivalents (Note 4)	**¥ 78,376**	¥ 60,965	**$ 797,881**
Trade receivables	**6,793**	6,381	**69,155**
Accounts receivable for completed projects	**2,678**	8,778	**27,267**
Operating loans	**10,043**	15,789	**102,243**
Real estate for sale/property inventories	**7,560**	8,590	**76,967**
Real estate for sale in process	**21,267**	29,230	**216,494**
Payment for construction in progress	**14,925**	11,792	**151,944**
Raw materials and supplies	**598**	751	**6,088**
Prepaid expenses	**27,672**	24,629	**281,705**
Deferred tax assets (Note 9)	**8,046**	12,085	**81,910**
Other accounts receivable	**2,596**	28,059	**26,431**
Allowance for doubtful accounts	**(1,472)**	(1,449)	**(14,988)**
Other	**12,933**	13,084	**131,654**
Total current assets	**192,015**	218,684	**1,954,751**
Property, plant and equipment (Notes 3, 7, 10):			
Land	**114,915**	116,296	**1,169,852**
Buildings and structures	**112,758**	122,984	**1,147,896**
Leased assets	**3,990**	—	**40,618**
Construction in progress	**2,884**	1,902	**29,361**
Other	**13,088**	13,471	**133,236**
Accumulated depreciation	**(56,291)**	(55,529)	**(573,046)**
Total property, plant and equipment	**191,344**	199,124	**1,947,917**
Investments and other assets (Note 10):			
Intangible assets	**3,028**	622	**30,822**
Investment securities (Note 5)	**6,103**	9,082	**62,131**
Long-term loans	**996**	2,400	**10,136**
Deferred tax assets (Note 9)	**5,474**	3,388	**55,730**
Bad debt (Note 8)	**4,564**	4,016	**46,458**
Long-term prepaid expenses	**61,132**	53,356	**622,339**
Other	**8,127**	5,449	**82,742**
Allowance for doubtful accounts	**(5,483)**	(2,165)	**(55,819)**
Total investments and other assets	**83,941**	76,148	**854,539**
Total assets	**¥467,300**	¥493,956	**$4,757,207**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable	**¥ 3,587**	¥ 2,614	**$ 36,514**
Accounts payable for completed projects	**59,001**	86,910	**600,641**
Short-term borrowings (Note 10)	**18,286**	21,316	**186,150**
Accrued income taxes	**13,258**	14,308	**134,973**
Advances received	**97,945**	98,497	**997,103**
Customer advances for projects in progress	**14,836**	21,752	**151,032**
Allowance for employees' bonuses	**3,759**	3,243	**38,269**
Reserve for warranty obligations on completed projects	**1,124**	1,042	**11,440**
Other	**19,637**	18,940	**199,905**
Total current liabilities	**231,433**	268,622	**2,356,027**
Long-term liabilities:			
Long-term debt (Note 10)	**22,897**	28,395	**233,100**
Lease obligations	**3,006**	—	**30,602**
Retirement benefit reserves (Note 11)	**6,194**	5,065	**63,053**
Retirement benefit reserves for directors	**1,282**	1,592	**13,050**
Reserve for rents due on master lease agreements	**—**	399	**—**
Reserve for apartment vacancy loss	**4,620**	—	**47,034**
Lease/guarantee deposits received	**50,870**	19,728	**517,869**
Other	**556**		**5,658**
Total long-term liabilities	**89,425**	55,179	**910,366**
Total liabilities	**320,858**	323,801	**3,266,393**
Net assets			
Shareholders' equity:			
Common stock:	**55,641**	55,641	**566,433**
Authorized: 250,000,000 shares			
Issued: 159,543,915 shares			
Capital surplus	**34,105**	34,105	**347,194**
Retained earnings	**73,413**	76,211	**747,355**
Treasury stock—8,165,714 shares	**(6,543)**	(99)	**(66,599)**
Valuation and translation adjustments			
Net unrealized gains on "other securities"	**17**	90	**175**
Deferred losses on hedges	**(8)**	—	**(78)**
Translation adjustments	**(10,183)**	(763)	**(103,666)**
Minority interests	**—**	4,970	**—**
Total net assets	**146,442**	170,155	**1,490,814**
Total liabilities and net assets	**¥467,300**	¥493,956	**$4,757,207**

Consolidated Statements of Income

Leopalace21 Corporation and consolidated subsidiaries
For the years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
Net sales	**¥733,235**	¥672,974	**$7,464,475**
Cost of sales	**589,834**	511,054	**6,004,621**
Gross profit	**143,401**	161,920	**1,459,854**
Selling, general and administrative expenses	**93,244**	90,517	**949,248**
Operating income	**50,157**	71,403	**510,606**
Other income (expenses):			
Interest and dividend income	**297**	291	**3,019**
Equity in earnings of affiliated companies	**325**	105	**3,304**
Gain on valuation of interest-rate swap	**—**	20	**—**
Foreign exchange losses	**(1,877)**	(9,534)	**(19,106)**
Gain on sale of affiliates' bonds	**—**	561	**—**
Interest expenses	**(1,224)**	(1,463)	**(12,464)**
Commission fee	**(780)**	(852)	**(7,943)**
Gain (loss) on sales of property, plant and equipment (Notes 12, 13)	**(1)**	4,345	**(4)**
Loss on disposal of property, plant and equipment (Note 14)	**(162)**	(142)	**(1,650)**
Loss on devaluation of real estate for sale	**(2,560)**	—	**(26,061)**
Impairment loss (Note 7)	**(2,808)**	(702)	**(28,583)**
Loss on devaluation of investment securities	**(3,405)**	(907)	**(34,666)**
Provision for bad debt	**(786)**	(795)	**(8,005)**
Gain on consumption tax	**—**	255	**—**
Adjustment to advances received	**—**	(47,755)	**—**
Consumption tax for previous period	**—**	(594)	**—**
Provision for warranty obligations on completed projects	**—**	(1,378)	**—**
Provision for apartment vacancy loss	**(4,314)**	—	**(43,910)**
Payment of retirement benefits for directors	**—**	(1,200)	**—**
Reversal of reserve for rents due on master lease agreement	**399**	—	**4,063**
Other, net	**185**	766	**1,887**
Income before income taxes and minority interests	**33,446**	12,424	**340,487**
Income taxes			
Income tax—current	**21,502**	17,450	**218,901**
Income tax—refund	**(0)**	—	**(1)**
Income tax—previous period	**(0)**	1,415	**(4)**
Income taxes—deferred	**1,992**	(7,040)	**20,279**
Minority interests	**—**	257	**—**
Net income	**¥ 9,952**	¥ 342	**$ 101,312**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

Leopalace21 Corporation and consolidated subsidiaries
For the years ended March 31, 2009 and 2008

Millions of yen

	Shareholders' equity					Valuation and translation adjustments					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on "other securities"	Deferred losses on hedges	Translation adjustments	Total valuation and translation adjustments	Minority interests	Total net assets
Balance as of March 31, 2007	¥55,641	¥34,105	¥85,700	¥ (97)	¥175,349	¥532	¥—	¥ (7,737)	¥ (7,205)	¥17,641	¥185,785
Cash dividend			(10,360)		(10,360)						(10,360)
Net income			342		342						342
Purchases of treasury stock				(2)	(2)						(2)
Increase due to decrease of affiliated companies			540		540						540
Decrease due to increase of consolidated subsidiaries			(11)		(11)						(11)
Net change of items other than shareholders' equity						(442)		6,974	6,532	(12,671)	(6,139)
Total change during period			(9,489)	(2)	(9,491)	(442)		6,974	6,532	(12,671)	(15,630)
Balance as of March 31, 2008	¥55,641	¥34,105	¥76,211	¥ (99)	¥165,858	¥ 90	¥—	¥ (763)	¥ (673)	¥ 4,970	¥170,155
Cash dividend			**(12,750)**		**(12,750)**						**(12,750)**
Net income			**9,952**		**9,952**						**9,952**
Purchases of treasury stock				**(6,444)**	**(6,444)**						**(6,444)**
Net change of items other than shareholders' equity						**(73)**	**(8)**	**(9,420)**	**(9,501)**	**(4,970)**	**(14,471)**
Total change during period			**(2,798)**	**(6,444)**	**(9,242)**	**(73)**	**(8)**	**(9,420)**	**(9,501)**	**(4,970)**	**(23,713)**
Balance as of March 31, 2009	**¥55,641**	**¥34,105**	**¥73,413**	**¥(6,543)**	**¥156,616**	**¥ 17**	**¥ (8)**	**¥(10,183)**	**¥(10,174)**	**¥ —**	**¥146,442**

Thousands of U.S. dollars (Note 1)

	Shareholders' equity					Valuation and translation adjustments					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on "other securities"	Deferred losses on hedges	Translation adjustments	Total valuation and translation adjustments	Minority interests	Total net assets
Balance as of March 31, 2008	$566,433	$347,194	$775,843	$ (1,001)	$1,688,469	$915	$—	$ (7,765)	$ (6,850)	$50,597	$1,732,216
Cash dividend			**(129,800)**		**(129,800)**						**(129,800)**
Net income			**101,312**		**101,312**						**101,312**
Purchases of treasury stock				**(65,598)**	**(65,598)**						**(65,598)**
Net change of items other than shareholders' equity						**(740)**	**(78)**	**(95,901)**	**(96,719)**	**(50,597)**	**(147,317)**
Total change during period			**(28,488)**	**(65,598)**	**(94,085)**	**(740)**	**(78)**	**(95,901)**	**(96,719)**	**(50,597)**	**(241,402)**
Balance as of March 31, 2009	**$566,433**	**$347,194**	**$747,355**	**$(66,599)**	**$1,594,383**	**$175**	**$ (78)**	**$(103,666)**	**$(103,569)**	**$ —**	**$1,490,814**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Leopalace21 Corporation and consolidated subsidiaries
For the years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥33,446**	¥12,424	**$340,487**
Depreciation	**5,783**	5,163	**58,867**
Increase (decrease) in allowance for doubtful accounts	**3,638**	591	**37,033**
Increase (decrease) in retirement benefit reserves for directors	**(311)**	(1,394)	**(3,161)**
Increase (decrease) in reserve for apartment vacancy loss	**4,620**	—	**47,034**
Interest and dividend income	**(297)**	(338)	**(3,019)**
Interest expense	**1,224**	1,463	**12,464**
Foreign exchange losses	**1,877**	9,534	**19,106**
Equity in earnings of affiliated companies	**(325)**	(105)	**(3,304)**
Loss (gain) on sale of property, plant and equipment	**1**	(4,345)	**4**
Write-offs of property, plant and equipment	**162**	142	**1,650**
Loss on devaluation of real estate for sale	**2,560**	—	**26,061**
Impairment loss	**2,808**	702	**28,583**
Gain on sale of affiliates’ bonds	**—**	(561)	**—**
Gain on sale of investment securities	**—**	(4)	**—**
Loss on devaluation of investment securities	**3,405**	907	**34,666**
Decrease (increase) in accounts receivable	**35,868**	(21,746)	**365,146**
Decrease (increase) in real estate for sale	**4,941**	(11,238)	**50,303**
Decrease (increase) in payment for construction in progress	**(3,133)**	(2,973)	**(31,897)**
Decrease (increase) in long-term prepaid expenses	**(10,854)**	(12,465)	**(110,497)**
Increase (decrease) in accounts payable	**(26,860)**	12,226	**(273,442)**
Increase (decrease) in customer advances for projects in progress	**(6,916)**	(1,778)	**(70,407)**
Increase (decrease) in advances received	**(506)**	51,804	**(5,151)**
Increase (decrease) in guarantee deposits received	**31,180**	10,568	**317,422**
Increase (decrease) in accrued consumption taxes	**1,549**	(3,156)	**15,770**
Other	**2,490**	(726)	**25,343**
Sub-total	**86,350**	44,695	**879,061**
Interest and dividends received	**603**	367	**6,141**
Interest paid	**(1,225)**	(1,476)	**(12,473)**
Income taxes paid	**(22,885)**	(31,840)	**(232,971)**
Net cash provided by operating activities	**62,843**	11,746	**639,758**
Cash flows from investing activities:			
Payment for property, plant and equipment	**(5,375)**	(6,887)	**(54,717)**
Proceeds from sale of property, plant and equipment	**227**	12,145	**2,315**
Payment for purchase of intangible assets	**(2,444)**	(57)	**(24,880)**
Payment for purchase of investment securities	**(499)**	(3,393)	**(5,077)**
Proceeds from sale of investment securities	**80**	731	**812**
Payment for loans	**(536)**	(370)	**(5,461)**
Proceeds from collection of loans	**301**	203	**3,067**
Other	**(1,802)**	(2,224)	**(18,358)**
Net cash provided by (used in) investing activities	**(10,048)**	148	**(102,299)**
Cash flows from financing activities:			
Proceeds from short-term debt	**29,000**	78,610	**295,225**
Repayments for short-term debt	**(29,000)**	(82,389)	**(295,225)**
Proceeds from long-term debt	**18,000**	22,000	**183,243**
Repayments for long-term debt	**(22,226)**	(17,454)	**(226,266)**
Repayments of lease obligations	**(401)**	—	**(4,080)**
Payment for redemption by purchase on privately placed bonds	**—**	(3,100)	**—**
Payment for redemptions of privately placed bonds	**(5,094)**	(1,126)	**(51,861)**
Dividends paid to minority shareholders	**—**	(475)	**—**
Refund of amount invested by minority interests	**(4,970)**	(12,484)	**(50,597)**
Payment for purchase of treasury stock	**(6,444)**	(2)	**(65,597)**
Dividends paid to shareholders	**(12,750)**	(10,360)	**(129,800)**
Net cash used in financing activities	**(33,885)**	(26,780)	**(344,958)**
Effect of exchange rate changes on cash and cash equivalents	**(1,499)**	(405)	**(15,259)**
Net increase (decrease) in cash and cash equivalents	**17,411**	(15,291)	**177,242**
Cash and cash equivalents at beginning of year	**60,965**	75,167	**620,639**
Cash and cash equivalents of newly consolidated subsidiaries	**—**	1,089	**—**
Cash and cash equivalents at end of year (Note 4)	**¥78,376**	¥60,965	**$797,881**

The accompanying notes are an integral part of these statements.

Leopalace21 Corporation and consolidated subsidiaries
For the years ended March 31, 2009 and 2008

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Leopalace21 Corporation (the "Company") have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Act of Japan and its related accounting regulations and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accompanying consolidated financial statements have been reformatted and translated into English (with certain expanded disclosure) from the consolidated financial statements of the Company prepared in accordance with Japanese generally accepted accounting principles and filed with the Financial Services Agency as required by the Financial Instruments and Exchange Act of Japan. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2009, which was ¥98.23 to US$1.00. Such translation should not be construed as a representation that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange. Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

2. Summary of Significant Accounting Policies

(1) Consolidation

The accompanying consolidated financial statements as of March 31, 2009 include the accounts of the Company and its 7 (10 as of March 31, 2008) significant subsidiaries (together, the "Companies"). Affiliated companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis. Investments in 1 affiliate have been included for the years ended March 31, 2009 and 2008. All significant intercompany balances and transactions have been eliminated.

Investments in subsidiaries and affiliates that are not consolidated or accounted for by the equity method are carried at cost or less. Where there has been a permanent decline in the value of such investments, the Company has written down the investments.

Since the fiscal year end for certain consolidated subsidiaries is December 31, their financial statements as of that date are used in the preparation of the Company's consolidated financial statement. When significant transactions occur at those subsidiaries between their fiscal year end and the Company's fiscal year end, these transactions are included in consolidation as necessary.

(2) Cash and cash equivalents

For the purpose of the statements of cash flows, the Company considers all highly liquid investments with insignificant risk of change in value that have maturities of generally 3 months or less when purchased to be cash equivalents.

(3) Inventories

Inventories of the Companies are primarily stated at cost (reflecting write down due to decline in profitability) determined by the specific identification method.

(Change in accounting policy)
The Company has applied the "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, issued by the ASBJ on July 5, 2006) for the year ended March 31, 2009.

As a result of this change, operating income decreased by ¥8,664 million ($88,202 thousand) and income before income taxes and minority interests decreased by ¥11,224 million ($114,263 thousand). The effect on segment information is described in Note 20.

A revaluation loss on real estate for sales of ¥8,664 million ($88,202 thousand), after reflecting write downs due to a decline in profitability, is included in cost of sales for the year ended March 31, 2009.

(4) Marketable and investment securities

Held-to-maturity securities are stated at amortized cost (straight-line method). "Other securities" with available fair market values are stated at fair market value. Unrealized gains or losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains or losses on sale of such securities are computed using moving-average cost.

(5) Derivatives

1) Content of transactions
Derivative transactions used by the Company are limited to interest rate swaps.

2) Policy regarding derivative transactions
All of the derivative transactions engaged in by the Company are used exclusively for hedging against interest or foreign exchange risk. The Company does not conduct derivative transactions for investment purposes.

3) Purpose of the transactions
With regard to variable loans, the Company carries out interest rate cap and interest rate swap transactions to reduce the risks associated with the possibility of future increases in market interest rates.

Derivative transactions are accounted for using hedge accounting.

1. Hedge accounting method
   The Company uses the deferral hedge accounting method.
   The interest rate swaps that meet specific matching criteria are recognized and included in interest expense or income.
2. Hedging method and hedge targets

Hedging method	Hedge targets
Interest rate swaps	Debt

3. Hedge method
   Interest rate swaps are utilized as a hedge against possible future interest rate increases, in amounts that fall within the range of the particular liability being hedged.
4. Method used to evaluate the effectiveness of the hedge
   Cumulative interest rate fluctuations and changes in cash flows are compared to evaluate the effectiveness of hedge targets and hedge methods. However, evaluation as of the date of settlement of the effectiveness of interest rate swaps that meet specific matching criteria is omitted.

4) Risks associated with derivative transactions
The interest rate swap transactions used by the Company are associated with interest rate risk.

The contracting parties used by the Company are all highly reliable Japanese financial institutions, and the risk of their failure to honor a contract is considered to be negligible.

5) Risk control system
The Company's basic policy on derivative transactions is determined by the Board of Directors, and the Accounting Department is then responsible for executing and monitoring this policy in accordance with the regulations set out in the Company's "Rules for Managing Derivative Transactions."

The status of derivative transactions is reported to the Board of Directors on a regular basis to further reinforce our risk management.

6) Additional explanations about "Items pertaining to the market value of transactions"
As regards the market value of transactions, contracted values represent the calculated value of the notational principal of the transaction; these values do not reflect the size of the risk associated with the transaction.

(6) Property, plant and equipment (except for leased assets)
Rental buildings of the Company and domestic consolidated subsidiaries are stated at cost. Depreciation is computed generally on the straight-line basis. The range of useful lives is principally from 22 to 47 years for rental buildings.

Property, plant and equipment other than rental buildings of the Company and domestic consolidated subsidiaries are stated at cost. Depreciation is computed generally by the declining-balance method. However, buildings obtained on or after April 1, 1998 are depreciated by the straight-line method. The range of useful lives is principally from 40 to 50 years for buildings and structures and 5 years for machinery and equipment.

Property, plant and equipment of the consolidated overseas subsidiaries are depreciated by the straight-line method based on the GAAP of the country. The range of useful lives is principally from 30 to 40 years for buildings and structures and from 3 to 5 years for machinery and equipment.

(7) Long-lived assets
The Companies review long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeded the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the assets exceeds their recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the assets, or the net selling price at disposition.

(8) Deferred charges
All costs incurred in connection with the issuance of corporate bonds are amortized over 3 years using the straight-line method.

(9) Long-term prepaid expenses
Long-term prepaid expenses are amortized evenly over a period mainly from 3 to 5 years.

(10) Allowance for doubtful accounts
The Companies provide the allowance for doubtful accounts by the method that uses the percentage of its own actual experience of bad debt loss written off against the balance of total receivables plus the amount deemed necessary to cover individual accounts estimated to be uncollectible.

(11) Allowance for employees' bonuses
Allowance for employees' bonuses is provided for the payment of employees' bonuses based on estimated amounts of future payments attributed to the current fiscal year.

(12) Retirement benefit reserves
Retirement benefit reserves for employees are provided mainly at an amount calculated based on the retirement benefit obligation as of the balance sheet date. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of service of the eligible employees. Actuarial gain and loss of the Companies are amortized in the year following the year in which the gain or loss is recognized by the straight-line method over a period (5 years) that is shorter than the average remaining years of service of the employees.

Some domestic consolidated subsidiaries calculate retirement benefit reserves based on the compendium method.

(13) Retirement benefit reserves for directors
The Company recognizes liabilities for retirement benefits for directors at an amount in accordance with the internal regulations had all directors been terminated as of the balance sheet date.

(14) Reserve for apartment vacancy loss
Reserve for vacancy losses on apartment units managed under master lease agreements is based on estimated losses resulting from historical rental income and occupancy rates for each rental property managed by the leasing division of the Company.

(Change in accounting policy)
Prior to the change, the Company computed the reserve for rents due on the master lease agreements by estimates of master lease expenses due apartment owners compared with estimated rent income from apartment tenants over the period of the agreements. However, with the recent economic slowdown along with the increase in the number of rental properties managed by the Company, the decline in occupancy rates is expected to take on more significance. Considering the current trends in accounting treatment for the valuation of allowances and reserves, the Company decided to discontinue the "reserve for rents due on master lease agreements" method in favor of the valuation method based on expected rental income and historical vacancy rates.

As a result of this change, an additional ¥307 million ($3,124 thousand) was recorded in cost of sales for the year ended March 31, 2009, ¥4,313 million ($43,910 thousand) incurred in the prior year was reclassified to other expenses, and reserve for rents due on master lease agreements of ¥399 million ($4,063 thousand) as of March 31, 2008 was reversed and taken into income as other income for the year ended March 31, 2009.

The effect of these changes was to reduce operating income by ¥246 million ($2,503 thousand) and income before income tax and minority interests by ¥4,160 million ($42,349 thousand) for the year ended March 31, 2009.

Although the Company used the previous method to provide for the expected loss on the master lease agreements through the first three quarters of the year ended March 31, 2009, the sudden economic reversal in the latter half of the year necessitated that the Company implement and evaluate a more conservative and preferable valuation method during the peak leasing periods of February and March 2009. Had the change in method been implemented at the beginning of the year, operating income would have increased by ¥533 million ($5,427 thousand) and income before income tax and minority interests decreased by ¥3,381 million ($34,420 thousand) for the first three quarter of the year ended March 31, 2009.

(15) Reserve for warranty obligations on completed projects
Reserve for warranty obligations on completed projects is provided in an amount based on the Company's past experience, with an additional amount deemed necessary in the future for execution of warranty obligations regarding construction projects.

(16) Income taxes
Income taxes comprise corporate, inhabitant and enterprise taxes.

The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(17) Leases
Finance leases that are deemed to transfer ownership of leased property to the lessee (excluding leases that existed on or before March 31, 2008) are accounted for in a manner similar to sales transactions and depreciated by the straight-line method over the lease term with no residual value.

(Change in accounting policy)
Effective from the year ended March 31, 2009, the Company has adopted the "Accounting Standards for Lease Transactions" (ASBJ Statements No. 13, as revised on March 30, 2007) and "Implementation Guidance on Accounting Standards for Lease Transactions" (ASBJ Guidance No. 16, as revised on March 30, 2007).

Under the previous accounting standard, finance leases that do not transfer ownership of leased property were permitted to be accounted for as operating lease transactions. The new accounting standard requires that all finance lease transactions be accounted for in a manner similar to sales transactions.

Finance lease transactions that existed on or before March 31, 2008 and have been accounted for as operating leases, continue to be accounted for as operating leases.

As a result of this change, operating income increased by ¥2 million ($17 thousand) and income before income taxes and minority interests decreased by ¥92 million ($939 thousand) for the year ended March 31, 2009.

In addition, future minimum lease payments related to non-cancelable operating lease transactions are described in Note 18 for the year ended March 31, 2009.

(18) Foreign currency transactions
All monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates as of each balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income.

The assets and liabilities of consolidated overseas subsidiaries are translated into Japanese yen at the current exchange rates as of each balance sheet date and revenues and expenses are translated at the average exchange rates of the fiscal year. Exchange differences are included in foreign currency translation adjustments.

(19) Interest capitalization
Leopalace Guam Corporation, a consolidated subsidiary, capitalized interest paid on borrowing for real estate development business for the development period into acquisition cost of property, plant and equipment.

Capitalized interests included in carrying value of property, plant and equipment were ¥2,011 million ($20,472 thousand) and ¥2,585 million for the years ended March 31, 2009 and 2008, respectively.

(20) Consumption taxes
National and local consumption taxes are basically excluded from transaction amounts. However, Leopalace Insurance Co., Ltd, a consolidated subsidiary, includes national and local consumption taxes in operating expenses and general and administrative expenses. The nondeductible portion of consumption taxes on the purchase of assets is recorded as long-term prepaid expenses and amortized evenly over 5 years.

(Change in accounting policy)
Previously, Leopalace Insurance Co., Ltd, a consolidated subsidiary, excluded consumption taxes from transaction amounts. However, the Company started a small-amount and short-term insurance business in the year ended March 31, 2009 and changed the accounting method to include consumption taxes in operating expenses and general and administrative expenses. There is no effect on net income because of this change.

(21) Net income per share
Basic net income per share of common stock is computed by net income available to common shareholders divided by the weighted-average number of common shares outstanding for the period.

3. Changes in Presentation
Effective from the year ended March 31, 2009, pursuant to the application of "Cabinet Office Ordinance on a Part of Regulation for Terminology, Forms and Presentation of Financial Statements" (Cabinet Office Ordinance Statement No. 50, issued on August 7, 2008), the Companies have classified real estate for sale and real estate for sale in process separately, which were both included in real estate for sale as of March 31, 2008.

4. Cash and Cash Equivalents
There is no difference between "Cash and cash equivalents" in the consolidated balance sheet and "Cash and cash equivalents" in the consolidated statements of cash flows.

5. Securities and Investment Securities
(a) At March 31, 2009 and 2008, information with respect to "held-to-maturity securities" for which market prices were available was summarized as follows:

	Millions of yen		
March 31, 2009	Balance sheet	Market value	Unrecognized gain (loss)
Unrecognized gain items:			
Government and municipal bonds, etc.	¥ 398	¥ 405	¥ 7
Corporate bonds	—	—	—
Other	—	—	—
Subtotal	398	405	7
Unrecognized loss items:			
Government and municipal bonds, etc.	100	100	0
Corporate bonds	—	—	—
Other	601	588	(13)
Subtotal	701	688	(13)
Total	¥1,099	¥1,093	¥ (6)

	Millions of yen		
March 31, 2008	Balance sheet	Market value	Unrecognized gain (loss)
Unrecognized gain items:			
Government and municipal bonds, etc.	¥ —	¥ —	¥ —
Corporate bonds	—	—	—
Other	—	—	—
Subtotal	—	—	—
Unrecognized loss items:			
Government and municipal bonds, etc.	—	—	—
Corporate bonds	—	—	—
Other	601	591	(10)
Subtotal	601	591	(10)
Total	¥601	¥591	¥ (10)

March 31, 2009	Thousands of U.S. dollars Balance sheet	Market value	Unrecognized gain (loss)
Unrecognized gain items:			
Government and municipal bonds, etc.	$ 4,056	$ 4,126	$ 70
Corporate bonds	—	—	—
Other	—	—	—
Subtotal	4,056	4,126	70
Unrecognized loss items:			
Government and municipal bonds, etc.	1,021	1,016	(5)
Corporate bonds	—	—	—
Other	6,112	5,984	(128)
Subtotal	7,133	7,000	(133)
Total	$11,189	$11,126	$ (63)

(b) Marketable securities classified as “other securities” as of March 31, 2009 and 2008 were as follows:

March 31, 2009	Millions of yen Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥ 382	¥ 539	¥157
Bonds:			
Government and municipal bonds, etc.	173	173	0
Corporate bonds	—	—	—
Other	—	—	—
Other	96	97	1
Subtotal	651	809	158
Securities whose acquisition cost exceeds their carrying value:			
Stock	78	75	(3)
Bonds:			
Government and municipal bonds, etc.	—	—	—
Corporate bonds	—	—	—
Other	345	345	—
Other	294	251	(43)
Subtotal	717	671	(46)
Total	¥1,368	¥1,480	¥112

March 31, 2008	Millions of yen Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥ 477	¥ 797	¥320
Bonds:			
Government and municipal bonds, etc.	74	74	0
Corporate bonds	—	—	—
Other	—	—	—
Other	—	—	—
Subtotal	551	871	320
Securities whose acquisition cost exceeds their carrying value:			
Stock	985	985	—
Bonds:			
Government and municipal bonds, etc.	114	114	(0)
Corporate bonds	—	—	—
Other	500	392	(108)
Other	520	464	(56)
Subtotal	2,119	1,955	(164)
Total	¥2,670	¥2,826	¥156

March 31, 2009	Thousands of U.S. dollars Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	$ 3,893	$ 5,487	$1,594
Bonds:			
Government and municipal bonds, etc.	1,759	1,763	4
Corporate bonds	—	—	—
Other	—	—	—
Other	973	986	13
Subtotal	6,625	8,236	1,611
Securities whose acquisition cost exceeds their carrying value:			
Stock	790	763	(27)
Bonds:			
Government and municipal bonds, etc.	—	—	—
Corporate bonds	—	—	—
Other	3,512	3,512	—
Other	2,993	2,553	(440)
Subtotal	7,295	6,828	(467)
Total	$13,920	$15,064	$1,144

The Company recognized impairment loss of ¥1,002 million ($10,205 thousand) on stocks classified as “other securities” with market value, ¥155 million ($1,578 thousand) on bonds classified as “other securities” with market value, and ¥99 million ($1,012 thousand) on mutual funds classified as “other securities” with market value for the year ended March 31, 2009. The Company recognized impairment loss of ¥843 million on stocks classified as “other securities” with market value, and ¥62 millions on mutual funds classified as “other securities” with market value for the year ended March 31, 2008. Impairment loss was recognized on securities whose market value had declined by 30% or more of acquisition cost at year-end.

(c) Proceeds from sales of “other securities” for the years ended March 31, 2009 and 2008 were ¥42 million ($428 thousand) and ¥707 million, respectively. Gross realized gains on these sales were nil and ¥4 million for the years ended March 31, 2009 and 2008, respectively.

(d) Securities without market value as of March 31, 2009 and 2008 were as follows:

	Millions of yen 2009	2008	Thousands of U.S. dollars 2009
Other securities			
Unlisted securities	¥1,106	¥1,797	$11,263
Unlisted bonds:			
Subordinated bonds	824	824	8,391
Others:			
Subordinated trust beneficiary right in loans receivable and money claims	502	505	5,112
Investments for limited partnership in investment business	409	509	4,158
Preferred equity contribution securities	—	1,500	—
Total	¥2,841	¥5,135	$28,924

The Company recognized impairment loss of ¥648 million ($6,600 thousand) on unlisted securities and ¥1,500 million ($15,270 thousand) on preferred equity contribution securities for the year ended March 31, 2009. The Company recognized impairment loss of ¥1 million on unlisted securities for the year ended March 31, 2008. Impairment loss was recognized on securities without market value when net asset value of the securities had declined by 50% or more of the acquisition cost.

(e) The redemption schedule for securities with maturity dates classified as "other securities" and "held-to-maturity securities" is summarized as follows:

March 31, 2009	Millions of yen Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Bonds:				
Government and municipal bonds, etc.	¥153	¥520	¥ —	¥ —
Corporate bonds	—	—	—	824
Other	100	—	300	700
Other	97	—	408	502
Total	¥350	¥520	¥708	¥2,026

March 31, 2008	Millions of yen Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Bonds:				
Government and municipal bonds, etc.	¥15	¥ 173	¥ —	¥ —
Corporate bonds	—	—	—	824
Other	—	100	300	700
Other	—	1,573	814	505
Total	¥15	¥1,846	¥1,114	¥2,029

March 31, 2009	Thousands of U.S. dollars Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Bonds:				
Government and municipal bonds, etc.	$1,558	$5,294	$ —	$ —
Corporate bonds	—	—	—	8,391
Other	1,018	—	3,054	7,126
Other	986	—	4,158	5,107
Total	$3,562	$5,294	$7,212	$20,624

(f) Investments in securities, including investments in unconsolidated subsidiaries and affiliates, were ¥837 million ($8,516 thousand) and ¥536 million as of March 31, 2009 and 2008, respectively.

6. Derivative Transactions

There is no balance of derivative transactions outstanding as of March 31, 2009 and 2008.

7. Long-Lived Assets

The Companies recognized impairment loss of the following asset group for the years ended March 31, 2009 and 2008:

(For the year ended March 31, 2009)

Purpose	Category	Location	Impairment loss Millions of yen	Impairment loss Thousands of U.S. dollars
Rental assets (59 blocks of apartments)	Buildings and structures	Sapporo City, Hokkaido, etc.	¥ 681	$ 6,927
	Land		2,127	21,656

(For the year ended March 31, 2008)

Purpose	Category	Location	Impairment loss Millions of yen
Rental assets (32 blocks of apartments)	Buildings and structures	Osaka City, Osaka, etc.	¥139
	Land		563

The Companies recognized each property in domestic rental assets as a unit and grouped overseas assets by administration accounting classification.

The Companies reduced book value of the rental assets, idle assets and business assets whose profitability decreased seriously due to a decline in current rental rates and continuous decline in land prices, to recoverable amounts and recognized the reduced values as impairment losses of ¥2,808 million ($28,583 thousand) and ¥702 million for the years ended March 31, 2009 and 2008, respectively.

Recoverable amounts of rental assets were measured by values in current use, which were calculated based on the present values of future cash flows, using a discount rate of 4.6%.

8. Change from Current Assets to Land and Construction in Progress

The Companies have reclassified real estate for sale in process of ¥2,056 million ($20,935 thousand) that had been categorized as current assets into land of ¥1,421 million ($14,471 thousand) and construction in progress of ¥635 million ($6,464 thousand) due to change in possession purpose as of March 31, 2009.

9. Bad Debt

Bad debt at March 31, 2009 and 2008 consisted of the following:

	Millions of yen 2009	Millions of yen 2008	Thousands of U.S. dollars 2009
Claim in bankruptcy	¥ 10	¥ 14	$ 103
Claim in the process of bankruptcy	3,488	2,346	35,506
Bad debt	866	1,499	8,819
Others	200	157	2,030
Total	¥4,564	¥4,016	$46,458

10. Deferred Tax Assets and Liabilities

(a) Significant components of deferred tax assets and liabilities as of March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Deferred tax assets:			
Impairment loss	¥20,986	¥23,175	$213,645
Loss carried forward for tax purposes	11,523	13,709	117,311
Loss on devaluation of real estate for sale	4,757	255	48,423
Advances from customers for rent income	3,644	8,064	37,092
Retirement benefit reserves	2,520	2,061	25,656
Subsidiaries' foreign exchange loss	2,013	—	20,494
Reserve for apartment vacancy loss	1,880	—	19,138
Loss on devaluation of property, plant and equipment	1,630	1,630	16,590
Allowance for employees' bonuses	1,530	1,320	15,572
Allowance for doubtful accounts	1,369	2,732	13,933
Accrued business tax	1,015	1,093	10,333
Deposits received	811	632	8,259
Loss on devaluation of securities	705	417	7,176
Other payable	577	537	5,875
Retirement benefit reserves for directors	522	648	5,310
Reserve for warranty obligations on completed project	457	424	4,655
Excess amortization on software	293	197	2,983
Excess depreciation	202	219	2,052
Sales discount for construction contracts	136	—	1,382
Elimination of unrealized loss	96	123	976
Loss on investment properties	63	—	645
Bad debt loss	41	580	413
Reserves for rents due on master lease agreements	—	162	—
Other	271	344	2,773
Sub-total	57,041	58,322	580,686
Less: valuation allowance	(43,477)	(42,767)	(442,606)
Total deferred tax assets	13,564	15,555	138,080
Deferred tax liabilities:			
Net unrealized gain on "other securities"	(44)	(82)	(440)
Total deferred tax liabilities	(44)	(82)	(440)
Net deferred tax assets	¥13,520	¥15,473	$137,640

(b) Reconciliation of the differences between the statutory tax rate and the effective income tax rate for the years ended March 31, 2009 and 2008 was as follows:

	2009	2008
Statutory tax rate	40.69%	40.69%
Valuation allowances	17.76	27.00
Non-deductible expenses including entertainment expenses	9.84	12.17
Inhabitant tax	0.91	2.12
Tax for prior fiscal periods	—	11.39
Others	1.05	1.80
Effective income tax rate	70.25%	95.17%

11. Short-Term Borrowings and Long-Term Debt

(a) Short-term borrowings, long-term debt and lease obligations at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Short-term borrowings:			
Current portion of long-term debt	¥17,493	¥16,221	$178,080
Current portion of lease obligations	793	—	8,070
Unsecured corporate bonds due on September 30, 2008	—	5,095	—
Long-term debt	22,897	28,395	233,100
Lease obligations, long term	3,006	—	30,602
Total	¥44,189	¥49,711	$449,852

(b) Assets pledged as collateral for short-term borrowings and long-term debt at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Buildings and structures	¥12,549	¥14,071	$127,752
Land	43,858	46,045	446,481
Investment securities	93	93	950
Others in Investments and other assets (Membership right)	420	420	4,276
Total	¥56,920	¥60,629	$579,459

(c) The aggregate annual maturities of long-term debt subsequent to March 31, 2009 are summarized as follows:

For the year ending March 31	Millions of yen	Thousands of U.S. dollars
2010	¥17,493	$178,080
2011	15,278	155,537
2012	6,788	69,103
2013	831	8,460
2014 and thereafter	—	—

(d) The aggregate annual maturities of lease obligation subsequent to March 31, 2009 are summarized as follows:

For the year ending March 31	Millions of yen	Thousands of U.S. dollars
2010	¥793	$8,070
2011	824	8,391
2012	778	7,921
2013	773	7,868
2014 and thereafter	631	6,422

12. Retirement Benefit Plans

(a) The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets as of March 31, 2009 and 2008 for the Companies' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Projected benefit obligation	¥(6,815)	¥(5,630)	$(69,378)
Unrecognized actuarial gain or loss	621	565	6,325
Retirement benefit reserves	¥(6,194)	¥(5,065)	$(63,053)

Certain consolidated subsidiaries apply simplified methods in calculating their projected benefit obligations.

(b) The following table sets forth the funded and accrued status of the entire pension plan as of March 31, 2008 and 2007.

	Millions of yen		Thousands of U.S. dollars
	As of March 31,		
	2008	2007	2008
Pension assets	¥45,804	¥52,226	$466,294
Projected benefit obligation	50,403	45,161	513,113
Difference	¥ (4,599)	¥ 7,065	$ (46,819)

The main components of the difference for the year ended March 31, 2009 are unrecognized prior service costs of ¥2,455 million ($24,995 thousand) and insufficient amount carried forward of ¥2,937 million ($29,897 thousand). The main components of difference for the year ended March 31, 2008 are unrecognized prior service costs of ¥2,485 million and other reserves of ¥8,006 million. The Company recognized the special annuity premium of ¥131 million ($1,333 thousand) and ¥109 million as an expense in the years ended March 31, 2009 and 2008, respectively. The insufficient amount carried forward will be settled by increasing the rate of special annuity premium based on recalculation of the financial situation.

The annuity premium contributory proportion of the entire pension plan is 43% and 37% as of March 31, 2009 and 2008, respectively.

The Company has a welfare pension fund. In the welfare pension fund, it cannot reasonably calculate the portion of the pension assets attributed to the Company.

(c) The components of retirement benefit expenses for the years ended March 31, 2009 and 2008 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Service cost	**¥3,145**	¥2,656	**$32,015**
Interest cost	**123**	102	**1,256**
Amortization of actuarial gain or loss	**188**	186	**1,916**
Total	**¥3,456**	¥2,944	**$35,187**

Notes: 1. Contributions to the welfare pension fund were ¥2,074 million ($21,114 thousand) and ¥1,771 million in the years ended March 31, 2009 and 2008, respectively.
2. All the retirement benefit expenses of the domestic consolidated subsidiaries adopting the simplified method were recorded in service cost.

(d) The assumptions used in accounting for the above plans are as follows:

Assumptions used in accounting for retirement benefits	**2009**	2008
Periodical allocation of estimated retirement benefit	**Benefits-years-of-service approach**	Benefits-years-of-service approach
Discount rate	**2.2%**	2.2%
Amortization period of actuarial gain or loss	**5 years**	5 years

13. Gain on Sale of Property, Plant and Equipment

Gain on sale of property, plant and equipment for the years ended March 31, 2009 and 2008 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Buildings and structures	**¥—**	¥ 697	**$—**
Land	**—**	3,736	**—**
Others	**0**	33	**2**
Total	**¥ 0**	¥4,466	**$ 2**

14. Loss on Sale of Property, Plant and Equipment

Loss on sale of property, plant and equipment for the years ended March 31, 2009 and 2008 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Buildings and structures	**¥—**	¥120	**$—**
Others	**1**	1	**6**
Total	**¥ 1**	¥121	**$ 6**

15. Loss on Disposal of Property, Plant and Equipment

Loss on disposal of property, plant and equipment for the years ended March 31, 2009 and 2008 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Buildings and structures	**¥ 96**	¥ 72	**$ 977**
Others	**13**	70	**130**
Construction in progress	**20**	—	**204**
Intangible assets	**33**	—	**339**
Total	**¥162**	¥142	**$1,650**

16. Shares Outstanding and Treasury Stocks

Shares outstanding and treasury stocks for the year ended March 31, 2009 were as follows:

Type of shares	March 31, 2008	Increase	Decrease	March 31, 2009
Shares outstanding				
Common stock	159,543,915	—	—	**159,543,915**
Total	159,543,915	—	—	**159,543,915**
Treasury stock				
Common stock	165,059	8,000,655	—	**8,165,714**
Total	165,059	8,000,655	—	**8,165,714**

Note: 1. An increase of 8,000,655 shares was due to purchases of common stock (8,000,000 shares) by resolution of the Board of Directors' meeting and purchases of odd-lot shares of less than one unit (655 shares).

Shares outstanding and treasury stocks for the year ended March 31, 2008 were as follows:

Type of shares	March 31, 2007	Increase	Decrease	March 31, 2008
Shares outstanding				
Common stock	159,543,915	—	—	159,543,915
Total	159,543,915	—	—	159,543,915
Treasury stock				
Common stock	164,521	538	—	165,059
Total	164,521	538	—	165,059

Note: 1. An increase of 538 shares was due to purchases of odd-lot shares of less than one unit.

17. Cash Dividends

(a) Cash dividends for the year ended March 31, 2009 were as follows:

Resolution	Type of shares	Gross amount (millions of yen)	Gross amount (thousands of U.S. dollars)	Per share (yen)	Per share (U.S. dollars)	Record date	Date in effect of dividend
General shareholders' meeting on June 27, 2008	Common stock	¥7,969	$81,125	¥50	$0.51	March 31, 2008	June 30, 2008
Board of Directors' meeting on November 4, 2008	Common stock	4,781	48,675	30	0.31	September 30, 2008	November 25, 2008

Cash dividends for the year ended March 31, 2008 were as follows:

Resolution	Type of shares	Gross amount (millions of yen)	Per share (yen)	Record date	Date in effect of dividend
General shareholders' meeting on June 28, 2007	Common stock	¥5,578	¥35	March 31, 2007	June 29, 2007
Board of Directors' meeting on November 22, 2007	Common stock	4,781	30	September 30, 2007	December 7, 2007

(b) There is no dividend that will be in effect in the year ended March 31, 2010 and recorded in the year ended March 31, 2009.

18. Leases

The Companies primarily lease furniture and electronic appliances, for apartments of their leasing business, and software.

(a) The following pro forma amounts represent the acquisition cost, accumulated depreciation and net book value of leased property as of March 31, 2009 and 2008, which would have been reflected in the accompanying consolidated balance sheets if finance accounting had been applied to the finance leases that existed on or before March 31, 2008 and are currently accounted for as operating leases:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Acquisition cost			
Vehicles	**¥ 11**	¥ 14	**$ 110**
Equipment	**17,466**	22,175	**177,807**
Accumulated depreciation			
Vehicles	**¥ 5**	¥ 6	**$ 49**
Equipment	**8,836**	10,273	**89,955**
Net book value			
Vehicles	**¥ 6**	¥ 8	**$ 61**
Equipment	**8,630**	11,902	**87,852**

(b) The amounts of outstanding future lease payments under finance lease subsequent to March 31, 2009 including the interest portion thereon were summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Due within one year	¥2,835	$28,856
Due after one year	6,307	64,208
Total	¥9,142	$93,064

Annual lease expenses charged to income were ¥4,038 million ($41,107 thousand) and ¥4,725 million for the years ended March 31, 2009 and 2008, respectively.

(c) Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2009 and 2008 for finance lease transactions accounted for as operating leases were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Estimated amount of depreciation by the straight-line method over the lease period	**¥3,495**	¥4,161	**$35,578**
Estimated interest cost	**540**	611	**5,499**

(d) Future minimum lease payments related to non-cancelable operating leases subsequent to March 31, 2009 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	Future lease payments	Prepaid lease payments	Differences	Future lease payments	Prepaid lease payments	Differences
Due within one year	¥ 255,972 ¥ (255,914)	¥ 25,269 ¥(25,269)	¥ 230,703 ¥ (230,645)	$ 2,605,843 $ (2,605,251)	$ 257,243 $(257,243)	$ 2,348,601 $ (2,348,008)
Due after one year	1,172,276 (1,172,226)	59,774 (59,774)	1,112,501 (1,112,452)	11,933,990 (11,933,487)	608,515 (608,515)	11,325,474 (11,324,972)
Total	¥ 1,428,248 ¥(1,428,140)	¥ 85,043 ¥(85,043)	¥ 1,343,204 ¥(1,343,097)	$ 14,539,833 $(14,538,738)	$ 865,758 $(865,758)	$ 13,674,075 $(13,672,980)

Future operating lease payments fixed under master lease agreements in leasing business are shown in parentheses.

(e) Future minimum lease payments under operating leases subsequent to March 31, 2008 were as follows:

	Millions of yen
Due within one year	¥ 70
Due after one year	77
Total	¥147

19. Contingent Liabilities

Contingent liabilities for the years ended March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Contingent liabilities to financial institutions for customers who have a home mortgage	**¥1,810**	¥2,044	**$18,428**
Contingent liabilities to financial institutions for customers who have a membership loan	**30**	30	**305**
Subordinated contingent liabilities to financial institutions for customers who have an apartment loan with nonexempt property	**1**	3	**7**
Total	**¥1,841**	¥2,077	**$18,740**

20. Segment Information

(a) Business segments

Segment information by business groups for the years ended March 31, 2009 and 2008 was as follows:

	Millions of yen							
Year ended March 31, 2009	Apartment Construction Subcontracting Division	Leasing Division	Hotel Resort Division	Residential Sales Division	Other Division	Segment totals	Elimination or common assets	Consolidated totals
(1) Net sales and operating income (loss)								
Sales								
Sales to customers	**¥359,155**	**¥334,561**	**¥ 5,611**	**¥ 11,469**	**¥22,439**	**¥733,235**	**¥ —**	**¥733,235**
Inter-segment sales and transfers	**—**	**216**	**4,605**	**—**	**—**	**4,821**	**(4,821)**	**—**
Total	**359,155**	**334,777**	**10,216**	**11,469**	**22,439**	**738,056**	**(4,821)**	**733,235**
Operating expenses	**289,042**	**336,316**	**11,021**	**22,134**	**24,604**	**683,117**	**(39)**	**683,078**
Operating income (loss)	**¥ 70,113**	**¥ (1,539)**	**¥ (805)**	**¥(10,665)**	**¥ (2,165)**	**¥ 54,939**	**¥ (4,782)**	**¥ 50,157**
(2) Assets, depreciation, impairment losses and capital expenditures								
Assets	**¥ 41,900**	**¥214,657**	**¥43,267**	**¥ 28,907**	**¥17,668**	**¥346,399**	**¥120,901**	**¥467,300**
Depreciation	**537**	**2,863**	**1,657**	**10**	**296**	**5,363**	**419**	**5,782**
Impairment losses	**—**	**2,808**	**—**	**—**	**—**	**2,808**	**—**	**2,808**
Capital expenditures	**278**	**5,379**	**489**	**6**	**1,447**	**7,599**	**4,155**	**11,754**

	Millions of yen							
Years ended March 31, 2008	Apartment Construction Subcontracting Division	Leasing Division	Hotel Resort Division	Residential Sales Division	Other Division	Segment totals	Elimination or common assets	Consolidated totals
(1) Net sales and operating income (loss)								
Sales								
Sales to customers	¥327,541	¥302,731	¥ 6,072	¥11,281	¥25,349	¥672,974	¥ —	¥672,974
Inter-segment sales and transfers	—	23	4,200	—	—	4,223	(4,223)	—
Total	327,541	302,754	10,272	11,281	25,349	677,197	(4,223)	672,974
Operating expenses	254,273	299,717	11,389	12,490	23,494	601,363	208	601,571
Operating income (loss)	¥ 73,268	¥ 3,037	¥ (1,117)	¥ (1,209)	¥ 1,855	¥ 75,834	¥ (4,431)	¥ 71,403
(2) Assets, depreciation, impairment losses and capital expenditures								
Assets	¥ 70,768	¥213,118	¥53,444	¥39,974	¥21,178	¥398,482	¥95,474	¥493,956
Depreciation	550	2,193	1,789	41	141	4,714	449	5,163
Impairment losses	—	702	—	—	—	702	—	702
Capital expenditures	575	4,022	653	30	148	5,428	1,495	6,923

Years ended March 31, 2009	Apartment Construction Subcontracting Division	Leasing Division	Hotel Resort Division	Residential Sales Division	Other Division	Segment totals	Elimination or common assets	Consolidated totals
	Thousands of U.S. dollars							
(1) Net sales and operating income (loss)								
Sales								
Sales to customers	$3,656,264	$3,405,891	$ 57,121	$ 116,755	$228,444	$7,464,475	$ —	$7,464,475
Inter-segment sales and transfers	—	2,200	46,880	—	—	49,080	(49,080)	—
Total	3,656,264	3,408,091	104,001	116,755	228,444	7,513,555	(49,080)	7,464,475
Operating expenses	2,942,503	3,423,757	112,198	225,325	250,484	6,954,267	(398)	6,953,869
Operating income (loss)	$ 713,761	$ (15,666)	$ (8,197)	$(108,570)	$ (22,040)	$ 559,288	$ (48,682)	$ 510,606
(2) Assets, depreciation, impairment losses and capital expenditures								
Assets	$ 426,546	$2,185,252	$440,462	$ 294,274	$179,871	$3,526,405	$1,230,802	$4,757,207
Depreciation	5,463	29,150	16,872	102	3,006	54,593	4,274	58,867
Impairment losses	—	28,583	—	—	—	28,583	—	28,583
Capital expenditures	2,831	54,764	4,981	56	14,725	77,357	42,298	119,655

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) Residential Sales Division —— Sale of detached houses
(5) Other Division —— Broadband Business, Silver Business, financial services (real-estate loans, etc.), small amount and short-term insurance business
3. Major items and amounts included in “Elimination or common assets” are as follows.

	Millions of yen		Thousands of U.S. dollars	
	2009	2008	**2009**	Main component
Operating expenses unable to be allocated included in “Elimination or common assets”	¥ **4,993**	¥ 4,535	$ **50,825**	Management expenses of the General Affairs Department of the Company submitting the consolidated financial statements.
Amount of corporate assets included in “Elimination or common assets”	**120,902**	95,474	**1,230,802**	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.

(Change in business segments)

The residential sales division is classified separately from other divisions in the year ended March 31, 2009 because the absolute amount of its operating loss exceeded 10% of the absolute amount of total operating income from the segments that generate operating “income.” Accordingly, the numbers for the year ended March 31, 2008 were reclassified appropriately.

(Change in accounting policy)

Inventory measurement

As discussed in Note 2 (3), effective from the year ended March 31, 2009, the Company has applied the “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9 issued on July 5, 2006). As a result of this change, the operating expense and operating loss increased by ¥8,664 million ($88,202 thousand) for the Residential Sales Division for the year ended March 31, 2009 compared to the figures obtained by the previous method of calculation.

Reserve for apartment vacancy loss

As discussed in Note 2 (14), effective from the year ended March 31, 2009, the Company accounts for the reserve for loss on the master lease agreement as “reserve for apartment vacancy loss” by calculating estimated losses resulting from historical rental income and occupancy rates. As a result of this change, the operating expense increased by ¥246 million ($2,503 thousand) and operating income decreased by the same amount for the Leasing Division compared to the figures obtained by the previous method of calculation.

(b) Geographical segments

Segment information by geographic area for the years ended March 31, 2009 and 2008 was as follows:

	Millions of yen				
Year ended March 31, 2009	Japan	Trust territory of U.S.A. Guam	Segment totals	Elimination or common assets	Consolidated totals
(1) Net sales and operating income (loss)					
Sales					
Sales to customers	¥729,238	¥ 3,997	¥733,235	¥ —	¥733,235
Inter-segment sales and transfers	115	5,077	5,192	(5,192)	—
Total	729,353	9,074	738,427	(5,192)	733,235
Operating expenses	675,410	8,078	683,488	(410)	683,078
Operating income (loss)	¥ 53,943	¥ 996	¥ 54,939	¥ (4,782)	¥ 50,157
(2) Assets					
Assets	¥304,788	¥41,610	¥346,398	¥120,902	¥467,300

	Millions of yen				
Year ended March 31, 2008	Japan	Trust territory of U.S.A. Guam	Segment totals	Elimination or common assets	Consolidated totals
(1) Net sales and operating income (loss)					
Sales					
Sales to customers	¥668,493	¥ 4,481	¥672,974	¥ —	¥672,974
Inter-segment sales and transfers	159	4,677	4,836	(4,836)	—
Total	668,652	9,158	677,810	(4,836)	672,974
Operating expenses	593,045	8,931	601,976	(405)	601,571
Operating income (loss)	¥ 75,607	¥ 227	¥ 75,834	¥ (4,431)	¥ 71,403
(2) Assets					
Assets	¥346,254	¥52,228	¥398,482	¥95,474	¥493,956

	Thousands of U.S. dollars				
Year ended March 31, 2009	Japan	Trust territory of U.S.A. Guam	Segment totals	Elimination or common assets	Consolidated totals
(1) Net sales and operating income (loss)					
Sales					
Sales to customers	$7,423,779	$ 40,696	$7,464,475	$ —	$7,464,475
Inter-segment sales and transfers	1,175	51,681	52,856	(52,856)	—
Total	7,424,954	92,377	7,517,331	(52,856)	7,464,475
Operating expenses	6,875,808	82,234	6,958,042	(4,173)	6,953,869
Operating income (loss)	$ 549,146	$ 10,143	$ 559,289	$ (48,683)	$ 510,606
(2) Assets					
Assets	$3,102,803	$423,602	$3,526,405	$1,230,802	$4,757,207

Notes: 1. Geographic area is defined by geographic contiguity.
2. Major items and amounts included in "Elimination or common assets" are the same as in Note 3 in "Business segments."

(Change in accounting policy)

Inventory measurement

As discussed in Note 2 (3), effective from the year ended March 31, 2009, the Company has applied the "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9 issued on July 5, 2006). As a result of this change, operating expenses increased by ¥8,664 million ($88,202 thousand) and operating income decreased by the same amount in the Japan segment for the year ended March 31, 2009 compared to the figures obtained by the previous method of calculation.

Reserve for apartment vacancy loss

As discussed in Note 2 (14), effective from the year ended March 31, 2009, the Company accounts for the reserve for loss on the master lease agreement as "reserve for apartment vacancy loss" by calculating estimated losses resulting from historical rental income and occupancy rates. As a result of this change, operating expenses increased by ¥246 million ($2,503 thousand) and operating income decreased by the same amount in the Japan segment compared to the figures obtained by the previous method of calculation.

(c) Overseas sales

As overseas sales constituted less than 10% of consolidated net sales for the years ended March 31, 2009 and 2008, overseas sales information has been omitted.

21. Amounts per Share

(a) The following table sets forth the net assets and net income per share of common stock for the years ended March 31, 2009 and 2008.

	Yen		U.S. dollars
	2009	2008	**2009**
Net assets	**¥967.40**	¥1,036.43	**$9.85**
Net income			
Basic	**63.54**	2.15	**0.65**

(b) Basis of computation of net assets per share at March 31, 2009 and 2008 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Net assets	**¥146,442**	¥170,155	**$1,490,814**
Amount not allocated to common stock	**—**	4,970	**—**
Net assets allocated to common stock	**146,442**	165,185	**1,490,814**
Shares issued outstanding at end of year (Thousands of shares)	**151,378**	159,379	**151,378**

(c) Basis of computation of basic net income per share for the years ended March 31, 2009 and 2008 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Net income	**¥ 9,952**	¥ 342	**$101,312**
Amount not allocated to common stock	**—**	—	**—**
Net income allocated to common stock	**9,952**	342	**101,312**
Weighted-average shares during the year (thousands of shares)	**156,620**	159,379	**156,620**

22. Related Party Transactions

The following table sets forth related party transactions for the years ended March 31, 2009 and 2008.

(For the year ended March 31, 2009)

(a) Unconsolidated subsidiaries and affiliates

Attribute	Name	Address	Capital stock		Business or position	Percentage of share ownership of the Company	Relation
			Millions of yen	Thousands of U.S. dollars			
Affiliate	Toyo Miyama Kogyo Co., Ltd.	Kisarazu City, Chiba	¥100	$1,018	Production and sales of building materials	50.0%	—Purchases of building materials and others —Interlocking directors

Attribute	Name	Transaction	Transaction amount		Account	Balance	
			Millions of yen	Thousands of U.S. dollars		Millions of yen	Thousands of U.S. dollars
Affiliate	Toyo Miyama Kogyo Co., Ltd.	Purchases of building materials and others	¥41,387	$421,324	Accounts payable for completed projects	¥10,571	$107,615

(b) Directors and major shareholders

Attribute	Name	Address	Capital stock		Business or position	Percentage of share ownership of the Company	Relation
			Millions of yen	Thousands of U.S. dollars			
Director and close relatives	Yoshiteru Kitagawa	—	—	—	President and CEO	0.5%	Leasing of land and building
	Toshiko Miyoshi	—	—	—	—	—	Sales of real estate Leasing of land and buildings
	Takeshi Yoshioka	—	—	—	—	—	Leasing of land and buildings

Attribute	Name	Transaction	Transaction amount		Account	Balance	
			Millions of yen	Thousands of U.S. dollars		Millions of yen	Thousands of U.S. dollars
Director and close relatives	Yoshiteru Kitagawa	Leasing of apartments	¥10	$ 97	—	¥—	$ —
	Toshiko Miyoshi	Sale of land Leasing of apartments	52 —	531 —	— Long-term prepaid expenses	— 29	— 290
	Takeshi Yoshioka	Leasing of apartments	13	132	—	—	—

Notes: 1. Consumption taxes were not included in transaction amounts but included in balance.
2. Conditions of transactions:
(a) Conditions of purchases of building material were the same as transactions with third parties.
(b) Conditions of leasing of apartments are the same as transactions with third parties.
(c) Conditions of sale of land are the same as transactions with third parties.
3. Toshiko Miyoshi is a close relative of Tadahiro Miyama, Executive Director of Management.
4. Takeshi Yoshioka is a close relative of Yoshikazu Miike, Director of the Company.

(Additional information)
Effective from the year ended March 31, 2009, the Company has applied the "Accounting Standard for Related Party Disclosures" (ASBJ Statement No. 11, issued by the ASBJ on October 17, 2006) and "Implementation Guidance on Accounting Standard for Related Party Disclosures" (ASBJ Guidance No. 13, issued on October 17, 2006). There was no change in the scope of disclosure as a result.

(For the year ended March 31, 2008)
(a) Directors and individual major shareholders

Attribute	Name	Address	Capital stock	Business or position	Percentage of share ownership of the Company	Relation	
			Millions of yen			Interlocking directors	Relation in business
Director and company whose majority of voting right is owned by the director and close relatives	Yoshiteru Kitagawa	—	—	President and CEO	0.5%	—	—
	Eisei Miyama	—	—	Senior Managing Director	0.0%	—	—
	Yoshikazu Miike	—	—	Director	0.0%	—	—
	Satoshi Abe	—	—	Director	—	—	—
	Yousuke Kitagawa	—	—	Director	0.0%	—	—
	Katsumi Furuhata	—	—	Full-time Corporate Auditor	—	—	—
	Miyamaso Co., Ltd.	Iki City, Nagasaki	¥6	Hotel business	—	—	Leasing of building
Individual main shareholder	Yusuke Miyama	—	—	—	13.3%	—	—

Attribute	Name	Transaction	Transaction amount	Account	Balance
			Millions of yen		Millions of yen
Director and company whose majority of voting rights are owned by the director and close relatives	Yoshiteru Kitagawa	Leasing of land and buildings	¥ 4	—	¥—
	Eisei Miyama	Leasing of land and buildings	5	—	—
	Yoshikazu Miike	Leasing of land and buildings	5	—	—
	Satoshi Abe	Leasing of land and buildings	3	—	—
	Yousuke Kitagawa	Leasing of land and buildings	2	—	—
	Katsumi Furuhata	Leasing of land and buildings	0	—	—
	Miyamaso Co., Ltd.	Leasing of buildings	6	—	—
Individual main shareholder	Yusuke Miyama	Interest on loans	62	"Other" in current assets	¥62

Notes: 1. Miyamaso Co., Ltd. is a company whose majority of voting rights are owned by close relatives of Eisei Miyama, Senior Managing Director of the Company.
2. Conditions of transactions
(a) Conditions of leasing of land and buildings are the same as transactions with third parties.
(b) Conditions of interest on loans are decided taking into account market interest rates.
(c) Katsumi Furuhata retired from the position of director on June 27, 2008.
3. Consumption taxes were not included in the transaction amounts above.

(b) Subsidiaries and others

Attribute	Name	Address	Capital stock	Business or position	Percentage of share ownership of the Company	Relation	
			Millions of yen			Interlocking directors	Relation in business
Affiliate	Toyo Miyama Kogyo Co., Ltd.	Kisarazu City, Chiba	¥100	Production and sales of building material	50.0%	2 interlocking directors	Purchases of building materials and others

Attribute	Name	Transaction	Transaction amount	Account	Balance
			Millions of yen		Millions of yen
Affiliate	Toyo Miyama Kogyo Co., Ltd.	Purchases of building materials and others	¥29,816	Accounts payable for completed projects	¥9,892

Notes: 1. Conditions of transactions
Conditions of purchases of building materials were the same as transactions with third parties.
2. Consumption taxes were not included in the transaction amount above but included in the balance.

23. Subsequent Events

On June 29, 2009, the Company's shareholders in the 36th annual shareholders' meeting approved resolutions to terminate the retirement benefit plan for its directors then in place pursuant to Japanese Companies Act; to issue stock options in a stock-based compensation plan; and to issue stock options with favorable terms to certain eligible executive officers, employees, as well as directors of major subsidiaries who have been approved by the Board of Directors.

Grant Thornton

Report of Independent Certified Public Accountants

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To the Board of Directors of
LEOPALACE21 CORPORATION

We have audited the accompanying consolidated balance sheets of LEOPALACE21 CORPORATION and subsidiaries as of March 31, 2009, and the related consolidated statements of income, shareholders' equity and cash flows for the year then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the over all financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of LEOPALACE21 CORPORATION and subsidiaries as of March 31, 2009, and the consolidated results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in Japan as described in Note 1 to the consolidated statements.

As described in Note 2(3), effective the year ended March 31, 2009, the Company adopted the "Accounting standard for the measurement of inventories".

As described in Note 2(14), effective the year ended March 31, 2009, the Company replaced "the reserve for rents due on master lease agreements" with "the reserve for apartment vacancy loss", which is calculated based on estimated losses resulting from historical rental income and occupancy rates for each rental property managed by the leasing division of the Company.

As described in Note 2(17), effective the year ended March 31, 2009, the Company adopted the "Accounting standards for lease transactions", and "Implementation guidance on accounting standards for lease transactions".

The consolidated financial statements as of and for the year ended March 31, 2009 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.

Grant Thornton Taiyo ASG
Tokyo, Japan
June 30, 2009

Member of Grant Thornton International Ltd

"A Residential Property Asset Management Company"

One of the corporate visions in the previous medium-term management plan, and a long- and medium-term goal for the core businesses. Leopalace21 considers the more than 500,000 units it has under management to be assets (residential property assets) entrusted to it by apartment owners, and seeks to establish a business model that will provide efficient management of those assets and increased earnings. (P17)

"A Total Support Provider in the Housing Sector"

One of the corporate visions in the previous medium-term management plan. Under this vision, Leopalace21 seeks to provide products and services that meet a wide range of needs in terms of utilization of land, and housing.

Census

A statistical survey of trends in Japan's population, households, workforce and other national characteristics, conducted every five years. The most recent census was in 2005. The census indicated such trends as the falling birthrate and the aging of the population, an increase in the number of single person households, and the concentration of the population in the three major urban areas around Tokyo, Osaka and Nagoya.

Leasing Asset Liability Management (ALM) System

A management system to optimize management of apartment units, to be introduced in fiscal 2010. Once operating at full capacity, the system will allow for the management of costs and earnings at each apartment building on a nationwide level. This is expected to improve earnings in the Leasing Business, and lead to growth in the Apartment Construction Subcontracting Business. (P11, 17, 20)

Master Lease System (MasterLease Agreements)

Under the Master Lease System, Leopalace21 builds an apartment under contract with the landowner, and leases the entire building for up to 30 years. Leopalace21 manages all aspects of the subleased units, including the finding of prospective tenants, concluding the rental contracts, and collecting the rent payments. The system guarantees owners a stable lease income. (P13, 32, 35, 36, 40, 44, 47-49)

Motazaru Keiei

Literally "non-ownership management," one of the basic strategies of the new Medium-Term Management Plan, "Change for NEXT." It was formulated in the 1990s as a "no assets, no debt" management model for the core businesses to free them from relying on the balance sheet. *Motazaru Keiei* provides the basis for Leopalace21's business model of building apartments under contract with landowners, concluding a master lease agreements and subleasing the units. (P2, 6, 9, 11, 31, 32)

Non-recourse Loans

A type of financing in which the lender's recovery is limited to proceeds from rent or the scope of business assets. Banks have expanded financing with non-recourse loans in recent years, but the market contracted sharply during the financial crisis in fall 2008, with a significant impact on Leopalace21's financing. (P18, 19, 30)

Number of Units under Management

The number of apartment units managed by Leopalace21. (P5, 11, 13, 15, 17, 20, 21, 24, 31-33)

Occupancy Rate

The ratio of leased units to the number of units under management. (P4, 12, 14, 20-23, 30-32, 40)

One-Room Apartments (1K)

One-room (1K) apartments are living spaces with a single living room and attached kitchenette. Leopalace21 has focused on providing one-room apartments of 30 square meters or less for young people in urban areas, but since fiscal 2008 has expanded its lineup to include family-type units and other layouts. (P5-7, 13, 15, 16, 18-21, 23)

Public Financing (Japan Housing Finance Agency)

The Japan Housing Finance Agency (JHF; formerly the Government Housing Loan Corporation) is an independent administrative institution established to help support the stable and efficient issuance of housing loans by private financial institutions. Leopalace21 has been selling products applicable for JHF support since 2008 in an effort to expand financing. (P19, 30)

Reserve for Apartment Vacancy Loss

Leopalace21 changed its accounting policy from the fiscal year ended March 2009 to provide against losses incurred from vacancies under master lease agreements. Leopalace21 makes a rational estimate of expected losses during the subject period based on the amount of rent set for each lease contract and the occupancy rate, and records this amount as a "Reserve for apartment vacancy loss." (P31, 35, 38, 40, 44, 48, 49)

Revised Building Standards Law

The revised Building Standards Law was promulgated in June 2008, adding modifications to the previous law intended to prevent a reoccurrence of the incident involving falsification of earthquake-resistance data. The inspection period was extended to allow for stricter building inspections and other checks, resulting in a substantial decrease in the number of new housing starts. (P6, 29)

Second-Generation Baby Boomers

As of 2006, this group-consisting of the generation born between 1971 and 1975-totaled 9.6 million people nationwide, with more than 60% concentrated in the three major urban areas around Tokyo, Osaka and Nagoya.

Security Deposit / Landlord Gratuity

These are common practices when renting apartments in Japan. The security deposit provides a guarantee against non-payment of rent, while the gratuity paid to the landlord expresses appreciation to the owner for renting the unit. Leopalace21 used to offer apartments with no security deposit or gratuity, but revised this practice in July 2009 as part of its expanded ties with real estate agents. (P11)

Unification of Construction and Leasing

One of the basic strategies of the new Medium-Term Management Plan "Change for NEXT." In response to the decline in the occupancy rate following the financial crisis in fall 2008, Leopalace21 consolidated the Apartment Construction Subcontracting Business and the Leasing Business under the Sales and Marketing General Headquarters, restructuring its management by integrating the two businesses. This unification is intended to strengthen the business structure centered on the core businesses, and provide for greater asset efficiency. (P6, 10-12, 25, 32)

Group Companies

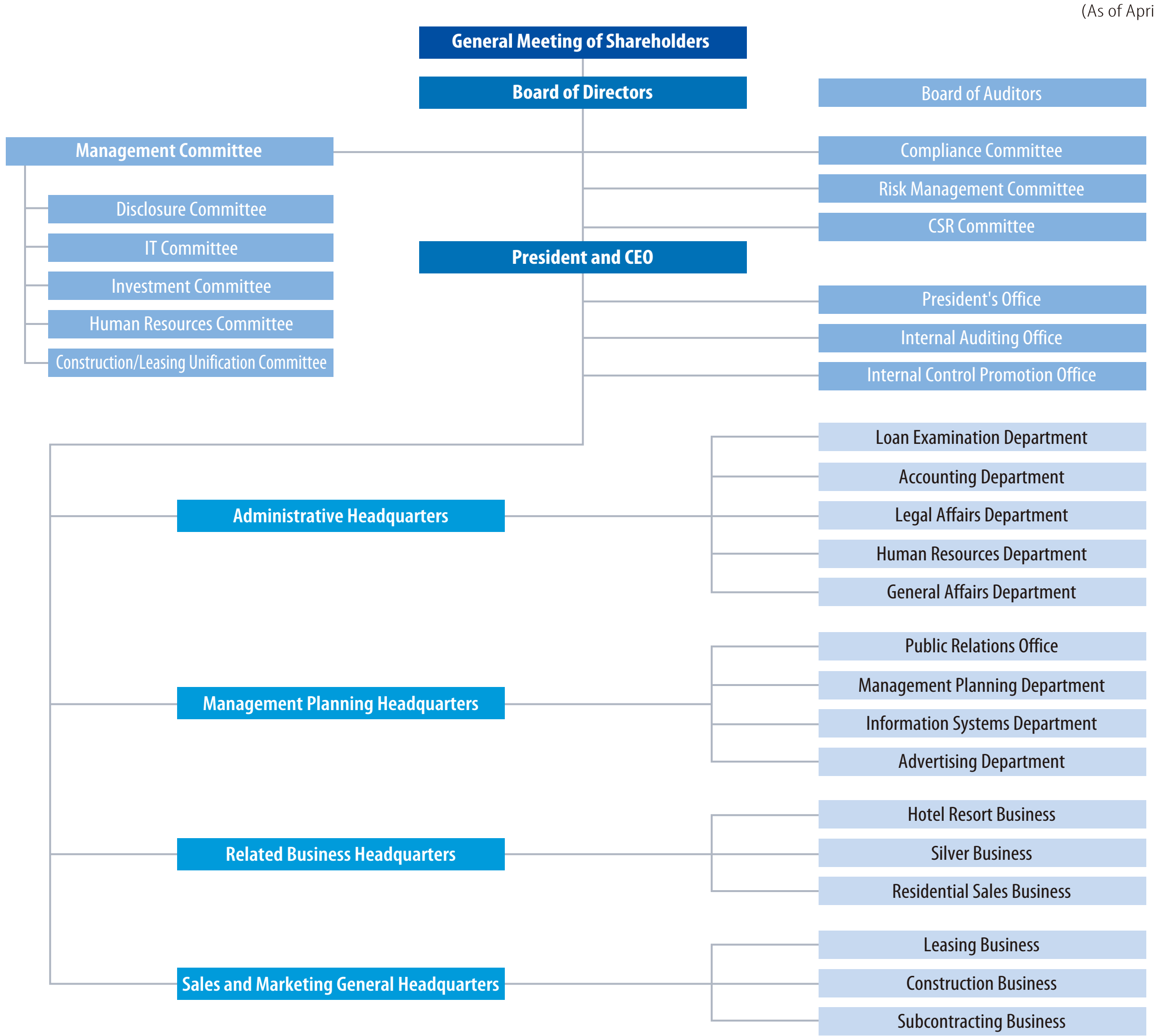
(As of March 31, 2009)

Company	Equity stakes held by Leopalace21	Main Business
DOMESTIC		
Subsidiaries		
Leopalace Leasing Corporation	100%	Company housing and real estate agent
Leopalace Finance Co., Ltd.	100%	Financial services
Leopalace Insurance Co., Ltd.	100%	Small amount and short-term insurance business
Leopalace Travel, Ltd.	100%	Travel agent
Affiliates		
Toyo Miyama Kogyo Co., Ltd.	50%	Manufacture and sale of housing materials
OVERSEAS		
LEOPALACE GUAM CORPORATION	100%	Hotel/resort operations in Guam

Note: Apart from the companies listed above, there are two companies (100% owned indirectly by Leopalace21) with operational permits.

Organization

(As of April 1, 2009)



Leopalace21 Corporation

Head Office:
2-54-11 Honcho, Nakano-ku,
Tokyo 164-8622, Japan
Tel: +81-3-5350-0001
http://www.leopalace21.co.jp

Date of Establishment:
August 17, 1973

Share Capital:
¥55,640.66 million

Operations:
Construction, leasing and sales of apartments, condominiums and residential housing; development and operation of resort facilities; hotel business; broadband business; silver business, etc.

Number of Employees:
9,926 (consolidated basis);
9,017 (non-consolidated basis)

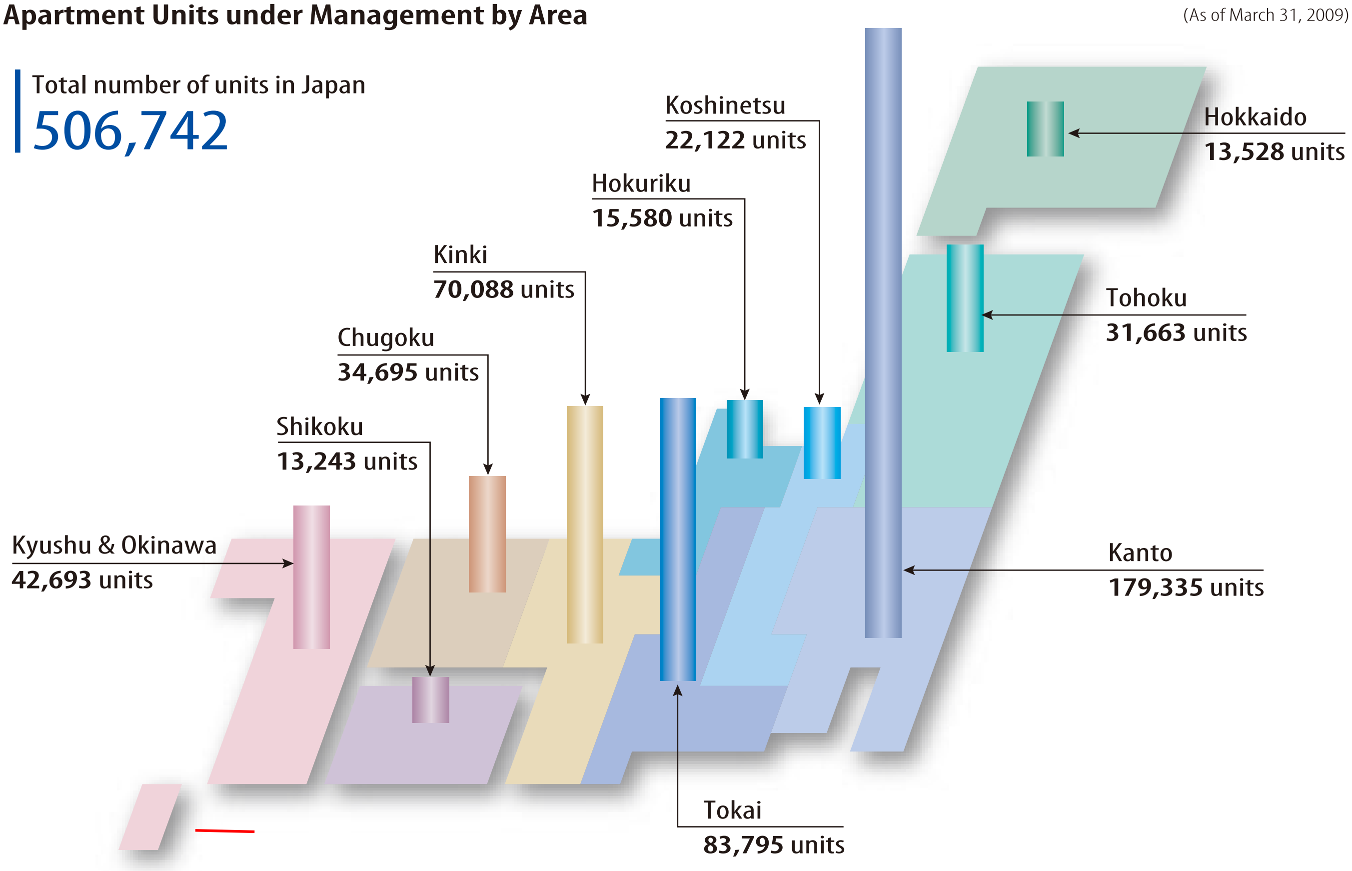
Board of Directors and Auditors

(As of June 29, 2009)

President and CEO	Yoshiteru Kitagawa
Senior Managing Director	Eisei Miyama
Executive Director of Management	Tadahiro Miyama
Directors	Hiroyuki Miyata
	Yoshikazu Miike
	Kou Kimura
	Yousuke Kitagawa
	Satoshi Abe
	Hiroshi Takeda
	Naomichi Mochida
Standing Auditors	Yoshinori Uehara
	Shinya Watanabe
Auditors	Masami Matsushita
	Koichi Fujiwara

Apartment Units under Management by Area

(As of March 31, 2009)



Major Shareholders (Top 10)

(As of March 31, 2009)

Name of shareholder	No. of shares held	% of shares held
Yusuke Miyama	21,251,774	13.32
Leopalace21 Corporation	8,165,714	5.12
Japan Trustee Service Bank, Ltd. (Trust Account 4G)	7,228,400	4.53
Japan Trustee Service Bank, Ltd. (Trust Account)	6,245,800	3.91
State Street Bank and Trust Company 505223 (standing proxy agent: Mizuho Corporate Bank, Ltd.)	6,157,793	3.86
The Master Trust Bank of Japan, Ltd. (Trust Account)	6,105,200	3.83
Toyo Kanetsu K.K.	2,745,900	1.72
The Chase Manhattan Bank, N.A. London SL Omnibus Account (standing proxy agent: Mizuho Corporate Bank, Ltd.)	2,437,395	1.53
MDI Corporation	2,350,000	1.47
Mellon Bank, N.A. as agent for its client Mellon Omnibus US Pension (standing proxy agent: Mizuho Corporate Bank, Ltd.)	1,952,349	1.22

Number of Shares:

Authorized: 250,000,000

Issued and outstanding: 159,543,915

Number of Shareholders:

25,339

Stock Exchange Listing:

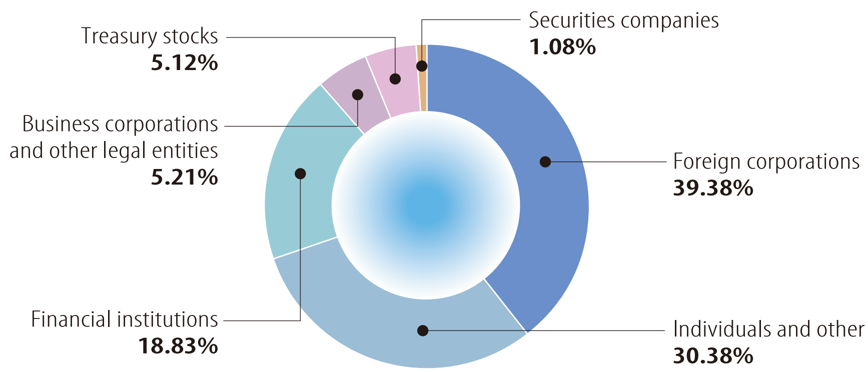
Tokyo Stock Exchange (ticker: 8848)

Transfer agent:

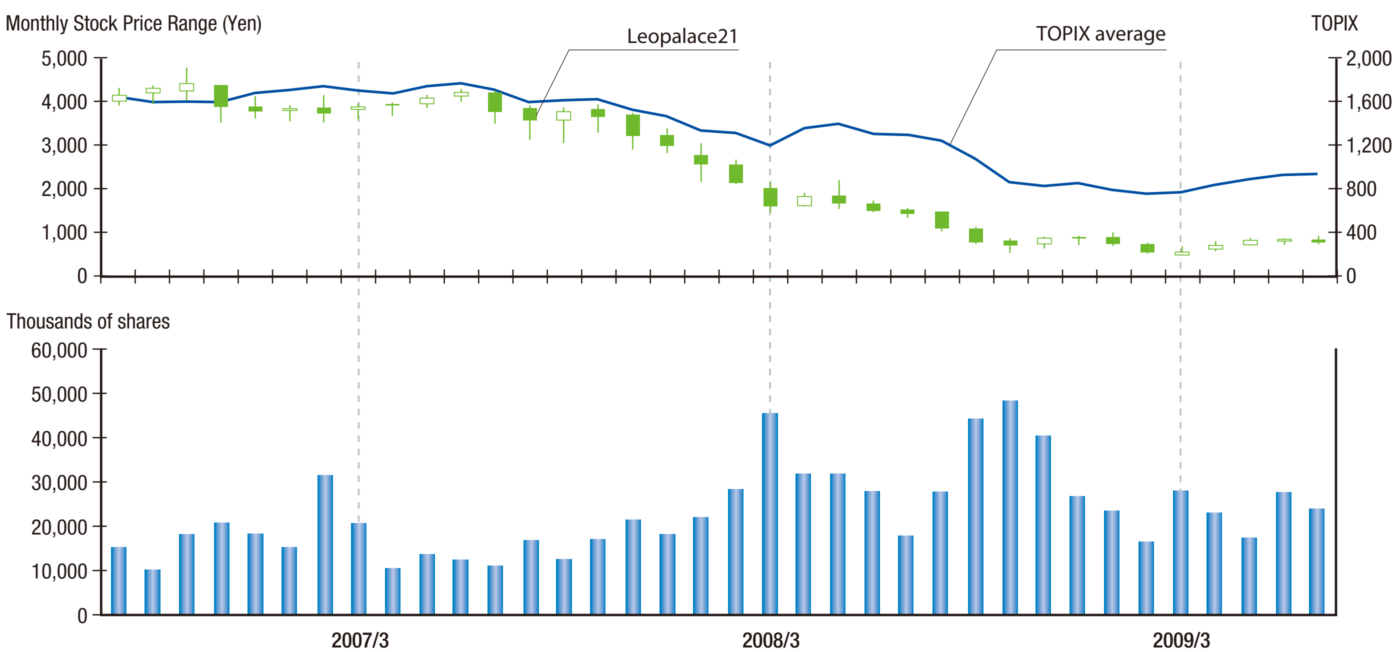
Mitsubishi UFJ Trust and Banking Corporation

Composition of Shareholders

(As of March 31, 2009)



Monthly Stock Data (TSE)



Change for NEXT
Leopalace21

Toward an Efficient, Fair and Transparent Management System

Director **Yoshikazu Miike** | Senior Managing Director **Eisei Miyama** | President and CEO **Yoshiteru Kitagawa** | Executive Director **Tadahiro Miyama** | Director **Hiroyuki Miyata**

Leopalace21 considers better corporate governance to be one of its most important management priorities.
Our aim is for efficient, fair and transparent management that will achieve higher corporate value for all stakeholders.

Corporate History

2009
- Number of units under management reached 507,000
- Launched the family-type unit Lavo familia
- **Launched new Three-Year Medium-Term Management Plan, "Change for NEXT" in May**

2008
- Number of units under management reached 442,000
- Started three related businesses, Leopalace Leasing, Leopalace Financing and Leopalace Insurance
- Launched Lavo Cerna, a residence with attached apartments

2007
- Number of units under management reached 389,000

2006
- Opened Leopalace Center Taipei and Leopalace Center Pusan
- **Launched Five-Year Medium-Term Management Plan, "United Spirit" in December**

2005
- Number of units under management reached 300,000
- Started Residential and Silver businesses

2004
- Listed on 1st Section of Tokyo Stock Exchange
- Increased capital to ¥55.64 billion by public offering
- Opened Leopalace Center Shanghai

2002
- Number of units under management reached 200,000
- Introduced our Monthly Leopalace Flat service
- Started our Broadband Business
- Launched Leopalace REIT II and III, a series of securitized real estate products
- Opened Leopalace World Nagoya and Leopalace Center Seoul

2001
- Launched Leopalace REIT, a securitized real estate product

2000
- Increased capital to ¥30.52 billion through a third-party allotment of new shares
- Changed company name to Leopalace21 Corporation

1999
- Launched the Monthly Leopalace short-term rental service

1998
- Number of units under management reached 100,000
- Leopalace21 Villa Colonna wins the 1998 Good Design Award

1997
- Established the Leopalace21 Owners' Mutual Insurance Association

1993
- Opened Leopalace Resort Manenggon Hills, Guam

1989
- Listed on JASDAQ

1988
- Introduced a unique membership-based rental system for our tenants

1985
- Introduced Leopalace21 urban-style, one-room rental apartment buildings

1979
- Increased capital to ¥100 million

1973
- Started business as Miyama Inc., a real estate brokerage

Leopalace21 Corporation

2-54-11 Honcho, Nakano-ku, Tokyo 164-8622, Japan
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