Annual Report 2008

Sustaining Momentum

United Spirit

Leopalace21

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

Leopalace21 continues to evolve steadily, as we find new ways of providing people with a home.

In the past, rental housing in Japan mostly served as temporary accommodation for people who would eventually acquire their own homes. The situation changed, however, when Leopalace21 created a new market by introducing the one-room apartment, which featured sophisticated functionality and design. By offering a new dream home, we have maintained our position as leader in Japan's apartment business.

Meanwhile, as our business finds itself at a crucial juncture, due to the ongoing rapid change both in people's lifestyles and values, as well as in the operating environment of companies, we are moving beyond the basics of apartment business. We are reaching out to people in a bid to help them realize their dreams. To this end, we will continue to meet the challenge of providing homes and services not previously available. Moreover, it is through our contribution to housing that we aim to help achieve a balance among a wide range of social infrastructure needs.

In order to address societal issues and meet the requirements of individuals, we shall hold fast to our corporate philosophy of "Create New Value," thereby manifesting the company's tradition of working boldly as a pioneer in our field.

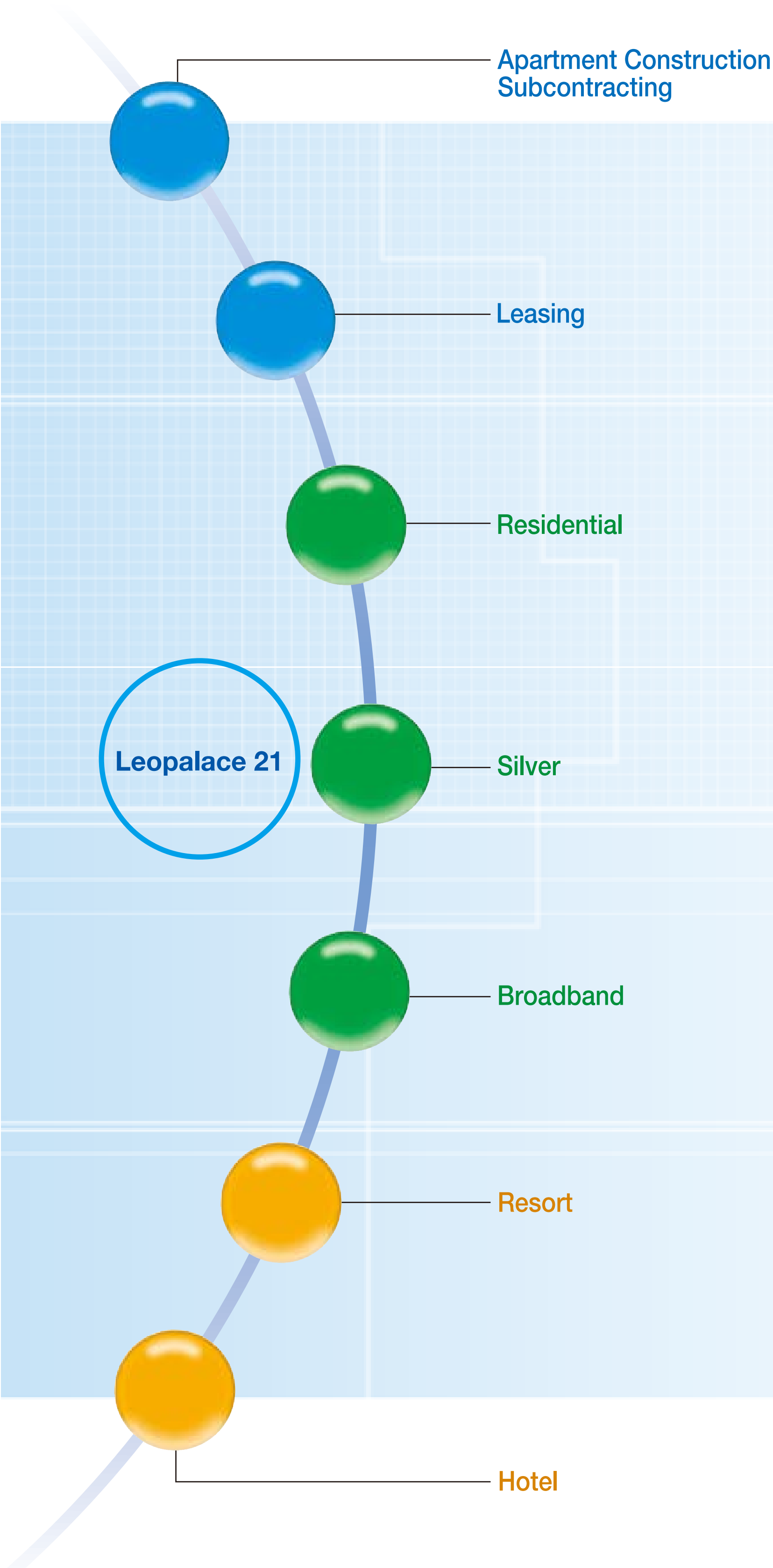
We aim to provide total housing support tailored to win customer loyalty across the board.

The dynamic, integrated business approach of Leopalace21 is designed to meet the diverse needs of customers of all ages.

By providing support for long-term apartment management, our Apartment Construction Subcontracting Business helps landowners build their asset portfolios. Furthermore, our Leasing Business is pioneering the development of new markets by focusing on the needs of the young demographic segment. Our business model, reflecting the synergy produced by the two core businesses, has enabled us to achieve earnings growth.

By utilizing the infrastructure and know-how of our core businesses, we are continuing to develop aggressively our three strategic businesses; the Residential Business, providing single-family homes and condominiums that meet the needs of new families in urban areas; the Silver Business, supporting post-retirement lifestyles of seniors; and the Broadband Business, offering services to enhance lifestyle convenience and comfort.

In addition, we operate a hotel business in Japan and a resort business overseas, and have commenced peripheral businesses in the areas of leasing and insurance. Fundamental to this integrated approach are our strategic ideas, echoing the needs of individuals and society, and our commitment to superior quality. Our extensive know-how allows us to identify new demand, and has made it possible for us to become a total housing support company that can win the loyalty of a broad spectrum of age groups.



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Cautionary Statements with Respect to Forward-Looking Statements

The business forecasts and other forward-looking statements contained in this annual report are based on information currently available to the Company and on certain assumptions that the Company has judged to be reasonable. Readers should be aware that a variety of factors might cause actual results to differ significantly from these forecasts.

Growth through Innovation

Innovation is molding Leopalace21 Corporation into a provider of total housing solutions. As we adjust to challenges, our new products and services are expanding our core and strategic businesses.

Yoshiteru Kitagawa
President and CEO

Leopalace21 Corporation (hereinafter referred to as Leopalace21) continued to expand its two core businesses of Apartment Construction Subcontracting and Leasing, but faced a difficult business environment during the fiscal year ended March 2008 as a result of such factors as the turmoil in the financial markets caused by the subprime loan crisis in the United States, rising costs to cover more expensive materials, and a decline in new housing starts stemming from revisions to the Building Standard Law.

Under such circumstance, Leopalace21 posted an increase in revenue for the subject fiscal year, although profit declined. Net sales on a consolidated basis rose 6.5% to ¥672,974 million, with operating profit down 6.1% to ¥71,403 million. Net income, as a result of a ¥9,534 million year-end foreign exchange valuation loss from our overseas subsidiary, declined 99.1% to ¥342 million.

We made two forecast revisions during the subject period and, because of the foreign exchange loss on loans to our Guam subsidiary, results fell well below our initial targets. Although there was no net cash outflow, we were forced to record a large valuation loss, and I would like to offer my apologies for the concern this has caused so many of our shareholders and investors.

Despite the painful numbers, we did succeed in the Apartment Construction Subcontracting Business in increasing orders for long-term construction contracts stemming from the revised Building Standard Law, while in the Leasing Business we implemented many valuable measures, including eliminating the short-term "Per Week" units that had consistently been a problem in terms of efficiency. In this sense, I think we can say that the fiscal year ended March 2008 was a period of adjustment during which we uncovered several issues to be addressed in our ongoing Medium-Term Management Plan, and began to take on new challenges. We plan to continue to adhere to our policy of business expansion, and pursue further increases in our business value. Thank you for your continued support of Leopalace21.

August 2008

Yoshiteru Kitagawa

Yoshiteru Kitagawa, President and CEO

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
	2008	2007	2006	**2008**
Net sales	**¥672,974**	¥631,608	¥465,387	**¥6,716,972**
EBITDA	**76,565**	80,566	45,340	**764,198**
Operating profit	**71,403**	76,007	40,775	**712,673**
Net income (loss)	**342**	37,358	(16,582)	**3,418**
Total assets*	**¥493,956**	¥454,820	¥412,804	**4,930,194**
Total net assets*	**170,155**	185,785	133,622	**1,698,328**
Total net assets per share (¥ and US$)*	**1,036.43**	1,054.99	839.44	**10.34**
Net income (loss) per share (¥ and US$)	**2.15**	234.68	(104.17)	**0.02**
Cash dividend per share (¥ and US$)	**80.00**	50.00	15.00	**0.80**
Equity Ratio (%)*	**33.4**	37.0	32.4	
Return on equity (ROE) (%)	**0.2**	24.8	(11.7)	
Return on assets (ROA) (%)*	**0.1**	8.6	(3.8)	

Notes: 1. U.S. dollar amounts are translated from yen at the rate of ¥100.19 = US$1, the approximate rate prevailing at March 31, 2008.
2. The amount of total net assets for the year ended March 2006 represents the value of total shareholders' equity and does not include minority interests.
3. Return on assets (ROA) = Net income/Total assets x 100
4. Items marked * are at the fiscal year end.

Q 1 How do you see the operating results of the fiscal year ended March 2008?

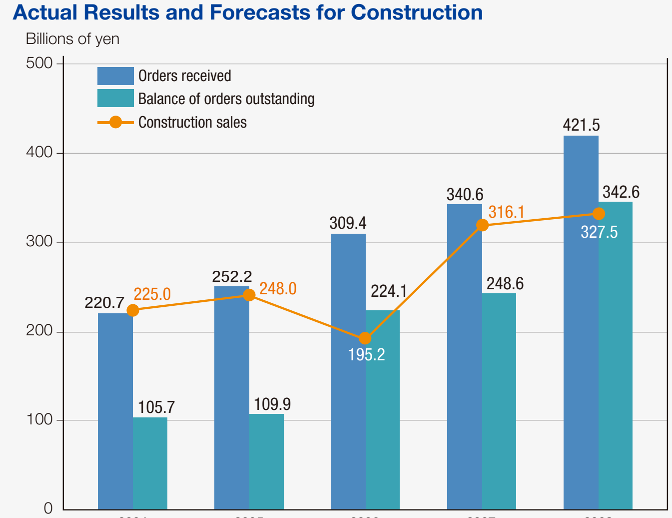
A Last fiscal year's fall in profits was due to factors such as revision of the Building Standard Law, changes in accounting policy, and the yen's appreciation. With core businesses strong, we expect to see revenue and earnings rise starting this fiscal year.

Multiple factors are behind the increased revenue but declining profit for the fiscal year ended March 2008. In the Apartment Construction Subcontracting Business, revisions to the Building Standard Law had the effect of lengthening construction periods. This was a common factor for the entire industry. In the Leasing Business, our costs rose in accordance with the increase in sales locations and sales personnel. Another factor was a change in the accounting method for the Monthly Leopalace service, which resulted in an extraordinary loss of ¥30,600 million during the interim period. Other factors include the rapid appreciation of the yen at the end of the period, and a ¥9,534 million foreign exchange valuation loss on yen-denominated loans to our subsidiary operating a resort facility in Guam.

The market environment was positive overall, however, with leasing demand centered on urban areas giving a boost to the Leasing Business. The Apartment Construction Subcontracting Business also managed to increase orders in the face of longer construction periods arising from revisions to the Building Standard Law, and contract volume increased 23.8% year on year to ¥421,500 million. This figure is a new historical high, and we expect it to underpin future sales growth. The change in accounting method is an adjustment essential to achieving the equalization of income to costs targeted by the Medium-Term Management Plan, and our overseas subsidiary in Guam has until recently been close to achieving full-year operating profit on a U.S. dollar basis.

In other words, the core businesses of the Leopalace21 Group—Apartment Construction Subcontracting and Leasing—remain strong, and we expect growth to continue. For the fiscal year ending March 2009, we are forecasting that net sales will increase 13% on a consolidated basis to ¥765,000 million, double-digit growth from the previous fiscal year. Our forecast operating profit is ¥72,100 million. We have been somewhat conservative in our profit estimate considering the revised Building Standard Law, financial trends stemming from the subprime loan crisis, and slowdown in the economic outlook, but consider this to be the minimum level for the current fiscal year.

Actual Results and Forecasts for Construction



Q 2 What is the status of the Medium-Term Management Plan?

A The fiscal year ending March 2009 is a turn-around year for the plan, and we expect to achieve a surge forward by developing new products and services in urban areas, and implementing other strategic measures.

The Medium-Term Management Plan: "United Spirit," announced in December 2006, has two phases, a period for establishing solid business foundations (April 2007 through March 2009), and one for expanding synergies (April 2009 through March 2011). It calls for further expansion of core businesses, and steady development of the three strategic businesses. Our targets for the final year of the plan are net sales on a consolidated basis of ¥1 trillion, with operating profit of ¥100,000 million. During this turn-around year for the Medium-Term Management Plan—the fiscal year ending March 2009—we are implementing a variety of measures aimed at achieving these targets.

Under the Medium-Term Management Plan, we are pursuing quantitative and qualitative increases in our core businesses, which account for more than 90% of all sales. Strategies for quantitative growth in the Apartment Construction Subcontracting Business include offering new products and services. For example, around 60% of rental housing in urban areas such as Tokyo, Kanagawa, Nagoya and Osaka is more than 20 years old. The value of land is high in urban areas and excess space is limited, so demand for rebuilding of these lease properties is a huge market. Leopalace21 plans to stimulate demand for rebuilding in urban areas by encouraging apartment building owners to reexamine the value of their land, and offering them products that provide a higher return. We feel that new strategic products and services that meet just such a desire will lead to expansion of our core businesses. Let me point to a few specific initiatives.

We have already introduced five new apartment designs, beginning with the Villa Alta design in July 2006. In June 2008 we added the Lavo Cerna design, a house with attached apartments aimed at rebuilding demand among the baby boomer generation. Lavo Cerna is a three-story wood construction, lowering the cost compared to steel or reinforced concrete. It also more easily meets legal conditions placed on rebuilding, and is a high-margin product. Homeowners with leased space are able to reduce the burden of their housing loans and other costs, and make their home work for them by generating earnings. We are also planning to launch Lavo Casa, a three-story wood tenement design. Our plan is to market these new designs as strategic products for urban areas in conjunction with companies in other industries, which we anticipate will make a significant contribution to the overall earnings of the core businesses.

Medium-Term Management Plan Expand business domains, reinforce growth and earnings potential of core businesses

April 2006 — March 2009 — March 2011

Phase I Medium-Term Management Plan
Establish solid business foundation

Phase II Medium-Term Management Plan
Take advantage of expanding synergies

Specific Strategies

Core Businesses	**Quantitative expansion** Expand Leasing Business into a network comprising 400 offices and a marketing staff of 2,400 (phase II)	**Quantitative expansion** New apartment products Introduce new services Improve labor productivity	**Qualitative improvement** Complete development of ALM leasing system (phase I) Begin full implementation (phase II) Pursue strategic M&A activities
Other Businesses	**Early operation of three strategic businesses** Set up in three metropolitan markets (phase I)	**Three related businesses** Launch of corporate leasing, finance and insurance businesses.	**Strategic real estate development business** Secure 7% ROI through ¥100 billion by investing in strategic real estate assets.

Core Business Strategy
Change into a residential property asset management company

Overall Strategy
Become a total support provider

Target Indicators (FY2011/3)

Consolidated Net Sales	Consolidated Operating Profit	Equity Ratio	ROE	Dividend Payout Ratio
¥1 trillion	¥100 billion	50%	15%	30%

In terms of qualitative improvements, we are engaged in full-scale development and operation of our asset liability management (ALM) leasing system. The aim of the ALM system is to organically fuse the apartment management and market data that we have accumulated over more than 20 years to provide optimal management of vast amounts of deposit assets. To achieve our goal of "transform to a residential property asset management company"—one of the qualitative goals for our core business and the vision for our Medium-Term Management Plan—it is essential for us to make the ALM leasing system capable of effectively managing the residential assets of our 450,000 units under management. We have had our existing system in operation 24 hours a day, 365 days per year. The evaluation is now complete, and since May 2008 we have been moving toward development of an ALM leasing system for our core businesses.

For our three strategic businesses—the Broadband, Residential, and Silver (elderly care) businesses—we have begun full-scale business expansion that effectively utilizes the business infrastructure of our core businesses in urban areas. Of these, the Broadband and Silver businesses are growing steadily. The Residential Business has been sluggish owing to the downturn in the real estate market, but we expect conditions to improve. The next fiscal year (ending March 2010) will mark the start of our period for expanding synergies—the second phase of our Medium-Term Management Plan—during which time we aim to expand these strategic businesses, and establish a model that will generate synergies with our core businesses. The strategic businesses will also play an important role in achieving the other vision of our Medium-Term Management Plan, that of becoming a "Total Support Provider in the Housing Sector."

Leopalace21 has also launched three new related businesses: corporate leasing, insurance and finance. These businesses, along with the three strategic businesses, are a means of increasing the proportion of sales from sources other than core businesses, and there is ample opportunity for growth through synergies with existing businesses.

Q 3 What measures is Leopalace21 taking regarding CSR?

A We consider our housing-related business activities to be CSR in the broadest sense. We established a CSR Committee during the current fiscal year that is coordinating our CSR activities as a corporate citizen.

Leopalace21 aims to play a part in the development of social infrastructure, centered on housing. We believe that providing comprehensive support for housing allows us to maintain our high occupancy rate, and contribute to the creation of a more vibrant society. In this regard, our business activities themselves are CSR in the broadest sense. Through business activities that strike a balance with the demands of society, and by helping to resolve social issues, Leopalace21 will be able to achieve long-term growth as a company.

We are now two years into our Medium-Term Management Plan, and have reached a point that is much like a return to the period of our founding. We are not simply working to meet numerical targets through business expansion, but consider the creation of a framework to govern the Company to ensure CSR activity to be an important management issue. In June 2006, we instituted a three-headquarters system, and took steps to enhance our corporate governance and compliance. In June 2008, as part of this framework to ensure CSR activity as a corporate citizen, we established a CSR Committee.

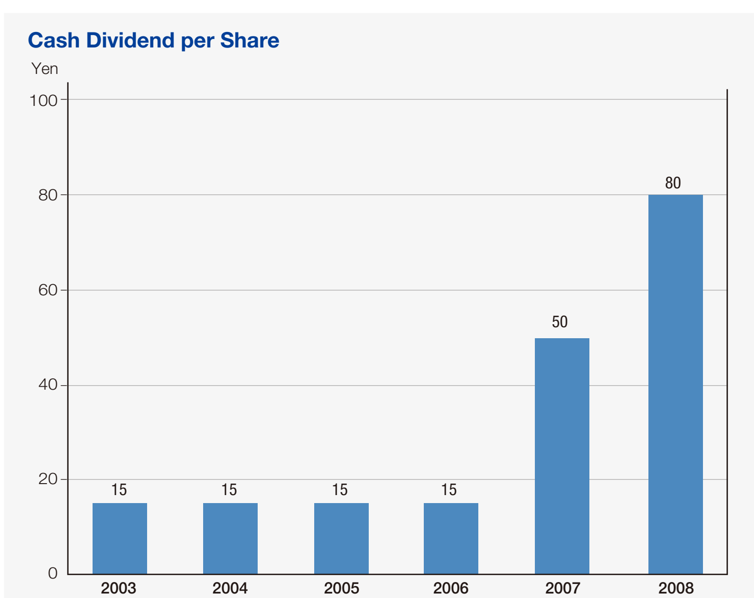
Under the guidance of the CSR Committee, Leopalace21 works to strengthen its corporate governance and compliance, as well as makes a concerted effort as a company in areas ranging from general environmental measures, to more localized efforts such as cleanup campaigns for apartments and surrounding areas. Our corporate philosophy is to “Create New Value,” reflected in the tradition established since our founding of boldly addressing the demands and issues of society ahead of others. Following in this tradition, it is necessary for all executive officers and employees to consider the future of CSR at Leopalace21.

Q 4 What are your strategies regarding shareholder returns?

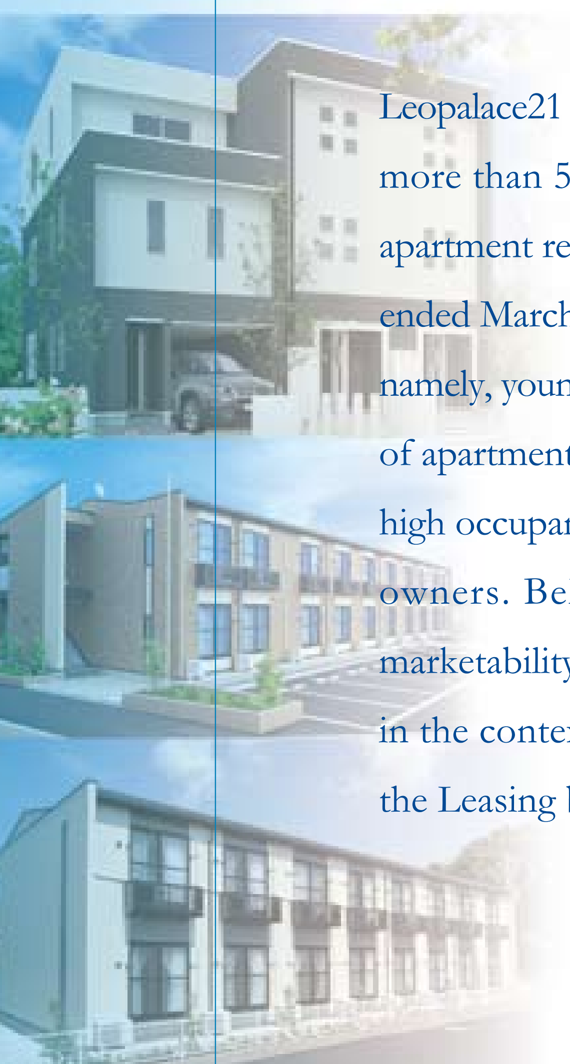
A We already have a payout ratio of 30%. We are planning measures to enhance shareholder value going forward, such as through a share buyback program.

Leopalace21 had a long period of no dividend payments resulting from hangover effects from the economic bubble. For those shareholders who supported us through that difficult period, in our Medium-Term Management Plan we promised a payout ratio of 30% or more, and a stock buyback program. The payout ratio was increased to 20% in the fiscal year ended March 2007 with a base dividend of ¥50 per share for the full year. For the fiscal year ended March 2008, despite the recording of an extraordinary loss and foreign currency revaluation loss, we planned to pay a year-end dividend of ¥50 per share as initially announced. Together with the interim dividend of ¥30 per share, this was a full-year dividend of ¥80, with a payout ratio of 30%.

Once we achieve the sales and other targets of the Medium-Term Management Plan, we will have built up a final cash position of over ¥100,000 million, leaving ample room for regulating our payout ratio or funding a share buyback. Leopalace21 will continue to work to provide its shareholders with even greater, attractive shareholder value.



Product Marketability: The Source of Sustained Growth



Leopalace21 accounts for an overwhelming market share representing more than 50% of the housing starts for leased, one-room studio apartment residences of less than 30 square meters for the fiscal year ended March 2008. Broad acceptance by our main marketing targets, namely, young singles, reflects the degree to which our varied selection of apartments meets the wide range of renters' needs. Moreover, the high occupancy rate of 94% enhances satisfaction among apartment owners. Below we examine the background of this product's marketability, from the perspective of renter and apartment owner, in the context of the Apartment Construction Subcontracting and the Leasing businesses.

Keyword No.1 Points of Contact

Assessing the true sentiments of residents

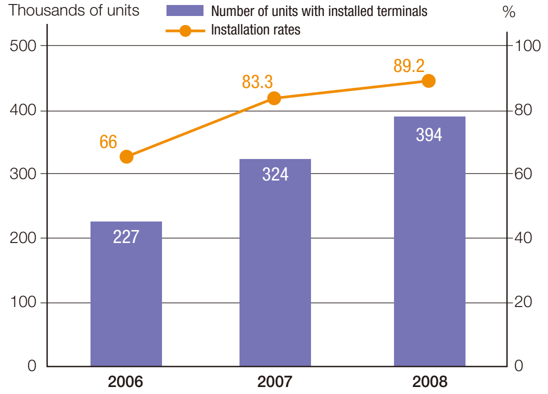
A Step Ahead of Demand

Leopalace21 has consistently offered rental apartments that, reflecting feedback, meet specific renter needs. As was the case with the Leopalace21 urban-style, one-room rental apartment buildings launched in 1985, the Company's growth continues to be supported by a commitment to the quick, proactive development of products that reflect consumer demand. Even before Leopalace21 began its apartment leasing business, condominium sales had begun to reveal the needs of residents. Today, however, with construction subcontracting and leasing representing our core business operations, renters' opinions are more strategically collected.

Collecting Renter Opinions

LeopalaceBB, our broadband service for renters, plays a major role in collecting feedback. The value-added service also provides a means for interactive communication. Real-time feedback can be collected from a wide range of renters, since the broadband service is installed in 394,000 units, or 89.2% of the apartment units under management (as of March 31, 2008). The figure represents a huge market. In addition, our nationwide network of 311 leasing sales locations (as of March 31, 2008) receives feedback daily from customers with all manner of needs. Moreover, these sales offices collect feedback from annual surveys of prospective tenants.

Number of Units with Installed Terminals and Installation Rates



Osamu Tonoike Manager, Architectural Division, Construction Business Headquarters

Osamu Tonoike (Manager, Architectural Division, Construction Business Headquarters) states,"Product development is the process of identifying what renters and prospective tenants desire, and what they find unnecessary. Key to any proposal made to a landowner regarding apartment management is securing renters over the long term and maintaining high profitability. To attain these goals, it is necessary to have a product offering that attracts renters. The Company's leasing division, with its ability to survey the needs of potential renters, represents a powerful advantage."The numerous points of contact, with renters and prospective tenants, which are critical for collecting information on, and understanding, those needs serve to keep competitors at bay.

Keyword No.2 Optimum Matching

Making timely, quality product development possible

Exhaustive Analysis of Demand

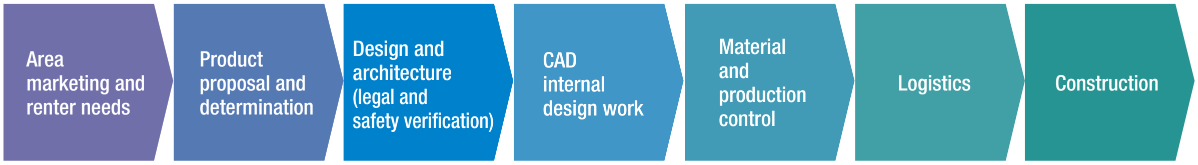
The Company's efforts to determine business feasibility and quickly commercialize a property begin with the exhaustive analysis of demand data, based on the painstaking area marketing of 1,180 communities nationwide. Tonoike points out, "We check numerous points, including product specifications such as apartment room size and floor plans, living environment, style, and government regulations, then consider common requests. Urban and outlying communities naturally have different scores, so we develop products that are area-specific, rather than uniform nationwide. This allows us to meet a broad spectrum of needs." Both the analysis of demand and the renter feedback collected from numerous points of contact are utilized when offering products.

Ensuring Business Feasibility

We take into consideration the supply area, number of property units and other factors based on our demand-data analysis and renter feedback regarding a target area in order to provide the owner with a plan that has high business feasibility in terms of construction, operation, and apartment management. "Even if the product has incorporated the desired needs," Tonoike points out, "the owner cannot be guaranteed stable operation where business feasibility is low. " Stable operation is guaranteed on the basis of the Master Lease System* that, ensuring leasing income for up to 30 years, depends on the durability of a building. However, since 2000, when Japan introduced the Housing Performance Indication System, Leopalace21 has been recognized for properties with a lifespan of 50 to 60 years—two generations—providing even greater security for landowners.

Tonoike explains, "Product specifications meet the needs expressed by renters. construction costs, ease of maintenance, building durability, and rent schedules are considerations taken into account when determining business feasibility. Communication between department managers regarding all aspects—from basic design to construction—is indispensable." The close relationships among departments that know the business on the ground help shorten the product development cycle. Products are delivered within a year on average, as quickly as in three months, and at most in three years. Products that meet a variety of needs can thus be offered in a timely manner. Our product marketability is built on the careful analysis of demand and a speedy supply structure.

Process Allowing Product Development over a Short Time Frame



* A system that provides support to landowners, from construction through apartment management, for up to 30 years.

Keyword No.3 Breaking the Status Quo

New “renter-oriented” leasing styles

Defining a New Image for Rental Apartments

The main distinguishing features in the Leopalace21 product lineup are the ideas that defy convention. Our namesake Leopalace21 line launched in 1985 enjoyed explosive popularity among young singles, with its well-appointed exteriors and lofts that were considered extraordinary features at the time. In the 1980s, when the trend to own a home was strong while the tendency to consider rental housing merely a temporary expedient was reflected in the inadequate features and design of such property, our revolutionary design concepts grabbed the attention of a young generation. Moreover, we discontinued the traditional Japanese practice of requiring deposits and key money for rental units, and adopted a breakthrough system that allowed renters of the Company’s units unrestricted relocation nationwide. Motohiro Komizu (Division Manager, Corporate Sales Department, Leasing Business Headquarters) recounts his experience in the late 1980s, when the new system rolled out nationally: “In Osaka, where I had been assigned, a contract fee of approximately 10 months’ rent was customary, and the industry responded with heavy opposition when we discontinued the practice. But for renters, this custom was clearly uncalled for, and so our contracts grew steadily in number.”

The Leopalace21 urban-style studio apartment building that debuted on the market in 1985.

Motohiro Komizu Division Manager, Corporate Sales Department, Leasing Business Headquarters

Breaking away from conventional industry practices and proposing new renter-oriented renting styles marked the start of a corporate stance that would be faithfully preserved in subsequent business policy, and lead to the development of convenient rental formats and services. In 1999, we launched Monthly Leopalace as a line of fully furnished apartments, complete with electric appliances; short-term stay apartments; a living support system; and, in 2002, a broadband Internet service as a standard feature for rental units. Komizu comments, “Our constant interaction with renters and prospective tenants reveals needs that were previously undetected. Based on these, our young employees come up with one innovative idea after another. Our corporate environment of speedy execution is a definite advantage.”

Enhanced Corporate Sales

High occupancy rates are a critical aspect of apartment management. Leopalace21 aims to improve occupancy rates further by promoting greater corporate usage. Initially, the corporate use of apartments was limited to those undergoing training and for long-term business-related stays, but there has been a rapid increase in the use of such premises as company dormitories and housing. Currently, approximately 40% of apartment units under management are for corporate use. We continue to bolster corporate sales, having added 40 sales locations in April 2007, and in April 2008 we added a corporate sales division, staffed mainly by new employees. To increase corporate contracts, this division focuses solely on new-account development. Komizu notes that breaking from convention was key in this area of business as well. "We assigned new employees to the division so that the staff would not be constrained by preconceived notions, and would feel free to pursue aggressive sales activities. The number of contracts for April 2008 was 120% higher than for the same month last year. Our goal is for a 200% year-on-year increase, which is not an unattainable target." With a ratio of one experienced manager for every four sales executives, and ample time spent on pre-sales training based on past results, painstaking data analysis is undertaken to "break the status quo."

Generating New Demand with Product Marketability

Expanding Our Customer Target to Include Families and Other Segments

In 2006, Leopalace21 announced a number of new products that included the 1LDK (one room plus a living room/dining room/kitchen) Villa Scelte line in the 40-square-meter class; the New Leovarious line, combining units for singles and DINKS (double income, no kids) in the same building; and Leo with Style that allows pets. The increase in DINKS households, a declining birthrate, an aging population, and changes in both lifestyles and population dynamics have led to an expanded product lineup.

Villa Scelte
In terms of space and quality, this urban-style 1LDK apartment ranks a step above our other products, allowing us to serve the needs of a wider range of the renting population.

New Leovarious
This "New Standard Apartment" features two types of rooms, and is suited to a broad variety of the lifestyles led by singles and DINKS.

Leo with Style
As the Company's first pet-friendly apartment, it helps enhance the experience of living with a pet in an urban environment.

Leo Grandir
Family-style apartments with a separate entrance for each unit give the feeling of single houses.

In 2007 we launched the Leo Grandir line for families, featuring apartments with the feel of a stand-alone home. The first and second floors have Western-style rooms, and there is a third-floor attic. Tonoike of Product Development says of the concept, “We responded to the rising needs of renters with families, and landowners have been highly receptive to the unique offering.” The duplex style, less common for rental units, not only stimulated new demand, but also eliminated noise concerns between upper and lower floors. As a step above a one-room studio apartment of 30 square meters or less, these units are helping us expand our customer target from just young singles to families as well.

In June 2008, Leopalace21 began marketing Lavo Cerna, a three-story wood house with attached apartments that targets baby boomers living in cities. Designed around the concept of “a house that works for you,” Lavo Cerna is Leopalace21’s first integrated residence and lease unit product. For baby boomers needing to rebuild their aging houses, the attached apartments provide income to help reduce their financing burden, and can help supplement their income after retirement. We aim to open new markets with Lavo Cerna by stimulating rebuilding demand among the baby boomer generation.

Developing Untapped Markets

Optional design features and services also reflect the needs expressed by recent renters. Komizu of Corporate Sales explains, “Increased awareness of security has led to recommendations for the option of an automatically locking gate. Companies these days have made an effort to provide for individual employees’ needs, and we are responding to this diversification by introducing properties with optional features for female employees.” Armed with the industry’s top brand that boasts a strong track record, Komizu expressed a desire to propose new rental formats, stating, “Our vacancy rate is just 7%—considerably below the industry norm. But that represents 40,000 units, and our biggest challenge this year is to create a mechanism that will fill them. I hope to work together with the Apartment Construction Subcontracting Business to bring a variety of ideas to fruition.”

Leopalace21 will draw on its plentiful inventory of apartments to develop new rental formats and expand its market. We will reach the next level of business success by building on our core Apartment Construction Subcontracting and Leasing businesses.

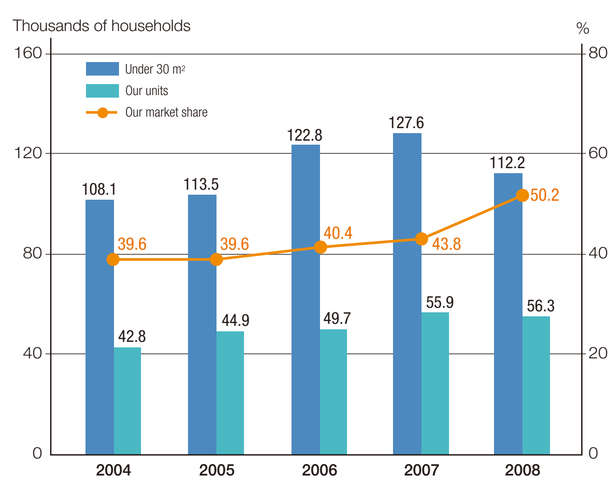
Lavo Cerna
This residence combined with leasing units is designed for urban neighborhoods. The right-hand side of the building has two, three-story units each with their own entrance, with the left-hand side a 3LDK residence.

Leopalace21's Medium-Term Management Plan calls for further growth of its two core businesses of Apartment Construction Subcontracting and Leasing (which together account for 94% of sales), along with expansion of non-core businesses. The target for the final year of the Medium-Term Management Plan is for 75% of the ¥1 trillion in net sales to come from core businesses, with the remaining 25% derived from the three strategic businesses we began actively pursing in 2006 (the Broadband, Residential, and Silver (elderly care) businesses), along with three new related businesses launched in the current fiscal year ending March 2008)—the Corporate Leasing, Insurance, and Finance businesses. We have now reached the halfway mark of the business plan, and are in the process of transitioning from "synergies between core businesses" to "synergies among core, strategic and related businesses."

Overcoming the turmoil caused by revision of the Building Standard Law, and focusing on macro indicators

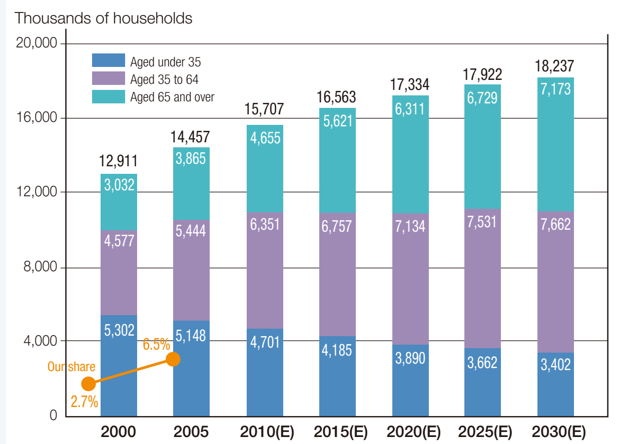
The revisions to the Building Standard Law implemented on June 20, 2007, had a substantial impact on real estate developers throughout Japan. The revised law required double checks of structural calculation documents and more rigorous procedures for building permit applications, lengthening the application process and construction period, and inflating costs. This had a significant impact on the real estate market, with annual lease residence housing starts down 19.9% year on year to 430.8 thousand units as of March 2008 (according to data from the Ministry of Land, Infrastructure, Transport and Tourism). Of these, lease residence housing starts of 30 square meters or less (the "one-room" units of Leopalace21's main business) declined 12.2% during the same period to 112.2 thousand units. At the same time, however, the real supply of one-room residences offered by Leopalace21 increased 0.7% year on year to 56.3 thousand units giving us a 50.2% majority share of such units (compared to 43.8% a year earlier).

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



Source: Housing start statistics for the FY ending March 2007, Ministry of Land, Infrastructure, Transport and Tourism and the Company's report.

Projection for Number of Single-Person Households and Leopalace21's Market Share



Source: Excerpted from 2005 Census, Ministry of Internal Affairs and Communications, and 2008 Number of Households and Future Estimates, National Institute of Population

To maintain this momentum it is important for us to implement strategies based on the two macro indicators of demographics and population movement. The most prominent demographic factors are the declining birthrate and aging population, but the aspect with the biggest impact on our business is the number of single-person households. According to the national census and other surveys, the number of such households has risen steadily in recent years, from 14,457 thousand in 2005, and is projected to continue to increase, reaching 15,707 thousand in 2010, and 18,237 thousand by 2030. At the same time, an analysis of population movement data reveal that our Medium-Term Management Plan goal of becoming a "Total Support Provider in the Housing Sector" will become an increasingly effective part of our overall strategy. The population of Japan has continued to become more urban, a trend that has accelerated in recent years. Considering that the first nine of the top ten areas gaining population during 2007 were in the metropolitan areas surrounding Tokyo, Osaka and Nagoya, concentrating marketing activities in populated urban areas where demand for housing is growing will be an important aspect for Leopalace21 going forward.

At a Glance

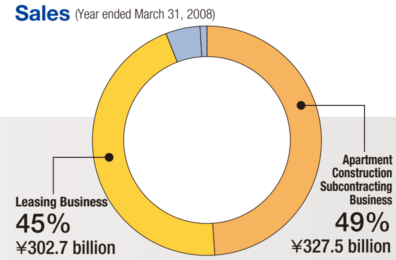
Core Businesses

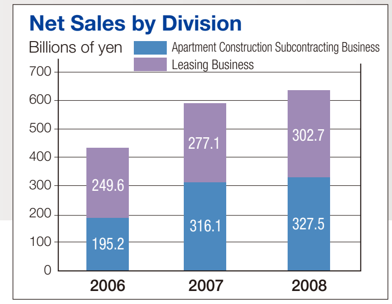
Apartment Construction Subcontracting Business

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.

Leasing Business

The Leasing Business handles the Leopalace21 leasing system with no deposit or key money, as well as the Monthly Leopalace Flat service, providing furnished apartments on a monthly basis. Units under management totaled 442,000 in the year ended March 2008. Leopalace21 is using its ALM leasing system to shift to a residential property asset management company.





Strategic Businesses

Three strategic businesses

Residential Business

The Residential Business develops and sells houses and condominiums for long-term residence. Launched in January 2005, the business draws on the base and expertise of the core businesses to create homes with high levels of safety and variability.

Silver Business

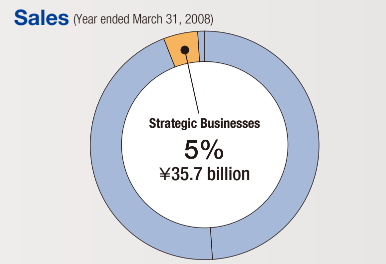
The Silver (elderly care) Business plans and develops community-based elderly group homes, nursing homes, and other facilities to meet the demands of an aging society. Launched in January 2005, the business had 35 institutions as of the year ended March 2008.

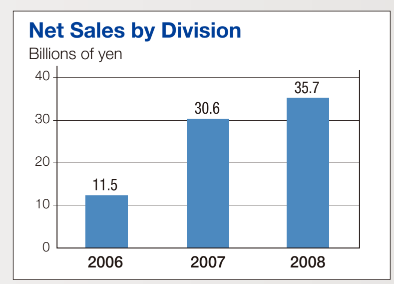
Broadband Business

The Broadband Business provides LeopalaceBB broadband services, including digital video rentals, satellite broadcasts and Internet service to residents of buildings managed by Leopalace21. As of the year ended March 2008 service was provided to 394,000 units, or 89.2% of all units under management.

Strategic Real Estate Development Business

The Strategic Real Estate Development Business develops real estate properties through investment in strategic real estate assets. It also securitizes the properties it develops.





Related Businesses

Three 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.

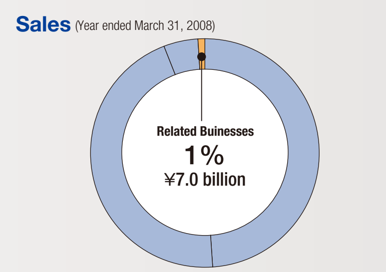
Leopalace Insurance sells household goods insurance to individuals renting apartments through the Leasing Business's nationwide network of leasing centers. Launched in March 2008.

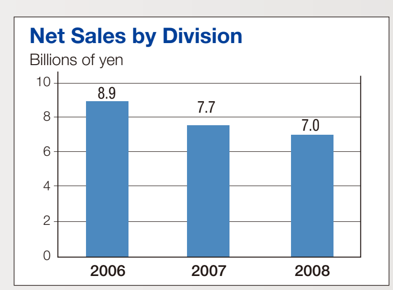
Domestic Hotel Business

The Domestic Hotel Business operates hotels in major cities throughout Japan based on reasonable prices and accessibility. In addition to ordinary guests, the hotels are also utilized as apartments by long-term residents. There are eight hotels nationwide.

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.





Note: The segment results shown for our Hotel Resort Business and Other Business are included within Strategic Businesses and Related Businesses.

The main features of the core businesses are the good profitability of Apartment Construction Subcontracting, and the stable growth of Leasing. The synergy created between these two businesses is Leopalace21's greatest strength, and provides us with highly stable and secure business operations.

Apartment Construction Subcontracting

Steady orders received in the fiscal year ended March 2008

Orders continued to be strong during the fiscal year ended March 2008, rising 23.8% year on year to ¥421,534 million, with the order backlog up 37.8% to ¥342,679 million. This is substantially greater than the rate of about 10% annually in recent years, the result of highly strategic marketing and development of attractive products. In terms of marketing, we reorganized our leasing sales locations distribution in accordance with our regional strategy. Under this strategy we implemented measures to concentrate orders in urban areas (the metropolitan areas of Tokyo, Osaka and Nagoya), in order to expand our business infrastructure (apartment stock). We now have a business structure of 130 locations (an increase of three year on year) with 1,600 employees, through which we are uncovering demand focusing on urban areas.

As a result of the harsh business conditions we faced during the subject fiscal year, including longer construction periods due to revision of the Building Standard Law and a decline in the real estate market, sales rose just 3.6% from the previous fiscal year to ¥327,541 million. However, orders were steady despite the difficult environment, and we consider the growth potential for sales to be considerable.

Expanded product lineup to meet new demand

Leopalace21 continues to bolster its product lineup in response to diversified consumer needs. One of the main features of our apartments is their functionality: furnished units are complete with appliances and broadband Internet access. In recent years we have been leasing more units for specific lifestyles and needs, such as 1LDK (one room plus a living room/dining room/kitchen) units for DINKS (double income, no kids), or residences that accommodate pets or offer enhanced security.

Other recent issues include strengthening marketing in urban areas with high land prices, providing highly profitable residences to meet corporate demand for company housing and other needs, and developing units for families. In July 2007 we introduced our first family-oriented residences, the duplex style Leo Grandir series. In June 2008 we began selling residences with attached rental apartments, which anticipate rebuilding demand from baby boomers in urban areas. This quick product development was made possible through tightly focused area marketing that allowed us to grasp the nature of a community, as well as surveys conducted among Leopalace21 residents using broadband Internet service. Such expertise in developing products that anticipate consumer needs is one of the strengths of the Apartment Construction Subcontracting Business.

Lavo Cerna
Launched in June 2008, Lavo Cerna is a residence combined with leasing units, designed for urban neighborhoods. Leasing income helps lessen the cost of a rebuilding loan.

Lavo Casa
Launched in June 2008, this three-story wood frame apartment utilizes the same specifications as the lease portion of Lavo Cerna.

Leasing

Nationwide online network one of the greatest strengths

One of the strengths of the Leasing Business—the second pillar of our core businesses—is the nationwide online network linking lease units and leasing sales locations. The number of residences Leopalace21 has built and manages reached 442,025 units nationwide as of March 2008. Of these, around 65% in urban areas, with 159,363 units in the Kanto (Tokyo) region, 61,055 in Kinki (Osaka-Kobe), and 71,039 in Chubu (Nagoya). All of these units were developed in areas where tightly focused marketing revealed underlying demand, establishing a structure that allows us to accurately respond to the needs of companies or individuals seeking space. Leopalace21 is the only company in Japan that has such an extensive nationwide network of one-room units.

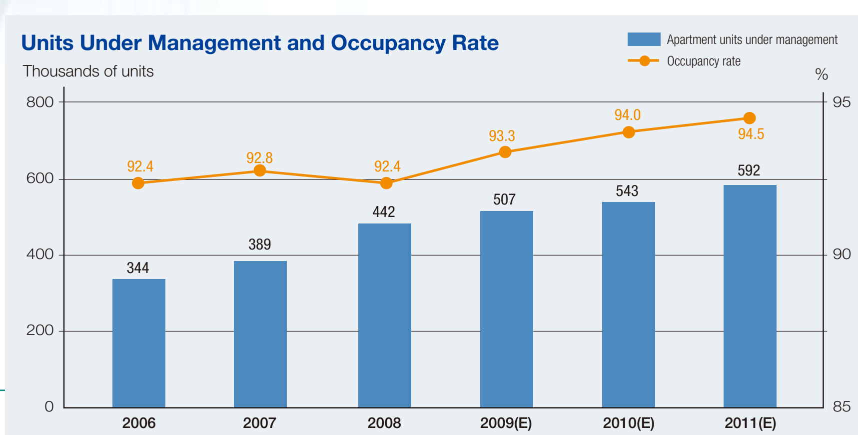
We plan to increase the number of units under management going forward, and expect to have close to 600,000 units by the end of the fiscal year ending March 2011, the final year of our Medium-Term Management Plan. Resident movement and business expansion stemming from the increase in managed units will also present business opportunities for the Leasing Business.

Enhanced marketing to increase the occupancy rate will be key in the fiscal year ending March 2009

Although the number of units under management increased by 53.5 thousand in the fiscal year ended March 2008, the average occupancy rate for the year declined 0.4 of a percentage point to 92.4%, due mainly to cessation of sales of the short term "Per Week" units. We also incurred an extraordinary loss during the subject fiscal year due to a change in accounting procedures for "Monthly Leopalace" units. Sales in the Leasing Business rose 9.2% year on year to ¥302,731 million, but the biggest drag on revenue in the Leasing Business overall was the decline in the occupancy rate.

Nonetheless, as noted previously we are forecasting an increase in the number of units under management, and in anticipation of this increase have expanded our leasing sales locations and bolstered staff numbers. The number of business offices at the end of the subject fiscal year totaled 311 (an increase of 31 year on year) staffed by 2,100 employees, which we plan to increased to 400 locations with 2,400 employees by the final year of the Medium-Term Management Plan.

Another marketing issue is how to further develop corporate demand, which offers a stable occupancy rate throughout the year. Corporate contracts already account for over 40% of units under management, and we are taking steps to strengthen our corporate sales structure, and increase the number of contracts. We expect that such enhanced marketing capabilities will raise the annual average occupancy rate to 93.3% during the fiscal year ending March 2009.



Strategic Businesses

The three strategic businesses—the Residential, Silver (elderly care) and Broadband businesses—are an extension of the core businesses, utilizing existing infrastructure for efficient and rapid expansion.

Residential Business: growth in both contracts and sales of single-family homes

The Residential Business targets second-generation baby boomers (born between 1971 and 1975), who have graduated from one-room apartments. According to assumed figures for 2005, around 64% of these second-generation baby boomers—6.3 million people—live in the three major metropolitan areas around Tokyo, Nagoya and Osaka. Leopalace21's first priority has been to strengthen its business foundations in these three urban areas. The Residential Business has grown rapidly since its launch in January 2005, but sales for the fiscal year ended March 2008 fell significantly short of plan, declining 20.3% year on year to ¥11,200 million as a result of deterioration of the real estate market. However, the number of contracts and sales of single-family homes is rising, mainly in the Tokyo metropolitan area, and we are anticipating sales in the fiscal year ending March 2009 of ¥15,000 million.

Lu Ceruna Series
The skeleton-infill construction allows the layout to be adapted for changing lifestyles.

Silver (Elderly Care) Business: nursing staff training and other sales efforts key

Many landowners are older or elderly, and while they are a source of orders for elderly care facilities, they are also potential residents. We are developing this business targeting both the demand and supply aspects. Approximately 56% of the elderly generation (65 years and older)—14 million people—live in the three major metropolitan areas, forming an urban-centered base similar to that for the Residential Business. The key to success in the Silver Business, however, is operations after completion of the facility. Instead of rushing forward needlessly with business expansion, Leopalace21 first focuses on training care staff and building up other types of operational expertise. The number of facilities has increased at a rapid rate since the launch of the business in January 2005, and as of the end of the fiscal year ended March 2008 the number of facilities had grown by 19 from a year earlier to 35, with sales up 109.1% to ¥11,100 million, surpassing the ¥10,000 million mark for the first time. For the fiscal year ending March 2009, however, taking into account our strategy of emphasizing first acquiring operational expertise, we are forecasting sales of ¥11,500 million.

Azumien Tokiwadaira
The largest unit in the Azumien series, opened in Matsudo, Chiba in March 2008.

Broadband Business: creating new opportunities, synergies with core businesses

The Broadband Business has the highest sales among the three strategic businesses. Because the number of broadband subscribers increases together with the number of units under management, synergies are created with the core businesses, particularly the Leasing Business. The number of units with broadband access at the end of the fiscal year ended March 2008 had increased 21.6% year on year to 394,000 units. Broadband access is now available in 89% of Leopalace21 units, and we plan to increase this to 94% during the fiscal year ending March 2009. By 2011 we expect to have a huge broadband stock underpinned by 600,000 units under management. We plan to draw on this stock to open up new business opportunities in services utilizing media value, such as advertising and monitoring functions. As a result of the increase in the number of units under management, sales in the fiscal year ended March 2008 rose 17.6% year on year to ¥13,200 million. We are forecasting sales of ¥14,300 million in the year ending March 2009.

Leopalace21's broadband service (LeopalaceBB)
LeopalaceBB provides TV service with original content in addition to Internet access.

Another strategic business other than these three is the Strategic Real Estate Development Business. We are making strategic investments of approximately ¥100,000 million over the period of the Medium-Term Management Plan (April 2007 through March 2011), with the objective of providing a nationwide network for the core businesses through the establishment of a Real Estate Development Business.

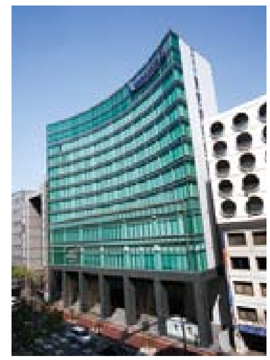
Synergies among the three new related businesses, Domestic Hotel Business, and Overseas Resort Business

Leopalace21 launched three new related businesses during the subject fiscal year to support the overall strategies of the core businesses. Specifically, these are 1) Leopalace Leasing Corporation, a corporate housing agency business that provides a stepping stone into the family-type apartment business; 2) Leopalace Finance Co. Ltd., which supports the Strategic Real Estate Development Business; and 3) Leopalace Insurance Co. Ltd., which provides insurance to residents of leased apartments. Leopalace Leasing is a separate unit of the corporate sales division of the Leasing Business, and is able to pursue sales from other than just one-room units. Leopalace Finance is a separate unit of real estate development operations. It is essential to strategic real estate development, and also provides us with a channel for information on real estate development. Leopalace Insurance is the first insurance company of the Leopalace21 Group. Once these three related businesses are up to full speed, they will not only provide support for the core businesses, but will also help to generate new business opportunities.

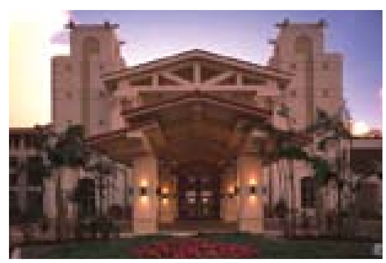
In addition to the three new related businesses Leopalace21 also has a Domestic Hotels Business that operates hotels in major cities throughout Japan (eight locations), as well as an Overseas Resorts Business that operates integrated sports facilities and hotels in Guam. The Overseas Resorts Business had sales of ¥6.0 billion and posted an operating loss on a yen basis in the fiscal year ended March 2008, but managed an operating profit on a dollar basis as a result of a steady occupancy rate and cost reductions. The aim of these two businesses is to expand synergies with the core businesses and three strategic businesses.

Excluding the core businesses, the three strategic businesses, three related businesses and the Overseas Resorts Business together posted net sales for the fiscal year ended March 2008 of ¥42.7 billion, up 11.5% from the previous fiscal year. Of this, sales from the three strategic businesses totaled ¥35.7 billion. Our goal for the final year of the Medium-Term Management Plan (ending March 2011) is to increase sales from these businesses to over ¥250 billion, or one quarter of the ¥1 trillion in sales for Leopalace21 overall.

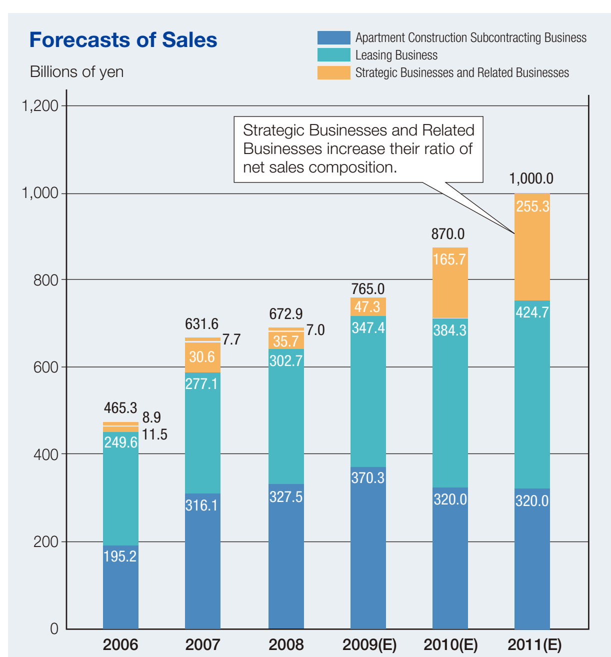
Hotel Leopalace Nagoya, a stately urban resort, opened in 2001.



Hotel Leopalace Hakata, with its innovative glass wall facade.



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



Note: The segment results shown for our Hotel Resort Business and Other Business are included within Strategic Businesses and Related Businesses.

Promoting CSR by Creating a Culture of Responsible Corporate Citizenship

Right: Yoshiteru Kitagawa, President and CEO
Left : Hiroyuki Miyata, Senior Executive Officer, Head of the Administrative Headquarters

Q1 How does Leopalace21 view the issue of CSR (Corporate Social Responsibility)?

Yoshiteru Kitagawa, President and CEO:

The business of Leopalace21 is to help supply the public's need for housing through apartment construction and leasing. In other words, we help to satisfy one of the most basic needs in people's lives. In that sense, I think it is safe to say that our corporate activities in themselves provide an important service to society, and therefore we believe it is important that our CSR activities should be a natural outgrowth of the way we do business. Simply put, this means that we encourage each of our employees to recognize how his or her everyday business activities help to serve the needs of society at large. Motivated by this awareness, we believe that our employees will be able to approach each day with a fresh desire to serve society through their work. One might say that the key to CSR in our company lies in the process of helping our employees become more aware of how their work contributes to the betterment of society. In fact, the business activities of Leopalace21, in a broad sense, have been a vehicle that has enabled us to promote CSR activities to encourage the healthy growth and development of local communities. Typical of these activities have been neighborhood cleanup campaigns designed to beautify and cleanup areas near properties we have under management. During these campaigns, building owners, our staff, and local residents all work together to improve their neighborhoods. Leopalace21 has been organizing neighborhood cleanup projects for many years, and this program has earned the strong support of local communities.

Q2 How do you go about promoting within your company the concept that your business activities are in themselves an expression of responsible corporate citizenship?

Hiroyuki Miyata, Senior Executive Officer:
Under the leadership of President Kitagawa, we are taking advantage of many different opportunities to talk to our employees about the future of CSR activities at Leopalace21. In addition to messages from our top leadership, we are carrying out a company-wide educational campaign, and at the departmental level we have put up posters with the slogan “CSR is Everyone's Responsibility.” As part of this campaign, we are inviting our employees to share their ideas and views of how Leopalace21 can demonstrate responsible corporate citizenship.This campaign is being promoted primarily by our new CSR Committee, which was formed this year. It is hoping to take ideas and suggestions based on actual everyday experience on the front lines of our business and develop them into concrete programs. The basic impetus for promotion of CSR is coming from the top down, but the actual concrete ideas and proposals will come from the bottom up.

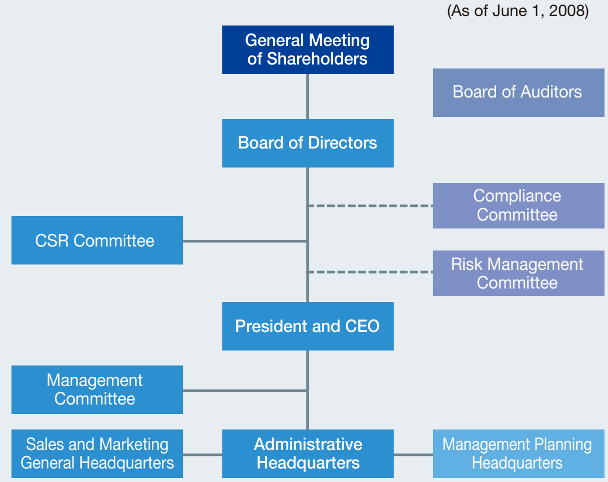
Q3 You have made corporate governance a top management priority. Please tell us about the system of governance and other measures you have implemented.

Yoshiteru Kitagawa:
Together with compliance, corporate governance is one of the main pillars supporting our CSR work. The foundation of corporate governance is the promotion of fairness and transparency in management. To achieve this, we have adopted “Create New Value” as our corporate philosophy, and we have drawn up and implemented a “Corporate Code of Ethics” to guide the course of our business development. The purpose of this is to ensure that all our business activities are firmly established on the bedrock of compliance with social ethics. We are working continually to promote this attitude, not only among our Directors but also among the employees of all our Group companies.

In more concrete terms, in June 2006 we set up an Administrative Headquarters and a Management Planning Headquarters. These, together with our original Corporate Marketing Headquarters (formerly the Sales and Marketing General Headquarters; the name was revised in March 2008), comprise a three-headquarters system that forms the basis of our system of corporate governance. Under this system,the Corporate Marketing Headquarters is responsible for promoting corporate vitality and growth, the Administrative Headquarters oversees corporate governance, especially in the area of compliance, and the Management Planning Headquarters handles all risk control issues as regards business operations.

Corporate Governance Organizational Structure

(As of June 1, 2008)



- Leopalace21 has adopted director and auditor systems designed to facilitate rapid decision making and enhance our ability to respond appropriately and promptly to changes in our business or management environment.
- The Company's Board of Directors presently consists of 14 members (currently we have no external board members). In addition to its regularly scheduled monthly meetings, the Board holds special meetings whenever necessary.
- The Management Committee meets monthly to discuss and evaluate issues related to the implementation of business plans and policies.
- The Board of Auditors consists of four members (two of whom are appointed from outside the Company). The effectiveness of the auditors has been strengthened by empowering them to attend meetings of the Board of Directors and to independently conduct investigations of business operations.

Corporate Social Responsibility (CSR)

Q4 Please describe the steps you are taking to promote compliance.

Yoshiteru Kitagawa:
A Compliance Committee, including non-Company members, oversees compliance and serves as an advisory body to the Board of Directors. With its Director responsible for compliance issues overall, the Administrative Headquarters is primarily responsible for devising, creating and maintaining a compliance-based management system, while its Legal Department conducts internal checks. Reporting directly to the Board, the Company Auditors work with the Internal Auditing Office to track compliance and identify problems related to statutes or Company articles of incorporation.

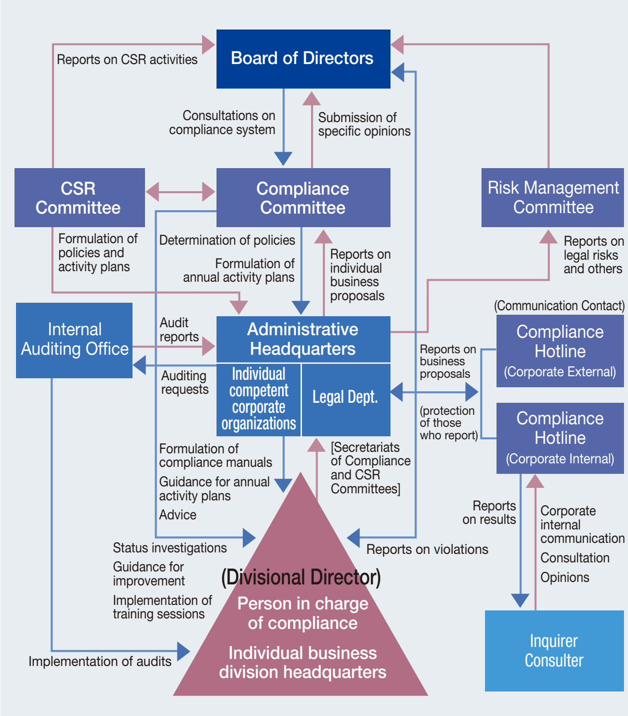
We have implemented a variety of measures Group wide to raise awareness of the importance of compliance issues. In October 2006 we started a quarterly "Compliance Newsletter," of which seven issues have been published. Also since then, the chief of our Legal Department has conducted 81 Group-training seminars nationwide designed to improve employee awareness and understanding of compliance issues. Then, in May 2007, we introduced e-learning courses for all staff. So far, there have been five courses, covering basic issues to the implications of changes in legal statutes.

Q5 In 2008 the Toyako Summit was held in Japan, and is expected to focus further attention on environmental problems. Please discuss your stance on these issues.

Hiroyuki Miyata:
Environmental activities are an important part of our CSR programs. As a housing developer, it is only natural that we seek to reduce CO_2 emissions and construction waste. We buy structural materials and other products from companies using environmentally friendly manufacturing processes that minimize CO_2 generation. Moreover, by pre-cutting structural materials at the factory, we reduce on-site processing and significantly cut construction waste. In terms of energy-efficient housing, with more than 450,000 units under management, even slightly improved energy efficiency can have significant results. Our CSR campaign asks employees to share their ideas on ways we can help create a better environment. Not only because of our commitment to CSR do we promote environment-related activities, but also because they generate employee pride.

CSR Promotion Structure (Compliance and Risk Management)

(As of June 1, 2008)



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Social Action Programs

Business Activities "Friendly to Both People and the Environment"

Leopalace21 emphasizes business activities that are people and environment friendly. Thus, we have improved the security and convenience of our rental facilities with card keys and automatically locking gates; introduced a 24-Hour Medical Consultation Service to provide around-the-clock health-related advice; and, for many years, have conducted neighborhood cleanup campaigns near properties we manage. In addition, apartment wall coverings and furniture are carefully selected, to avoid formaldehyde and other substances associated with sick-house syndrome.

Disaster Relief

Leopalace21 has a donations program to support recovery work in areas hit by natural disasters. It donated ¥5 million to Kashiwazaki City, hard hit in 2007 by the Niigata-ken Chuetsu-Oki Earthquake. We also responded quickly to China's Sichuan Earthquake in 2008. With an office in Shanghai and employing many Chinese nationals in Japan and abroad, we quickly set up a program whereby the Company matched donations from Group company directors and the Leopalace21 Owners Mutual Insurance Association. Soon we were able to donate ¥8 million through the Japan Red Cross Society.

Presentation of our donation to the Japan Red Cross Society

ビーチバレーボールチーム
Leopalace WINDS

レオパレス21は
競泳・シンクロ日本代表を
スポンサードしています。

レオパレス21はJリーグの
オフィシャルスポンサーです。

Helping Athletes Achieve Their Dreams through Sports Promotions

Through its various businesses, Leopalace21 has found new ways of providing "Homes for People" and helping devoted athletes achieve their dreams. In November 2001, we organized a women's softball team that has developed into a perennial candidate for league champion. Some of its members have even joined Japan's national team and participated in Olympic Games. As softball gains popularity, junior and senior high school players are increasing. The Leopalace21 team is helping promote local sports by visiting schools nationwide to help train young players.

In addition, we support beach volleyball competitions and, as an official sponsor of the Japanese Swimming Federation, we lend support to Japanese swimmers. Despite having previously focused on supporting amateur competitions, in February 2008 we became an official sponsor of the Japan Professional Football League (J-League), because we admire its policy of contributing to local communities by establishing hometown-based support systems.

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
	2008	2007	2006	2005	2004	2003	2008
For the year:							
Net sales	**¥672,974**	¥631,608	¥465,387	¥476,267	¥422,224	¥360,369	**$6,716,972**
Apartment Construction Subcontracting	**327,541**	316,117	195,202	248,033	225,011	190,217	**3,269,195**
Leasing	**302,731**	277,163	249,696	216,591	188,864	162,766	**3,021,570**
Hotel Resort	**6,072**	7,141	8,340	7,282	5,759	5,928	**60,603**
Other	**36,630**	31,187	12,149	4,361	2,590	1,458	**365,604**
Cost of sales	**511,054**	474,713	353,928	357,546	313,085	268,857	**5,100,846**
Selling, general and administrative expenses	**90,517**	80,888	70,684	64,039	57,468	46,986	**903,453**
Operating profit	**71,403**	76,007	40,775	54,682	51,671	44,526	**712,673**
Net income (loss)	**342**	37,358	(16,582)	33,262	20,960	20,464	**3,418**
At year-end:							
Total assets	**¥493,956**	¥454,820	¥412,804	¥453,434	¥421,164	¥410,340	**$4,930,194**
Total net assets	**170,155**	185,785	133,622	149,798	81,420	68,309	**1,698,328**
Amounts per share:							
Total net assets	**¥1,036.43**	¥1,054.99	¥839.44	¥941.06	¥585.82	¥492.06	**$10.34**
Net income (loss)	**2.15**	234.68	(104.17)	220.79	150.91	160.56	**0.02**
Cash dividends	**80.00**	50.00	15.00	15.00	15.00	15.00	**0.80**
Ratios:							
Equity ratio (%)	**33.4**	37.0	32.4	33.0	19.3	16.6	
Return on equity (ROE) (%)	**0.2**	24.8	(11.7)	28.8	28.0	35.8	
Return on assets (ROA) (%)	**0.1**	8.6	(3.8)	7.6	5.0	5.2	
Number of employees	**8,678**	7,409	6,868	6,457	5,702	4,385	

Notes: 1. U.S. dollar amounts are translated from yen at the rate of ¥100.19 = US$1, the approximate rate prevailing at March 31, 2008.
2.The amounts of total net assets for the years ended March 2003, 2004, 2005 and 2006 represent the value of total shareholders' equity and do not include minority interests.
3. 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 fixed assets.

Operating Environment

During fiscal 2008 (the fiscal year ended March 31, 2008), the Japanese economy continued on course for recovery on the back of improved corporate earnings and increases in private capital expenditures. However, a decelerating trend strengthened during the second half of the year due to turmoil in financial markets caused by the subprime loan crisis in the United States, and the impact on consumer spending due to rising prices to reflect higher materials costs. In residential investment during the subject fiscal year, with the impact from the implementation of the revised Building Standard Law new housing starts declined for the first time in five years (down 19.4%), and leased housing fell for the first time in seven years (down 19.9%).

Under such circumstances, in the Leopalace21 Group's Apartment Construction Subcontracting Business orders continued to be strong despite longer construction periods due to the revised Building Standard Law, and the impact of rising prices for materials. The rapid appreciation of the yen at the end of the period also generated valuation losses in overseas businesses.

Net Sales

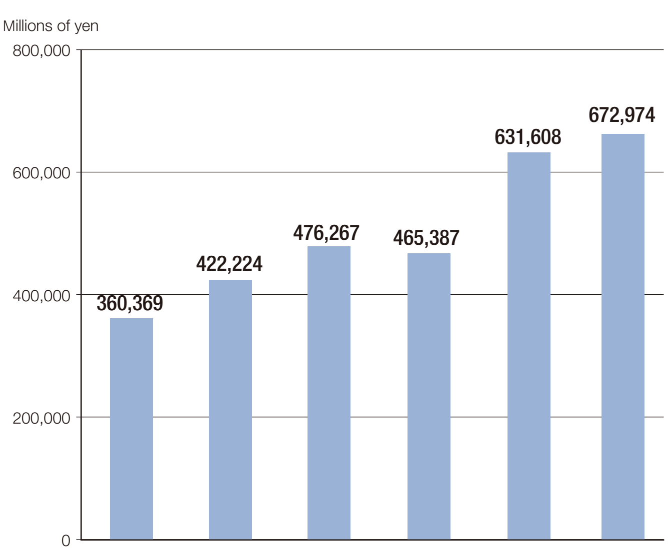
Consolidated net sales for the subject fiscal year rose 6.5% from the previous fiscal year to ¥672,974 million. By segment, sales in the Apartment Construction Subcontracting Business rose 3.6% year on year to ¥327,541 million, and in the Leasing segment were up 9.2% to ¥302,731 million. Sales in the Hotel Resort Business declined 15.0% from a year earlier to ¥6,072 million, while sales of the Other Business increased 17.5% to ¥36,630 million. As a proportion of sales, the Apartment Construction Subcontracting Business accounted for 48.7% of sales (down 1.3 percentage points from the previous fiscal year), the Leasing Business 45.0% (up 1.1 percentage points), the Hotel Resort Business 0.9% (down 0.2 percentage point), and the Other Business 5.4% (up 0.5 percentage point).

Sales growth in the Apartment Construction Subcontracting Business slowed compared to that of the previous fiscal year, due mainly to longer construction periods resulting from the implementation of the revised Building Standard Law, and a lag between conclusion of contracts and the recording of sales on completed properties during the previous fiscal year, which led to a considerable increase in sales. Orders remained strong, however, and are expected to underpin sales growth during fiscal 2009.

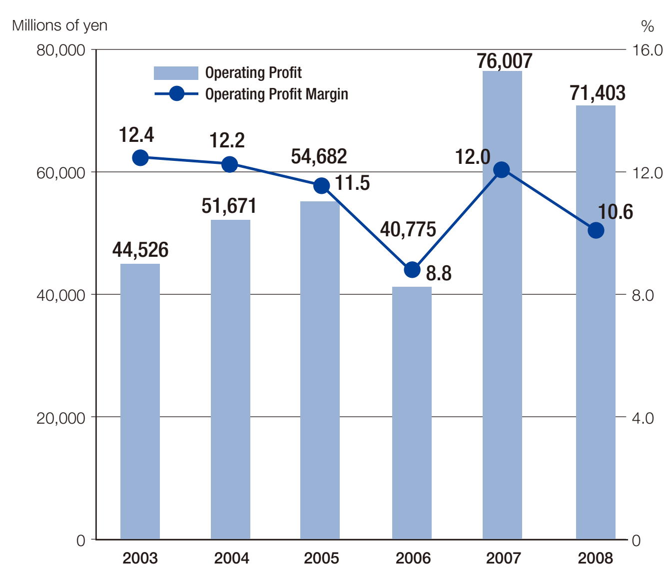
Earnings

The cost of sales increased 7.7% year on year to ¥511,054 million. By segment, the cost of sales for the Apartment Construction Subcontracting Business rose 3.8% to ¥217,263 million, and for the Leasing Business increased 11.2% to ¥253,584 million. The combined cost of sales for the Hotel Resort and Other segments rose 8.1% year on year to ¥40,207 million. As a proportion of the cost of sales, the Apartment Construction Subcontracting Business accounted for 42.5% (down 1.6 percentage points year on year), the Leasing Business 49.6% (up 1.5 percentage points), and the combined Hotel Resort and Other segments 7.9% (up 0.1 percentage point). Because the year-on-year growth in the cost of sales was slightly over that for net sales, the gross profit margin fell 0.7 percentage point from the previous fiscal year to 24.1%.

Net Sales



Operating Profit and Operating Profit Margin



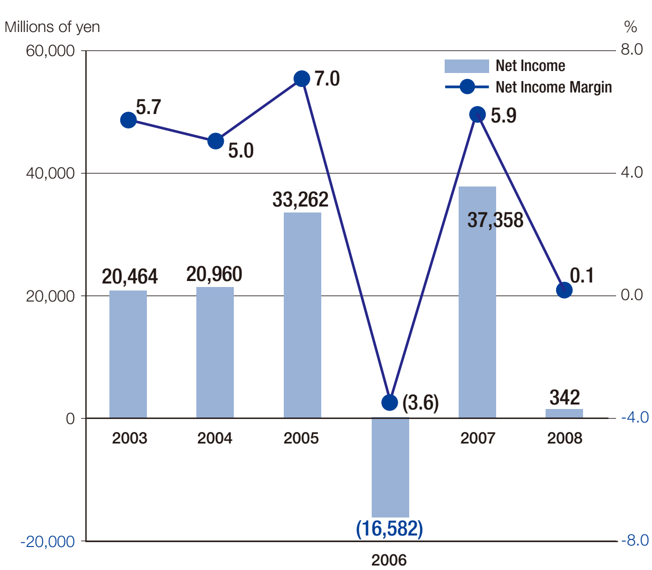
Note: Decline in operating profit and operating profit margin for the year ended March 31, 2006 is the result of the postponement of a scheduled construction contracts.

Selling, general and administrative (SG&A) expenses rose 11.9% year on year to ¥90,517 million. Because this was greater than the year-on-year growth in net sales, SG&A expenses as a proportion of net sales increased 0.7 percentage point from the previous fiscal year to 13.5%. As a result, operating profit declined 6.1% year on year to ¥71,403 million, with the operating profit margin down 1.4 percentage points year on year to 10.6%.

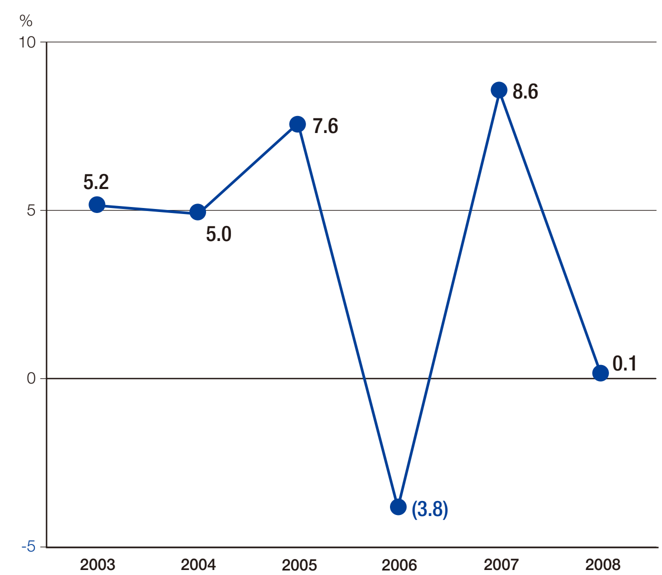
The balance of other income (expenses) was net other expenses of ¥58,979 million, a considerable increase compared with net other expenses of ¥6,677 million for the previous fiscal year. This was due mainly to ¥47,754 million as an "adjustment to advances received " stemming from a change in accounting method for the Monthly Leopalace service, and a ¥9,534 million foreign exchange loss arising from the rapid appreciation of the yen. As a result, income before income taxes and minority interests for the fiscal year under review amounted to ¥12,424 million (compared to ¥69,330 million in the previous fiscal year). Net income totaled ¥342 million (compared to ¥37,358 million in the previous fiscal year).

Return on assets (ROA) was 0.1% (compared to 8.6% in the previous fiscal year), and ROE 0.2% (compared to 24.8% a year earlier).

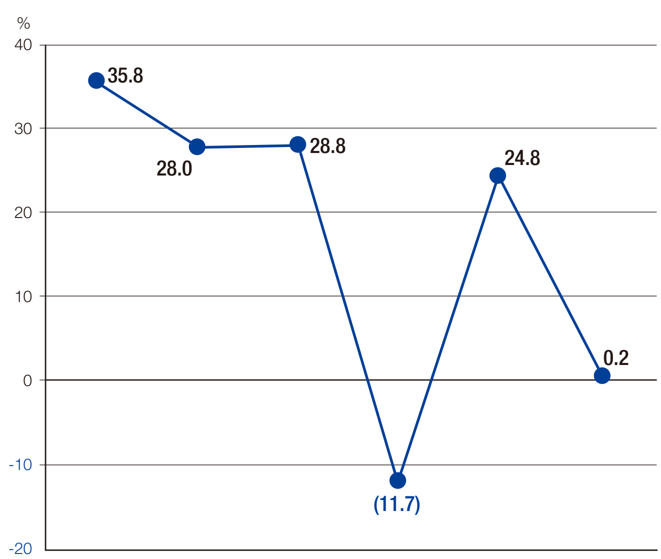
Net Income and Net Income Margin



ROA



ROE



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 fixed assets.

Segment Information

Apartment Construction Subcontracting

Sales in Apartment Construction Subcontracting, one of the Group's two core businesses, rose 3.6% year on year to ¥327,541 million. Despite the impact of longer construction periods stemming from the implementation of the revised Building Standard Law, orders continued to be strong due to restructuring and strengthening of sales locations based on regional strategies, and an enhanced product lineup that included the introduction of new products, such as 1LDK* apartments, family-type units, and buildings with enhanced security. Contract volume increased 23.8% year on year to a record ¥421,534 million, with the balance of contracts on hand rising 37.8% to ¥342,679 million. There were 130 sales locations at the end of the fiscal year ended March 2008, up three from the end of the previous fiscal year.

The segment operating profit decreased 1.8% year on year to ¥73,268 million, with the operating profit margin down 1.2 percentage points to 22.4%. Cost increases stemming from rising materials prices and the incorporation of higher-quality facilities were absorbed by careful attention to cost and process management.

*1LDK refers to one room plus a living room/dining room/kitchen.

Leasing

Sales in the Leasing Business, the Group's other core business, rose 9.2% year on year to ¥302,731 million. At the end of the fiscal year to March 2008, there were 442,000 apartment units under management, a year-on-year increase of 54,000 units. The cessation of sales for the low-margin weekly rental service led to a year-on-year decline in the average occupancy rate for the period of 0.4 percentage point to 92.4%.

The operating profit decreased 56.8% year on year to ¥3,037 million, with the operating profit margin down 1.5 percentage points to 1.0%. The main reason for the profit decrease was anticipatory investments to expand sales locations and personnel numbers in anticipation of a future increase in the number of units under management, along with efforts to strengthen corporate and branch office sales, as well as the building maintenance and management structure. The number of sales locations at the end of the fiscal year under review was 311, an increase of 31 from the previous fiscal year.

Hotel Resort

Sales in the Hotel Resort segment decreased 15.0% year on year to ¥6,072 million, and the segment recorded an operating loss of ¥1,117 million (an improvement of ¥1,511 million from the previous fiscal year). Occupancy rates held steady at the Group's integrated sports resort in Guam, Leopalace Resort Manenggon Hills Guam, and at the Westin Resort Guam, and cost reductions generated an additional benefit. The Group sold the Trianon Palace, a Westin Hotel in France, in October 2006.

Other

The Other segment consists of residential and other real estate sales—a strategic division for the Group—together with the Silver and Broadband businesses, and Finance business providing real estate equity loans for business. Sales in this segment rose 17.5% over the previous fiscal year to ¥36,630 million, though operating profit declined 40.8% to ¥646 million. This segment handles residential and other real estate sales in the Tokyo metropolitan, Kyoto-Osaka-Kobe and Nagoya metropolitan areas, which were affected by the deterioration of the real estate market during the second half of the fiscal year under review. The Silver Business continued to increase its number of care facilities for the elderly, reaching a total of 35 in the Tokyo metropolitan region as of the end of the fiscal year ended March 2008 (compared to 16 in the previous fiscal year). In the Broadband Business, subscriber numbers are rising steadily. On March 31, 2008, Leopalace Insurance Co., Ltd. completed its registration as a small-sum, short-term insurance underwriter.

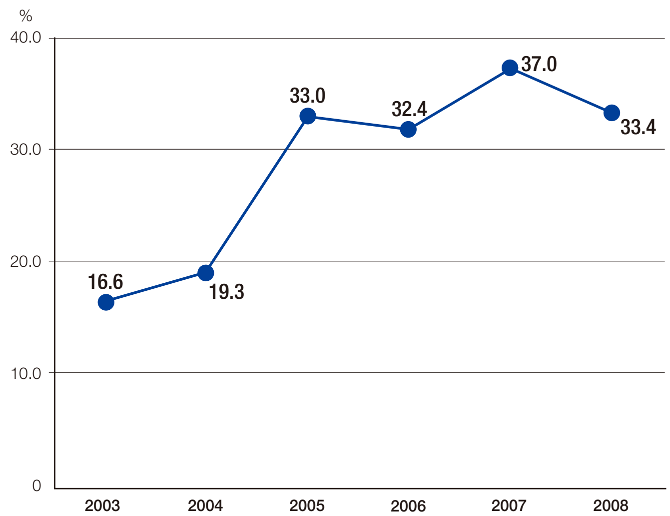
Financial Position

Total current assets increased ¥32,128 million from the end of the previous fiscal year to ¥218,684 million. Increases consisted mainly of ¥10,054 million in real estate for sale/property inventories; ¥7,287 million in operating loans; ¥11,549 million in trade receivables and accounts receivable for completed projects plus other accounts receivable; while decreases consisted mainly of ¥14,202 million in cash and cash equivalents. Total fixed assets plus total investments and other assets rose ¥7,008 million from the end of the previous fiscal year to ¥275,272 million. Increases consisted mainly of ¥10,628 million in long-term prepaid expenses; while decreases consisted mainly of ¥2,496 million in construction in progress. As a result, total assets at the end of the fiscal year ended March 2008 were up ¥39,136 million from the end of the previous fiscal year to ¥493,956 million.

Total current liabilities increased ¥51,708 million from the end of the previous fiscal year to ¥268,622 million. Increases consisted mainly of ¥51,753 million in advances received; and ¥12,132 million in accounts payable including payables for completed projects; while decreases consisted mainly of ¥12,713 million in accrued income taxes. Total long-term liabilities increased ¥3,058 million from the end of the previous fiscal year to ¥55,179 million. Increases consisted mainly of ¥10,753 million in lease/guarantee deposits received; while decreases consisted mainly of ¥7,120 million in long-term debts. As a result, total liabilities for the fiscal year ended March 2008 were up ¥54,766 million from the end of the previous fiscal year to ¥323,801 million. The balance of interest-bearing debt, as a result of efforts to cut borrowing, decreased ¥3,449 million from the previous fiscal year to ¥49,710 million.

Total net assets amounted to ¥170,155 million at the end of the fiscal year under review, a decrease of ¥15,630 million from ¥185,785 million at the end of the previous fiscal year. The equity ratio for the fiscal year ended March 2008 was 33.4%.

Equity Ratio



Cash Flows

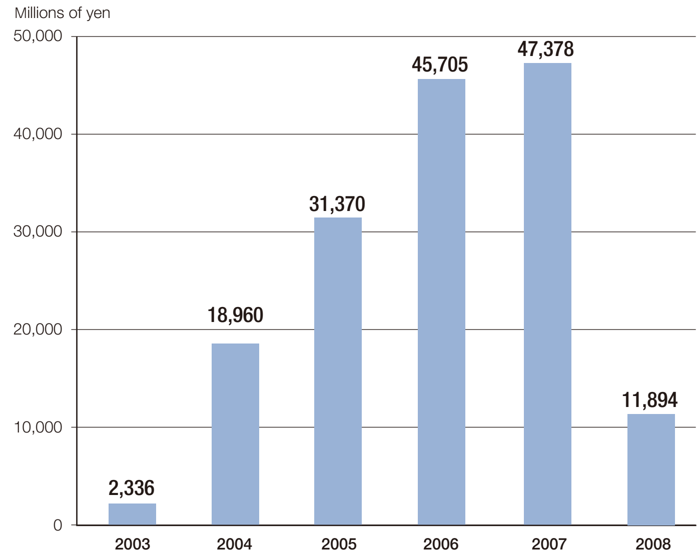
Net cash provided by operating activities amounted to ¥11,746 million, a net decrease of ¥51,562 million over the previous fiscal year. Net inflows included ¥12,424 million from income before income taxes and minority interests; and ¥51,804 million in increase in advances received; against net outflows of ¥31,840 million in income taxes paid.

Net cash provided by investing activities amounted to ¥148 million, a net increase of ¥16,078 million compared to ¥15,930 million in cash used in the previous fiscal year. Cash payments included ¥6,887 million in payment for purchase of tangible fixed assets; and ¥3,393 million in payment for purchase of investment securities; but this was offset by ¥12,145 million in proceeds from sales of tangible fixed assets.

Net cash used in financing activities amounted to ¥26,780 million, a net increase of ¥9,761 million compared to the previous fiscal year. This was due mainly to ¥3,459 million in repayment of long-term debt and redemption of privately placed bonds (less proceeds from debt); ¥12,484 million in payment for refundment of amount invested by minority shareholders; and ¥10,360 million in dividends paid for shareholders.

Consequently, the balance of cash and cash equivalents at the end of the fiscal year ended March 2008, less ¥405 million in effect of exchange rate changes on cash and cash equivalents, stood at ¥60,965 million, a decrease of ¥14,202 million from the end of the previous fiscal year.

Free Cash Flows



Basic Policy on Distribution of Earnings

Leopalace21 Corporation considers return of profit to shareholders to be a management priority. To improve the return of profit to shareholders, it is our policy to pay dividends at a payout ratio of 30%. We also make effective utilization and investment of retained earnings to enhance the corporate value of the Leopalace21 Group.

For the fiscal year ended March 31, 2008, Leopalace21 paid an interim dividend of ¥30 per share. Year-end dividends, despite considerable extraordinary losses and losses on exchange rate fluctuations, were ¥50 per share, for a full-year dividend of ¥80 per share (an increase of ¥30 per share from the previous fiscal year). For the fiscal year ending March 31, 2009, we plan to pay an interim dividend of ¥30 per share, and a year-end dividend of ¥30 per share, for a full-year payout of ¥60 per share.

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

About 40% of Group leasehold and guarantee deposits held by the Company are Leopalace Resort membership deposits related to our Guam resort business, most of which date back to the time when the resort complex opened in July 1993. The Group is working to increase member usage by improving our facilities and members' services; however, our financial position could be affected if we should receive an unexpected amount of claims requesting the return of these deposits.

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 (40.3%) 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 in our 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 apartments 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, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
ASSETS			
Current assets:			
Cash and cash equivalents (Note 7)	¥ 60,965	¥ 75,167	$ 608,498
Trade receivables and accounts receivable for completed projects	15,159	9,594	151,304
Operating loans	15,789	8,502	157,593
Real estate for sale/property inventories	37,820	27,766	377,480
Inventories	12,543	9,541	125,192
Prepaid expenses	24,629	21,819	245,822
Deferred tax assets (Note 13)	12,085	5,077	120,623
Other accounts receivable	28,059	22,075	280,054
Other	13,084	8,305	130,586
Allowance for doubtful accounts	(1,449)	(1,290)	(14,458)
Total current assets	218,684	186,556	2,182,694
Fixed assets (Note 10, 11, 14):			
Land	116,296	118,255	1,160,752
Buildings and structures	122,984	124,648	1,227,511
Construction in progress	1,902	4,398	18,979
Other	13,471	12,129	134,457
Accumulated depreciation	(55,529)	(52,318)	(554,233)
Total fixed assets	199,124	207,112	1,987,466
Investments and other assets (Note 14):			
Intangible assets	622	569	6,209
Investment securities (Note 8)	9,082	7,934	90,651
Long-term loans	2,400	2,281	23,953
Deferred tax assets (Note 13)	3,388	3,074	33,819
Long-term accounts receivable (Note 12)	4,016	2,125	40,079
Long-term prepaid expenses	53,356	42,728	532,552
Other	5,449	5,016	54,379
Allowance for doubtful accounts	(2,165)	(2,575)	(21,608)
Total investments and other assets	76,148	61,152	760,034
Total assets	¥493,956	¥454,820	$4,930,194

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable including payables for completed projects	**¥ 89,524**	¥ 77,392	**$ 893,539**
Short-term borrowings (Note 14)	**21,316**	17,645	**212,753**
Accrued income taxes	**14,308**	27,021	**142,809**
Advances received	**98,497**	46,744	**983,102**
Customer advances for projects in progress	**21,752**	23,530	**217,108**
Allowance for employees' bonuses	**3,243**	2,799	**32,373**
Reserve for warranty obligations on completed projects	**1,042**	—	**10,398**
Other	**18,940**	21,783	**189,040**
Total current liabilities	**268,622**	216,914	**2,681,122**
Long-term liabilities:			
Long-term debt (Note 14)	**28,395**	35,515	**283,412**
Retirement benefit reserves (Note 15)	**5,065**	4,111	**50,550**
Retirement benefit reserves for directors	**1,592**	2,986	**15,894**
Reserve for rents due on master lease agreements	**399**	534	**3,984**
Lease/guarantee deposits received	**19,728**	8,975	**196,904**
Total long-term liabilities	**55,179**	52,121	**550,744**
Total liabilities	**323,801**	269,035	**3,231,866**
Net assets			
Shareholders' equity:			
Share capital:	**55,641**	55,641	**555,351**
Authorized: 250,000,000 shares			
Issued: 159,543,915 shares			
Capital surplus	**34,105**	34,105	**340,402**
Retained earnings	**76,211**	85,700	**760,666**
Treasury stock—165,059 shares	**(99)**	(97)	**(982)**
Valuation and translation adjustments			
Net unrealized gains on "other securities"	**90**	532	**897**
Translation adjustments	**(763)**	(7,737)	**(7,613)**
Minority interests	**4,970**	17,641	**49,607**
Total net assets	**170,155**	185,785	**1,698,328**
Total liabilities and net assets	**¥493,956**	¥454,820	**$4,930,194**

Consolidated Statements of Operations

Leopalace21 Corporation and consolidated subsidiaries
For the years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Net sales	**¥672,974**	¥631,608	**$6,716,972**
Cost of sales	**511,054**	474,713	**5,100,846**
Gross profit	**161,920**	156,895	**1,616,126**
Selling, general and administrative expenses	**90,517**	80,888	**903,453**
Operating profit	**71,403**	76,007	**712,673**
Other income (expenses):			
Interest income	**246**	50	**2,455**
Gain on sales of investment securities	**4**	166	**45**
Equity in earnings of affiliated companies	**105**	(2,321)	**1,045**
Valuation gain on interest-rate swap	**20**	123	**198**
Foreign exchange gain	**—**	501	**—**
Foreign exchange loss	**(9,534)**	—	**(95,159)**
Gain on sales of affiliates' stock	**—**	2,515	**—**
Gain on sales of affiliates' bonds	**561**	1,119	**5,596**
Interest expenses	**(1,463)**	(1,333)	**(14,599)**
Other financial expenses	**(852)**	(606)	**(8,499)**
Gain on sales of property, plant and equipment (Note 16)	**4,466**	7	**44,572**
Loss on sales of property, plant and equipment (Note 17)	**(121)**	(17)	**(1,207)**
Loss on disposal of property, plant and equipment (Note 18)	**(142)**	(216)	**(1,418)**
Impairment loss (Note 10)	**(702)**	(3,009)	**(7,005)**
Loss on devaluation of investment securities	**(907)**	(210)	**(9,049)**
Transfer to allowance for bad debt	**(795)**	(710)	**(7,930)**
Provision for accrued retirement benefits for directors	**—**	(2,790)	**—**
Provision for accrued rents on master lease properties	**—**	(446)	**—**
Gain on consumption tax	**255**	—	**2,547**
Insurance received	**202**	—	**2,012**
Adjustment to advances received	**(47,755)**	—	**(476,642)**
Consumption tax for previous period	**(594)**	—	**(5,931)**
Provision for accrued warranty obligations on completed projects	**(1,378)**	—	**(13,759)**
Payment of retirement benefits for directors	**(1,200)**	—	**(11,977)**
Other, net	**605**	500	**6,040**
Income before income taxes and minority interests	**12,424**	69,330	**124,008**
Income taxes			
Income tax—current	**17,450**	26,438	**174,164**
Income tax—previous period	**1,415**	—	**14,120**
Income taxes—deferred	**(7,040)**	4,662	**(70,263)**
Minority interests	**257**	872	**2,569**
Net income	**¥ 342**	¥ 37,358	**$ 3,418**

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, 2008 and 2007

Millions of yen

	Shareholders' equity					Valuation and translation adjustments				
	Share capital	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on "other securities"	Foreign currency translation adjustments	Total valuation and translation adjustments	Minority interests	Total net assets
Balance as of March 31, 2006	¥55,641	¥33,760	¥53,123	¥(198)	¥142,326	¥715	¥(9,419)	¥(8,704)	¥17,652	¥151,274
Cash dividend by appropriation of retained earnings			(2,391)		(2,391)					(2,391)
Cash dividend			(2,390)		(2,390)					(2,390)
Net income			37,358		37,358					37,358
Purchases of treasury stock				(3)	(3)					(3)
Sales of treasury stock		345		104	449					449
Net change of items other than shareholders' equity						(183)	1,682	1,499	(11)	1,488
Total change during period	—	345	32,577	101	33,023	(183)	1,682	1,499	(11)	34,511
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**

Thousands of U.S. dollars (Note 1)

	Shareholders' equity					Valuation and translation adjustments				
	Share capital	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on "other securities"	Foreign currency translation adjustments	Total valuation and translation adjustments	Minority interests	Total net assets
Balance as of March 31, 2007	$555,351	$340,402	$855,375	$(964)	$1,750,164	$5,310	$(77,232)	$(71,922)	$176,080	$1,854,322
Cash dividend			**(103,400)**		**(103,400)**					**(103,400)**
Net income			**3,418**		**3,418**					**3,418**
Purchases of treasury stock				**(18)**	**(18)**					**(18)**
Increase due to decrease of affiliated companies			**5,389**		**5,389**					**5,389**
Decrease due to increase of consolidated subsidiaries			**(116)**		**(116)**					**(116)**
Net change of items other than shareholders' equity						**(4,413)**	**69,619**	**65,206**	**(126,473)**	**(61,267)**
Total change during period	**—**	**—**	**(94,709)**	**(18)**	**(94,727)**	**(4,413)**	**69,619**	**65,206**	**(126,473)**	**(155,994)**
Balance as of March 31, 2008	**$555,351**	**$340,402**	**$760,666**	**$(982)**	**$1,655,437**	**$ 897**	**$ (7,613)**	**$ (6,716)**	**$ 49,607**	**$1,698,328**

Consolidated Statements of Cash Flows

Leopalace21 Corporation and consolidated subsidiaries
For the years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥12,424**	¥69,330	**$124,008**
Depreciation expenses	**5,163**	4,560	**51,533**
Increase (decrease) in allowance for doubtful accounts	**591**	160	**5,898**
Increase (decrease) in retirement benefit reserves for directors	**(1,394)**	2,986	**(13,914)**
Interest and dividend income	**(338)**	(136)	**(3,378)**
Interest expense	**1,463**	1,333	**14,599**
Foreign exchange loss (gain)	**9,534**	(501)	**95,159**
Equity in earnings of affiliated companies	**(105)**	2,321	**(1,045)**
Gain on sale of tangible fixed assets	**(4,466)**	—	**(44,572)**
Loss on sale of tangible fixed assets	**121**	17	**1,207**
Write-offs of tangible fixed assets	**142**	216	**1,418**
Impairment loss	**702**	3,009	**7,005**
Gain on sales of affiliates' stock	**—**	(2,515)	**—**
Gain on sales of affiliates' bonds	**(561)**	(1,119)	**(5,596)**
Gain on sales of investment securities	**(4)**	(166)	**(45)**
Loss on devaluation of investment securities	**907**	210	**9,049**
Decrease (increase) in accounts receivable	**(21,746)**	914	**(217,047)**
Decrease (increase) in real estate for sale	**(11,238)**	(18,554)	**(112,164)**
Decrease (increase) in work in process	**(2,973)**	26,431	**(29,677)**
Decrease (increase) in long-term prepaid expenses	**(12,465)**	(12,367)	**(124,418)**
Increase (decrease) in accounts payable	**12,226**	(2,571)	**122,024**
Increase (decrease) in customer advances for projects in progress	**(1,778)**	(18,532)	**(17,742)**
Increase (decrease) in advances received	**51,804**	9,093	**517,061**
Increase (decrease) in guarantee deposits received	**10,568**	(780)	**105,476**
Increase (decrease) in accrued consumption taxes	**(3,156)**	2,923	**(31,497)**
Other	**(726)**	2,766	**(7,236)**
Sub-total	**44,695**	69,028	**446,106**
Interest and dividends received	**367**	130	**3,664**
Interest paid	**(1,476)**	(1,290)	**(14,736)**
Income taxes paid	**(31,840)**	(4,560)	**(317,800)**
Net cash provided by operating activities	**11,746**	63,308	**117,234**
Cash flows from investing activities:			
Payment for purchase of tangible fixed assets	**(6,887)**	(21,830)	**(68,743)**
Proceeds from sales of tangible fixed assets	**12,145**	9	**121,217**
Fees paid related to sale and disposal of tangible fixed assets	**(179)**	(119)	**(1,788)**
Payment for purchase of affiliates' stock	**—**	(1,100)	**—**
Proceeds from sales of affiliates' stock	**—**	4,110	**—**
Proceeds from sales of affiliates' bonds	**—**	2,881	**—**
Payment for purchase of investment securities	**(3,393)**	(792)	**(33,866)**
Proceeds from sales of investment securities	**731**	1,001	**7,295**
Payment for loans made	**(370)**	(1,379)	**(3,689)**
Proceeds from collection of loans	**203**	3,647	**2,025**
Other	**(2,102)**	(2,358)	**(20,973)**
Net cash provided by (used in) investing activities	**148**	(15,930)	**1,478**
Cash flows from financing activities:			
Proceeds from short-term debt	**78,610**	34,190	**784,609**
Repayments for short-term debt	**(82,389)**	(32,454)	**(822,323)**
Proceeds from long-term debt	**22,000**	13,000	**219,583**
Repayments for long-term debt	**(17,454)**	(22,656)	**(174,213)**
Payments for purchase depreciation on privately placed bonds	**(3,100)**	(2,007)	**(30,941)**
Payments for redemptions of privately placed bonds	**(1,126)**	(1,435)	**(11,241)**
Dividends paid for minority shareholders	**(475)**	(873)	**(4,741)**
Refundment of amount invested by minority shareholders	**(12,484)**	—	**(124,604)**
Payment for purchases of treasury stock	**(2)**	(3)	**(18)**
Dividends paid for shareholders	**(10,360)**	(4,781)	**(103,400)**
Net cash used in financing activities	**(26,780)**	(17,019)	**(267,289)**
Effect of exchange rate changes on cash and cash equivalents	**(405)**	195	**(4,043)**
Net increase (decrease) in cash and cash equivalents	**(15,291)**	30,554	**(152,620)**
Cash and cash equivalents at beginning of year	**75,167**	44,613	**750,244**
Cash and cash equivalents of newly consolidated subsidiaries	**1,089**	—	**10,874**
Cash and cash equivalents at end of year (Note 7)	**¥60,965**	¥75,167	**$608,498**

The accompanying notes are an integral part of these statements.

1. United States Dollar Amounts

The U.S. dollar amounts are included solely for convenience and have been translated only as a matter of arithmetical computation at the rate of ¥100.19 = US$1.00, the current rate on March 31, 2008.

This translation should not be construed as a representation that the yen amounts actually represent, or could be converted into, U.S. dollars.

2. Basis of Presenting Consolidated Financial Statements

Leopalace21 Corporation (the "Company") and its subsidiaries (the "Companies") maintain their record and prepare their financial statements in accordance with accounting principles generally accepted in Japan. The accompanying consolidated financial statements incorporate certain modifications in format to the statutory financial statements and include certain additional notes that were not contained in the statutory financial statements, so as to make the financial statements more meaningful to readers outside Japan. Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

3. Summary of Significant Accounting Policies

(1) Consolidation

The accompanying consolidated financial statements as of March 31, 2008 include the accounts of the Company and its 10 (8 as of March 31, 2007) significant subsidiaries. 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 (2 as of March 31, 2007) affiliate have been included as of March 31, 2008. All significant intercompany balances and transactions have been eliminated in consolidation.

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.

The difference at the dates of acquisition between the cost and the underlying net equity of investments in consolidated subsidiaries and affiliated companies accounted for by the equity method is being amortized by the straight-line method over a period of 10 years.

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

Real estate for sale is stated at cost determined by the specific identified cost method. Raw materials are stated at cost determined by the periodic average method. Stored goods are stated at cost determined mainly by the last-purchase-price method.

(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 swap	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) Tangible assets
Rental buildings of the Company and domestic consolidated subsidiaries are stated at cost. Depreciation is computed generally on the straight-line basis. The principal estimated useful lives used for computing rental buildings' depreciation are from 22 to 47 years.

Tangible assets other than rental buildings of the Company and domestic consolidated subsidiaries are stated at cost. Depreciation is computed generally on the declining-balance method. However, buildings obtained after April 1, 1998 are depreciated on the straight-line method. The principal estimated useful lives used for computing buildings' and structures' depreciation are from 40 to 50 years and machinery and equipment are 5 years.

Property, plan and equipment of the overseas consolidated subsidiaries are amortized using the straight-line method based on GAAP of the country. The principal estimated useful lives used for computing buildings' and structures' depreciation are from 30 to 40 years and machinery and equipment are 5 years.

(Change in significant accounting policy)
Pursuant to an amendment to the Corporate Tax Law, the Companies changed their depreciation method for tangible fixed assets acquired on or after April 1, 2007 to a method based on the amended Corporate Tax Law from the fiscal year ended March 31, 2008. As a result, operating profit and income before income taxes and minority interests decreased by ¥198 million (US$1,979 thousand).

(Additional information)
Pursuant to an amendment to the Corporate Tax Law, the Companies depreciate the difference between 5% of the acquisition cost and the memorandum price of tangible fixed assets acquired on or before March 31, 2007. From the fiscal year following the consolidated fiscal year that a tangible fixed asset is depreciated to the previously allowable 5% limit using a method based on the preamended Corporate Tax Law, the difference is depreciated evenly over 5 years and included in depreciation and amortization. This accounting change had no material impact on the consolidated financial statements.

(7) Long-lived assets
On August 9, 2002 the Business Accounting Council issued a Statement of Opinion, "Accounting for impairment of Fixed Assets," and on October 31, 2003 the Accounting Standards Board of Japan ("ASB") issued ASB Guidance No. 6 "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The Company and its subsidiaries review long-lives 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 using the straight-line method 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) which is shorter than the average remaining years of service of the employees.

Some domestic consolidated subsidiaries calculate retirement benefit reserves based on 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 rents due on master lease agreements
Reserve for rents on master lease agreements is provided by the Company in its leasing business in recognition of potential losses on master lease agreements. This is calculated based on estimates of the excess amount of master lease expenses due apartment owners compared with estimated rent income from apartment tenants over the period of the agreements.

(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.

(Change in significant accounting policy)
Expense for warranty obligations on completed projects had been recognized on an accrual basis in the past. Taking into account conservative accounting practices of recent years, increasing sales in the subcontracting division and the proper matching of costs and revenues, the Company has recognized reserve for warranty obligations on completed projects 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 since the fiscal year ended March 31, 2008. Due to this change, the difference between provision for accrued warranty obligations on completed projects for the past years and estimated amount at March 31, 2008 is -¥337 million (-US$3,361 thousand) in "Cost of sales" and provision for accrued warranty obligations on completed projects for the past years is ¥1,378 million (US$13,759 thousand) in "Other expenses."

As a result, operating profit decreased by ¥337 million (US$3,361 thousand) and income before income taxes and minority interests decreased by ¥1,042 million (US$10,398 thousand). The influence on the segment information is described in Note 23.

(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) Lease transactions
Non-cancelable lease transactions are primarily accounted for as operating leases except that lease agreements which stipulate the transfer of ownership of the leased assets to the lessee are accounted as finance leases.

(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 difference is included in foreign currency translation adjustments.

(19) Interest capitalization
Leopalace Guam Corporation, a consolidated subsidiary, capitalized interest paid for real estate development business for the development period into tangible fixed assets.

Capitalized interests in tangible fixed assets were ¥2,585 million (US$25,804 thousand) as of March 31, 2008.

(20) Consumption taxes
National and local consumption taxes are excluded from transaction amounts. Non-deductible portions of consumption taxes on the purchases of tangible fixed assets are capitalized as long-term expenses and depreciated using the straight-line method for 5 years.

(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.

4. Changes in Significant Accounting Policies

Previously, for the Monthly Leopalace product sold up to September 30, 2007, of the room charges and one-off lease charges received at the time the product was sold, only room charges received for periods after the end of the fiscal year in question were recognized as advances received, and one-off lease charges were recognized as revenue at the time the product was sold. However, from the fiscal year ended March 31, 2008, all the charges received are recognized as advances received and are subsequently booked as revenue when the services are actually used.

This change in accounting policy reflects recent mainstream accounting practice, which emphasizes comprehensive recognition of obligations as part of prudent accounting practice. A new accounting system for managing advances received from the Monthly Leopalace product was completed during the fiscal year ended March 31, 2008. As a result, the Company is now able to calculate advances received from each product user on a real-time basis in relation to the overall usage charges received. By using this new accounting system, the Company is able to closely match revenue derived from advances paid by users for products and services with cost of sales items, such as rental expenses, and water, lighting and heating expenses, thereby providing accurate information on revenue and expenses applicable to each period and enabling the Company to increase the soundness of its financial position.

As a result, net sales and operating profit increased by ¥11,955 million (US$119,326 thousand) and income before income taxes and minority interests decreased by ¥18,715 million (US$186,797 thousand) as the Company booked the effect at the beginning of the term ¥30,670 million (US$306,123 thousand) as "Adjustment to advances received" in other expenses. The influence on the segment information is described in Note 23.

5. Changes in Presentation

Consolidated statements of cash flows
Amounts posted under "Gain on sale of tangible fixed assets" were included in "Other" up to the previous term. Due to its increased significance, however, the amount is reported separately for this reporting term.

"Gain on sale of tangible fixed assets" would have amounted to -¥7 million (-US$72 thousand) for the previous term under the current classification.

6. Additional information

The balance of advances received for the Monthly Leopalace product had previously been calculated based on the sales amount and number of units occupied during each month. However, the Company has invested in its core IT system to enhance its processing capabilities, including the completion of an accounting system for advances received for the Monthly Leopalace product. The new system enables detailed reporting of balances of advances received for each user and usage agreement, resulting in a difference arising in the balance of advances received compared with the previous method of calculation.

As a result, advances received increased by ¥17,084 million (US$170,519 thousand) and income before income taxes and minority interests decreased same amount.

7. 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.

8. Securities and Investment Securities

(a) At March 31, 2008 and 2007, information with respect to held-to-maturity securities for which market prices were available was summarized as follows:

	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)

	Millions of yen		
March 31, 2007	Balance sheet	Market value	Unrecognized gain (loss)
Unrecognized gain items:			
Government and municipal bonds, etc.	¥ —	¥ —	¥—
Corporate bonds	—	—	—
Other	500	500	0
Subtotal	500	500	0
Unrecognized loss items:			
Government and municipal bonds, etc.	—	—	—
Corporate bonds	—	—	—
Other	501	496	(5)
Subtotal	501	496	(5)
Total	¥1,001	¥996	¥ (5)

March 31, 2008	Thousands of U.S. dollars 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	5,995	5,896	(99)
Subtotal	5,995	5,896	(99)
Total	$5,995	$5,896	$(99)

(b) Marketable securities classified as “other securities” as of March 31, 2008 and 2007 were as follows:

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, 2007	Millions of yen Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥ 506	¥1,369	¥863
Bonds:			
Government and municipal bonds, etc.	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
Other	103	105	2
Subtotal	609	1,474	865
Securities whose acquisition cost exceeds their carrying value:			
Stock	—	—	—
Bonds:			
Government and municipal bonds, etc.	208	207	(1)
Corporate bonds	—	—	—
Other	—	—	—
Other	501	498	(3)
Subtotal	709	705	(4)
Total	¥1,318	¥2,179	¥861

March 31, 2008	Thousands of U.S. dollars Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	$ 4,766	$ 7,959	$3,193
Bonds:			
Government and municipal bonds, etc.	734	735	1
Corporate bonds	—	—	—
Other	—	—	—
Other	—	—	—
Subtotal	5,500	8,694	3,194
Securities whose acquisition cost exceeds their carrying value:			
Stock	9,832	9,832	—
Bonds:			
Government and municipal bonds, etc.	1,139	1,138	(1)
Corporate bonds	—	—	—
Other	4,991	3,912	(1,079)
Other	5,191	4,627	(564)
Subtotal	21,153	19,509	(1,644)
Total	$26,653	$28,203	$1,550

The companies recognized ¥843 million (US$8,416 thousand) of loss on devaluation of marketable securities in stocks in the fiscal year ended March 31, 2008 and ¥62 million (US$ 622 thousand) and ¥210 million of loss on devaluation of marketable securities in mutual funds in the years ended March 31, 2008 and 2007. Other securities are considered as impaired when market value is 30% or more lower than acquisition cost.

(c) Proceeds from sales of “other securities” for the years ended March 31, 2008 and 2007 were ¥707 million (US$7,056 thousand) and ¥3,868 million, respectively. Gross realized gains on these sales were ¥4 million (US$45 thousand) and ¥1,234 million for the years ended March 31, 2008 and 2007.

(d) Securities without market value as of March 31, 2008 and 2007 were as follows:

	Millions of yen 2008	2007	Thousands of U.S. dollars 2008
Available for “other securities”:			
Unlisted securities	**¥1,797**	¥ 718	**$17,932**
Unlisted bonds			
Subordinated bonds	**824**	824	**8,227**
Others			
Subordinated trust beneficiary right in loans receivable and money claims	**505**	508	**5,040**
Investments for limited partnership in investment business	**509**	536	**5,086**
Preferred equity contribution securities	**1,500**	—	**14,972**
Total	**¥5,135**	¥2,586	**$51,257**

(e) The redemption schedule for securities with maturity dates classified as available-for sale securities is summarized as follows:

March 31, 2008	Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten 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, 2007	Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Bonds:				
Government and municipal bonds, etc.	¥30	¥177	¥ —	¥ —
Corporate bonds	—	—	—	824
Other	—	—	301	695
Other	—	96	938	507
Total	¥30	¥273	¥1,239	¥2,026

March 31, 2008	Thousands of U.S. dollars			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Bonds:				
Government and municipal bonds, etc.	$150	$ 1,727	$ —	$ —
Corporate bonds	—	—	—	8,227
Other	—	998	2,994	6,987
Other	—	15,703	8,124	5,035
Total	$150	$18,428	$11,118	$20,249

(f) Investments in securities include investments in unconsolidated subsidiaries and affiliates were ¥536 million (US$5,345 thousand) and ¥2,220 million as of March 31, 2008 and 2007.

9. Derivative Transactions

Derivative transactions for the years ended March 31, 2008 and 2007 were as follows:

March 31, 2008		Millions of yen			
		Contract amount	Portion maturing over one year	Market value	Unrealized gain (loss)
Transactions outside market	Interest-rate swaps Receive floating rate and pay fixed rate	¥—	¥—	¥—	¥—

March 31, 2008		Millions of yen			
		Contract amount	Portion maturing over one year	Market value	Unrealized gain (loss)
Transactions outside market	Interest-rate swaps Receive floating rate and pay fixed rate	¥10,000	¥—	¥(20)	¥(20)

March 31, 2008		Thousands of U.S. dollars			
		Contract amount	Portion maturing over one year	Market value	Unrealized gain (loss)
Transactions outside market	Interest-rate swaps Receive floating rate and pay fixed rate	$—	$—	$—	$—

(Notes) 1. Method of calculating market value
Market value is calculated based on the value provided by the financial institution that is party to transaction.
2. Excludes derivative transactions subject to hedging accounting.

10. Long-Lived Assets

(a) The Companies recognized impairment loss of the following asset group during the year ended March 31, 2008.

Purpose	Category	Location	Impairment loss	
			Millions of yen	Thousands of U.S. dollars
Rental assets (32 blocks of apartments)	Buildings and structures	Osaka City, Osaka	¥139	$1,382
	Land		563	5,623

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 ¥702 million (US$7,005 thousand).

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%.

(b) The Companies recognized impairment loss of the following asset group during the year ended March 31, 2007.

Purpose	Category	Location	Impairment loss (Millions of yen)
Rental assets (94 blocks of apartments)	Buildings and structures	Meguro ward, Tokyo	¥ 624
	Land		2,385

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 ¥3,009 million.

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%.

11. Change from Fixed Assets to Real Estate for Sale

Land value at ¥1,256 million (US$12,532 thousand) and ¥1,687 million which had been categorized as fixed assets was changed to real estate for sale due to change in possession purpose since the years ended March 31, 2008 and 2007.

12. Long-Term Accounts Receivable

Long-term accounts receivable at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Claim in bankruptcy	¥ 14	¥ 50	$ 134
Claim in the process of bankruptcy	2,346	4	23,416
Long-term accounts receivable	1,499	1,224	14,964
Others	157	847	1,565
Total	¥4,016	¥2,125	$40,079

13. Deferred Tax Assets and Liabilities

(a) Significant components of deferred tax assets and liabilities as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Deferred tax assets:			
Impairment loss	¥23,175	¥24,207	$231,308
Loss carried forward for tax purposes	13,709	13,759	136,826
Advances from customers for rent income	8,064	853	80,490
Allowance for doubtful accounts	2,732	428	27,271
Retirement benefit reserves	2,061	1,673	20,569
Devaluation loss on fixed assets	1,630	1,630	16,266
Allowance for employees' bonuses	1,320	1,139	13,173
Accrued business tax	1,093	2,060	10,911
Retirement benefit reserves for directors	648	1,215	6,467
Deposits received	632	491	6,312
Bad debt loss	580	56	5,789
Account payable	537	441	5,364
Reserve for warranty obligations on completed projects	424	—	4,231
Devaluation loss on securities	417	60	4,158
Evaluation loss on real estate for sale	255	255	2,549
Excess depreciation	219	343	2,187
Excess depreciation on software	197	144	1,962
Reserves for rents due on master lease agreements	162	217	1,621
Elimination of unrealized loss	123	228	1,230
Other	344	209	3,431
Sub-total	58,322	49,408	582,115
Less: valuation allowance	(42,767)	(40,819)	(426,853)
Total deferred tax assets	15,555	8,589	155,262
Deferred tax liabilities:			
Net unrealized gain on "other securities"	(82)	(365)	(820)
Other	—	(73)	—
Total deferred tax liabilities	(82)	(438)	(820)
Net deferred tax assets	¥15,473	¥ 8,151	$154,442

(b) Reconciliation of the differences between the statutory tax rate and the effective income tax rate for the year ended March 31, 2008 and 2007 was as follows:

	2008	2007
Statutory tax rate	40.69%	40.69%
Valuation allowances	27.00%	1.97%
Non-deductible expenses including entertainment expenses	12.17%	2.37%
Tax for prior fiscal periods	11.39%	—
Equity in earnings of affiliated companies	—	1.36%
Inhabitant tax	2.12%	0.29%
Dividends excluded from taxable income	—	-0.73%
Gain on sales of affiliates' bonds	—	-1.15%
Others	1.80%	0.06%
Effective income tax rate	95.17%	44.86%

14. Short-Term Borrowings and Long-Term Debt

(a) Short-term borrowings and long-term debt at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Short-term borrowings	¥16,221	¥ 3,778	$161,906
Current portion of long-term debt	5,095	13,867	50,847
Long-term debt	28,395	35,515	283,412
Total	¥49,711	¥53,160	$496,165

(b) Assets pledged as collateral for short-term borrowings and long-term debt at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Buildings and structures	¥14,071	¥15,164	$140,441
Land	46,045	46,667	459,578
Investment securities	93	92	931
Others in Investments and other assets (Membership right)	420	420	4,192
Total	¥60,629	¥62,343	$605,142

(c) The aggregate annual maturities of long-term debt subsequent to March 31, 2008 are summarized as follows:

For the year ending March 31	Millions of yen	Thousands of U.S. dollars
2010	¥11,488	$114,662
2011	9,288	92,704
2012	6,788	67,752
2013 and thereafter	831	8,294

15. 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, 2008 and 2007 for the Companies' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Projected benefit obligation	**¥(5,630)**	¥(4,645)	**$(56,189)**
Unrecognized actuarial gain or loss	**565**	534	**5,639**
Retirement benefit reserves	**¥(5,065)**	¥(4,111)	**$(50,550)**

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.

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

	Millions of yen
Pension assets	¥52,226
Projected benefit obligation	45,161
Difference	¥ 7,065

The main components of the difference are unrecognized prior service costs ¥2,485 million and other reserves ¥8,006 million. The Company recognized the special annuity premium of ¥109 million (US$1,093 thousand) as an expense in the fiscal year ended March 31, 2008.

Annuity premium contributory proportion of the entire pension plan is 37% as of March 31, 2008.

The pension assets attributed to the Company based on the contribution ratio were ¥17,367 million as of March 31, 2007.

(c) The components of retirement benefit expenses for the years ended March 31, 2008 and 2007 were outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Service cost	**¥2,656**	¥2,270	**$26,507**
Interest cost	**102**	84	**1,020**
Amortization of actuarial gain or loss	**186**	164	**1,861**
Total	**¥2,944**	¥2,518	**$29,388**

(Note) 1. Contribution to welfare pension fund was ¥1,771 million (US$17,679 thousand) and ¥1,518 million in the year ended March 31, 2008 and 2007.
2. All the retirement benefit expenses of the domestic consolidated subsidiaries that adopt the compendium method were recoded in service cost.

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

Assumptions used in accounting for retirement benefits	**2008**	2007
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

16. Gain on Sales of Property, Plant and Equipment

Gain on sales of property, plant and equipment for the years ended March 31, 2008 and 2007 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Buildings and structures	**¥ 697**	¥—	**$ 6,958**
Land	**3,736**	—	**37,291**
Others	**33**	7	**323**
Total	**¥4,466**	¥ 7	**$44,572**

17. Loss on Sales of Property, Plant and Equipment

Loss on sales of property, plant and equipment for the years ended March 31, 2008 and 2007 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Buildings and structures	**¥120**	¥—	**$1,201**
Others	**1**	17	**6**
Total	**¥121**	¥17	**$1,207**

18. Loss on Disposal of Property, Plant and Equipment

Loss on disposal of property, plant and equipment for the years ended March 31, 2008 and 2007 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Buildings and structures	**¥72**	¥ 56	**$ 717**
Others	**70**	44	**701**
Construction in progress	**—**	116	**—**
Total	**¥142**	¥216	**$1,418**

19. Shares Outstanding and Treasury Stocks

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

(Notes) 1. An increase of 538 shares was due to purchases of fractional shares.

Shares outstanding and treasury stocks for the year ended March 31, 2007 were as follows:

Type of shares	March 31, 2006	Increase	Decrease	March 31, 2007
Shares outstanding				
Common stock	159,543,915	—	—	159,543,915
Total	159,543,915	—	—	159,543,915
Treasury stock				
Common stock	363,850	671	200,000	164,521
Total	363,850	671	200,000	164,521

(Notes) 1. An increase of 671 shares was due to purchases of fractional shares.
2. A decrease of 200,000 shares was due to sales by affiliates to which the equity method was applied.

20. Cash Dividends

(a) Cash dividends for the year ended March 31, 2008 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 28, 2007	Common stock	¥5,578	$55,677	¥35	$0.35	March 31, 2007	June 29, 2007
Board of Directors' meeting on November 22, 2007	Common stock	4,781	47,723	30	0.30	September 30, 2007	December 7, 2007

Cash dividends for the year ended March 31, 2007 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 29, 2006	Common stock	¥2,391	¥15	March 31, 2006	June 29, 2006
Board of Directors' meeting on November 16, 2006	Common stock	2,391	15	September 30, 2006	December 12, 2006

(b) Dividends for which the record date was in the year ended March 31, 2008 but for which the date in effect would be in the next fiscal year were as follows:

Resolution	Type of shares	Source of dividends	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	Retained earnings	¥7,969	$79,538	¥50	$0.50	March 31, 2008	June 30, 2008

Dividends for which the record date was in the year ended March 31, 2007 but for which the date in effect would be in the next fiscal year were as follows:

Resolution	Type of shares	Source of dividends	Gross amount (Millions of yen)	Per share (Yen)	Record date	Date in effect of dividend
General shareholders' meeting on June 28, 2007	Common stock	Retained earnings	¥5,578	¥35	March 31, 2007	June 29, 2007

21. Leases

(a) The following pro forma amounts represent the acquisition cost, accumulated depreciation and net book value of leased property as of March 31, 2008 and 2007:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Acquisition cost			
Vehicles	**¥ 14**	¥ 206	**$ 141**
Equipment	**22,175**	21,792	**221,328**
Accumulated depreciation			
Vehicles	**¥ 6**	¥ 72	**$ 56**
Equipment	**10,273**	10,179	**102,532**
Net book value			
Vehicles	**¥ 8**	¥ 134	**$ 85**
Equipment	**11,902**	11,613	**118,796**

(b) The amounts of outstanding future lease payments due at March 31, 2008 including the interest portion thereon, were summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
	Finance lease	Operating lease	Finance lease	Operating lease
Year ending March 31				
2009	¥ 3,368	¥ 70	$ 33,613	$ 701
2010 and thereafter	9,111	77	90,936	768
Total	¥12,479	¥147	$124,549	$1,469

Annual lease expenses charged to income were ¥4,725 million (US$47,156 thousand) and ¥4,503 million for the years ended March 31, 2008 and 2007, respectively.

(c) Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2008 and 2007 for finance lease transactions accounted for as operating leases were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Estimated amount of depreciation by the straight-line method over the lease period	**¥4,161**	¥3,921	**$41,530**
Estimated interest cost	**611**	655	**6,099**

22. Contingent Liabilities

Contingent liabilities for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Contingent liabilities to financial institutions for customers who have a home mortgage	**¥2,044**	¥2,114	**$20,399**
Contingent liabilities to financial institutions for customers who have a membership loan	**30**	30	**299**
Subordinated contingent liabilities to financial institutions for customers who have an apartment loan with nonexempt property	**3**	10	**34**
Total	**¥2,077**	¥2,154	**$20,732**

23. Segment Information

(a) Business segments

Segment information by business group for the years ended March 31, 2008 and 2007 was as follows:

	Millions of yen						
Year ended March 31, 2008	Apartment Construction Subcontracting Division	Leasing Division	Hotel Resort Division	Other Division	Segment totals	Elimination or common assets	Consolidated totals
(1) Net sales and operating profit (loss)							
Sales							
Sales to customers	¥327,541	¥302,731	¥ 6,072	¥36,630	¥672,974	¥ —	¥672,974
Inter-segment sales and transfers	—	23	4,200	—	4,223	(4,223)	—
Total	327,541	302,754	10,272	36,630	677,197	(4,223)	672,974
Operating expenses	254,273	299,717	11,389	35,984	601,363	208	601,571
Operating profit (loss)	¥ 73,268	¥ 3,037	¥ (1,117)	¥ 646	¥ 75,834	¥ (4,431)	¥ 71,403
(2) Assets, depreciation, impairment losses and capital expenditures							
Assets	¥ 70,768	¥213,118	¥53,444	¥61,152	¥398,482	¥95,474	¥493,956
Depreciation	550	2,193	1,789	182	4,714	449	5,163
Impairment losses	—	702	—	—	702	—	702
Capital expenditures	575	4,022	652	179	5,428	1,495	6,923

	Millions of yen						
Year ended March 31, 2007	Apartment Construction Subcontracting Division	Leasing Division	Hotel Resort Division	Other Division	Segment totals	Elimination or common assets	Consolidated totals
(1) Net sales and operating profit (loss)							
Sales							
Sales to customers	¥316,117	¥277,163	¥ 7,141	¥31,187	¥631,608	¥ —	¥631,608
Inter-segment sales and transfers	—	3	3,702	—	3,705	(3,705)	—
Total	316,117	277,166	10,843	31,187	635,313	(3,705)	631,608
Operating expenses	241,503	270,135	13,471	30,096	555,205	396	555,601
Operating profit (loss)	¥ 74,614	¥7,031	¥ (2,628)	¥ 1,091	¥ 80,108	¥ (4,101)	¥ 76,007
(2) Assets, depreciation, impairment losses and capital expenditures							
Assets	¥ 51,339	¥207,581	¥55,868	¥40,425	¥355,213	¥99,607	¥454,820
Depreciation	388	2,000	1,889	77	4,354	206	4,560
Impairment losses	—	3,009	—	—	3,009	—	3,009
Capital expenditures	242	5,064	933	228	6,467	15,385	21,852

	Thousands of U.S. Dollars						
Year ended March 31, 2008	Apartment Construction Subcontracting Division	Leasing Division	Hotel Resort Division	Other Division	Segment totals	Elimination or common assets	Consolidated totals
(1) Net sales and operating profit (loss)							
Sales							
Sales to customers	$3,269,195	$3,021,570	$ 60,603	$365,604	$6,716,972	$ —	$6,716,972
Inter-segment sales and transfers	—	226	41,921	—	42,147	(42,147)	—
Total	3,269,195	3,021,796	102,524	365,604	6,759,119	(42,147)	6,716,972
Operating expenses	2,537,907	2,991,488	113,671	359,159	6,002,225	2,074	6,004,299
Operating profit (loss)	$ 731,288	$ 30,308	$ (11,147)	$ 6,445	$ 756,894	$ (44,221)	$ 712,673
(2) Assets, depreciation, impairment losses and capital expenditures							
Assets	$ 706,334	$2,127,139	$533,433	$610,363	$3,977,269	$952,925	$4,930,194
Depreciation	5,493	21,893	17,850	1,819	47,055	4,478	51,533
Impairment losses	—	7,005	—	—	7,005	—	7,005
Capital expenditures	5,745	40,141	6,513	1,783	54,182	14,919	69,101

(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) Other Division —— Financial services (real-estate loans, etc.), residential business, broadband business, silver business
3. Major items and amounts included in “Elimination or common assets” are as follows.

	Millions of yen		Thousands of U.S. dollars	
	2008	2007	**2008**	Main component
Operating expenses unable to be allocated included in "Elimination or common assets"	**¥ 4,535**	¥ 4,101	**$ 45,261**	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"	**95,474**	99,606	**952,926**	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 accounting policy)
Reserve for warranty obligations on completed projects
Due to a change in accounting policy regarding reserves for warranty obligations on completed projects, operating expenses in the Apartment Construction Subcontracting Division decreased ¥337 million (US$3,361 thousand) and operating profit increased the same amount in the fiscal year ended March 31, 2008.

Revenue recognition
Due to a change in accounting policy regarding revenue recognition, sales in the Leasing Division increased ¥11,955 million (US$119,326 thousand) and operating profit increased the same amount in the fiscal year ended March 31, 2008.

(b) Geographical segments
Segment information by geographic area for the years ended March 31, 2008 and 2007 were as follows:

	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 profit (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 profit (loss)	¥ 75,607	¥ 227	¥75,834	¥ (4,431)	¥ 71,403
(2) Assets					
Assets	¥346,254	¥52,228	¥398,482	¥95,474	¥493,956

	Millions of yen					
Year ended March 31, 2007	Japan	Trust territory of U.S.A. Guam	France	Segment totals	Elimination or common assets	Consolidated totals
(1) Net sales and operating profit (loss)						
Sales						
Sales to customers	¥626,250	¥ 4,107	¥1,251	¥631,608	¥ —	¥631,608
Inter-segment sales and transfers	333	3,824	18	4,175	(4,175)	—
Total	626,583	7,931	1,269	635,783	(4,175)	631,608
Operating expenses	545,361	8,927	1,387	555,675	(74)	555,601
Operating profit (loss)	¥ 81,222	¥ (996)	¥ (118)	¥ 80,108	¥ (4,101)	¥ 76,007
(2) Assets						
Assets	¥300,846	¥54,367	¥ —	¥355,213	¥99,607	¥454,820

	Thousands of U.S. Dollars				
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 profit (loss)					
Sales					
Sales to customers	$6,672,249	$ 44,723	$6,716,972	$ —	$6,716,972
Inter-segment sales and transfers	1,583	46,684	48,267	(48,267)	—
Total	6,673,832	91,407	6,765,239	(48,267)	6,716,972
Operating expenses	5,919,207	89,138	6,008,345	(4,046)	6,004,299
Operating profit (loss)	$ 754,625	$ 2,269	$ 756,894	$ (44,221)	$ 712,673
(2) Assets					
Assets	$3,455,981	$521,287	$3,977,268	$952,926	$4,930,194

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

(Change in accounting policy)
Reserve for warranty obligations on completed projects
Due to a change in accounting policy regarding reserves for warranty obligations on completed projects, operating expenses in the Japan segment decreased ¥337 million (US$3,361 thousand) and operating profit increased the same amount in the year ended March 31, 2008.

Revenue recognition
Due to a change in accounting policy regarding revenue recognition, sales in the Japan segment increased ¥11,955 million (US$119,326 thousand) and operating profit increased the same amount in the year ended March 31, 2008.

(c) Overseas sales
As overseas sales constituted less than 10% of consolidated net sales for the years ended March 31, 2008 and 2007, overseas sales information has been omitted.

24. Amounts per Share

(a) The following table sets forth the net assets and net income (loss) per share of common stock for the years ended March 31, 2008 and 2007.

	Yen		U.S. dollars
	2008	2007	**2008**
Net assets	**¥1,036.43**	¥1,054.99	**$10.34**
Net income			
Basic	**2.15**	234.68	**0.02**

(b) Basis of computation of net assets per share at March 31, 2008 and 2007 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Net assets	**¥170,155**	¥185,785	**$1,698,328**
Amount not allocated to the common stock	**4,970**	17,641	**49,607**
Net assets allocated to the common stock	**165,185**	168,144	**1,648,721**
Shares issued outstanding at end of year (Thousands of shares)	**159,379**	159,379	**—**

(c) Basis of computation of basic net income per share for the years ended March 31, 2008 and 2007 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Net income	**¥ 342**	¥ 37,358	**$3,418**
Amount not allocated to the common stock	**—**	—	**—**
Net income allocated to the common stock	**342**	37,358	**3,418**
Shares issued outstanding at end of year (Thousands of shares)	**159,379**	159,186	**—**

25. Related Party Transactions

The following table sets forth related party transactions for the years ended March 31, 2008 and 2007.

(For the year ended March 31, 2008)

(a) Director and individual major shareholder

Attribute	Name	Address	Capital stock		Business or position	Percentage of share ownership of the Company	Relation	
			Millions of yen	Thousands of U.S. dollars			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	$60	Hotel business	—	—	Leasing of building
Individual main shareholder	Yusuke Miyama	—	—	—	—	13.3%	—	—

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 company whose majority of voting right is owned by the director and close relatives	Yoshiteru Kitagawa	Leasing of land and building	¥ 4	$ 45	—	—	—
	Eisei Miyama	Leasing of land and building	5	59	—	—	—
	Yoshikazu Miike	Leasing of land and building	5	53	—	—	—
	Satoshi Abe	Leasing of land and building	3	34	—	—	—
	Yousuke Kitagawa	Leasing of land and building	2	27	—	—	—
	Katsumi Furuhata	Leasing of land and building	0	5	—	—	—
	Miyamaso Co., Ltd.	Commitment of IT network related affairs	6	65	—	—	—
Individual main shareholder	Yusuke Miyama	Interest on loans	62	621	"Other" in current assets	¥62	$621

(Notes) 1. Miyamaso Co., Ltd. is a company whose majority of voting right is 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 Furuhara retired from the position of director on June 27, 2008.
3. Consumption taxes were not included in the transaction amount above.

(b) Subsidiaries and others

Attribute	Name	Address	Capital stock		Business or position	Percentage of share ownership of the Company	Relation	
			Millions of yen	Thousands of U.S. dollars			Interlocking directors	Relation in business
Affiliate	Toyo Miyama Kogyo Co., Ltd.	Kisarazu City, Chiba	¥100	$998	Production and sales of building material	50.0%	2 interlocking directors	Purchase of building materials and others

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.	Purchase of building materials and others	¥29,816	$297,596	Accounts payable	¥9,892	$98,737

(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.

(For the year ended March 31, 2007)

(a) Director and individual major shareholder

Attribute	Name	Address	Capital stock (Millions of yen)	Business or position	Percentage of share ownership of the Company	Relation	
						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%	—	—
	Kuniaki Sasahara	—	—	Senior Managing Director	0.0%	—	—
	Yoshikazu Miike	—	—	Director	0.0%	—	—
	Satoshi Abe	—	—	Director	—	—	—
	Yousuke Kitagawa	—	—	Director	0.0%	—	—
	Tomio Oba	—	—	Director	0.0%	—	—
	Katsumi Furuhata	—	—	Full-time Corporate Auditor	—	—	—
	BobbyTech Ltd.	Minato ward, Tokyo	¥3	IT solutions business	—	—	Receiving service

Attribute	Name	Transaction	Transaction amount (Millions of yen)	Account	Balance (Millions of yen)
Director and company whose majority of voting right is owned by the director and close relatives	Yoshiteru Kitagawa	Leasing of land and building	¥11	—	—
	Eisei Miyama	Leasing of land and building	6	—	—
	Kuniaki Sasahara	Subleasing of land and building	0	—	—
	Yoshikazu Miike	Leasing of land and building	5	—	—
	Satoshi Abe	Leasing of land and building	3	—	—
	Yousuke Kitagawa	Leasing of land and building	3	—	—
	Tomio Oba	Leasing of land and building	6	—	—
	Katsumi Furuhata	Leasing of land and building	1	—	—
	BobbyTech Ltd.	Commitment of IT network related affairs	17	Accounts payable	¥8

(Notes) 1. BobbyTech Ltd. is a company whose majority of voting right is owned by close relatives of Kuniaki Sasahara, Senior Managing Director of the Company.
2. Conditions of transactions
(a) Conditions of leasing of land and building are the same as transactions with third parties.
(b) Conditions of commitment of IT network-related affairs are the same as transactions with third parties.
(c) Kuniaki Sasahara retired from the position of director on June 29, 2007 and Tomio Oba retired from the position of director on March 18, 2007.
3. Consumption taxes were not included in the transaction amounts above.

(b) Subsidiaries and others

Attribute	Name	Address	Capital stock (Millions of yen)	Business or position	Percentage of share ownership of the Company	Relation	
						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	Purchase of building materials and others

Attribute	Name	Transaction	Transaction amount (Millions of yen)	Account	Balance (Millions of yen)
Affiliate	Toyo Miyama Kogyo Co., Ltd.	Purchase of building materials and others	¥25,233	Accounts payable	¥9,574

(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.

Grant Thornton

Report of Independent Certified Public Accountants

To the Board of Directors of
LEOPALACE21 CORPORATION

Grant Thornton Taiyo ASG

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We have audited the accompanying consolidated balance sheets of LEOPALACE21 CORPORATION and subsidiaries as of March 31, 2008, 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, 2008, 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 2 to the consolidated statements.

As described in Note 4, effective the year ended March 31, 2008, the Company changed their accounting policy on revenue recognition from cash basis to accrual basis regarding the one-off lease charge of Monthly Leopalace product, which sold up to September 30, 2007.

As described in Note 3(15), effective the year ended March 31, 2008, the Company changed their accounting policy for product warranty from cash basis to accrual basis accounting.

The consolidated financial statements as of and for the year ended March 31, 2008 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 24, 2008

Leopalace21 Corporation

(As of March 31, 2008)

Head Office:
2-54-11 Honcho, Nakano-ku,
Tokyo 164-8622, Japan
Tel: +81-3-5350-0001 Fax: +81-3-5350-0058
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:
8,678 (consolidated basis);
7,771 (non-consolidated basis)

Board of Directors and Auditors

(As of June 27, 2008)

President and CEO	Yoshiteru Kitagawa
Senior Managing Director	Eisei Miyama
Executive Director of Management	Tadahiro Miyama
Directors	Hiroyuki Miyata
	Kou Kimura
	Yoshikazu Miike
	Satoshi Abe
	Yousuke Kitagawa
	Hiroshi Takeda
	Naomichi Mochida
Full-time Corporate Auditors	Yoshitaka Kouda
	Yoshinori Uehara
Corporate Auditors	Masami Matsushita
	Koichi Fujiwara

Leopalace21 Group

(As of March 31, 2008)

Leopalace21 Corporation

Apartment Construction Subcontracting Division
- Toyo Miyama Kogyo Co., Ltd. (Manufacture and sale of housing materials) (50.0%)

Leasing Division
- SPC Leopalace REIT (Real estate leasing)
- SPC Leopalace REIT II (Real estate leasing)
- SPC Leopalace REIT III (Real estate leasing)
- Leopalace Leasing Corporation* (Company housing agency and real estate agency) (100%)

Hotel and Resort Related Division
- LEOPALACE GUAM CORPORATION (Hotel/resort operations in Guam) (100%)
- Leopalace Travel, Ltd. (Travel agency) (100%)

Other Division
- Leopalace Finance Co., Ltd.* (Financial Business) (100%)
- Leopalace Insurance Co., Ltd.* (100%)

Domestic consolidated subsidiary
Foreign consolidated subsidiary
Equity-method affiliates

Notes: 1. Numbers within parentheses represent equity stakes held by Leopalace21.
2. Apart from the companies listed above, there are two companies (100% owned indirectly by Leopalace21) with operational permits
3. Those marked with an asterisk (*) are new consolidated subsidiaries.

Major Shareholders (Top 10)

(As of March 31, 2008)

Name of shareholders	No. of shares held	% of shares held
Yusuke Miyama	21,251,774	13.32
The Master Trust Bank of Japan, Ltd. (Trust Account)	10,389,500	6.51
Japan Trustee Services Bank, Ltd. (Trust Account)	6,594,400	4.13
State Street Bank and Trust Company Standing Proxy, Mizuho Corporate Bank, Ltd.	4,837,881	3.03
Chase Manhattan Bank GTS Clients Account Escrow Standing Proxy, Mizuho Corporate Bank, Ltd.	3,828,105	2,39
State Street Bank and Trust Company 505103 Standing Proxy, Mizuho Corporate Bank, Ltd.	3,282,062	2.05
Trust & Custody Services Bank, Ltd. (Investment Trust Account)	3,079,900	1.93
Investors Bank West Pension Fund Clients, Standing Proxy, Standard Chartered Bank	2,827,800	1.77
Toyo Kanetsu K.K.	2,745,900	1.72
MDI Corporation	2,350,000	1.47

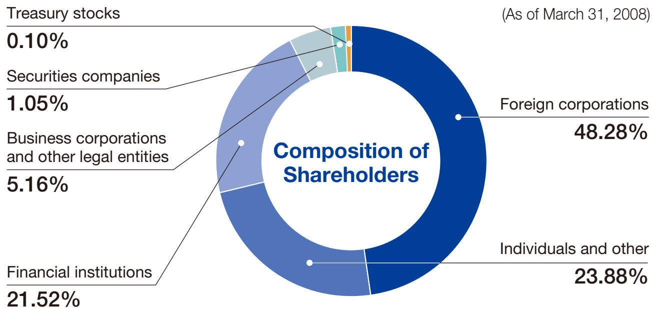
Number of Shares:
Authorized: 250,000,000
Issued and outstanding: 159,543,915

Number of Shareholders:
13,792

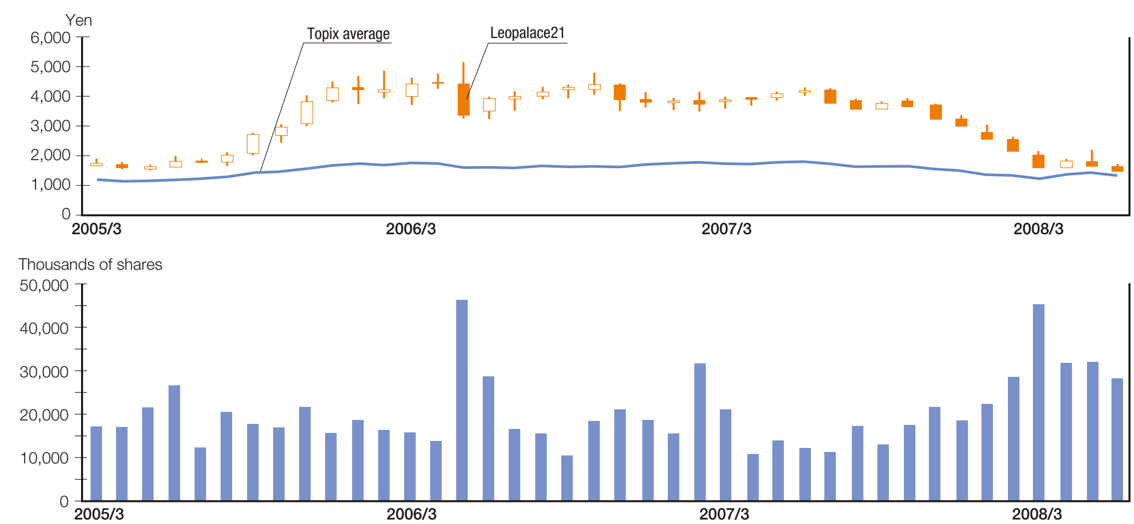
Stock Exchange Listing:
Tokyo Stock Exchange (Ticker: 8848)

Transfer Agent:
Mitsubishi UFJ Trust and Banking Corporation

(As of March 31, 2008)



Monthly Stock Price Range and Trading Volume



A single dream for a united purpose

United Spirit

Leopalace21

A United Spirit to meet today's constant demand for new value and constant change

A united purpose to fulfill our customers' dreams

A united purpose for building a comfortable future

A united purpose aiming at a new goal

A united purpose of both employees and customers at the new Leopalace21
to realize a rich and comfortable lifestyle

Corporate History

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 new Five-Year Medium-Term Management Plan: "United Spirit" in December**

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

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

2002
- 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
- Number of units under management reached 200,000

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

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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Mixed Sources
Product group from well-managed forests, and other controlled sources
www.fsc.org Cert no. SGS-COC-004300
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