Annual Report 2007

United Spirit

Leopalace21

A New Stage of Growth

About Us

夢

With **dreams**

人

for **everyone**

住

for a comfortable **house** and **living**

The vision of "homes for people" is expanding our horizons

The Japanese word *sumau*, meaning to dwell continuously, expresses the attachment many Japanese have to the notion of someday owning a house they can call home. Thus, with renting traditionally considered no more than a temporary expedient until the time a home can be purchased, Japanese rental housing has been unremarkable in terms of function and design.

It is under such conditions that Leopalace21 has defied convention by offering rental housing that is both comfortable and modern. We have thereby given a generation of young people—not yet in a position to buy their own homes—a chance to live in more opulent and pleasant surroundings. By following our dream of creating homes for people, we have been able to stay firmly on top of Japan's rental apartment business.

Now the time has come for us to move to a new level. People's lifestyles and values are rapidly diversifying. Thus, our next challenge will be to offer new housing options and services that, transcending the boundaries of conventional apartment business, enable us to offer people a wider range of support at home and in their lives. Leopalace21 continues to evolve steadily as we seek new ways of providing homes for people.

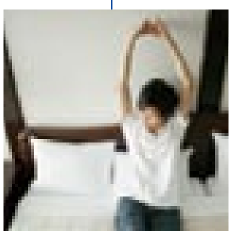
Value-added housing and services —
Supporting people from every generation

Our Apartment Construction Subcontracting Business helps landowners create new assets by providing total, long-term apartment management.
Our Leasing Business provides easy-to-rent, one-room studio apartments to meet the needs of both young people who want to live alone yet in comfort, and company employees on extended business or training trips.
These two core businesses create powerful synergies and, thanks to our unique business model, Leopalace21 has achieved steady growth in both sales and earnings.

We are also maximizing the benefits of our core business infrastructure by means of our three strategic businesses:
The Residential Business, to meet the needs of today’s new families with their changing lifestyles.
The Silver Business, which supports seniors during their “second life” with nursing care facilities and services.
The Broadband Business, which is a convenient source of entertainment for our renters.
In addition, we have an affiliated domestic hotel business, as well as an overseas hotel and resort business.
Leopalace21’s housing and residential services meet the needs of each generation.

We aim to be a provider of all life-related services across the generations.
Our integrated, multi-business approach is designed to maximize corporate value.

Apartment Construction Subcontracting Business



Leasing Business

Residential Business

Silver Business

Broadband Business

Contents

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.

Taking Our Business to a New Level

President and CEO Yoshiteru Kitagawa

Leopalace21 Corporation has developed a Medium-Term Management Plan: "United Spirit." It outlines our vision for the future of the Company, describing the challenges that we must meet.

Review of the Fiscal Year Ended March 2007

It is my pleasure to share with you the news that Leopalace21 Corporation (hereinafter referred to as Leopalace21), by expanding the operations of its core Apartment Construction Subcontracting and Leasing businesses, set new company records for net sales and profits during the fiscal year ended March 2007. We look forward to making every effort in the future to ensure that we continue to meet the expectations of our shareholders.

During the fiscal year ended March 2007, Leopalace21 recorded net sales of ¥631,608 million, a gain of 35.7% over the previous year. The Company posted operating profit of ¥76,007 million (up 86.4%) and net income of ¥37,358 million, marking a return to profitability after having recorded a net loss in the previous fiscal year. Because of the large concentration of new construction projects scheduled for completion toward the end of the previous fiscal year, the completion dates for some of these projects had to be pushed into the fiscal year ended March 2007, thus generating an unusually large increase in both revenues and profits. However, even after adjusting for the effects of the construction delays, the overall trend toward higher net sales and higher profits remains unchanged, and there is no doubt that the Company is firmly on track to achieving sustainable growth.

In view of the Company's solid performance for the year under review, it was decided to raise the annual cash dividend to ¥50 per share, a year-on-year increase of ¥35. The dividend payout ratio was 21.3%. Leopalace21 has made providing returns to shareholders a top management priority. Earnings during the fiscal year under review were skewed somewhat because of projects carried forward from the previous fiscal year, but once these effects have disappeared and operations return to normal, we intend to raise the dividend payout ratio to 30%. Moreover, the Company's policy is to use effectively the retained earnings in ways that will increase corporate value.

Financial Highlights

Leopalace21 Corporation and consolidated subsidiaries
Years ended March 31

	Millions of Yen, Except Where Noted			Thousands of U.S. Dollars, Except Where Noted
	2007	2006	2005	**2007**
Net sales	**¥631,608**	¥465,387	¥476,267	**$5,350,348**
Operating profit	**76,007**	40,775	54,682	**643,857**
Net income (loss)	**37,358**	(16,582)	33,262	**316,459**
Total assets	**¥454,820**	¥412,804	¥453,434	**$3,852,771**
Total net assets	**185,785**	133,622	149,798	**1,573,779**
Total net assets per share (¥ and US$)	**¥1,054.99**	¥839.44	¥941.06	**$8.94**
Net income (loss) per share (¥ and US$)	**234.68**	(104.17)	220.79	**1.99**
Cash dividends per share (¥ and US$)	**50.00**	15.00	15.00	**0.42**
Equity ratio (%)	**37.0**	32.4	33.0	
Return on equity (ROE) (%)	**24.8**	(11.7)	28.8	
Return on assets (ROA) (%)	**8.6**	(3.8)	7.6	

Notes: 1. U.S. dollar amounts are translated from yen at the rate of ¥118.05 = US$1, the approximate rate prevailing at March 31, 2007.
2. The amounts of total net assets for the years ended March 2005 and 2006 represent the value of total shareholders' equity and do not include minority interests.

Message to Our Shareholders

Epoch-Making Leasing System Fuels Demand Growth

The first Leopalace21 rental apartment building was completed in 1985, a time when the rental apartments available to young people were quantitatively and qualitatively inadequate to meet market needs. Further, in order to move into an apartment, renters had to pay a deposit, key money and realtor fees, causing young people to shoulder a very heavy financial burden whenever they moved. This Japanese business practice remains largely unchanged.

The Leopalace21 Apartment Business is designed to serve society in two ways: by promoting the effective use of real estate assets and by creating a supply of high-quality residential housing for the renting public. Our business model involves contracting with landowners to build apartment buildings, which the Company then agrees to lease back and manage. Our two main core businesses are apartment construction and leasing, both of which now operate nationwide. The "Leopalace21 leasing system" that we have pioneered is revolutionary in Japan because, by eliminating security deposits, key money and realtor fees (although in some cases we do collect the equivalent of one month's rent as a systems fee), it greatly reduces the burden on renters. Further, the "Monthly Leopalace" system provides fully furnished and equipped apartments for short-term rental on a weekly or monthly basis. We have also developed a "Corporate User System" to supply the needs of corporate clients for company housing, and to provide accommodations for businessmen on extended business trips. By defying convention and developing a rental system focused primarily on the renter's needs, Leopalace21 has succeeded in achieving annual occupancy rates of over 90%.

The Company's basic philosophy is that "successful leasing operations are our top priority" and we therefore view our apartment construction and our leasing businesses as integral parts of a whole. We now have a network of 280 Leopalace Center offices, including four overseas offices that daily serve the diverse needs of renters. In addition, information about apartments in all parts of Japan is available 24 hours a day via our Internet and mobile phone Websites. We also

Medium-Term Management Plan

Expand business domains, reinforce growth and earnings potential of core businesses

April 2006 — March 2009

- **Phase I Medium-Term Management Plan (April 2006-March 2009)**: Establish solid business foundation
- **Phase II Medium-Term Management Plan (April 2009-March 2011)**: 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
- **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)
- **Apartment total support business**: Market company housing services, in addition to life and non-life insurance
- **LEO-REIT business**: Establish a LEO-REIT business with ¥100 billion in strategic real estate assets

Target Indicators (FY2011/3)

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

publish our own magazine of apartment listings, and make every effort keep track of market needs by providing information to major real estate brokers. The market information that we collect in this way is used to effectively promote our apartment construction business. By both continuously monitoring market demand and paying careful attention to the wants and needs of today's renters, we are able to develop new supply plans to match market demand. This gives us a head start on our competitors, in terms of meeting the rapidly diversifying needs of renters, by enabling us to create such new products as apartments that accept pets and that are equipped with especially robust security systems.

Medium-Term Management Plan: "United Spirit"

Leopalace21 is now moving at full speed to accomplish the goals set out in our Medium-Term Management Plan. During phase I of this plan, which runs from April 2006 through March 2009, our goal is to lay a solid foundation for future growth by promoting the progress of our three strategic businesses, which I will discuss below, while at the same time being careful to maintain our focus on expanding our core businesses. phase II of the plan runs from April 2009 through March 2011, and is identified as a period of expansion through synergy. During this period, we intend to maximize the effect of the synergies that will be generated between our various business operations. The numerical targets we have established for the fiscal year ending March 2011, the final year of the plan, call for us to achieve net sales of ¥1 trillion, operating profit of ¥100 billion, an equity ratio of 50%, return on equity (ROE) of 15%, and a dividend payout ratio of 30%.

To achieve these goals, it is essential that we further develop our two core businesses, which are the two wheels that are driving our corporate growth. As of the fiscal year ended March 2007, we had 388,500 apartment units under management, and our occupancy rate for the year was 92.8%. By the end of the plan in March 2011, however, we expect to have 592,000 apartment units under management, and to achieve an occupancy rate of 94.5%. To meet these targets, we intend to expand our network of Leopalace Center offices to 400

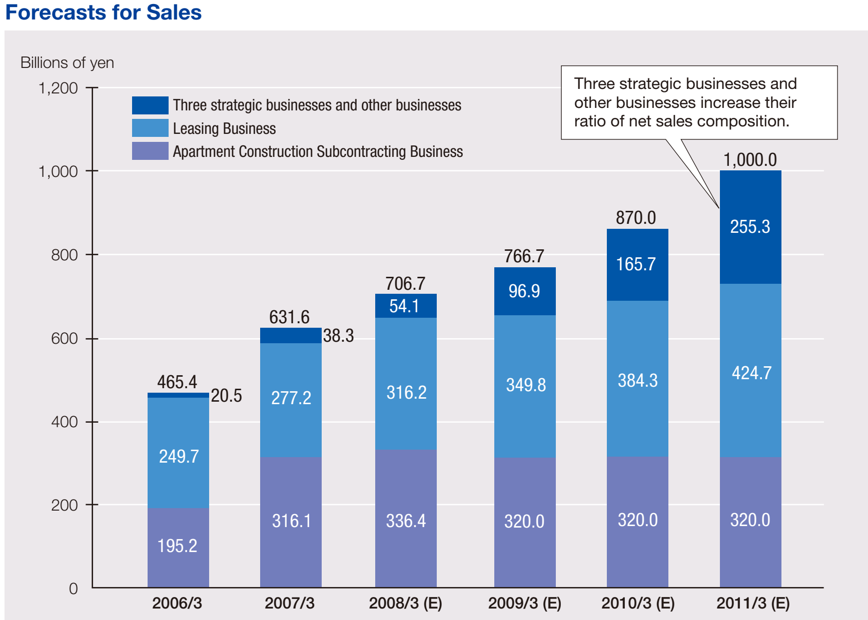
March 2011

Change into a residential property asset management company

Become a total support provider

Dividend Payout Ratio
30%

Forecasts for Sales



Note: The segment results shown for our Hotel Resort Business and Other Business are included within three strategic businesses and other businesses.

locations while aggressively developing and introducing new products and services.

Apartment leasing is a business that depends on inventory, and the quantitative expansion in apartment stocks described above is intended to increase our leverage in the market. At the same time, however, we recognize the need to establish a profit structure that is commensurate with the scale of our business. We are addressing this issue by taking steps to construct a basic management system for our core businesses —a so-called "ALM leasing system"—that is based on the concept of asset liability management (ALM, the comprehensive management of all assets and liabilities). Under this system, our apartment buildings will be considered assets on deposit from the apartment owners, and the aim of the system will be to organically fuse the vast amount of management and market data that we have accumulated over more than 20 years and utilize it to optimize returns from what will be a steadily expanding amount of deposit assets. From the beginning, our core business has been, at least in part, a financial service business providing asset management services for landowners. During phase I of the present plan, we intend to complete development of a highly sophisticated ALM leasing system that will be on a par with the systems used by megabanks. In phase II, the new system will become fully operational. The quantitative and qualitative strategies described above will place Leopalace21 firmly on track to significantly enhance the growth and earnings potential of its core businesses.

Promoting Our Three Strategic Businesses

Our Medium-Term Management Plan presents two visions for the development of the Company. The first involves our becoming a "Total Support Provider in the Housing Sector." During the fiscal year under review, 93.9% of our consolidated net sales were generated by our two core businesses. In the future, however, to realize the above vision we will need to maintain the present level of growth and earnings expansion in our core businesses while, at the same time, increasing the percentage contribution to net sales of our other businesses. This will require that we move the three strategic businesses that we have already established, namely, our Residential Business, Silver Business and Broadband Business, into full operation as soon as possible. The expansion of our core businesses will lead directly to an expansion in the market for our broadband services. As the number of apartment units we have under management approaches the 400,000 mark, the increase in the number of units with broadband connections, and a significant improvement in system functions, is rapidly driving up the media value of our service. As of the end of the fiscal year under review, some 302,000 people had signed up for our broadband services (an increase of 50% over the previous year). Net sales totaled ¥11,100 million (up 50% year on year), and the gross profit reached ¥850 million (a twofold year-on-year increase). This sharp rate of growth demonstrates that broadband, which began as a service department, is well on its way to becoming an important profit center. The Residential and Silver businesses, which are involved in the construction of residential housing and nursing care facilities for sale or direct management, are extensions of our core business model. They use our existing network of Apartment Construction Subcontracting and Leasing Business offices as well as the apartment units we have under management, and have easy access to building sites owned by our client apartment owners. This gives the Residential and Silver businesses a definite strategic advantage that in time can be exploited further. Indeed, both of these businesses have registered rapid growth despite only having started operating in January 2005. In the fiscal year ended March 2007, net sales of the Residential Business climbed to ¥14,150 million, those of the Silver Business's facility operations totaled ¥880 million, and those of its facility construction sector amounted to ¥4,460 million.

In the future, the continued expansion of our core business operations is expected to spur a corresponding growth in our three strategic businesses. One might say that the "Construction and Leasing Synergy Business Model" that originally guided the development of our core businesses is now evolving into a "Core Business and Strategic Business Synergy Model." We believe that this model will pave the way to the realization of the first vision outlined in our Medium-Term Management Plan, and enable us to become a "Total Support Provider in the Housing Sector."

Evolution into a Residential Property Asset Management Company

The second key vision described in the present Medium-Term Management Plan involves the transformation of Leopalace21 into a full-fledged residential property asset management company. By the end of the plan, we will have 600,000 apartment units under management. To effectively manage these apartments, which represent a huge amount of property assets, it is essential that we institute the ALM leasing system mentioned earlier. Further, as illustrated by the growth of real estate investment trusts (REITs) in this country, financial investors are becoming an increasingly important presence in the real estate market. This trend will force us to expand our business model from one that focuses on individual property and apartment owners to one that also targets the financial assets of institutional investors. During phase II of the plan, we will establish a LEO-REIT specializing in residential and commercial property asset management to serve the needs of these types of institutional investors. This will move us a step closer to becoming a finance-oriented business, and should greatly expand the synergies generated between our two core businesses as well as our core and strategic businesses, paving the way for the "Expansion through Synergy" stage envisioned for phase II of our Medium-Term Management Plan.

Corporate Governance and CSR

Leopalace21 recognizes that increasing corporate value is an important management goal for all its stakeholders, and to this end the Company is working to establish and reinforce its system of corporate governance. Moreover, we believe that it is important for us to take steps now to establish the management structures and systems we will need for governance of a business of the expanded scale we expect to achieve in the coming years. In June 2006, we reformed our management structure, adding a new Administrative Headquarters and a Management Planning Headquarters to our original Sales and Marketing General Headquarters. Under this new three-headquarters system, the Sales and Marketing General Headquarters oversees all marketing activities and helps promote corporate vitality. Meanwhile, the Administrative Headquarters has primary responsibility for all compliance-related issues, and the Management Planning Headquarters oversees risk control. We believe that this new structure will enable us to maximize our corporate performance within the framework of a compliance-based management system. In terms of corporate social responsibility (CSR), we believe that our business activities have a high public service component, since our business model allows landowners to make more effective use of their real estate assets, and serves society by making available to the renting public a new supply of high-quality housing. Our business is to make sure that the rental apartments we construct suit the needs and characteristics of the area in which they are built and, by securing high occupancy rates, we hope to contribute to the vitality of the local community. We do not build and then disappear; we conduct our business in such a way as to provide comprehensive support to people's lives. This is the most important way in which we aim to fulfill our CSR.

Corporate Slogan

In formulating our Medium-Term Management Plan, we came up with a corporate slogan that we believe expresses very well how we feel about the work ahead of us: "United Spirit: A Single Dream for a United Purpose." It reminds us that in our interactions—with our customers, shareholders, companies with which we do business, local communities we serve, people who work for us, and all other stakeholders—we must show a united spirit and demonstrate a shared determination to work together to create a corporate culture of excellence. We hope to make a "United Spirit" the foundation of our corporate culture, and we are confident that this spirit will help us to promote our businesses, take maximum advantage of their respective synergies, and enable the Company to evolve and create new corporate value. I look forward to the continued support and cooperation of our shareholders as we press forward toward our goals.

August 2007

Yoshiteru Kitagawa

Yoshiteru Kitagawa
President and CEO

What Strengths Set Leopalace21 Apart from the Competition?

In 1973, when the Japanese economy was reeling from the effects of the first oil shock, we set up Leopalace21 Corporation as a real estate brokerage with a staff of six and an office measuring only 23 square meters. Now, just over 30 years later, we have grown into a large company with annual net sales of ¥600 billion, and we expect to become a full-fledged major corporation with net sales of ¥1 trillion by the fiscal year ending March 2011.

Despite the difficult economic conditions, why have we been able to outperform our competitors and establish ourselves firmly at the top of the one-room studio apartment business in Japan?
In the following pages, we will answer this question as
we describe our rapid early expansion,
the adoption of a new business model that led to the start of
our Apartment Construction Subcontracting Business, and
our vision for the next stage in our corporate evolution.
By the time you have read the last page,
we hope you will understand what sets Leopalace21 apart from its competitors.

Chapter❶: Establishment and Early Growth

Achieving Growth by Defying Industry Conventions

■Japan's Housing Market

Leopalace21 offers sophisticated rental apartments as neglected rental housing reflects consumer preference or home ownership

Unlike the United States and the countries of Europe that have large stocks of high-quality used housing with long lifecycles, Japan has no tradition of people living in different houses at various stages of their lives. The Japanese believe in "owning one house for life," even if it means taking out a mortgage loan for an amount many times higher than their annual income and spending their entire working lives paying it back. The attachment to the notion of home ownership became even stronger during the period of rapid economic growth that Japan experienced from the 1950s through the mid-1970s. Rental housing was considered no more than a temporary expedient until it became possible to purchase a home, and as a result, very little attention was paid to improving the amenities and design of rental housing.

Severe housing shortages developed after World War II, as people increasingly moved to the cities. To remedy the shortages, policies were implemented emphasizing quantity over quality. As a result, a large supply of rather shabby rental housing was developed that proudly featured "one four-and-a-half tatami-mat room (about 7.5 square meters), shared toilet and kitchen." When Leopalace21 was established, these postwar apartments were already out of date. According to Yoshiteru Kitagawa, President and CEO of Leopalace21, "Single young people by that time had already become used to more comfortable material surroundings. There was a huge gap between the needs of these people and what was on the market."

President Kitagawa joined Leopalace21 in 1974, just one year after it had been founded, when he was still in his 20s. Devoting himself to his work as a real estate broker, he and other young staff members of the new company became keenly aware of the gap between supply and market needs. In an effort to meet those needs, the Company in 1985 introduced its new Leopalace21 urban-style, one-room rental apartment buildings that immediately became a huge hit. The buildings were sold as investment vehicles to cash-rich investors, and then leased back and managed by the Company. These rental apartments, with their attractive modern exteriors, and floor plans that included innovative loft spaces, proved wildly popular among single young people.

Yoshiteru Kitagawa
President, CEO and head of the Marketing and Sales Division, he came to Leopalace21 in 1974.

■Revolutionary New Rental System

"Cube System" demolishes real estate industry conventions

During this period, however, Japan's bubble economy was beginning to heat up, and competition within the real estate industry was intensifying. The founding members of Leopalace21 realized that they were not satisfied with the success they had achieved so far. They were looking ahead to new and bigger challenges. Young

A typical post-war Japanese apartment

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

Chapter❷: Transition to a New Business

members of the sales and marketing staff working on the front lines all over the country were asked to share and discuss a variety of new ideas and suggestions, and in the end they came up with the revolutionary idea of setting up a membership system for Leopalace21 renters. This Cube System (CS), was launched in 1987. Ordinarily, renting an apartment in Japan requires payment of a security deposit, key money, and realtor fees, so renters are forced to shoulder a large financial burden whenever they have to move. The CS eliminated this outdated system and made it possible for any member to move easily to or from Leopalace21 rental apartments anywhere in the country. President and CEO Kitagawa, looking back at that period, recalls, "As you may imagine, we encountered fierce industry opposition. At that time, construction, real estate brokerages, and building management were nearly always handled by separate companies. Under that system, if the customary deposits and fees were eliminated, it was thought that real estate brokers would go out of business. However, we were able to handle all three functions in-house, and we used the proceeds from construction sales contracts to cover realtor fees. This enabled us to reduce the initial financial burden on tenants, and it also helped us to grab a larger share of the market."

This CS was a major challenge to Japan's conventional, horizontally structured real estate practice that was not designed to be renter friendly. During this period, the Company became increasingly devoted to the idea of enriching people's lives by eliminating obsolete customs in the residential housing sector. We faced a great deal of opposition, with trade magazines even refusing to accept our advertisements. But, through our own public relations efforts and by utilizing television advertising, we achieved an occupancy rate of 98%.

Comparison with Conventional Apartments

	Conventional apartments	Leopalace21
Deposit	✓	
Key money	✓	
Realtor fee	✓	
Furniture/appliances		✓
Broadband		✓
Short-term rental (from two weeks)		✓

A Model with Leasing and Const

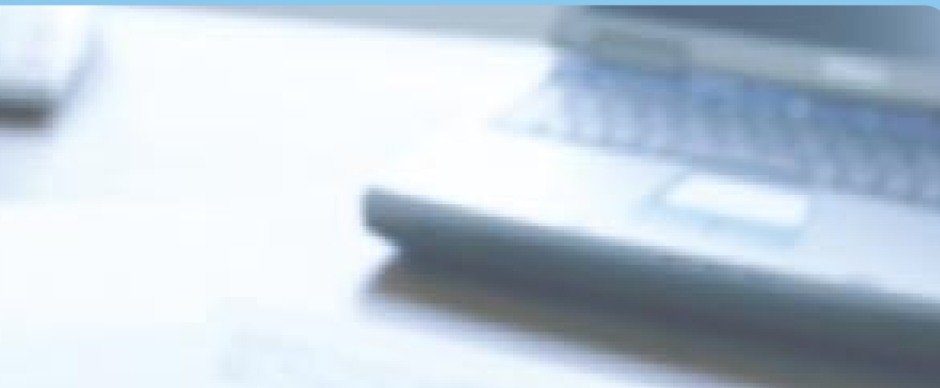
■Area Marketing

Emphasis on well-planned supply ensures new construction matches rental real estate market demand

The high occupancy rates achieved by Leopalace21 were due not only to our revolutionary new rental system, but also largely to extremely careful analysis of supply and demand. The Company performed regular, nationwide market surveys of rental demand and renter preferences, and planned new apartment construction accordingly. Tadahiro Miyama, a Leopalace21 director who is also in charge of the Apartment Construction Subcontracting Business, describes this method as "a supply system with brains." He explains further, "We have divided the country into more than 1,000 sections, and use the data collected by our Leasing Business offices in each area, as well as information gleaned from our proprietary Websites, to determine where we should construct new apartments and how many units are required to satisfy market demand. Although our business fundamentally revolves around leasing, this unique supply planning system supports our powerful business model by allowing us to maintain an optimal balance between new supply and market demand."

Leopalace21 has been developing its business model since 1993, when we began the transition from a company that constructed and sold apartment buildings to one that constructed apartments on behalf of landowners. This was a period when the government placed restrictions on loans for investment in real estate. As a result, it took a very long time to purchase new property, and made it difficult to create a new supply of rental apartments in those areas where demand was strongest. President and CEO Kitagawa, looking back on that time, says, "We all sat up night after night considering how to cope with this situation. What we came up with was a 'stock business model' in which we would seek to expand our stock of apartments using apartment buildings as deposit assets. All of our young staff members and I united around this concept

Tadahiro Miyama
Director and Head of the Construction Contracting Business Headquarters. Came to Leopalace21 in 1985.



Model (Part I)

ruction as Core Businesses

and were able to come up with concrete strategies for implementation of this new business model. One of these strategies was the 'area marketing' concept, which we still use today."

■Owner Support System

A total support system for apartment management

Another strategy we developed at that time was the introduction of a robust owner support system to supplement our careful market analysis, to ensure that new supply would match existing demand. According to Director Miyama, "It was because of our confidence in our ability to attract renters that we were able to develop our 'Build and Leaseback System,' which guarantees the apartment owner a rental income stream for as long as 30 years. Because we provide this guarantee, our project review process is quite severe, and if conditions are not satisfactory we will sometimes have to reject a project. Also, because we are the ones who will manage the property after construction, we have become known for our 'Tell No Lies' marketing approach."

Meeting of the Leopalace21 Owners Mutual Insurance Association

Leopalace21 building maintenance

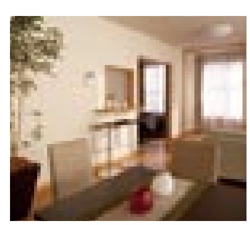
Today the sales staff we send out to market our system to landowners consists mostly of an eager group of young people in their early 20s. However, we do not rely on individual sales ability alone. We provide our staff with a common set of marketing tools to ensure that landowners fully understand how our business works. In addition, to make certain that all agreements are firmly grounded in mutual trust and understanding, the final stage of all negotiations is conducted by the executive staff member with responsibility for that particular region. As a result, our contract cancellation rate is one of the lowest in the industry.

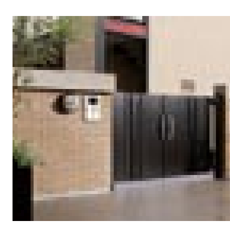
One more unique strategy that we implemented at the same time as our Build and Leaseback System was the establishment of the Leopalace21 Owners Mutual Insurance Association to help maintain long-term product marketability. Each apartment owner contributes a fixed sum each month to the Mutual Insurance Association, and these funds are to be used in the future to cover maintenance expenses. This measure enhances the stability of the apartment management business. We also handle maintenance operations and provide owners with a variety of apartment management support.

■Product Marketability

Quick response with new products to match renter preferences

We base our marketing approach to landowners on the superior marketability of our apartments that is due to their functionality and design, and the long product lifecycle that we can achieve through our integrated business approach. In recent years, we have gone further and have led the market in introducing new styles of apartments to meet specific renter demand. These apartments include ones that accept pets, 1LDK (one room plus a living room/dining room/kitchen) units targeting the DINKS (double income, no kids) market, and apartments with tighter security systems. These new products have, in turn, created new demand and are revitalizing apartment management for owners. Without rental demand, our Apartment Construction Subcontracting Business cannot succeed. This fact is central to our business model and is reflected in the motto, "Successful Leasing Operations Are Our Top Priority in the Apartment Business."





Eisei Miyama
Senior Managing Director, Head of Marketing for the Leasing Business Headquarters, Eastern Japan District, and Head of the Broadband Business Headquarters

A more convenient rental system and support services

Our Leasing Business also implemented a number of new strategies, including the introduction, in 1999, of "Monthly Leopalace" apartments designed to offer short-term accommodations. These are fully furnished apartments, complete with electric appliances—something then practically unheard of in the Japanese market. These short-term rentals quickly attracted users among traveling businessmen and company employees who had been transferred to locations at a distance from home.

We have also begun to introduce a variety of renter support services, including a living support system to enhance the comfort and security of people living alone, and a magazine exclusively for our members. Senior Managing Director Eisei Miyama, head of the Leasing Business Headquarters, describes his business as follows. "First we ascertain the needs of the market, then we develop products to meet those needs. It is our ability to do this, and to do so quickly, that has distinguished Leopalace21 from the very beginning. In 2001, we introduced an Internet Website that allowed renters to search for apartments, fill out applications, and conclude contracts entirely online, and in 2002 we began to offer renters a broadband service. Both of these strategic ideas were born out of a desire to meet the needs of our renters and offer them greater convenience. By creating new products and services, we continue to enhance our marketability."

Website that allows users to search for Leopalace apartments

Note: Leopalace21 has the only Website in the industry that allows users to conduct apartment searches in real time from mobile phones.

Leopalace21 members' magazine

■Corporate Contracts

Contracts with listed corporations ensure secure, stable, volume sales

One new area that we have developed successfully is the corporate market. When we first entered this market in 1996, most companies in the real estate industry were content to wait passively for corporate business to come to them. "Given these circumstances, we were certain that our rental system and our nationwide stock of apartments would give us an overwhelming advantage were we to target the corporate market," explains Senior Managing Director Miyama. Our system offered significant merit for corporations. It not only enabled them to cut costs by eliminating the need to pay conventional deposits, key money and realtor fees when renting apartments for transferred employees, but it also boosted their administrative efficiency by allowing them to pay all contract fees by means of a single bank deposit. As soon as we began marketing our services, one corporation after another signed contracts with Leopalace21.

Since the introduction of ready-to-occupy, fully furnished Monthly Leopalace apartments, and the creation of an Internet Website where renters can search for apartments and conclude rental agreements online, the marketability of our products has steadily increased, and the number of contracting client companies has grown. Today, corporate contracts account for more than 40% of Leopalace21's tenants.

Senior Managing Director Miyama points out that all the ideas behind the new marketing strategies and services came from the bottom up. "Our young executives are very active participants in our monthly nationwide meetings of leasing business representatives. Ideas that have proved successful in one region are often implemented nationwide. This demonstrates the importance we attach to our tradition of listening to the people on the front lines."

Chapter❸: The Next Stage in Our Evolution

Exploiting the Strengths of Our Business Model to Create New Markets and New Businesses

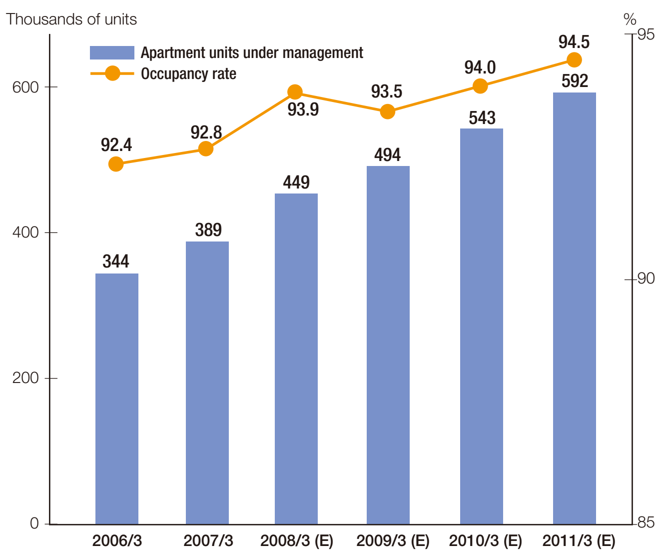
■Future Potential of the Leasing Market

Aggressive use of apartment stocks taps undeveloped markets

President and CEO Kitagawa describes the Company's vision for the future as follows. "Leasing drives growth, construction drives profits. We must solidly establish these as our twin core businesses." With the recovery of the Japanese economy, business travel is increasing, and corporate demand is expected to expand significantly. This is creating the opportunity to open up new markets. Looking ahead, President Kitagawa predicts, "In the future, more and more baby boomers (see note) are expected to travel regularly back and forth between cities and regional areas. This will present us with some interesting business opportunities. For example, we might be able to exploit our nationwide stock of apartments by introducing a system that allows baby boomers to stay at a series of different apartments as they travel." He is also bullish about demand from foreign visitors. Radiating enthusiasm he explained, "There is still a lot of resistance in Japan to renting to foreigners. This is a shame. We want to break down this barrier and create an environment where everyone is free to choose where they want to live. There is definitely business potential here."

Note: A large number of post-war baby boomers are expected to reach retirement age in 2007. The consumption habits of these retirees are a matter of much speculation.

Trend in Apartment Units under Management and Occupancy Rate



■A Vision of the Next Stage of Our Evolution

A residential property asset management company maximizing its capital asset returns

What is the future of our Apartment Construction Subcontracting Business? By the end of the present Medium-Term Management Plan in March 2011, we will have expanded the number of rental units we have under management to 600,000. However, we recognize that financial investors are starting to play a much more important role in the Japanese real estate market, as is demonstrated by the success of investment vehicles such as REITs. This new development in the market presents us with an excellent opportunity to take advantage of our experience managing apartment stocks held on deposit from landowners to create a new business model. Whereas our approach in the past has targeted individual landowners, we now have the opportunity to use the same methods to collect funds from institutional and other investors, to develop new properties with those funds, and increase our revenues from management fees. Our ultimate aim is to become a finance-related business.

To do this, we will need to further improve the returns generated by our apartment stocks. We will take an initial step in this direction in 2009, by developing a support infrastructure for property management, and by starting to train young staff members across the country as property asset fund managers. In addition to these steps designed to strengthen our core businesses, we are moving aggressively to get our three strategic businesses—Residential, Silver, and Broadband businesses—into full operation as quickly as possible. Each of these businesses is designed to take advantage of synergies with our core businesses. As President and CEO Kitagawa explains, "A variety of symmetries will allow us to develop a self-propagating business model that will serve as the foundation for yet another stage in our evolution in the next 10 to 20 years." We at Leopalace21 invite you to keep track of our progress.

Overview of Operations **Core Business**

Apartment Construction Subcontracting

Overall earnings growth linked to leasing

The core Apartment Construction Subcontracting Business is the foundation of Leopalace21's operations. Properties for lease are constructed on an owner's land, which Leopalace21 then manages and operates on the owner's behalf. We focus on the development and supply of units with a strong all-around appeal in terms of livability, design and amenities, offering a unique total support system for owners' leased-residence plans.

Leopalace21 has contracts with over 20,000 property owners and approximately 388,500 apartment units under management. An increase in contracts with owners generates an increase in leased units, driving expansion in our second core enterprise, the Leasing Business.

Marketing Power and Product Appeal Underpin Contract Growth

Sales in the Apartment Construction Subcontracting Business for the fiscal year ended March 2007 amounted to ¥316,117 million, a year-on-year increase of more than 60% adjusted for the fiscal-year lag between contracts and sales. The segment accounted for 50% of net sales, and together with the Leasing Business, for 94% of net sales (as of the end of the fiscal year under review). The segment is the driver behind our strong growth and profitability.

Leopalace21 is currently restructuring and strengthening the locations for its Apartment Construction Subcontracting Business. By the end of the fiscal year to March 2008, we plan to have a nationwide network of 127 locations that will further strengthen our region-based sales strategies. We will increase the number of sales staff skilled in asset management consulting, placing them throughout our network to enhance our consultation ability. We will also focus on introducing such new types of dwellings as 1LDK* units and high-security residences. Our steadily increasing contracts reflect Leopalace21's strategic marketing and attractive product development.

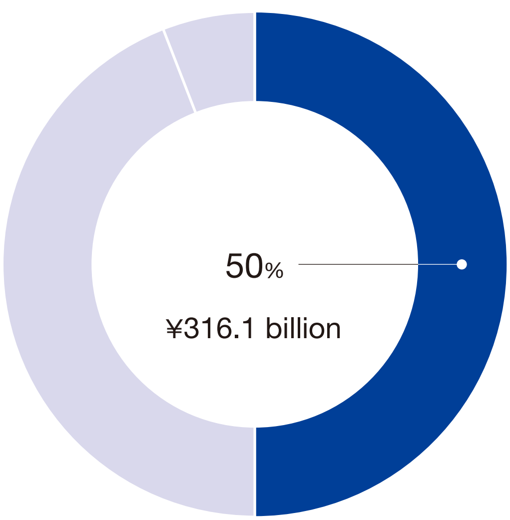
*One room plus a living room/dining room/kitchen.

Utilizing Area Marketing

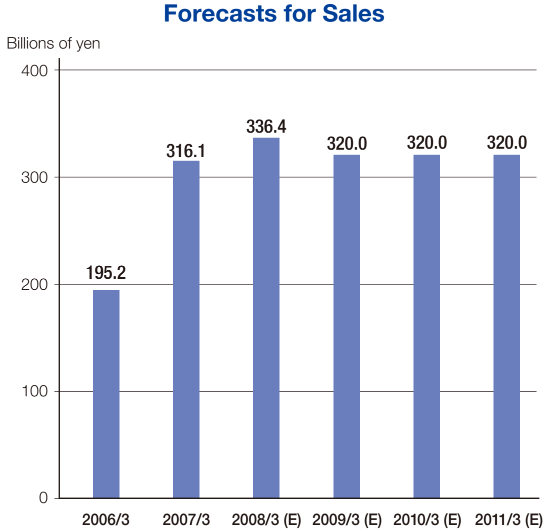
Leopalace21's sales efforts and new product development are guided by its in-depth area marketing. We have divided the country into 1,140 segments, where we conduct marketability and development surveys that take into account trends in population and leasing markets, as well as lifestyle-related facilities. This information is used to conduct sales activities based on whether an apartment is suitable for a particular site. We also survey and analyze the needs of prospective tenants, and quickly incorporate these into our product development. Through such area marketing-based strategies, our Leasing Business is able to maintain a high occupancy rate. The ability to offer owners long-term, stable income is one of our strengths, generating substantial synergies in the form of business expansion for our Apartment Construction Subcontracting Business, and securing revenue for the Leasing Business. This, in turn, raises the profitability of the entire company.

Sales

(Year ended March 31, 2007)



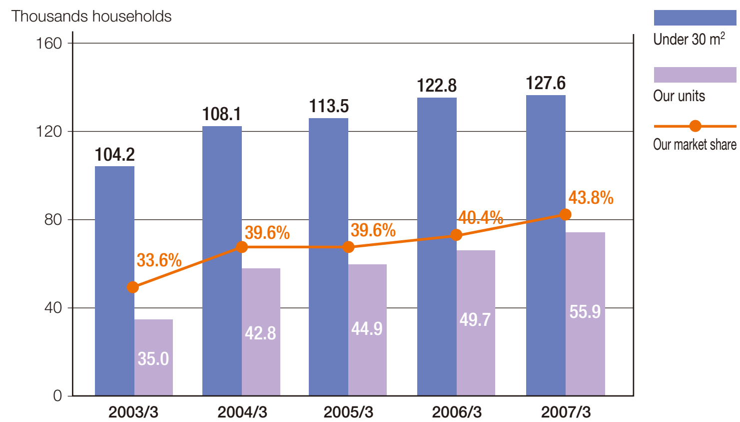
Forecasts for Sales



Market Trends

There has recently been an increase in the number of people seeking a new type of urban lifestyle, particularly young people in single households. There has also been growth in new demand from corporations for outsourcing of dormitories and company-owned housing. As a result, over the last few years there has been a notable rise in demand for leased units of less than 30 m^2, which is Leopalace21's mainstay product. Such units account for around a quarter of all lease residence housing starts. Leopalace21 accounts for an overwhelming market share representing more than 40% of all lease residence housing starts involving units of 30 m^2 or less.

New Residential Leaseholds under 30 m^2 and Our Market Share

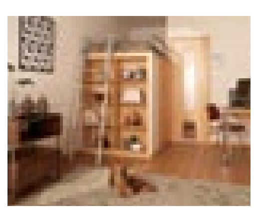


Source: Based on housing start statistics for the FY March 2007, Ministry of Land, Infrastructure & Transport and company report.

Topics

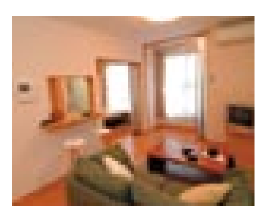
Innovative products expand opportunities for land development

On September 1, 2006 Leopalace21 introduced three new apartment products designed to meet the changing needs of urban renters. These new apartments offer living spaces that allow us to satisfy a more diverse range of renter needs than ever before, and are helping us to maintain high occupancy rates as we expand our rental customer base.



Leopalace21 Leo-with-style
This is Leopalace21's first "pet-friendly urban apartment." It incorporates a variety of features to enhance the experience of living with a pet in the urban environment.

Leopalace21 Villa Scelte
This is a superior urban-style apartment that ranks one step above our other products in terms of space and quality. The 1LDK design allows us to serve the needs of a wider range of the renting population.



Leopalace21 New Leovarious
This "New Standard Apartment" features two types of rooms, and serves a wide variety of lifestyles among both singles and DINKS.

Overview of Operations **Core Business**

Leasing

Quantitative growth and improved quality

The Leasing Business leases and manages properties, developed and supplied by the Apartment Construction Subcontracting Business, that are either leased buildings or properties developed on land purchased by Leopalace21. As one of Leopalace21's two core businesses, it seeks to maximize operating revenue by utilizing apartment buildings held on consignment from owners.

Leopalace21 has a nationwide network of properties with a new leasing system that requires no deposit or key money. It has allowed us to respond to the broad needs of prospective tenants, and to maintain an extremely high occupancy rate that provides a powerful incentive to landowners and helps expand the Apartment Construction Subcontracting Business.

Maintaining a High Occupancy Rate

Sales in the Leasing Business for the fiscal year ended March 2007 amounted to ¥277,163 million (44% of net sales), a year-on-year increase of more than 10%. One of the main factors behind this is a high occupancy rate of 92.8% (average over the fiscal year under review). We have established a multifaceted sales network that includes 280 Leopalace Center locations (four of which are overseas), and an online service to search the Company's entire network. We have maintained our high occupancy rate by offering a structure able both to instantly respond to a wide range of tenant needs and acquire tenants.

Based on the concept that apartment management exists where there is leasing, we are seeking new sources of demand focused on corporate sales ahead of the rising business demand expected as a result of the economic recovery. Amid steady growth in the Monthly Leopalace Flat plan, which allows for short-term stays for those on business trips or undergoing training, we are making efforts to develop a Corporate User System and increase the number of corporate sales locations. The number of corporations conducting business with Leopalace21 increased 15% year on year. We are also working with distance learning and credit card companies to develop sales promotion schemes for students, and to pioneer new markets. Through such measures, we will be able to maintain our high occupancy rate, and increase the number of apartment units under management.

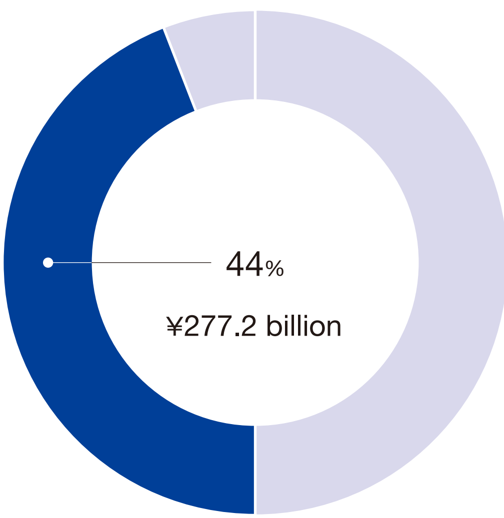
Strengthening Asset Management

The number of leased properties (units under management) at the end of the fiscal year ended March 2007, had increased by some 40,000 units year on year, for a nationwide total of around 388,500 units. This is a substantial asset for Leopalace21. We plan to increase this number to 600,000 units by the end of the fiscal year ending March 2011, as we push ahead with our quantitative expansion measures to develop such new markets as student and corporate demand.

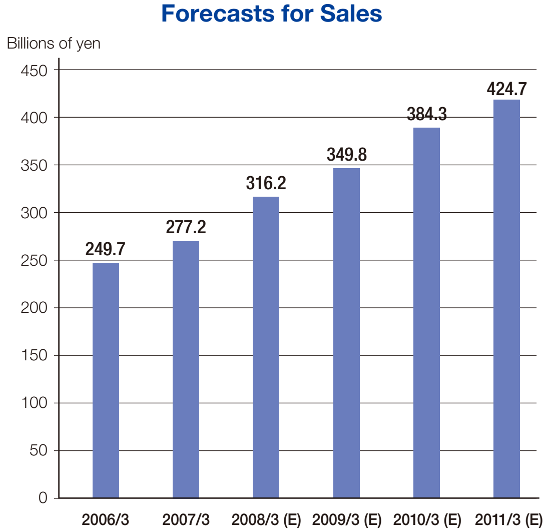
At the same time, we are also taking steps to improve quality by strengthening asset management. The central element of this effort is the creation of the ALM leasing system for the comprehensive management of assets and liabilities. We plan to invest ¥10 billion over three years to build a system that will organically merge the wealth of administrative data, accumulated during more than two decades of apartment operations, with external data, thus ensuring the optimal management of our custodial assets. We aim to become Japan's largest property asset management company, efficiently managing our extensive apartment stock at a standard on a par with that of a finance company.

Sales

(Year ended March 31, 2007)



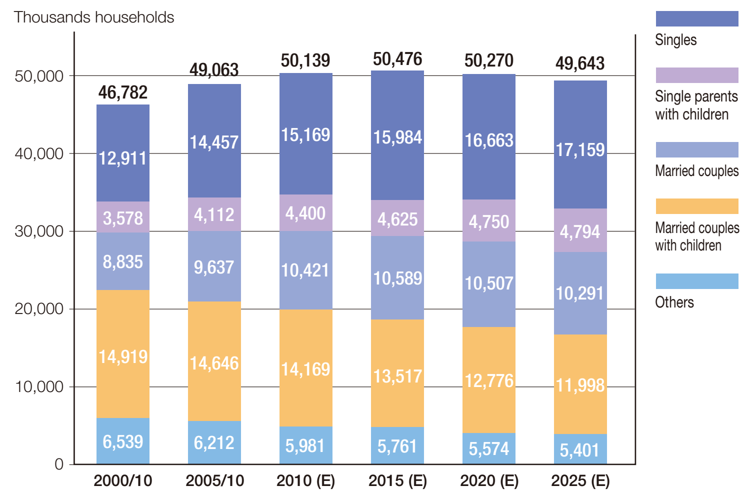
Forecasts for Sales



Market Trends

Looking at types of households in light of Japan's declining birthrate and aging population, by 2010 we expect the proportion of singles living alone to top 15.16 million, or 30.3% of all households. By 2025, the figure is expected to reach 17.15 million, or 34.6% of all households, as singles living alone quickly become a larger component of Japan's household structure. We anticipate long-term growth in the market demand for Leopalace21's one-room units.

Number of Households by Type



Source: Based on the 2005 Census and *2003 Number of Households and Future Estimates*, National Institute of Population.

Topics

New overseas offices, an increase in the number of foreign tenants

Our unique rental service, which eliminates the need for a guarantor, security deposits and key money, is also proving to be very convenient among foreign residents of Japan. An increasing number of exchange students are making use of our services. In order to provide better support for South Korean and Chinese exchange students, whose numbers have been growing rapidly in recent years, Leopalace21 opened its first overseas office in Seoul in 2002, followed by offices in Shanghai in 2004, and Taipei and Pusan in 2006. In April 2007, we opened a second office in Seoul, in the Chonro district. As a result, the number of foreign tenants is expanding steadily.

In 2006, a Leopold Center opened on the second floor of an office block in Pusan, following the establishment of our Seoul office.

Our first Leopold Center opened on the sixth floor of this Taipei building in 2006.

Residential, Silver and Broadband

Generating earnings through synergies with

The Residential, Silver and Broadband businesses are an extension of the two core businesses: Apartment Construction Subcontracting and Leasing. They utilize the existing infrastructure, including the apartment construction subcontracting and the leasing sales locations, leased properties and landowners to realize quick and efficient growth.

In 2006, Leopalace21 designated these businesses as strategic fields that will drive growth and generate new earnings, and began full-scale development. We plan to develop the Residential and Silver businesses nationwide to create revenue-generating divisions, and to achieve profitability from value-added services in the Broadband Business.

Residential Business: Targeting Second-Generation Baby Boomers

In its Residential Business, Leopalace21 develops and sells houses and condominiums as permanent residences utilizing the foundations and expertise of its core businesses to provide safe, versatile housing. Sales jumped from ¥1,743 million in the fiscal year ended March 2006 to ¥14,150 million in the fiscal year ended March 2007, and we expect growth to continue for a third consecutive year, forecasting ¥23,500 million for the fiscal year ending March 2008. Our main targets in this business are the second-generation baby boomers (born between 1971 and 1975). This group was estimated in 2005 to comprise approximately 6.3 million people, 64% of whom are concentrated in the Tokyo, Chubu and Kinki regions. We are, therefore, making a major push into the three major urban areas of Tokyo, Nagoya and Osaka in pursuit of efficient business growth. We are currently developing a LEO-REIT and other real estate securitization businesses.

Silver Business: Expansion in Major Urban Areas

In the Silver Business, Leopalace21 offers a variety of nursing care facilities and services to meet the needs of Japan's rapidly aging society, including the planning, development, management and operation of community-based elderly group homes, day-care services, nursing homes, and short-stay care facilities. Since many of the landowners targeted by the Apartment Construction Subcontracting Business, the source of contracts for care facilities for the elderly, as well as prospective tenants are elderly individuals, our sales efforts are tailored to focus on both demand and supply. We currently have 16 facilities in the Tokyo area, which generated sales of ¥2,434 million in the fiscal year ended March 2006, and ¥5,344 million in the fiscal year ended March 2007. We anticipate a third consecutive year of growth, forecasting sales of ¥10,000 million in the fiscal year ending March 2008. We will focus on the three major cities of Tokyo, Nagoya and Osaka, considering such options as business alliances and M&As to establish facilities as quickly as possible.

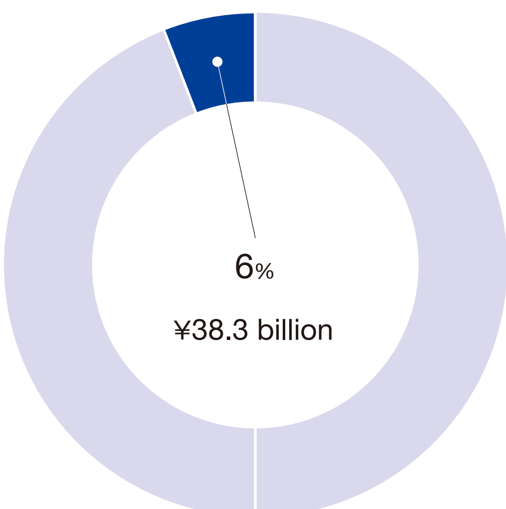
Broadband Business: A Substantial Market

In the Broadband Business, Leopalace21 offers a range of broadband services to the tenants of the lease properties it manages, including digital rental televisions, as well as satellite broadcast and Internet services. The set-top box (LEO-NET terminal) installed in each unit offers such convenient bidirectional communications as shopping, games, and research. This service had approximately 300,000 subscribers at the end of the fiscal year ended March 2007, with sales of ¥11.1 billion. Terminals had been installed in 83% of units under management, and as we have acquired more viewers with the annual increase in the number of units under management, the service is developing into a substantial market. By the end of the fiscal year ending March 2008, we anticipate there will be 350,000 subscribers, with sales rising to ¥14.5 billion. By 2011, we expect to have an extensive broadband stock linked to 600,000 units under management. We intend to use this to expand such business opportunities as corporate services utilizing advertising mediums and monitoring functions, and to pursue sales to hotels, hospitals and other external corporations.

core businesses

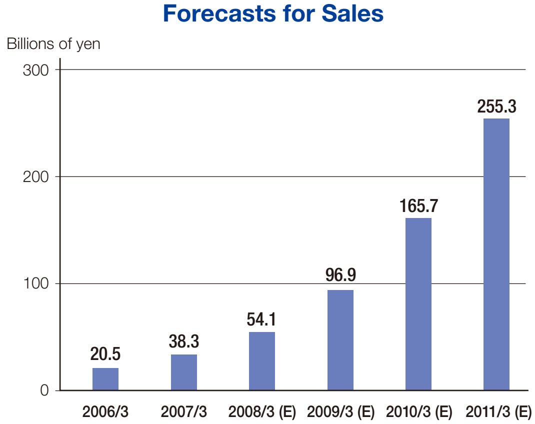
Sales

(Year ended March 31, 2007)



Note: The above sales figure includes segment results from our Hotel Resort Business and Other Business.

Forecasts for Sales

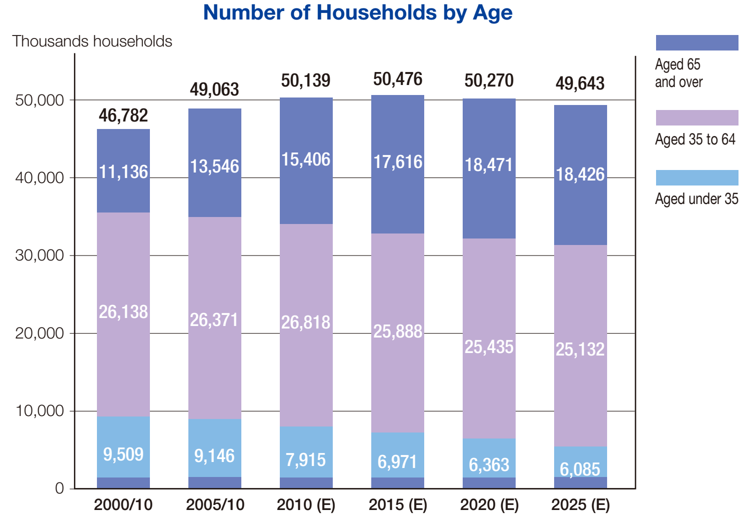


Note: The above sales figure includes segment results from our Hotel Resort Business and Other Business.

Market Trends

The graph on page 19 gives a breakdown of households by type. Those 65 years of age or older (the silver generation) are projected to exceed 30% of the population by 2010, and 37% by 2025. One in three households will be an elderly household, creating a huge market. Along with an increase in the number of customers for Leopalace21's Silver Business, we anticipate that our core Leasing Business will see more elderly tenants increasingly utilize leased properties for hobbies or nursing care.

Number of Households by Age

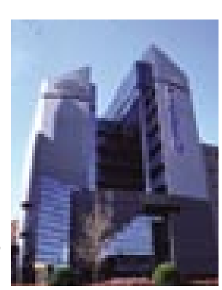


Source: Based on the 2005 Census and *2003 Number of Households and Future Estimates*, National Institute of Population.

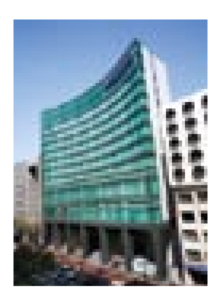
Topics

Our hotel business is also expanding

In addition to our Housing, Silver and Broadband businesses, Leopalace21 is pursuing a number of other businesses that take advantage of its core business know-how, particularly hotel and foreign resort management. Since 2001, when we opened the Hotel Leopalace Sapporo and the Hotel Leopalace Nagoya, we have been expanding our domestic hotel network. In April 2007, we opened our eighth facility in Japan, the Hotel Leopalace Hakata. Its quality, original design as well as broadband Internet and other facilities are helping it achieve a high occupancy rate.



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



Hotel Leopalace Hakata, with its innovative glass wall facade

Toward an Efficient, Fair and Transparent Management System

Basic Governance Policy

Establishment of a Three-Headquarters System

To ensure that we are able to continue to increase corporate value while at the same time meeting the expectations and advancing the mutual interests of all our stakeholders, the Company is taking steps to enhance corporate social responsibility (CSR) by reforming its system of corporate governance, and by training the human resources it needs to implement this system. In June 2006 we restructured our management by creating an Administrative Headquarters and a Management Planning Headquarters. These, together with the Sales and Marketing General Headquarters, form our three-headquarters system. Under this system, the Sales and Marketing General Headquarters is responsible for enhancing our corporate vitality, the Administrative Headquarters oversees corporate governance, and the Management Planning Headquarters handles all risk control issues as regards corporate governance and business operations. At the same time, we also drew up a "Corporate Code of Ethics" and took steps to familiarize our corporate executives and all the employees of our Group companies with its contents. In this way, we are doing our part to ensure that our business practices are ethically sound and in full compliance with all relevant legal standards.

President and CEO
Yoshiteru Kitagawa

Senior Managing Director
Eisei Miyama

Senior Managing Director
Akihiko Umeda

Executive Director of Management
Hitoshi Yamaguchi

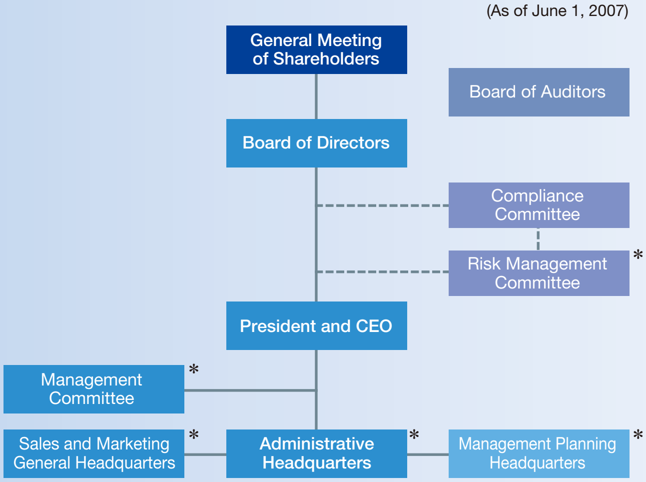
Director
Tadahiro Miyama

Establishment of Director and Auditor Systems

Leopalace21 has adopted director and auditor systems designed to help us significantly raise the level of our business performance by speeding up our decision-making process and enhancing our capacity to respond appropriately and rapidly to changes in our business or management environment. The Company's Board of Directors presently consists of 17 members (currently we have no external board members). In addition to its regularly scheduled monthly meetings, the Board holds special meetings whenever necessary to decide on matters of importance to the Company's management, and to ascertain the state of the Company's business operations. Further, an established Management Committee meets monthly to discuss and evaluate issues related to the implementation of business plans and policies. A Board of Auditors has been established that consists of four members, two of whom are appointed from outside the Company. The ability of the auditors to perform their functions has been strengthened by empowering them to attend meetings of the Board of Directors and to independently conduct investigations of business operations.

Organization Chart

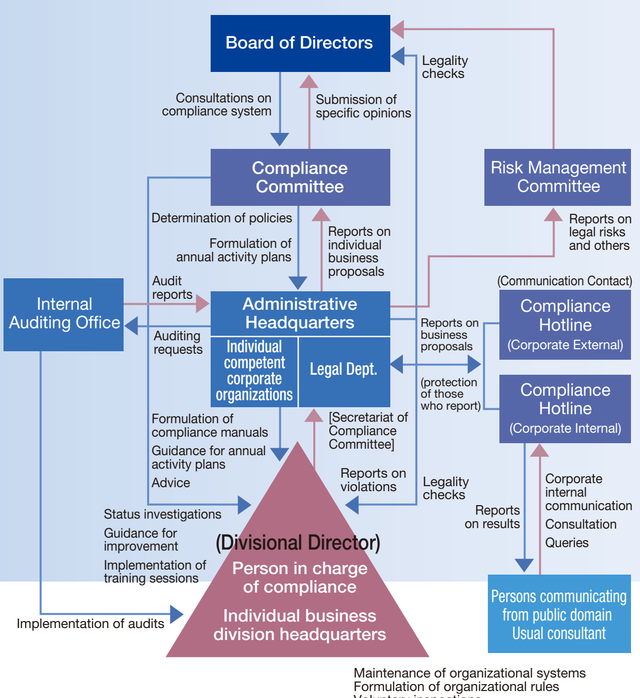
(As of June 1, 2007)



*New bodies

Compliance System and Risk Management

(As of June 1, 2007)



Strengthening of the Compliance Committee, and Creation of a Legal Department

The Company has taken steps to improve its compliance system by revising its compliance manuals, reforming its organization, and establishing both internal and external compliance hotlines. The Compliance Committee was updated by appointing the President and CEO of the Company as Committee Chairman and by recruiting several outside members. It now serves as an advisory body to the Board of Directors. The Administrative Headquarters is now the executive agency with primary responsibility for devising, constructing and maintaining a compliance-based management system. In order to effectively promote implementation of our compliance policies throughout all of our different business operations, a person responsible for compliance has been appointed at each of our three main headquarters, and a person in charge of compliance has been appointed at each of our business locations. Further, we have created a Legal Department within the Administrative Headquarters to improve internal supervision.

A More Robust Risk Management System

A Risk Management Committee, headed by the Board Member in charge of the Management Planning Headquarters, was created in June 2006 to comprehensively monitor and manage risk on a company-wide basis. This committee is responsible for establishing risk management guidelines, and monitoring their implementation. It also organizes and conducts training sessions for employees, and submits reports on risk to the Board of Directors on a quarterly basis. Further, an Internal Auditing Office has been created that reports directly to the President and works with corporate auditors to monitor the status of risk management at each of our divisions, and reports its findings to the Board of Directors and to the Compliance Committee. It also provides feedback to the Administrative Headquarters and helps find ways to correct or to develop strategies for dealing with risk issues. If any legal violation or other activity is discovered, these are now reported immediately to the Risk Management Committee and to the relevant business department. The system also mandates various activities to promote understanding of risk management issues at all Group companies, as well as training programs for employees to help them better recognize and understand the problem of risk.

Socially Responsible Business Activities and Corporate Attitudes

Pursuing CSR While Striving to Increase Corporate Value

Our corporate philosophy calls for us to "Create New Value," and the business model we have created and are promoting is one in which our business activities, by their very nature, enhance our CSR. Our two core businesses of Apartment Construction Subcontracting and Leasing provide a two-fold service to society by promoting a more efficient use of land resources on the one hand, and by creating a supply of high-quality rental housing on the other. Further, our strategic Residential, Silver, and Broadband businesses present even further land-use options to landowners, while contributing to the improvement of our social infrastructure. These strategic businesses target not only young single people in their 20s, but also provide a variety of lifestyle support services to a wide range of other age groups, ranging from businessmen and students to senior citizens requiring nursing care.

Video intercom systems

Business Activities "Friendly to Both People and the Environment"

Leopalace21 places great emphasis on making sure that its business activities help people and are friendly to the environment. For example, we have taken a series of steps to improve the security and convenience of our rental facilities by introducing card keys (September 2000), video intercom systems (April 2004), security glass (April 2006), and automatic lock gates (October 2006). We have also introduced several other support services designed to increase the peace of mind of our renters, such as a "Residential Emergency Service" for plumbing and other problems, and a "24-Hour Medical Consultation Service" to provide health-related advice on an around-the-clock basis. We also take great care in the selection of the wall coverings and furniture used in our apartments to avoid the use of formaldehyde and other substances associated with sick-house syndrome.

Helping Athletes Achieve Their Dreams through Sports Promotions

Through its various businesses, Leopalace21 has followed its dream of finding new ways of providing "Homes for People." We are also helping a group of athletes to achieve their dreams by sponsoring a women's softball club. This club was organized in November 2001 and currently competes in the First Women's League of Japan Softball Association. The team has quickly developed into a perennial candidate for league champion, and some of its members have even participated in the Olympic Games as members of the Japanese national team. We also help to sponsor a swimming association, as well as beach volleyball competitions.

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
	2007	2006	2005	2004	2003	2002	**2007**
For the year:							
Net sales	**¥631,608**	¥465,387	¥476,267	¥422,224	¥360,369	¥297,584	**$5,350,348**
Apartment Construction Subcontracting	**316,117**	195,202	248,033	225,011	190,217	150,843	**2,677,824**
Leasing	**277,163**	249,696	216,591	188,864	162,766	136,924	**2,347,845**
Hotel Resort	**7,141**	8,340	7,282	5,759	5,928	7,043	**60,491**
Other	**31,187**	12,149	4,361	2,590	1,458	2,774	**264,188**
Cost of sales	**474,713**	353,928	357,546	313,085	268,857	220,807	**4,021,291**
Selling, general and administrative expenses	**80,888**	70,684	64,039	57,468	46,986	42,202	**685,200**
Operating profit	**76,007**	40,775	54,682	51,671	44,526	34,575	**643,857**
Net income (loss)	**37,358**	(16,582)	33,262	20,960	20,464	19,902	**316,459**
At year-end:							
Total assets	**¥454,820**	¥412,804	¥453,434	¥421,164	¥410,340	¥374,397	**$3,852,771**
Total net assets	**185,785**	133,622	149,798	81,420	68,309	46,078	**1,573,779**
Amounts per share:							
Total net assets	**¥1,054.99**	¥839.44	¥941.06	¥585.82	¥492.06	¥373.69	**$8.94**
Net income (loss)	**234.68**	(104.17)	220.79	150.91	160.56	164.53	**1.99**
Cash dividends	**50.00**	15.00	15.00	15.00	15.00	0.00	**0.42**
Ratios:							
Equity ratio (%)	**37.0**	32.4	33.0	19.3	16.6	12.3	
Return on equity (ROE) (%)	**24.8**	(11.7)	28.8	28.0	35.8	62.5	
Return on assets (ROA) (%)	**8.6**	(3.8)	7.6	5.0	5.2	5.5	
Number of employees	**7,409**	6,868	6,457	5,702	4,385	4,228	

Notes: 1. U.S. dollar amounts are translated from yen at the rate of ¥118.05 = US$1, the approximate rate prevailing at March 31, 2007.
2.The amounts of total net assets for the years ended March 2002, 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.

Net Sales

The Leopalace21 Group (hereinafter referred to as the Group) consists of Leopalace21 Corporation, eight consolidated subsidiaries and two equity-method affiliates. Its two core businesses are Apartment Construction Subcontracting and Leasing. Consolidated net sales for the fiscal year ended March 31, 2007 (the fiscal year under review) rose 35.7% year on year to ¥631,608 million. By segment, sales of the Apartment Construction Subcontracting Business rose 61.9% year on year to ¥316,117 million, and of the Leasing Business increased 11.0% to ¥277,163 million. Sales of the Hotel Resort segment were down 14.4% from a year earlier to ¥7,141 million, while sales of the Other segment saw a 156.7% increase to ¥31,187 million.

As a proportion of sales, the Apartment Construction Subcontracting Business accounted for 50.0% (up 8.1 percentage points year on year), the Leasing Business for 43.9% (down 9.8 percentage points), the Hotel Resort segment 1.1% (down 0.7 percentage point), and the Other segment 4.9% (up 2.3 percentage points). The Apartment Construction Subcontracting Business accounted for a particularly high proportion of sales growth because construction of several properties had been completed at the end of the previous fiscal year, generating a significant lag between the conclusion of contracts and the recording of sales. This pushed up figures for total sales and year-on-year growth, but even adjusting for the time lag, the Group achieved revenue increases.

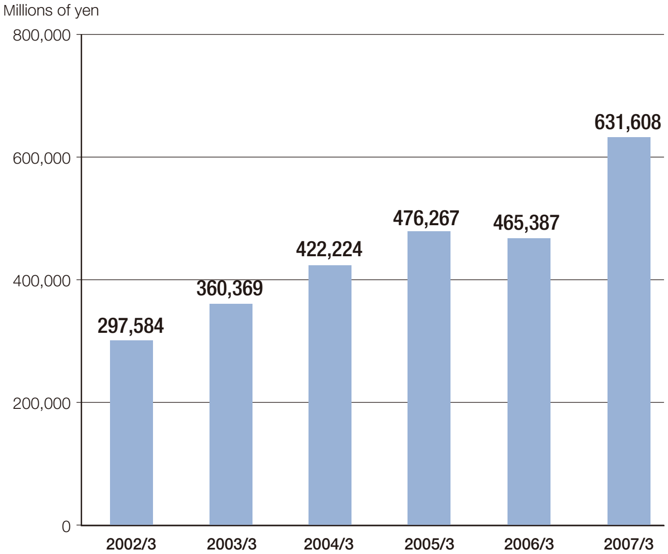
Earnings

The cost of sales, following the rise in net sales, increased 34.1% year on year to ¥474,713 million. By segment, the cost of sales for the Apartment Construction Subcontracting Business rose 61.8% to ¥209,395 million, and for the Leasing Business increased 12.0% to ¥228,119 million. The combined cost of sales for the Hotel Resort and Other segments rose 78.3% year on year to ¥37,197 million. As a proportion of the cost of sales, the Apartment Construction Subcontracting Business accounted for 44.1% (up 7.5 percentage points year on year), the Leasing Business 48.1% (down 9.4 percentage points), and the Hotel Resort and Other segments for a combined 7.8% (up 1.9 percentage points). Because the year-on-year growth in the cost of sales was less than that in net sales, the gross profit margin rose 0.9 percentage point from the previous fiscal year to 24.8%.

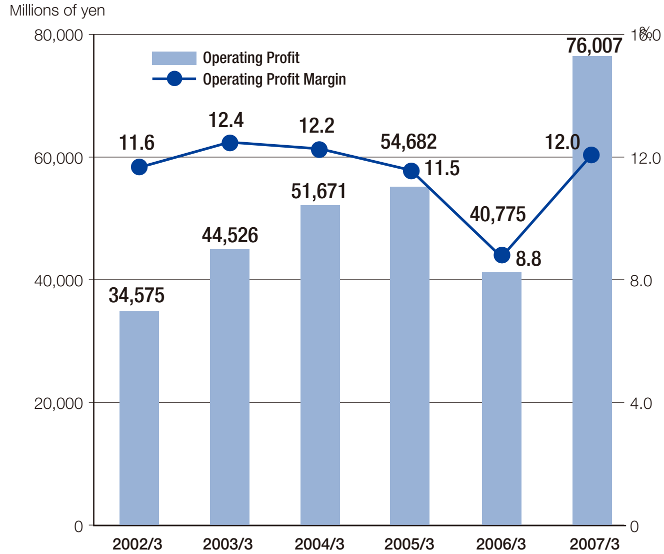
Selling, general and administrative (SG&A) expenses rose 14.4% year on year to ¥80,888 million. Because this was less than the year-on-year growth in net sales, SG&A expenses as a proportion of net sales decreased 2.4 percentage points from the previous fiscal year to 12.8%. As a result, the operating profit rose 86.4% year on year to ¥76,007 million, with the operating profit margin up 3.2 percentage points year on year to 12.0%.

The balance of other income (expenses) was net other expenses of ¥6,677 million for the fiscal year to March 2007, compared with net other expenses of ¥63,518 million for the previous fiscal year. The main factor underlying

Net Sales



Operating Profit and Operating Profit Margin

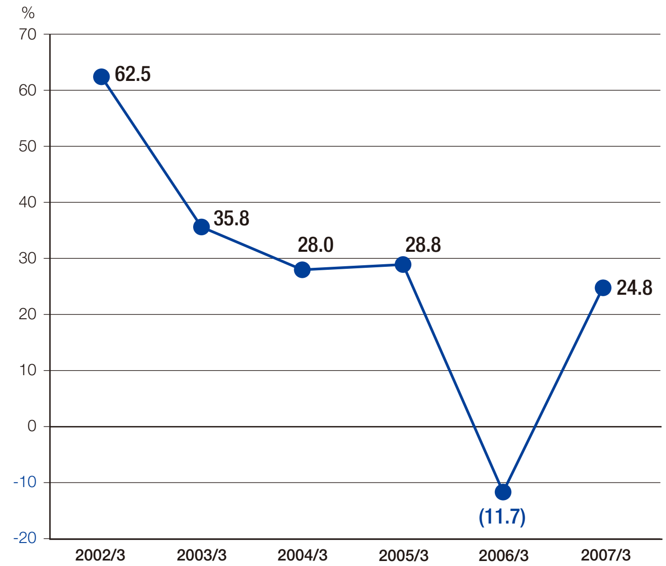


Note: Decline in operating profit and operating profit margin for the year ended March 31, 2006 is the result of the postponement of scheduled construction contract.

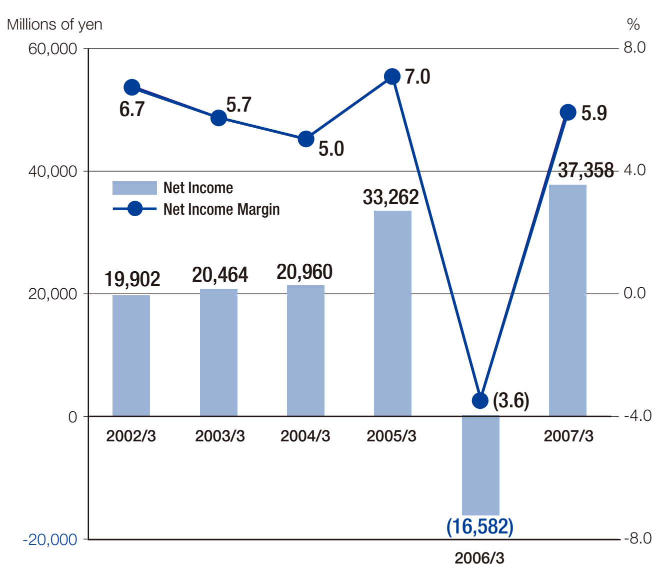
the relative improvement was the decline in impairment loss, which fell from ¥65,481 million in the previous fiscal year to ¥3,009 million for the fiscal year to March 2007. This relative improvement more than offset a decline in foreign exchange gain from ¥4,780 million a year earlier to ¥501 million, and a deterioration in equity in earnings of affiliated companies, which worsened from a gain of ¥513 million in the previous fiscal year to a loss of ¥2,321 million. As a result, income before income taxes and minority interests for the fiscal year under review amounted to ¥69,330 million (compared to a net loss of ¥22,743 million in the previous fiscal year). Net income totaled ¥37,358 million (compared to a net loss of ¥16,582 million in the previous fiscal year).

Return on assets (ROA) was 8.6% (compared to -3.8% in the previous fiscal year), and ROE 24.8% (compared to -11.7% a year earlier). Dividends paid for the fiscal year ended March 2007 totaled ¥50.00 per share (an interim dividend of ¥15.00 and a year-end dividend of ¥35.00), an increase of ¥35.00 per share from the previous fiscal year. The payout ratio was 21.3%, but could not be calculated for the previous fiscal year because of the net loss.

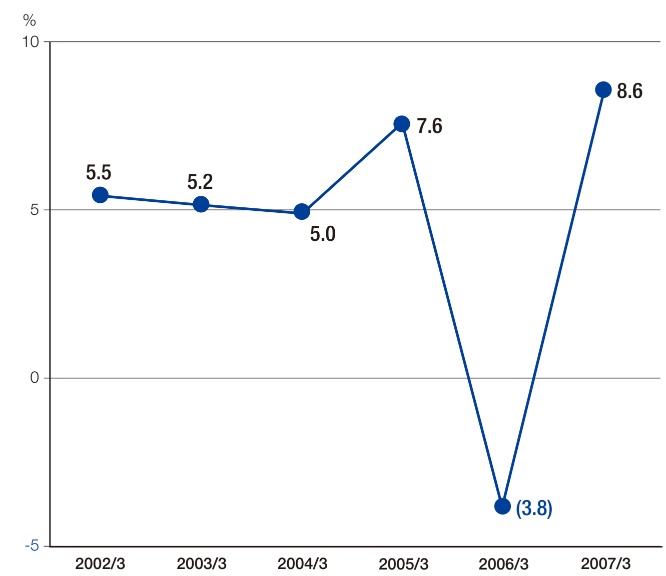
ROE



Net Income and Net Income Margin



ROA



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

Segment Information

Apartment Construction Subcontracting

Sales in Apartment Construction Subcontracting, one of the Group's two core businesses, rose 61.9% year on year to ¥316,117 million. The Group restructured and strengthened its sales locations based on its regional strategies, and continued to steadily conclude contracts by introducing new products, including 1LDK* apartments, and buildings with enhanced security. Contract volume rose 10.1% year on year to ¥340,606 million, with the balance of contracts on hand rising 10.9% to ¥248,685 million. There were 127 sales locations at the end of the fiscal year ended March 2007, up nine from the end of the previous fiscal year.

The operating profit increased 89.1% year on year to ¥74,614 million, with the operating profit margin up 3.4 percentage points to 23.6%. 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 11.0% year on year to ¥277,163 million. At the end of the fiscal year to March 2007, there were 388,500 apartment units under management, a year-on-year increase of 44,000 units. Measures to increase the occupancy rate saw a 0.4 percentage point hike to 92.8%.

The operating profit decreased 13.0% year on year to ¥7,031 million, with the operating profit margin down 0.7 percentage point to 2.5%. The main reason for the profit decrease was anticipatory investments to expand sales locations and personnel numbers to strengthen corporate sales and cover the expected future increase in the number of units under management. Impairment losses declined significantly, from ¥16,971 million in the previous fiscal year to ¥3,009 million.

Hotel Resort

Sales in the Hotel Resort segment decreased 14.4% year on year to ¥7,141 million, and the segment recorded an operating loss of ¥2,628 million (compared to ¥2,667 million in the previous fiscal year). The Group's integrated sports resort in Guam, Leopalace Resort Manenggon Hills Guam, maintained a stable operating status, but room renovations at the Westin Resort Guam had a negative impact on sales. In October 2006, the Group sold the Trianon Palace, a Westin Hotel in France. Impairment losses had been ¥47,132 million in the previous fiscal year, but no losses were recorded for the fiscal year ended March 2007.

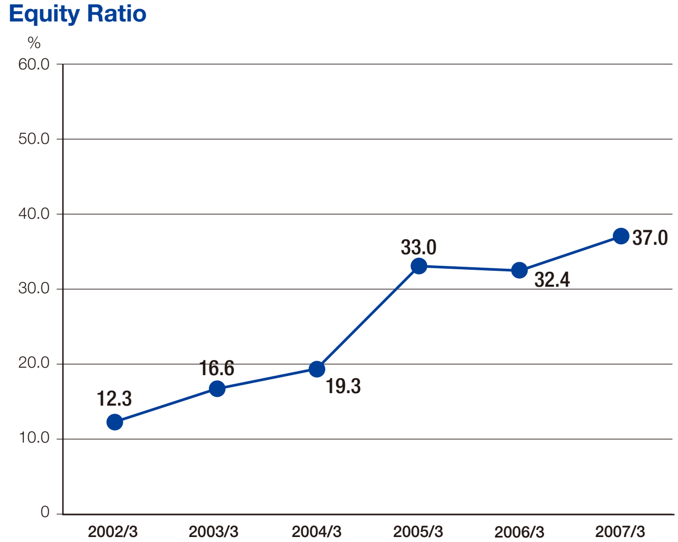
Other

The Other segment consists of residential and other real estate sales—a strategic division for the Group—together with the Silver, Broadband, and Finance businesses. Sales in this segment jumped 156.7% over those of the previous fiscal year to ¥31,187 million, with an operating profit of ¥1,091 million (compared to an operating loss of ¥394 million in the previous fiscal year). The Group is pursuing full-scale development of the residential housing business in the Tokyo metropolitan, Kyoto-Osaka-Kobe and Nagoya metropolitan areas. The Silver Business had 16 care facilities for the elderly in the Tokyo metropolitan region as of the end of the fiscal year ended March 2007. In the Broadband Business, subscriber numbers are rising steadily.

Financial Position

Total current assets increased ¥23,037 million from the end of the previous fiscal year to ¥186,556 million. Increases consisted mainly of ¥30,554 million in cash and cash equivalents, ¥20,242 million in real estate for sale/property inventories, and ¥21,819 million in prepaid expenses, while decreases consisted mainly of ¥1,924 million in operating loans, ¥26,347 million in inventories, and ¥5,751 million in deferred tax assets. Total fixed assets plus total investments and other assets rose ¥18,979 million from the end of the previous fiscal year to ¥268,264 million. Increases consisted mainly of ¥11,039 million in land and ¥9,692 million in long-term prepaid expenses, while decreases consisted mainly of ¥3,040 million in net buildings and structures, and ¥3,113 million in investment securities. As a result, total assets at the end of the fiscal year ended March 2007 were up ¥42,016 million from the end of the previous fiscal year to ¥454,820 million.

Equity Ratio



Total current liabilities increased ¥11,239 million from the end of the previous fiscal year to ¥216,914 million. Increases consisted mainly of ¥9,117 million in advances received and ¥22,598 million in accrued income taxes, while decreases consisted mainly of ¥4,138 million in short-term borrowings and ¥18,531 million in customer advances for projects in progress. Total long-term liabilities decreased ¥3,734 million from the end of the previous fiscal year to ¥52,121 million. Increases consisted mainly of ¥2,986 million in retirement benefit reserves for directors, while decreases consisted mainly of ¥7,215 million in long-term borrowings. As a result, total liabilities for the fiscal year ended March 2007 were up ¥7,505 million from the end of the previous fiscal year to ¥269,035 million.

Total net assets amounted to ¥185,785 million at the end of the fiscal year under review, an increase of ¥52,163 million from total shareholders' equity of ¥133,622 million at the end of the previous fiscal year. By the same comparison, with minority interests from the previous fiscal year added to shareholders' equity, the year-on-year increase in net assets was ¥34,511 million. The equity ratio for the fiscal year ended March 2007 was 40.8%, up 8.4 percentage points from the previous fiscal year. With minority interests subtracted from net assets, the equity ratio was 37.0%.

Cash Flows

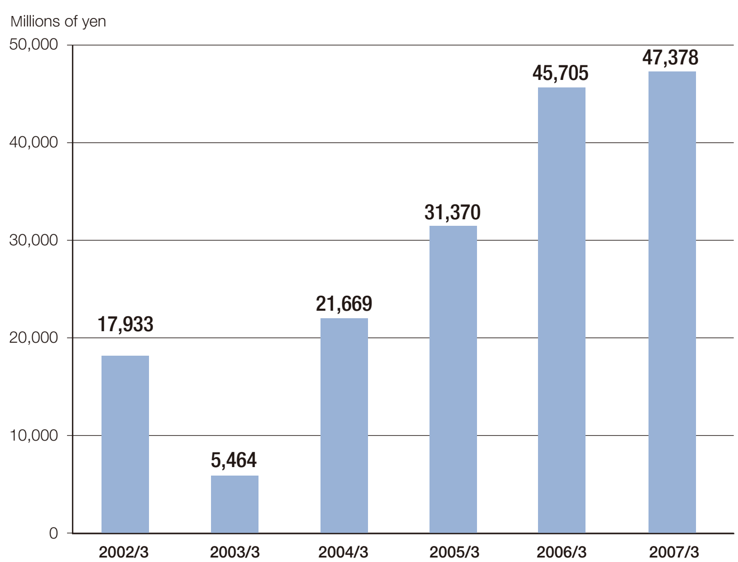
Net cash provided by operating activities amounted to ¥63,308 million, a net increase of ¥6,336 million over the previous fiscal year. Net inflows included ¥69,330 million from income before income taxes and minority interests (up ¥92,073 million year on year) and ¥26,431 million from a decrease in work in process (up ¥26,431 million), against net outflows that included ¥18,554 million from an increase in real estate for sale (up ¥18,554 million), and ¥12,367 million from an increase in long-term prepaid expenses (up ¥5,021 million).

Net cash used in investing activities amounted to ¥15,930 million, a net increase of ¥4,664 million from the previous fiscal year. Cash payments mainly comprised ¥21,830 million for purchases of tangible fixed assets (up ¥8,637 million year on year), and ¥1,100 million for the purchase of affiliates' stock (up ¥1,100 million).

Net cash used in financing activities amounted to ¥17,019 million, a net decrease of ¥30,928 million compared to the previous fiscal year. Some ¥32,454 million was used to repay short-term debt (up ¥3,889 million year on year), and ¥22,656 million to repay long-term debt (down ¥20,048 million).

Consequently, with the addition of ¥195 million resulting from exchange rate fluctuations, cash and cash equivalents at the end of the fiscal year ended March 2007 stood at ¥75,167 million, an increase of ¥30,554 million over the previous fiscal year.

Free Cash Flows



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 MDI 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

The majority 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

Because the Leopalace21 Group owns rental real estate and resort-related properties, tangible fixed assets account for a relatively high proportion (45.6%) of our total assets. We make every effort to sell idle assets or under-performing 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.

Loan Losses, and Provision for Bad Debt

The Company conducts financing activities, and carries on its books a balance for apartment construction loans and other types of operating loans receivable. However, since the fiscal term ended March 31, 1992, the Company has primarily focused on collection of existing loans and credit management operations. 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, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
ASSETS			
Current assets			
Cash and cash equivalents (Note 6)	**¥ 75,167**	¥ 44,613	**$ 636,738**
Trade receivables and accounts receivable for completed projects	**9,594**	8,114	**81,273**
Operating loans	**8,502**	10,426	**72,020**
Real estate for sale/property inventories	**27,766**	7,524	**235,204**
Inventories	**9,541**	35,888	**80,823**
Prepaid expenses	**21,819**	—	**184,829**
Deferred tax assets (Note 12)	**5,077**	10,828	**43,007**
Other accounts receivable	**22,075**	22,565	**187,000**
Other	**8,305**	25,049	**70,340**
Allowance for doubtful accounts	**(1,290)**	(1,488)	**(10,927)**
Total current assets	**186,556**	163,519	**1,580,307**
Fixed assets (Note 9, 10, 13)			
Land	**118,255**	107,216	**1,001,739**
Buildings and structures	**124,648**	129,255	**1,055,891**
Construction in progress	**4,398**	1,964	**37,252**
Other	**12,129**	13,207	**102,745**
Accumulated depreciation	**(52,318)**	(55,129)	**(443,183)**
Total fixed assets	**207,112**	196,513	**1,754,444**
Investments and other assets (Note 13)			
Intangible assets	**569**	580	**4,824**
Investment securities (Note 7)	**7,934**	11,047	**67,212**
Long-term loans	**2,281**	2,931	**19,324**
Deferred tax assets (Note 12)	**3,074**	1,902	**26,040**
Long-term accounts receivables (Note 11)	**2,125**	2,835	**18,002**
Long-term prepaid expenses	**42,728**	33,036	**361,944**
Other	**5,016**	3,505	**42,489**
Allowance for doubtful accounts	**(2,575)**	(3,064)	**(21,815)**
Total investments and other assets	**61,152**	52,772	**518,020**
Total assets	**¥454,820**	¥412,804	**$3,852,771**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
LIABILITIES AND NET ASSETS			
Current liabilities			
Account payable including payables for completed projects	**¥ 77,392**	¥ 81,231	**$ 655,588**
Short-term borrowings (Note 13)	**17,645**	21,783	**149,471**
Accrued income taxes	**27,021**	4,423	**228,896**
Advances received	**46,744**	37,627	**395,969**
Customer advances for projects in progress	**23,530**	42,061	**199,319**
Allowance for employees' bonuses	**2,799**	2,487	**23,709**
Other	**21,783**	16,063	**184,525**
Total current liabilities	**216,914**	205,675	**1,837,477**
Long-term liabilities			
Long-term debt (Note 13)	**35,515**	42,730	**300,845**
Retirement benefit reserves (Note 14)	**4,111**	3,246	**34,825**
Retirement benefit reserves for directors	**2,986**	—	**25,298**
Reserve for rents due on leaseback agreements	**534**	—	**4,523**
Lease/guarantee deposits received	**8,975**	9,802	**76,026**
Other	**—**	77	**(2)**
Total long-term liabilities	**52,121**	55,855	**441,515**
Total liabilities	**269,035**	261,530	**2,278,992**
Net assets			
Shareholders' equity			
Share capital	**55,641**	—	**471,331**
Authorized: 250,000,000 shares			
Issued: 159,543,915 shares			
Capital surplus	**34,105**	—	**288,902**
Retained earnings	**85,700**	—	**725,964**
Treasury stock—164,521 shares	**(97)**	—	**(818)**
Valuation and translation adjustments			
Net unrealized gains on "other securities"	**532**	—	**4,507**
Translation adjustments	**(7,737)**	—	**(65,547)**
Minority interests	**17,641**	—	**149,440**
Total net assets	**185,785**	—	**1,573,779**
Total liabilities and net assets	**¥454,820**	—	**$3,852,771**
Minority interests	**—**	17,652	**—**
Contingent liabilities (Note 22)			
Shareholders' equity			
Share capital	**—**	55,641	**—**
Authorized: 250,000,000 shares			
Issued: 159,543,915 shares			
Capital surplus	**—**	33,760	**—**
Retained earnings	**—**	53,123	**—**
Net unrealized gains on "other securities"	**—**	715	**—**
Translation adjustments	**—**	(9,419)	**—**
Treasury stock—383,850 shares	**—**	(198)	**—**
Total shareholders' equity	**—**	133,622	**—**
Total liabilities, minority interests and shareholders' equity	**—**	¥412,804	**—**

Consolidated Statements of Operations

Leopalace21 Corporation and consolidated subsidiaries
For the years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
Net sales	**¥631,608**	¥465,387	**$5,350,348**
Cost of sales	**474,713**	353,928	**4,021,291**
Gross profit	**156,895**	111,459	**1,329,057**
Selling, general and administrative expenses	**80,888**	70,684	**685,200**
Operating profit	**76,007**	40,775	**643,857**
Other income (expenses)			
Interest income	**50**	54	**427**
Gain on sales of investment securities	**166**	126	**1,409**
Equity in earnings of affiliated companies	**(2,321)**	513	**(19,659)**
Valuation gain on interest-rate swap	**123**	233	**1,039**
Foreign exchange gain	**501**	4,780	**4,247**
Gain on sales of affiliates' stock	**2,515**	32	**21,304**
Gain on sales of affiliates' bonds	**1,119**	—	**9,482**
Interest expenses	**(1,333)**	(2,301)	**(11,290)**
Other financial expenses	**(606)**	—	**(5,134)**
Gain on sales of property, plant and equipment (Note 15)	**7**	13	**61**
Loss on sales of property, plant and equipment (Note 16)	**(17)**	(11)	**(140)**
Loss on disposal of property, plant and equipment (Note 17)	**(216)**	(453)	**(1,827)**
Impairment loss (Note 9)	**(3,009)**	(65,481)	**(25,489)**
Loss on devaluation of investment securities	**(210)**	—	**(1,782)**
Transfer to allowance for bad debt	**(710)**	(831)	**(6,018)**
Provision for accrued retirement benefits for directors	**(2,790)**	—	**(23,631)**
Provision for accrued rents on leaseback properties	**(446)**	—	**(3,779)**
Other, net	**500**	(192)	**4,214**
Income (loss) before income taxes and minority interests	**69,330**	(22,743)	**587,291**
Income taxes			
Income tax—current	**26,438**	992	**223,956**
Income taxes—deferred	**4,662**	(8,024)	**39,494**
Minority interests	**872**	871	**7,382**
Net income (loss)	**¥ 37,358**	¥ (16,582)	**$ 316,459**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

Leopalace21 Corporation and consolidated subsidiaries
For the year ended March 31, 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

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, 2006	$471,331	$285,978	$450,007	$(1,676)	$1,205,640	$6,053	$(79,783)	$(73,730)	$149,525	$1,281,435
Cash dividend by appropriation of retained earnings			(20,251)		(20,251)					(20,251)
Cash dividend			(20,251)		(20,251)					(20,251)
Net income			316,459		316,459					316,459
Purchases of treasury stock				(23)	(23)					(23)
Sales of treasury stock		2,924		881	3,805					3,805
Net change of items other than shareholders' equity						(1,546)	14,236	12,690	(85)	12,605
Total change during period	—	2,924	275,957	858	279,739	(1,546)	14,236	12,690	(85)	292,344
Balance as of March 31, 2007	$471,331	$288,902	$725,964	$ (818)	$1,485,379	$4,507	$(65,547)	$(61,040)	$149,440	$1,573,779

The accompanying notes are an integral part of these statements.

	Millions of yen
	2006
Capital surplus:	
Balance at beginning of year	¥33,760
Balance at end of year	¥33,760
Retained earnings:	
Balance at beginning of year	¥72,097
Cash dividends	(2,391)
Net loss	(16,583)
Balance at end of year	¥53,123

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Leopalace21 Corporation and consolidated subsidiaries
For the years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Cash flows from operating activities			
Income (loss) before income taxes and minority interests	¥69,330	¥(22,743)	$587,291
Depreciation expenses	4,560	4,565	38,624
Increase (decrease) in allowance for doubtful accounts	160	1,737	1,351
Increase (decrease) in retirement benefit reserves for directors	2,986	—	25,298
Interest and dividend income	(136)	(256)	(1,155)
Interest expense	1,333	2,518	11,290
Foreign exchange gain	(501)	(4,780)	(4,247)
Equity in earnings of affiliated companies	2,321	(513)	19,659
Loss on sale of tangible fixed assets	17	11	140
Write-offs of tangible fixed assets	216	453	1,827
Impairment loss	3,009	65,481	25,489
Gain on sales of affiliates' stock	(2,515)	(32)	(21,304)
Gain on sales of affiliates' bonds	(1,119)	—	(9,482)
Gain on sales of investment securities	(166)	(126)	(1,409)
Loss on devaluation of investment securities	210	—	1,782
Decrease (increase) in accounts receivable	914	42,238	7,743
Decrease (increase) in inventories	—	(39,213)	—
Decrease (increase) in real estate for sale	(18,554)	—	(157,174)
Decrease (increase) in work in process	26,431	—	223,893
Decrease (increase) in long-term prepaid expenses	(12,367)	(7,346)	(104,757)
Increase (decrease) in accounts payable	(2,571)	(10,209)	(21,783)
Increase (decrease) in customer advances for projects in progress	(18,532)	33,329	(156,981)
Increase (decrease) in advances received	9,093	9,295	77,030
Increase (decrease) in guarantee deposits received	(780)	(1,761)	(6,609)
Increase (decrease) in accrued consumption taxes	2,923	(1,166)	24,761
Other	2,766	699	23,461
Sub-total	69,028	72,181	584,738
Interest and dividends received	130	229	1,099
Interest paid	(1,290)	(2,356)	(10,931)
Income taxes paid	(4,560)	(13,082)	(38,624)
Net cash provided by operating activities	63,308	56,972	536,282
Cash flows from investing activities			
Payment for purchase of tangible fixed assets	(21,830)	(13,193)	(184,922)
Proceeds from sales of tangible fixed assets	9	914	75
Fees paid related to sale and disposal of tangible fixed assets	(119)	(35)	(1,010)
Payment for purchase of affiliates' stock	(1,100)	—	(9,318)
Proceeds from sales of affiliates' stock (Note 16)	4,110	—	34,812
Proceeds from sales of affiliates' bonds	2,881	—	24,401
Payment for purchase of investment securities	(792)	(2,828)	(6,712)
Proceeds from sales of investment securities	1,001	2,836	8,477
Payment for loans made	(1,379)	(1,381)	(11,680)
Proceeds from collection of loans	3,647	2,843	30,891
Other	(2,358)	(422)	(19,957)
Net cash used in investing activities	(15,930)	(11,266)	(134,943)
Cash flows from financing activities			
Proceeds from short-term debt	34,190	17,750	289,623
Repayments for short-term debt	(32,454)	(28,565)	(274,918)
Proceeds from long-term debt	13,000	10,681	110,123
Repayments for long-term debt	(22,656)	(42,704)	(191,915)
Proceeds from issuance of privately placed bonds	—	13,260	—
Payments for purchase depreciation on privately placed bonds	(2,007)	(13,667)	(17,000)
Payments for redemptions of privately placed bonds	(1,435)	(1,435)	(12,156)
Dividends paid for minority shareholders	(873)	(874)	(7,399)
Payment for purchases of treasury stock	(3)	(2)	(23)
Dividends paid for shareholders	(4,781)	(2,391)	(40,503)
Net cash used in financing activities	(17,019)	(47,947)	(144,168)
Effect of exchange rate changes on cash and cash equivalents	195	1	1,654
Net increase (decrease) in cash and cash equivalents	30,554	(2,240)	258,825
Cash and cash equivalents at beginning of year	44,613	46,853	377,913
Cash and cash equivalents at end of year (Note 6)	¥75,167	¥ 44,613	$636,738

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

Leopalace21 Corporation and consolidated subsidiaries
For the years ended March 31, 2007 and 2006

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 ¥118.05 = US$1.00, the current rate on March 31, 2007.

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, 2007 include the accounts of the Company and its 8 (9 as of March 31, 2006) 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 2 affiliates have been included as of March 31, 2007 and 2006. 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 ten 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 three 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.

(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 three years using the straight-line method.

(9) Long-term prepaid expenses
Long-term prepaid expenses are amortized using the straight-line method mainly over three 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.

(Additional information)
Previously, the Company recognized the expenses of retirement benefits for directors when those benefits were paid. As the internal regulations for directors were set in the year ended March 31, 2007, the Company changed its accounting policy to recognize retirement benefit reserves for directors based on the Company's internal regulations regarding the payment of retirement benefits to directors.

As a result, expenses in the current fiscal year of ¥196 million (US$1,667 thousand) were recognized as selling, general and administrative expenses and expenses in the past fiscal year of ¥2,789 million (US$23,630 thousand) were recognized as other expenses. Operating profit decreased ¥196 million (US$1,667 thousand) and income before income taxes and minority interests decreased ¥2,986 million (US$25,297 thousand), in comparison with the result under the previous method of accounting. The influence to the segment information is described in Note 18.

(14) Reserve for rents due on leaseback agreements
In the leasing business the Company recognizes the reserve for rents due on leaseback agreements to prepare for the losses from the rental agreements in bulk. This is calculated based on the estimation of the excess amount of rental expense to lessor than rental income from lessee in the term of agreements.

(Change in accounting policy)
In the leasing business, the excess amount of the rental expense to lessor than rental income from lessee had been the period cost since such properties had been less compared to the all properties. But as it is estimated that these properties will be more significant, the Company changed to recognize the reserve for rents due on leaseback agreements based on the reasonable estimation of excess amount of rental expense to lessor than rental income from lessee in the term of agreements.

As a result, expenses in the current fiscal year of ¥87 million (US$743 thousand) were recognized as cost of sales and expenses in the past fiscal year of ¥446 million (US$3,779 thousand) were recognized as other expenses. Operating profit decreased ¥87 million (US$743 thousand) and income before income taxes and minority interests decreased ¥533 million (US$4,522 thousand). The influence to the segment information is described in Note 18.

(15) 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.

(16) 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.

(17) 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.

(18) Interest capitalization
MDI 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 ¥2,763 million (US$23,412 thousand) as of March 31, 2007.

(19) 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 straight-line method for five years.

(20) 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

Accounting standard for presentation of net assets in balance sheet
The Companies have adopted "Accounting Standard for Presentation of Net Assets in the Balance Sheet" ("Business Accounting Standard No. 5, December 9, 2005") and "Guidance for Accounting Standard for Presentation of Net Assets in the Balance Sheet" ("Guidance for Business Accounting Standard No. 8, December 9, 2005"). If "Shareholders' equity" were calculated using the conventional method, "Shareholders' equity" on the consolidated balance sheet for the year ended March 31, 2007 would be ¥168,143 million (US$1,424,339 thousand).

5. Changes in Presentation

Consolidated balance sheet
An amount posted under "Prepaid expenses" was included in "Others" in "Current assets" up to the previous term. Due to its increased significance, however, the amount is reported separately for the reporting term.

"Prepaid expenses" would have amounted to ¥18,824 million (US$159,461 thousand) for the previous term under the current classification.

Consolidated statements of operations
An amount posted under "Other financial costs" was included in "Other, net" in "Other income (expenses)" up to the previous term. Due to its increased significance, however, the amount is reported separately for the reporting term.

"Other financial costs" would have amounted to ¥271 million (US$2,299 thousand) for the previous term under the current classification.

Consolidated statements of cash flows
Amounts posted under "Decrease (increase) in real estate for sale" and "Decrease (increase) in cost for contract work in progress" were included in "Decrease (increase) in inventories" up to the previous term. Due to its increased significance, however, the amount reported separately for the reporting term.

"Decrease (increase) in real estate for sale" and "Decrease (increase) in amount received for uncompleted works" would have amounted to -¥7,046 million (-US$59,694 thousand) and -¥32,001 million (-US$271,080 thousand) for the previous term under the current classification.

6. 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 flow.

7. Securities and Investment Securities

(a) At March 31, 2007 and 2006, information with respect to held-to-maturity securities for which market prices were available was summarized as follows:

	Millions of yen		
March 31, 2007	Balance sheet amount	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)

	Millions of yen		
March 31, 2006	Balance sheet amount	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	501	496	(5)
Subtotal	501	496	(5)
Total	¥501	¥496	¥ (5)

	Thousands of U.S. dollars		
March 31, 2007	Balance sheet amount	Market value	Unrecognized gain (loss)
Unrecognized gain items:			
Government and municipal bonds, etc.	$ —	$ —	$—
Corporate bonds	—	—	—
Other	4,235	4,236	1
Subtotal	4,235	4,236	1
Unrecognized loss items:			
Government and municipal bonds, etc.	—	—	—
Corporate bonds	—	—	—
Other	4,244	4,199	(45)
Subtotal	4,244	4,199	(45)
Total	$8,479	$8,435	$(44)

(b) Marketable securities classified as "other securities" as of March 31, 2007 and 2006 were as follows:

	Millions of yen		
March 31, 2007	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

	Millions of yen		
March 31, 2006	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥ 563	¥1,710	¥1,147
Bonds:			
Government and municipal bonds, etc.	13	13	0
Corporate bonds	—	—	—
Other	—	—	—
Other	204	239	35
Subtotal	780	1,962	1,182
Securities whose acquisition cost exceeds their carrying value:			
Stock	—	—	—
Bonds:	—	—	—
Government and municipal bonds, etc.	183	180	(3)
Corporate bonds	—	—	—
Other	—	—	—
Other	610	536	(74)
Subtotal	793	716	(77)
Total	¥1,573	¥2,678	¥1,105

	Thousands of U.S. dollars		
March 31, 2007	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	$ 4,284	$11,600	$7,316
Bonds:			
Government and municipal bonds, etc.	—	—	—
Corporate bonds	—	—	—
Other	—	—	—
Other	869	887	18
Subtotal	5,153	12,487	7,334
Securities whose acquisition cost exceeds their carrying value:			
Stock	—	—	—
Bonds:			
Government and municipal bonds, etc.	1,761	1,750	(11)
Corporate bonds	—	—	—
Other	—	—	—
Other	4,240	4,215	(25)
Subtotal	6,001	5,965	(36)
Total	$11,154	$18,452	$7,298

The companies recognized ¥210 million (US$1,782 thousand) of loss on devaluation of investment securities in mutual funds in the year ended March 31, 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, 2007 and 2006 were ¥3,868 million (US$32,770 thousand) and ¥743 million, respectively. Gross realized gains on these sales were ¥1,234 million (US$10,451 thousand) for the year ended March 31, 2007, and gains and losses were ¥126 million and ¥1 million, respectively, for the year ended March 31, 2006.

(d) Securities without market value as of March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Available for "other securities":			
Unlisted securities	**¥ 718**	¥ 706	**$ 6,080**
Unlisted bonds			
Bonds with warrants	—	1,200	—
Subordinated bonds	**824**	824	**6,982**
Foreign bonds	—	500	—
Others			
Subordinated trust beneficiary right in loans receivable and money claims	**508**	496	**4,302**
Investments for limited partnership in investment business	**536**	500	**4,537**
Other	—	143	—
Total	**¥2,586**	¥4,369	**$21,901**

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

	Millions of yen			
March 31, 2007	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

	Millions of yen			
March 31, 2006	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.	¥13	¥180	¥ —	¥ —
Corporate bonds	—	—	—	2,024
Other	—	—	301	195
Other	—	477	695	996
Total	¥13	¥657	¥996	¥3,215

	Thousands of U.S. dollars			
March 31, 2007	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.	$254	$1,496	$ —	$ —
Corporate bonds	—	—	—	6,982
Other	—	—	2,547	5,887
Other	—	810	7,942	4,298
Total	$254	$2,306	$10,489	$17,167

(f) Investments in securities include investments in unconsolidated subsidiaries and affiliates ¥2,220 million (US$18,810 thousand).

8. Derivative Transactions

Derivative transactions for the years ended March 31, 2007 and 2006 were as follows:

		Millions of yen			
March 31, 2007		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)

		Millions of yen			
March 31, 2006		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	¥20,000	¥10,000	¥(143)	¥(143)

		Thousands of U.S. dollars			
March 31, 2007		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	$84,710	$—	$(168)	$(168)

(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.

9. Long-Lived Assets

(a) 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)	Impairment loss (Thousands of U.S. dollars)
Rental assets (94 blocks of apartments)	Buildings and structures	Meguro ward, Tokyo	¥ 624	$ 5,284
	Land		2,385	20,205

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 (US$25,489 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, 2006.

Purpose	Category	Location	Impairment loss (Millions of yen)
Rental assets (268 blocks of apartments)	Buildings and structures	Bunkyo ward, Tokyo	¥ 2,513
	Land		14,458
Idle assets (3 land)	Land	Higashi Kagawa City, Kagawa Prefecture	1,378
Business assets (Resort facilities)	Buildings and structures	Trust territory of U.S.A. Guam	34,815
	Construction in progress		7,514
	Long-term prepaid expenses		4,803

The Companies recognized each property in domestic rental assets and idle 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, continuous decline in land prices, and downturn in profitability in resort business, to recoverable amounts and recognized the reduced values as impairment losses of ¥65,481 million.

Recoverable amounts of rental assets and buildings and structures in business 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%.

Recoverable amounts of assets other than the above were measured by net sale values, which were calculated based on real-estate appraisal value and market data value.

10. Change from Fixed Assets to Real Estate for Sale

¥1,687 million (US$14,293 thousand) land which had been categorized as fixed assets was changed to real estate for sale due to possession purpose changed since the year ended March 31, 2007.

11. Long-Term Accounts Receivable

Long-term accounts receivable at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Claim in bankruptcy	**¥ 50**	¥ 59	**$ 424**
Claim in the process of bankruptcy	**4**	75	**32**
Long-term accounts receivable	**1,224**	2,701	**10,370**
Others	**847**	—	**7,176**
Total	**¥2,125**	¥2,835	**$18,002**

12. Deferred Tax Assets and Liabilities

(a) Significant components of deferred tax assets and liabilities as of March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Deferred tax assets:			
Impairment loss	**¥24,207**	¥23,444	**$205,055**
Loss carried forward for tax purposes	**13,759**	24,821	**116,553**
Accrued business tax	**2,060**	453	**17,448**
Retirement benefit reserves	**1,673**	1,314	**14,170**
Devaluation loss on fixed assets	**1,630**	1,630	**13,805**
Retirement benefit reserves for directors	**1,215**	—	**10,294**
Allowance for employees' bonuses	**1,139**	1,012	**9,647**
Advances from customers for rent income	**853**	772	**7,224**
Deposits received	**491**	270	**4,159**
Accounts payable	**441**	273	**3,733**
Allowance for doubtful accounts	**428**	1,118	**3,626**
Excess depreciation	**343**	207	**2,906**
Evaluation loss on real estate for sale	**255**	255	**2,163**
Elimination of unrealized loss	**228**	—	**1,933**
Reserves for rents due on leaseback agreements	**217**	—	**1,840**
Excess depreciation on software	**144**	187	**1,221**
Devaluation loss on securities	**60**	60	**511**
Bad debt loss	**56**	104	**477**
Other	**209**	181	**1,770**
Sub-total	**49,408**	56,101	**418,535**
Less: valuation allowance	**(40,819)**	(42,922)	**(345,779)**
Total deferred tax assets	**8,589**	13,179	**72,756**
Deferred tax liabilities:			
Net unrealized gain on "other securities"	**(365)**	(449)	**(616)**
Other	**(73)**	—	**(3,093)**
Total deferred tax liabilities	**(438)**	(449)	**(3,709)**
Net deferred tax assets	**¥ 8,151**	¥12,730	**$ 69,047**

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

	2007
Statutory tax rate	**40.69%**
Non-deductible expenses including entertainment expenses	**2.37%**
Valuation allowances	**1.97%**
Equity in earnings of affiliates	**1.36%**
Inhabitant tax	**0.29%**
Dividends excluded from taxable income	**-0.73%**
Gain on sales of affiliates' bonds	**-1.15%**
Others	**0.06%**
Effective income tax rate	**44.86%**

Reconciliation of the differences between the statutory tax rate and the effective income tax rate for the year ended March 2006 is not shown due to loss before income taxes and minority interests.

13. Short-Term Borrowings and Long-Term Debt

(a) Short-term borrowings and long-term debt at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Short-term borrowings	**¥ 3,778**	¥ 2,042	**$ 32,007**
Current portion of long-term debt	**13,867**	19,741	**117,464**
Long-term debt	**35,515**	42,730	**300,845**
Total	**¥53,160**	¥64,513	**$450,316**

(b) Assets pledged as collateral for short-term borrowings and long-term debt at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Buildings and structures	**¥15,164**	¥22,991	**$128,458**
Land	**46,667**	61,150	**395,312**
Investment securities	**92**	91	**783**
Others in Investments and other assets (Membership right)	**420**	420	**3,558**
Total	**¥62,343**	¥84,652	**$528,111**

(c) The aggregate annual maturities of long-term debt subsequent to March 31, 2007 are summarized as follows:

For the year ending March 31	Millions of yen	Thousands of U.S. dollars
2009	¥20,440	$173,145
2010	7,368	62,414
2011	4,688	39,712
2012 and thereafter	3,019	25,574

14. 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, 2007 and 2006 for the Companies' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Projected benefit obligation	**¥(4,645)**	¥(3,812)	**$(39,350)**
Unrecognized actuarial gain or loss	**534**	566	**4,525**
Retirement benefit reserves	**¥(4,111)**	¥(3,246)	**$ 34,825**

The Company joins to a welfare pension fund. In the welfare pension fund, they can not reasonably calculate the portion of the pension assets that attributes to the Company.

The pension assets that attribute to the Company based on the contribution ratio was ¥17,367 million (US$47,115 thousand) and ¥15,050 million (US$127,486 thousand) as of March 31, 2007 and 2006.

(b) The components of retirement benefit expenses for the years ended March 31, 2007 and 2006 were outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Service cost	**¥2,270**	¥2,006	**$19,226**
Interest cost	**84**	68	**707**
Amortization of actuarial gain or loss	**164**	141	**1,393**
Total	**¥2,518**	¥2,215	**$21,326**

(Note)1. Contribution to welfare pension fund was ¥1,518 million (US$12,859 thousand) and ¥1,353 million (US$11,466 thousand) in the year ended March 31, 2007 and 2006.
2. All the retirement benefit expenses of the domestic consolidated subsidiaries that adopt compendium method were recoded in service cost.

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

Assumptions used in accounting for retirement benefits	**2007**	2006
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

15. Gain on Sales of Property, Plant and Equipment

Gain on sales of property, plant and equipment for the year ended March 31, 2007 and 2006 consisted as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Buildings and structures	**¥—**	¥ 8	**$—**
Others	**7**	5	**61**
Total	**¥ 7**	¥13	**$ 61**

16. Loss on Sales of Property, Plant and Equipment

Loss on sales of property, plant and equipment for the year ended March 31, 2007 and 2006 consisted as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Land	**¥—**	¥11	**$ —**
Others	**17**	0	**140**
Total	**¥ 17**	¥11	**$140**

17. Loss on Disposal of Property, Plant and Equipment

Loss on disposal of property, plant and equipment for the year ended March 31, 2007 consisted as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Buildings and structures	**¥ 56**	¥438	**$ 475**
Others	**44**	15	**365**
Construction in progress	**116**	—	**987**
Total	**¥216**	¥453	**$1,827**

18. Main Components of Assets and Liabilities Excluded from Consolidated Financial Statements

Main components of assets and liabilities of a subsidiary, Trianon Palace that was excluded from consolidation due to sales of shares, sale value and net cash in-flow by the sales in the year ended March 31, 2007 were as follows:

March 31, 2007	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 778	$ 6,589
Fixed assets	2,670	22,621
Current liabilities	(144)	(1,223)
Long-term liabilities	(2,612)	(22,131)
Translation adjustment	1,176	9,965
Gain on sales of investment in Trianon Palace	2,515	21,304
Sale value of investment in Trianon Palace	4,383	37,125
Cash and cash equivalent held by Trianon Palace	(273)	(2,313)
Net cash in-flow by sales of Trianon Palace shares	¥4,110	$34,812

19. Shares Outstanding and Treasury Stocks

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. 671 shares increase was due to purchases of fractional shares.
2. 200,000 shares decrease was due to sales by affiliates applied equity method.

20. Cash Dividends

(a) Cash dividends for the year ended March 31, 2007 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 29, 2006	Common stock	¥2,391	$20,252	¥15	$0.13	March 31, 2006	June 29, 2006
Board of Directors' meeting on November 16, 2006	Common stock	2,391	20,252	15	0.13	September 30, 2006	December 12, 2006

(b) Dividends of which record date were in the year ended March 31, 2007 but 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 28, 2007	Common stock	Retained earnings	¥5,578	$47,254	¥35	$0.30	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, 2007 and 2006:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Acquisition cost			
Vehicles	**¥ 206**	¥ 123	**$ 1,748**
Equipment	**21,792**	16,505	**184,603**
Accumulated depreciation			
Vehicles	**¥ 72**	¥ 62	**$ 606**
Equipment	**10,179**	9,318	**86,228**
Net book value			
Vehicles	**¥ 134**	¥ 61	**$ 1,141**
Equipment	**11,613**	7,187	**98,375**

(b) Estimated amount of depreciation and finance charges for the years ended March 31, 2007 and 2006 were as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31		
2008	¥ 3,666	$ 31,052
2009 and thereafter	8,573	72,623
Total	¥12,239	$103,675

Annual lease expenses charged to income were ¥4,503 million (US$38,147 thousand) and ¥4,014 million for the years ended March 31, 2007 and 2006, respectively.

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

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Estimated amount of depreciation by the straight-line method over the lease period	**¥3,921**	¥3,504	**$33,216**
Estimated interest cost	**655**	498	**5,548**

22. Contingent Liabilities

Contingent liabilities for the years ended March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Contingent liabilities to financial institutions for customers who have home mortgage	**¥2,114**	¥2,190	**$17,905**
Contingent liabilities to financial institutions for customers who have membership loan	**30**	49	**254**
Subordinated contingent liabilities to financial institutions for customers who have an apartment loan with nonexempt property	**10**	14	**85**
Total	**¥2,154**	¥2,253	**$18,244**

23. Segment Information

(a) Business segments

Segment information by business group for the years ended March 31, 2007 and 2006 was as follows:

	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

	Millions of yen						
Year ended March 31, 2006	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	¥195,202	¥249,696	¥ 8,340	¥12,149	¥465,387	¥ —	¥465,387
Inter-segment sales and transfers	—	3	2,530	—	2,533	(2,533)	—
Total	195,202	249,699	10,870	12,149	467,920	(2,533)	465,387
Operating expenses	155,750	241,619	13,537	12,543	423,449	1,163	424,612
Operating profit (loss)	¥ 39,452	¥ 8,080	¥ (2,667)	¥ (394)	¥ 44,471	¥ (3,696)	¥ 40,775
(2) Assets, depreciation, impairment losses and capital expenditures							
Assets	¥ 76,486	¥183,931	¥59,394	¥20,462	¥340,273	¥72,531	¥412,804
Depreciation	429	1,977	1,902	70	4,378	187	4,565
Impairment losses	—	16,971	47,132	—	64,103	1,378	65,481
Capital expenditures	134	11,232	1,704	21	13,091	137	13,228

	Thousands of U.S. Dollars						
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	$2,677,824	$2,347,845	$ 60,491	$264,188	$5,350,348	$ —	$5,350,348
Inter-segment sales and transfers	—	25	31,359	—	31,384	(31,384)	—
Total	2,677,824	2,347,870	91,850	264,188	5,381,732	(31,384)	5,350,348
Operating expenses	2,045,765	2,288,310	114,115	254,942	4,703,132	3,359	4,706,491
Operating profit (loss)	$ 632,059	$ 59,560	$ (22,265)	$ 9,246	$ 678,600	$ (34,743)	$ 643,857
(2) Assets, depreciation, impairment losses and capital expenditures							
Assets	$ 434,893	$1,758,416	$473,260	$342,438	$3,009,007	$843,764	$3,852,771
Depreciation	3,284	16,940	16,002	652	36,878	1,746	38,624
Impairment losses	—	25,489	—	—	25,489	—	25,489
Capital expenditures	2,045	42,901	7,899	1,934	54,779	130,328	185,107

(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	
	2007	2006	**2007**	Main component
Operating expenses unable to be allocated included in "Elimination or common assets"	**4,101**	3,696	**34,743**	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"	**99,606**	72,531	**843,764**	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 rents due on leaseback agreements

Due to a change in accounting policy regarding reserves for rents due on leaseback agreements, operating expenses in leasing division increased ¥87 million (US$743 thousand) and operating profit decreased the same amount in the year ended March 31, 2007.

Loss on impairment on long-lived assets

Due to a change in accounting policy regarding loss on impairment on long-lived assets, operating expenses in leasing division and hotel resort division decreased ¥148 million and ¥1,117 million, respectively, and operating profit increased the same amounts in the year ended March 31, 2006.

(Additional information)

Retirement benefit reserves for directors

Due to a change in accounting policy regarding retirement benefit reserves for directors, operating expenses in "Elimination or common assets" increased ¥196 million (US$1,667 thousand) and operating profit decreased the same amount in the year ended March 31, 2007

(b) Geographical segments

Segment information by geographic area for the years ended March 31, 2007 and 2006 were as follows:

	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

	Millions of yen					
Year ended March 31, 2006	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	¥458,557	¥ 4,665	¥2,165	¥465,387	¥ —	¥465,387
Inter-segment sales and transfers	191	3,149	34	3,374	(3,374)	—
Total	458,748	7,814	2,199	468,761	(3,374)	465,387
Operating expenses	413,359	8,513	2,418	424,290	322	424,612
Operating profit (loss)	¥ 45,389	¥ (699)	¥ (219)	¥ 44,471	¥ (3,696)	¥ 40,775
(2) Assets						
Assets	¥282,552	¥54,485	¥3,236	¥340,273	¥72,531	¥412,804

	Thousands of U.S. Dollars					
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	$5,304,960	$ 34,787	$10,601	$5,350,348	$ —	$5,350,348
Inter-segment sales and transfers	2,818	32,398	152	35,368	(35,368)	—
Total	5,307,778	67,185	10,753	5,385,716	(35,368)	5,350,348
Operating expenses	4,619,748	75,620	11,748	4,707,116	(625)	4,706,491
Operating profit (loss)	$ 688,030	$ (8,435)	$ (995)	$ 678,600	$ (34,743)	$ 643,857
(2) Assets						
Assets	$2,548,465	$460,542	$ —	$3,009,007	$843,764	$3,852,771

(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 rents due on leaseback agreements
Due to a change in accounting policy regarding reserves for rents due on leaseback agreements, operating expenses in Japan segment increased ¥87 million (US$743 thousand) and operating profit decreased the same amount in the year ended March 31, 2007.

Loss on impairment on long-lived assets
Due to a change in accounting policy regarding loss on impairment on long-lived assets, operating expenses in Japan and Trust territory of U.S.A. Guam decreased ¥148 million and ¥1,117 million, respectively, and operating profit increased the same amounts in the year ended March 31, 2006.

(Additional information)
Retirement benefit reserves for directors
Due to change in accounting policy regarding retirement benefit reserves for directors, operating expenses in Japan segment increased ¥196 million (US$1,667 thousand) and operating profit decreased the same amount in the year ended March 31, 2007

(c) Overseas sales
As overseas sales constituted less than 10% of consolidated net sales for the years ended March 31, 2007 and 2006, 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, 2007 and 2006.

	Yen		U.S. dollars
	2007	2006	**2007**
Net assets	**¥1,054.99**	¥839.44	**$8.94**
Net income (loss)			
Basic	**234.68**	(104.17)	**1.99**

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

	Millions of yen	Thousands of U.S. dollars
	2007	**2007**
Net assets	**¥185,785**	**$1,573,779**
Amount not allocated to the common stock	**17,641**	**149,440**
Net assets allocated to the common stock	**168,144**	**1,424,339**
Shares issued outstanding at end of year (Thousands of shares)	**159,379**	**—**

(c) Basis of computation of basic net income per share for the years ended March 31, 2007 and 2006 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Net income (loss)	**¥ 37,358**	¥ (16,582)	**$316,459**
Amount not allocated to the common stock	**—**	—	**—**
Net income (loss) allocated to the common stock	**37,358**	(16,582)	**316,459**
Shares issued outstanding at end of year (Thousands of shares)	**159,186**	159,181	**—**

25. Related Party Transaction

The following table sets forth related party transactions for the years ended March 31, 2007 and 2006.

(For the year ended March 31, 2007)

(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 owned by 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	$25	IT solution business	—	—	Receiving service

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 owned by director and close relatives	Yoshiteru Kitagawa	Leasing of land and building	¥11	$ 91	—	—	—
	Eisei Miyama	Leasing of land and building	6	54	—	—	—
	Kuniaki Sasahara	Subleasing of land and building	0	3	—	—	—
	Yoshikazu Miike	Leasing of land and building	5	45	—	—	—
	Satoshi Abe	Leasing of land and building	3	28	—	—	—
	Yousuke Kitagawa	Leasing of land and building	3	23	—	—	—
	Tomio Oba	Leasing of land and building	6	51	—	—	—
	Katsumi Furuhata	Leasing of land and building	1	7	—	—	—
	BobbyTech Ltd.	Commitment of IT network related affairs	17	144	Accounts payable	¥8	$64

(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 and policy of conditions of transactions decision
(a) Conditions of leasing of land and building are same as transactions with third parties.
(b) Conditions of commitment of IT network related affairs are same as transactions with third parties.
(c) Kuniaki Sasahara retired from director on June 29, 2007 and Tomio Oba retired from director on March 18, 2007.
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	$847	Production and sales of building material	50.0%	2 interlocking directors	Purchases of building material 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.	Purchases of building material and others	¥25,233	$213,746	Accounts payable	¥9,574	$81,098

(Notes)1. Conditions of transactions and policy of conditions of transactions decision
Conditions of purchases of building material were same as transactions with third parties.
2. Consumption taxes were not included in the transaction amount above but included in balance.

(For the year ended March 31, 2006)

(a) Director and individual major shareholder

Attribute	Name	Address	Capital stock	Business or position	Percentage of share ownership of the Company	Relation	
						Interlocking directors	Relation in business
Director	Yusuke Miyama	—	—	President and CEO	14.7%	—	—
	Tomio Oba	—	—	Executive Vice President	0.0%	—	—
	Yoshiteru Kitagawa	—	—	Senior Managing Director	0.0%	—	—
	Eisei Miyama	—	—	Senior Managing Director	0.5%	—	—
	Kuniaki Sasahara	—	—	Senior Managing Director	0.0%	—	—
	Yoshikazu Miike	—	—	Director	0.0%	—	—
	Satoshi Abe	—	—	Director	0.0%	—	—
	Yousuke Kitagawa	—	—	Director	0.0%	—	—
	Katsumi Furuhata	—	—	Full-time Corporate Auditor	—	—	—

Attribute	Name	Transaction	Transaction amount (Millions of yen)	Account	Balance (Millions of yen)
Director	Yusuke Miyama	Loan interest	¥23	—	—
	Tomio Oba	Leasing of land and building	6	—	—
	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	—	—
	Katsumi Furuhata	Leasing of land and building	1	—	—

(Notes)1. Conditions of transactions and policy of conditions of transactions decision
(a) Conditions of subleasing of land and building are decided on nearby actual transactions and internal rule.
(b) Conditions of leasing of land and building are same as transactions with third parties.
(c) Interest rate and other conditions of loan to directors are decided based on transactions with financial institutions.
(d) The Company collected the entire long-term loan to director ¥1,700 million in the year ended March 31, 2006.
(e) Yusuke Miyama retired from director on June 1, 2006.
2. 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	
						Interlocking directors	Relation in business
Affiliate	Toyo Miyama Kogyo Co., Ltd.	Kisarazu City, Chiba	¥100	Production and sales of building material	50.0%	4 interlocking directors	Purchases of building material and others

Attribute	Name	Transaction	Transaction amount (Millions of yen)	Account	Balance (Millions of yen)
Affiliate	Toyo Miyama Kogyo Co., Ltd.	Purchases of building material and others	¥19,989	Accounts payable	¥6,448

(Notes)1. Conditions of transactions and policy of conditions of transactions decision
Conditions of purchases of building material were same as transactions with third parties.
2. Consumption taxes were not included in the transaction amount above but included in balance.

Report of Independent Auditors

Grant Thornton

Grant Thornton Taiyo ASG
Certified Public Accountants

Report of Independent Certified Public Accountants

To the Board of Directors of
LEOPALACE21 CORPORATION

We have audited the accompanying consolidated balance sheets of LEOPALACE21 CORPORATION and subsidiaries as of March 31, 2007, 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, 2007, 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 3, effective the year ended March 31, 2007, the Company has adopted new accounting standards for "Reserve for rents due on leaseback agreements" in the preparation of its consolidated financial statements.

As described in Note 4, effective the year ended March 31, 2007, the Company has adopted new accounting standards for "Presentation of net assets in the balance sheet" in the preparation of its consolidated financial statements.

The consolidated financial statements as of and for the year ended March 31, 2007 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 28, 2007

[illegible] Bldg. 9F
[illegible]
Tokyo [illegible], Japan
T [illegible]
F [illegible]
W [illegible]

Member of Grant Thornton International

Corporate Information

Leopalace21 Corporation

(As of March 31, 2007)

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

Date of Establishment:
August 17, 1973

Share Capital:
¥55,640.66 million

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

Number of Employees:
7,409 (consolidated basis);
6,489 (non-consolidated basis)

Board of Directors and Corporate Auditors

(As of March 31, 2007)

President and CEO	Yoshiteru Kitagawa
Senior Managing Directors	Eisei Miyama Akihiko Umeda Kuniaki Sasahara
Executive Directors of Management	Jiro Nishida Yoshinori Uehara Hitoshi Yamaguchi
Directors	Kou Kimura Yoshikazu Miike Tadahiro Miyama Satoshi Abe Yousuke Kitagawa Yasuhide Sakaguchi
Full-time Corporate Auditors	Yoshitaka Kouda Masaru Katayama Katsumi Furuhata
Corporate Auditor	Eiichi Dobashi

Leopalace21 Group

(As of March 31, 2007)

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) (37.5%)
  - SPC Leopalace REIT II (Real estate leasing) (33.3%)
  - SPC Leopalace REIT III (Real estate leasing) (25.0%)
- Hotel and Resort-Related Division
  - MDI Guam Corporation (Hotel/resort operations in Guam) (100%)
  - Miyama Travel, Ltd. (Travel agency) (100%)
- Other Business
  - DIA KENSETSU Co., LTD. (Condominium developer/seller) (33.3%)

Domestic consolidated subsidiary
Foreign consolidated subsidiary
Equity-method affiliate

Note 1: Numbers represent equity stakes held by Leopalace21.
Note 2: Apart from the companies listed above, there are three companies (100% owned indirectly by Leopalace21) with operational permits.

Major Shareholders (Top 10)

(As of March 31, 2007)

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)	10,227,700	6.41
Japan Trustee Services Bank, Ltd. (Trust Account)	6,566,600	4.11
State Street Bank and Trust Company	4,362,449	2.73
State Street Bank and Trust Company 505103	3,400,722	2.13
BBH (Lux) For Fidelity Funds-Japan Fund	3,093,500	1.93
Toyo Kanetsu K.K.	2,745,900	1.72
HSBC-Fund Services, Sparx Asset Management Co., Ltd.	2,691,200	1.68
MDI Corporation	2,350,000	1.47
Mellon Bank, N.A. as Agent for its Client Mellon Omnibus US Pension	2,336,295	1.46

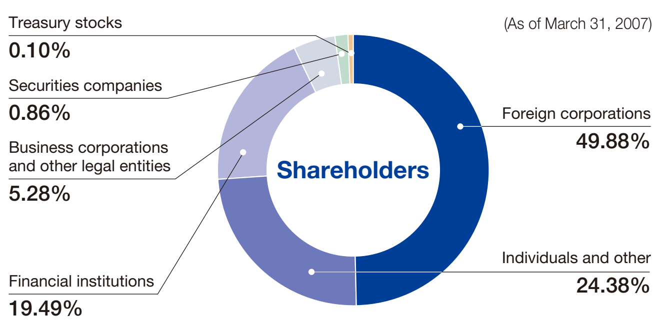
Number of Shares:
Authorized: 250,000,000
Issued and outstanding: 159,543,915

Number of Shareholders:
12,724

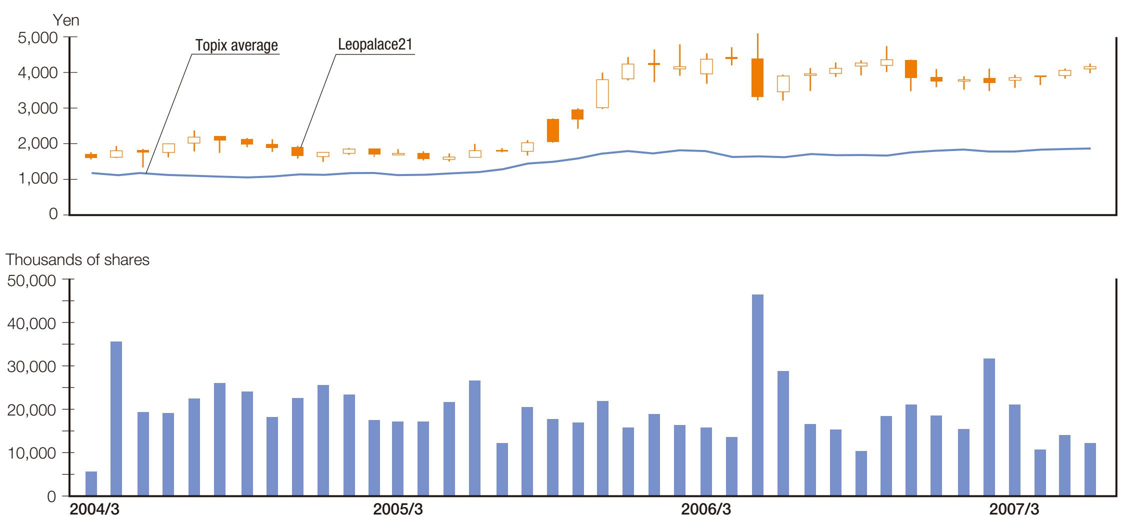
Stock Exchange Listing:
Tokyo Stock Exchange (Ticker: 8848)

Transfer Agent:
Mitsubishi UFJ Trust and Banking Corporation

(As of March 31, 2007)



Monthly Stock Price Range and Trading Volume



Corporate Slogan

A single dream for a united purpose

United Spirit

Leopalace21

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

A united purpose to fulfill our customers' dreams

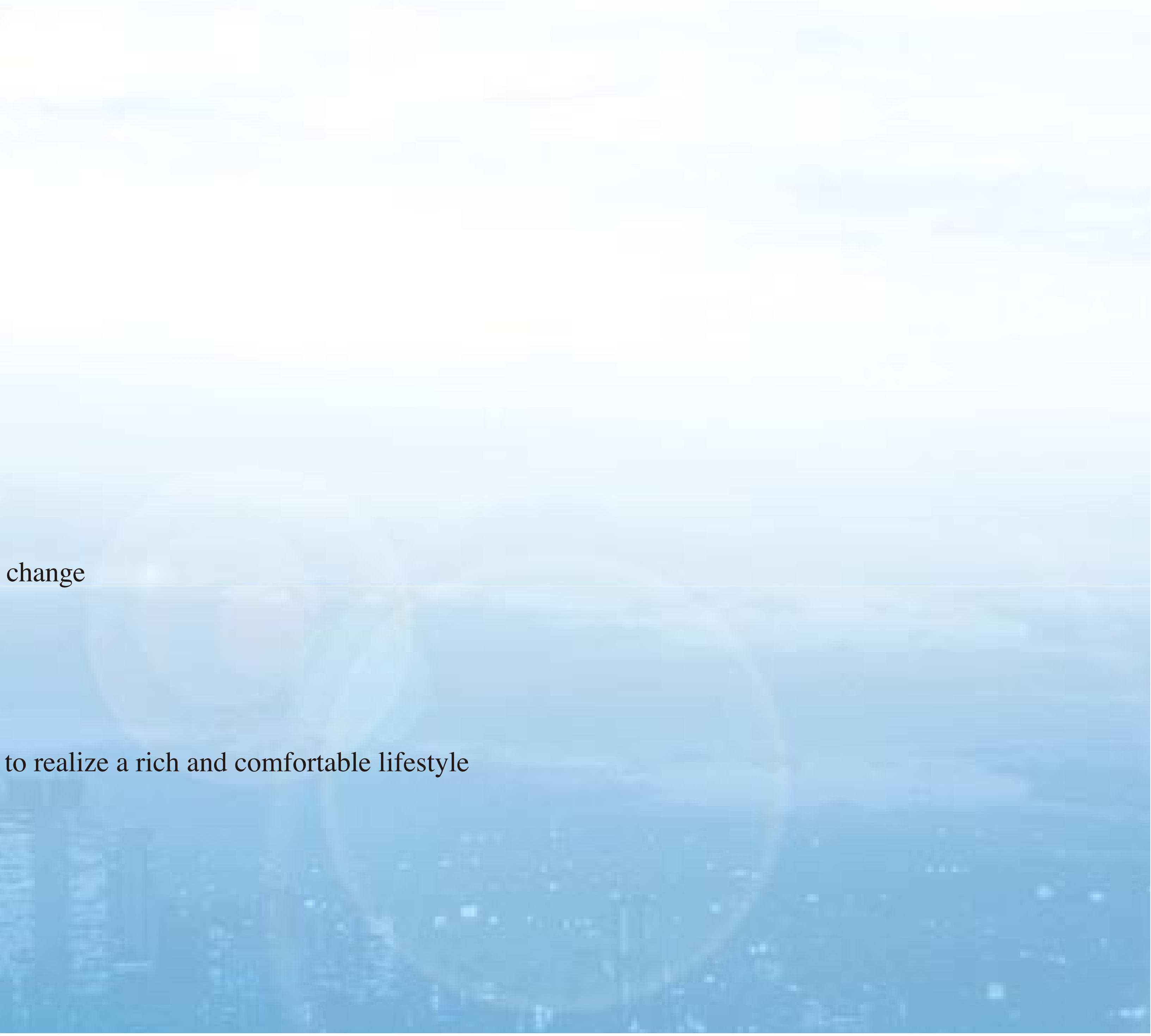
A united purpose for building a comfortable future

A united purpose aiming at a new goal

A united purpose of both employees and customers at the new Leopalace21

Corporate History

- **1973**
  - Started business as Miyama Inc., a real estate brokerage
- **1979**
  - Increased capital to ¥100 million
- **1985**
  - Introduced Leopalace21 urban-style, one-room rental apartment buildings
- **1988**
  - Introduced a unique membership-based rental system for our tenants
- **1989**
  - Listed on JASDAQ
- **1993**
  - Opened Leopalace Resort Manenggon Hills, Guam
- **1997**
  - Established the Leopalace21 Owners' Mutual Insurance Association
- **1998**
  - Leopalace21 Villa Colonna wins the 1998 Good Design Award
  - Number of units under management reached 100,000.
- **1999**
  - Launched the Monthly Leopalace short-term rental service



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

2001
- Launched Leopalace REIT, a securitized real estate product

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

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

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

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

2007
- Number of units under management reached 389,000

Leopalace21 Corporation

2-54-11 Honcho, Nakano-ku, Tokyo 164-8622, Japan
TEL: +81-3-5350-0001 Main Line
FAX: +81-3-5350-0058
URL: http://www.leopalace21.co.jp

This annual report was printed in Japan on recycled paper.