

Explanatory Session for the Interim Period Ended September 2006

November 2006

Leopalace21 Corporation

This document and reference materials may contain forward-looking statements, so please understand that actual results may differ significantly from these forecasts due to various factors.

[Results for Core Businesses during the Interim Period Ended September 2007]

Results and Forecast for FY of Our Group (Consolidated)	3
Actual Results and Forecast for FY in Construction & Leasing	4

[Outline of Interim Period Results]

Highlights of Interim Period Results (Consolidated & Non-Consolidated)	6
Highlights of Interim Period Results for Parent & Major Subsidiaries	7
Outline of Balance Sheets (Consolidated)	8
Outline of Cash Flows (Consolidated)	9
Profit/Loss for Major Segments (Consolidated)	10

[Status of Major Strategic Business Ventures]

Status of Domestic Business	12
Residential Business & Silver Business	13
Broadband Business & Leopalance Resort Business ..	14

[Appendix]

Supply – 1 (Market for Housing)	16
Supply – 2 (Market for Studios)	17
Use (Studio Market)	18
Trend in Shareholders	19

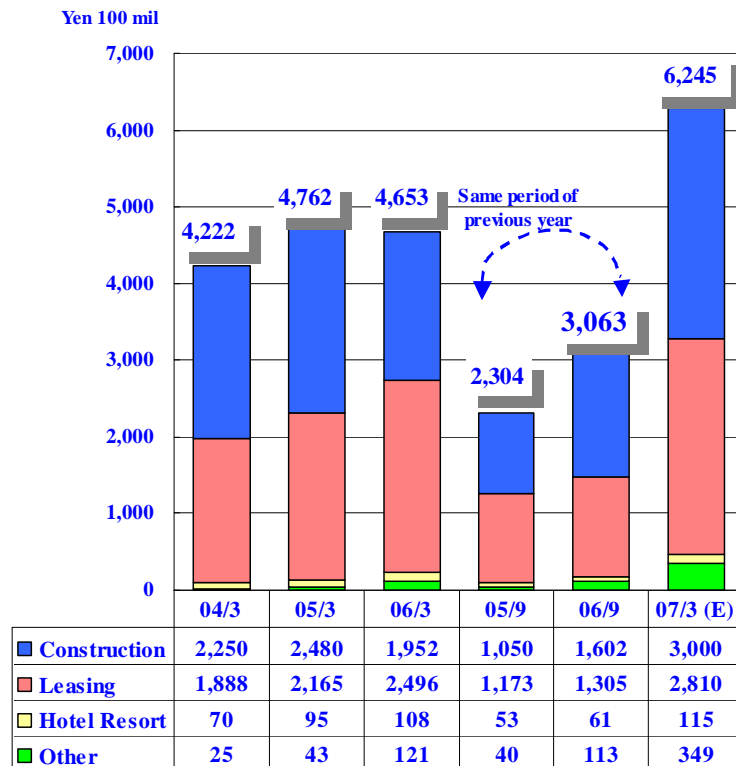
Results for Core Businesses during the Interim Period



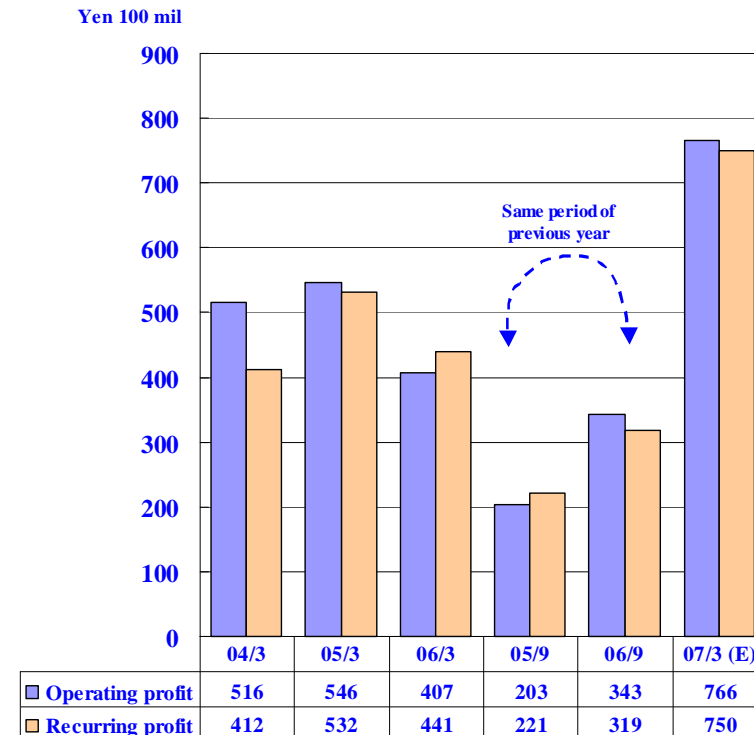
Results and Forecast for FY of Our Group (Consolidated)

- Interim net sales and profits for FY 07/3 were both up significantly, primarily due to net sales posted from construction projects that had originally been scheduled for completion during FY 06/3.

Actual Figures and Forecast for Net Sales



Actual Figures and Forecast for Operating Profit & Recurring Profit

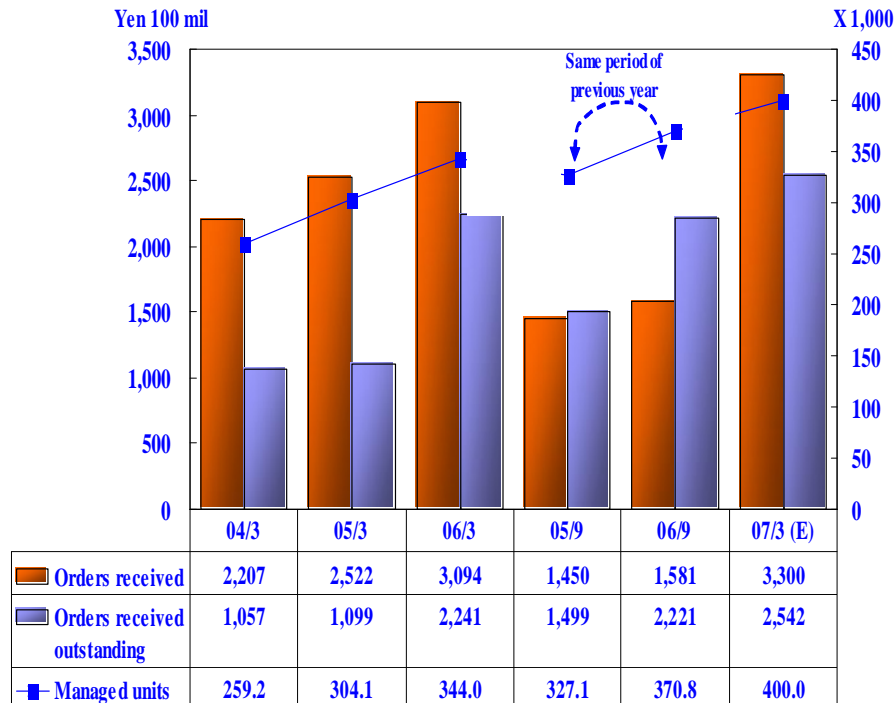


*"07/3 (E)" represents the forecast for FY 07/3. 3

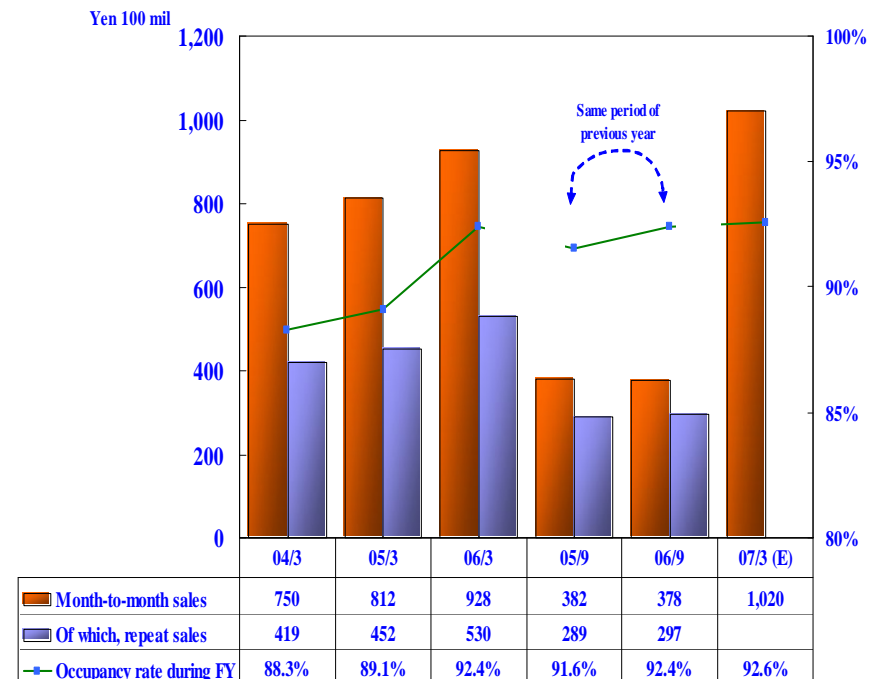
Actual Results and Forecast for FY in Construction & Leasing

- **Construction:** Construction orders during the interim period of FY 07/3 totaled 158.1 billion yen, an increase of 9.1%!
- **Leasing:** Achieved a high 92.4%, an increase of 0.8 points, occupancy rate during the interim period of FY 07/3!

Trend in Actual Results and Forecast for Construction



Trend in Actual Results and Forecast for Leasing



**“07/3 (E)” represents the forecast for FY 07/34

Outline of Interim Period Results



Highlights of Interim Period Results (Consolidated & Non-Consolidated)

(Unit: Yen million)	Consolidated				Non-Consolidated			
	FY ended Sep. 2006	FY ended Sep. 2005	Change in amount	Percentage change	FY ended Sep. 2006	FY ended Sep. 2005	Change in amount	Percentage change
Net sales	306,360	230,418	75,942	33.0%	302,216	226,454	75,762	33.5%
Gross profit	73,600	54,351	19,249	35.4%	74,275	54,437	19,838	36.4%
Gross profit ratio (%)	24.0%	23.6%	0.4%	-	24.6%	24.0%	0.6%	-
Selling, general & administrative expenses	39,227	33,972	5,255	15.5%	40,765	34,844	5,921	17.0%
Operating profit	34,372	20,378	13,994	68.7%	33,510	19,592	13,918	71.0%
Operating profit ratio (%)	11.2%	8.8%	2.4%	-	11.1%	8.6%	2.5%	-
Recurring profit	31,961	22,175	9,786	44.1%	33,126	18,933	14,193	75.0%
Recurring profit ratio (%)	10.4%	9.6%	0.8%	-	11.0%	8.3%	2.7%	-
Net income (loss)	16,843	(24,321)	41,164	-	18,593	(40,920)	59,513	-

Highlights of Interim Period Results for Parent & Major Subsidiaries

(Unit: Yen million)		Interim period ended Sep. 2006	Interim period ended Sep. 2005	Change in amount	Percentage change	FY 2007 forecast	Sep. 2006 depreciation expenses	Sep. 2005 depreciation expenses
Leopalace 21 Corporation	Net sales	302,216	226,454	75,762	33.5%	616,000	1,283	1,343
	Recurring profit	33,126	18,933	14,193	75.0%	73,000		
MDI Guam	Net sales	4,201	3,836	365	9.5%	8,205	846	771
	Recurring profit	132	2,291	(2,159)	-	165		
	Foreign exchange gain	152	2,238	(2,086)	-	..		
TPH	Net sales	1,269	1,074	195	18.2%	1,269	155	128
	Recurring profit	(57)	(13)	(44)	-	(57)		
Others & exclusion	Net sales	(1,326)	(946)	(380)	-	(974)	3	4
	Recurring profit	(1,240)	964	(2,204)	-	1,892		
Consolidated total	Net sales	306,360	230,418	75,942	33.0%	624,500	2,287	2,251
	Recurring profit	31,961	22,175	9,786	44.1%	75,000		
	Foreign exchange gain	298	2,730	(2,432)	-			

(Note 1) MDI Guam: MDI Guam Corporation (local subsidiary in Guam)

(Note 2) TPH: Trianon Palace Hotel de Versailles S.A. (local subsidiary in France)

Outline of Balance Sheets (Consolidated)

September 2006 Interim Period Balance Sheets

(Unit: Yen million)	Interim period ended Sep. 2006	Interim period ended Sep. 2005	Change in amount	End March 2006
<Assets>				
Current assets	133,558	144,932	(11,374)	163,518
Cash & cash equivalents	44,685	34,566	10,119	44,612
Trade receivables & accounts receivable for completed projects	5,855	29,538	(23,683)	8,114
Operating loans	9,394	11,190	(1,796)	10,426
Real estate for sale	13,528	2,955	10,573	7,524
Payout for construction in progress	9,525	4,634	4,891	35,249
Fixed assets	265,019	244,434	20,585	249,128
Buildings & structures	82,504	82,676	(172)	83,666
Land	119,645	102,391	17,254	107,216
Construction in progress	3,628	2,425	1,203	1,964
Total assets	398,693	389,544	9,149	412,803
<Liabilities>				
Current liabilities	187,029	165,667	21,362	205,674
Long-term liabilities	45,441	81,851	(36,410)	55,855
Total liabilities	232,470	247,519	(15,049)	261,530
<Shareholders' equity>				
Share capital	-	55,640	-	55,640
Capital surplus	-	33,759	-	33,759
Retained earnings	-	45,384	-	53,123
Total shareholders' equity	-	124,160	-	133,622
Shareholders' equity ratio	-	31.9%	-	32.4%
<Shareholders' equity>				
Share capital	55,640	-	-	-
Capital surplus	33,759	-	-	-
Retained earnings	67,576	-	-	-
Total shareholders' equity	166,222	-	-	-
Shareholders' equity ratio	37.2%	-	-	-

Outline of Cash Flows (Consolidated)

September 2006 Interim Period Cash Flows

(Unit: Yen million)	Interim period ended Sep. 2006	Interim period ended Sep. 2005
Cash flows from operating activities	23,104	105
Net income before taxes & adjustments	30,461	(40,171)
Depreciation expenses	2,287	2,251
Foreign exchange loss	(298)	(2,730)
Equity-method investment loss (income)	2,087	(173)
Impairment loss	1,944	61,298
Gain from sale of affiliates' bonds	(1,067)	-
Decrease (increase) in assets receivable	6,101	20,103
Decrease (increase) in inventories	19,446	(3,925)
Decrease (increase) in long-term prepaid expenses	(6,277)	(3,294)
Increase (decrease) in accounts payable	(12,960)	(22,317)
Income taxes paid	(4,355)	(12,438)
Cash flows from investing activities	(14,582)	(4,923)
Payout for purchase & proceeds from sale of tangible assets	(16,941)	(3,574)
Payout for purchase & proceeds from sale of investment securities	2,934	(720)
Cash flows from financing activities	(8,475)	(7,543)
Proceeds from & repayment of short-term debt	828	6,478
Proceeds from & repayment of long-term debt	(5,968)	(10,399)
Dividends paid for shareholders	(2,390)	(2,377)
Net increase in cash & cash equivalents	73	(12,286)
Cash & cash equivalents at end of interim period	44,685	34,566

Profit/Loss for Major Segments (Consolidated)

(Unit: Yen million)	FY ended Sep. 2006	Sales comparison	FY ended Sep. 2005	Sales comparison	Change in amount	Percentage change	FY 2007 forecast
Construction Division							
Net sales	160,210		105,041		55,169	52.5%	300,000
Gross profit	53,508	33.4%	35,644	33.9%	17,864	50.1%	100,800
Operating profit	37,349	23.3%	22,800	21.7%	14,549	63.8%	69,200
Leasing Division							
Net sales	130,566		117,322		13,244	11.3%	281,000
Gross profit	20,255	15.5%	19,501	16.6%	754	3.9%	54,800
Operating profit	251	0.2%	1,298	1.1%	(1,047)	-80.7%	11,700
Hotel Resort Division							
Net sales	6,196		5,304		892	16.8%	11,500
Gross profit	386	6.2%	291	5.5%	95	32.4%	1,150
Operating profit (loss)	(974)	-	(1,165)	-	191	-	(1,700)
Other Division							
Net sales	11,398		4,046		7,352	181.7%	34,900
Gross profit	1,463	12.8%	210	5.2%	1,253	594.5%	5,100
Operating profit (loss)	(22)	-	(669)	-	647	-	1,500

*Values for each are before eliminations between segments.

Status of Major Strategic Business Ventures



Status of Domestic Business

- Construction business

New housing starts through the interim period of FY 07/3 were up by 3.8% year on year, while construction of rental housing maintained a high growth rate of 6.7%. Our share of this market (rental units with a floor space of 30 square meters or less) was 44.4%! (See p. 16 and p. 17 of the reference materials)

- Leasing business

As of September 2006 we had 370,000 units under management nationwide, of which 341,000 units were already occupied, for an average interim occupancy rate of 92.4%. (See p. 18 of the reference materials)

- Broadband business

Broadband has been installed at 320,000 of the 370,000 units under management. (See p. 14)

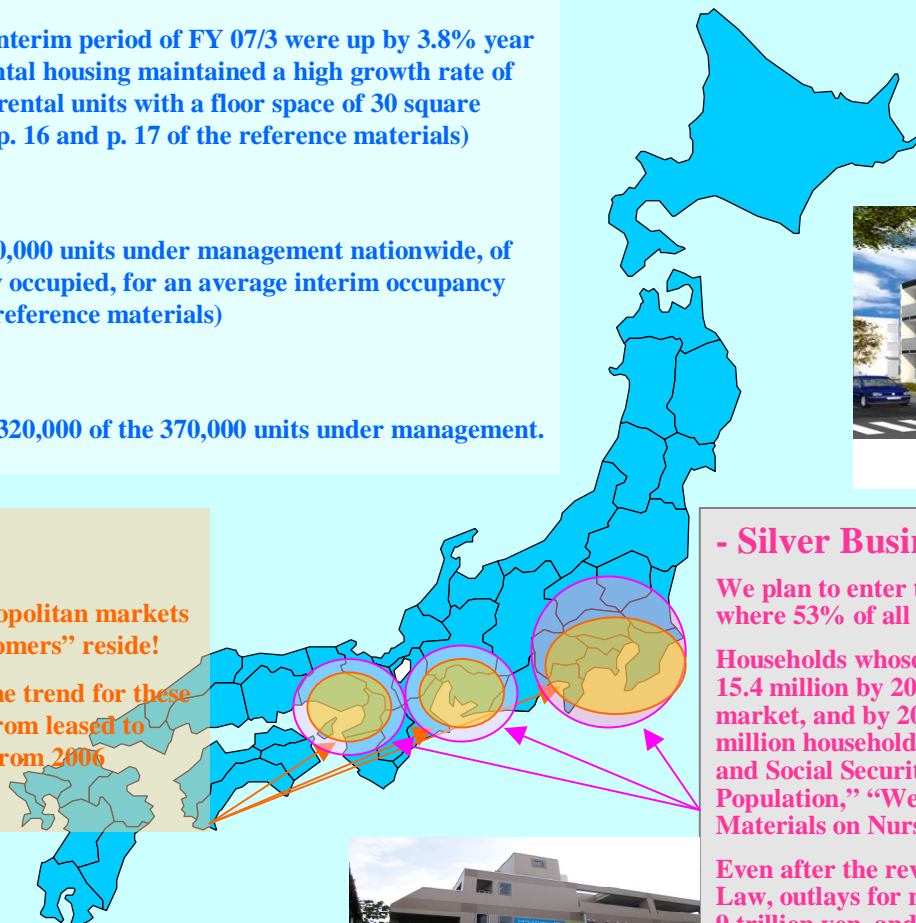


Leopalace21 Congrazia

- Residential Business

We will enter the three major metropolitan markets where 54% of the “Junior Baby boomers” reside!

Population statistics indicate that the trend for these “Junior Baby boomers” to switch from leased to self-owned housing will accelerate from 2006 onward!



“Lu Cerna,” Yokohama City, Kanagawa Pref.



“Azumien Nakano Shimbashi,” Tokyo

- Silver Business

We plan to enter the three major metropolitan markets where 53% of all seniors are concentrated!

Households whose members are 65 or older will number 15.4 million by 2010, for a 30% share of the overall market, and by 2025 this share will reach 37.1% (18.4 million households)! (“National Institute of Population and Social Security Research, Statistics on Japan’s Future Population,” “Welfare and Medical Service Agency, Materials on Nursing Services Nationwide”)

Even after the revision of the Nursing Care Insurance Law, outlays for nursing care insurance benefits will reach 9 trillion yen, and the number of people recognized as eligible for nursing care services will reach 6.4 million. (Ministry of Health, Labour and Welfare, “Estimated cost of benefits under the nursing care insurance system,” October 2004)

Residential Business & Silver Business

		Results for FY ended March 2006		Results for the 1st quarter for FY ending March 2007		Results for the interim period for FY ending March 2007		Forecast for FY ending March 2007	
Purchasing	Purchase contracts	80	100 million yen	23	100 million yen	78	100 million yen	300	100 million yen
	Number of units scheduled for sale	321	units	187	units	424	units	1,500	units
Sales	Value of sales contracts concluded	16	100 million yen	12	100 million yen	30	100 million yen	180	100 million yen
	Units sold	42	units	30	units	74	units	460	units
	Of this, total revenues	8	100 million yen	10	100 million yen	27	100 million yen	150	100 million yen



“Lu Cerna Katsushika
Kamakura,” Katsushika,
Tokyo

*Value of sales contracts concluded and total sales represent only residential housing contracts.

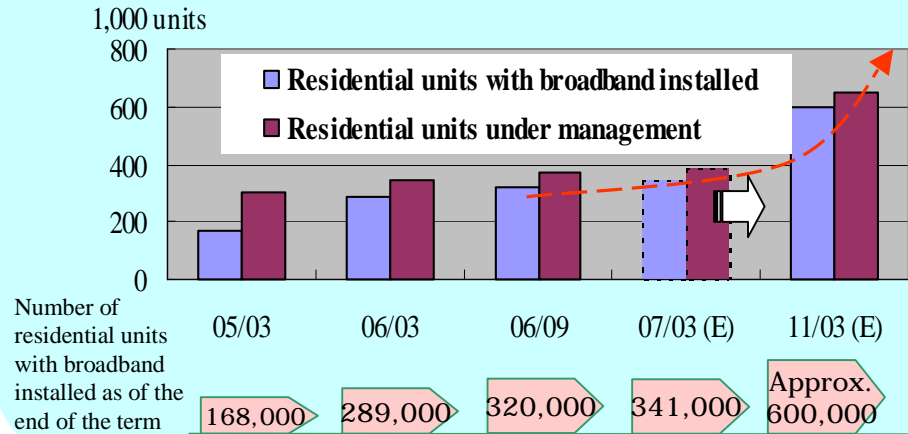
			Results for the term ended March 2006	Results for the term ended June 2006	Results for the term ended September 2006	Forecast for the term ending March 2007
Direct operation	Revenue	million yen	17	71	250	940
	Total units as of end of term	units	5	10	11	25
Under contract	Total value of contracts	million yen	7,526	2,733	6,472	15,000
	Of this, total revenues	million yen	2,417	0	1,244	7,000
	Units ordered	units	25	6	18	50



“Azumien Yamakita,” Ashigara,
Kanagawa

Broadband Business & Leopalace Resort Business

<Broadband Business>



	05/3	06/3	06/6 Q1 results	06/9 interim results	07/3 (E)
Users	116,000	203,000	231,000	254,000	309,000
Sales (yen)	3.5 bil.	7.4 bil.	2.47 bil.	5.20 bil.	11.9 bil.
Gross profit (loss) on sales (yen)	(2.18) bil.	0.44 bil.	0.31 bil.	0.45 bil.	1.2 bil.

<Leopalace Resort Business>

(Units: 1000 US dollars)		Q1 results (Jan. - Mar.)	Interim results (Jan. - Jun.)	Q3 results (Jan. - Sep.)	FY 2005 (Jan. - Dec.)
FY 2005	Net sales	19,593	35,028	49,419	67,137
	Operating profit (loss)	2,141	362	-1,746	-425,627
	Depreciation expenses	3,528	7,080	10,629	14,221
	Occupancy rate (Leopalace Resort)	72.4%	61.5%	56.3%	57.7%
	Occupancy rate (Westin)	70.4%	65.5%	65.7%	63.7%
		Q1 results (Jan. - Mar.)	Interim results (Jan. - Jun.)	Q3 (Jan. - Sep.)	FY 2006 forecast (Jan. - Dec.)
FY 2006	Net sales	19,779	36,409	-	74,593
	Operating profit (loss)	1,142	-237	-	1,497
	Depreciation expenses	3,665	7,329	-	13,826
	Occupancy rate (Leopalace Resort)	76.0%	64.5%	59.4%	71.6%
	Occupancy rate (Westin)	62.4%	58.3%	58.7%	65.8%

Of which \$422.6 million is impairment loss.

Appendix

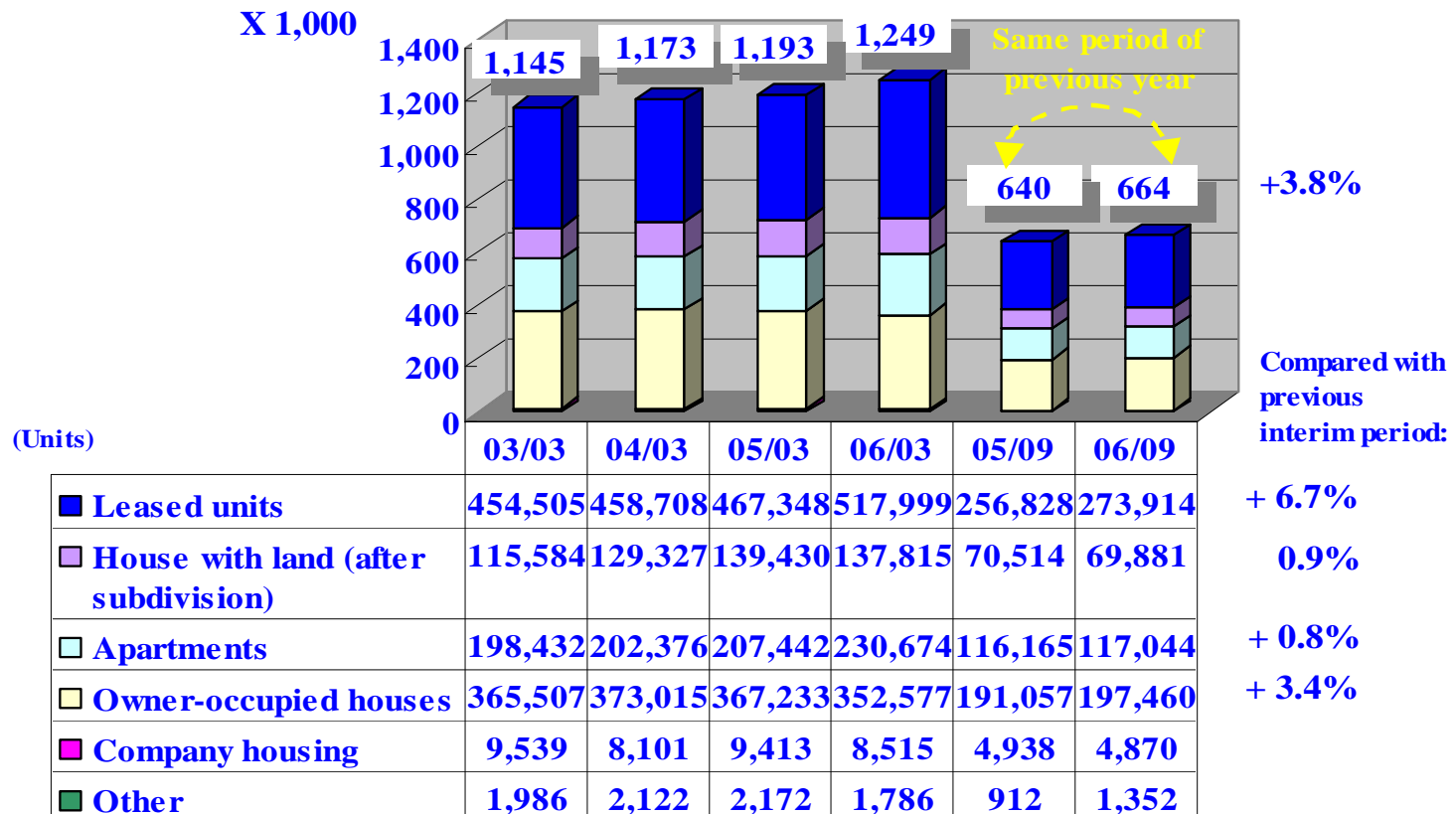


Supply – 1 (Market for Housing)

- New housing starts during the interim period under review (supply) reached 664,000, an increase of 3.8% compared with the same period in 2005. Growth was driven particularly by the leasing sector, where new supply grew by 6.7%, or 273,900 units. Single family homes in housing developments fell by 0.9%, continuing the downward slide that began in the previous term.

(Based on housing start statistics for September 2006, Ministry of Land, Infrastructure & Transport)

Housing Starts (No. by use breakdown)

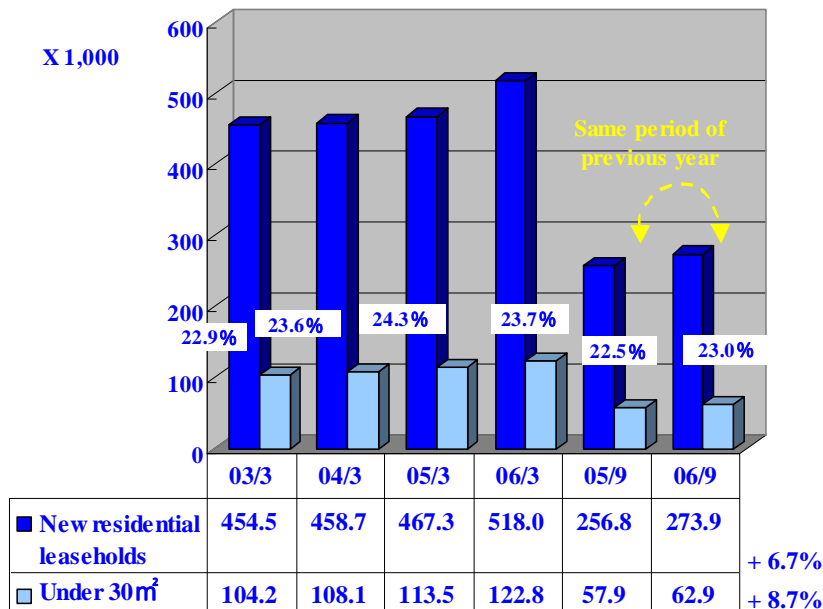


Supply – 2 (Market for Studios)

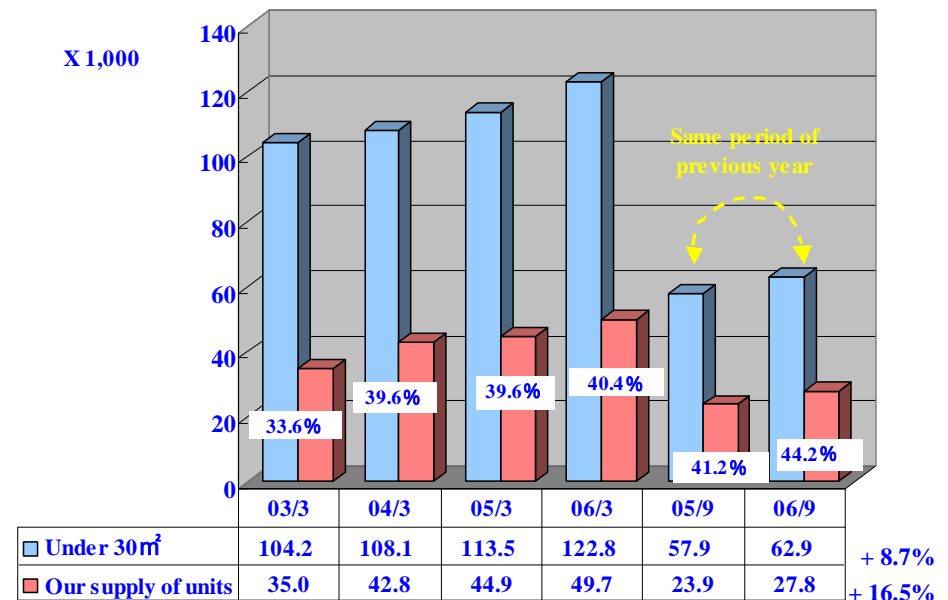
- Within new residential leasehold units (left graph), which have been further narrowed down to those under 30 square meters, the year-on-year growth rate is high at 8.7%. The cause for this growth can be understood to be from studios. Our share of the total leasing market has reached 23.0%.
- Further, the right graph shows the number of new units supplied in studios (Construction Division) by our company within the new residential leasehold units under 30 square meters. During the term under review our share of total supply of housing units reached 44.2%.

(Based on housing start statistics for FY 2006, Ministry of Land, Infrastructure & Transport)

Trend in No. of New Residential Leaseholds Overall & Market Share for Units under 30 Square Meters



Trend in No. of New Residential Leaseholds under 30 Square Meters & Our Market Share



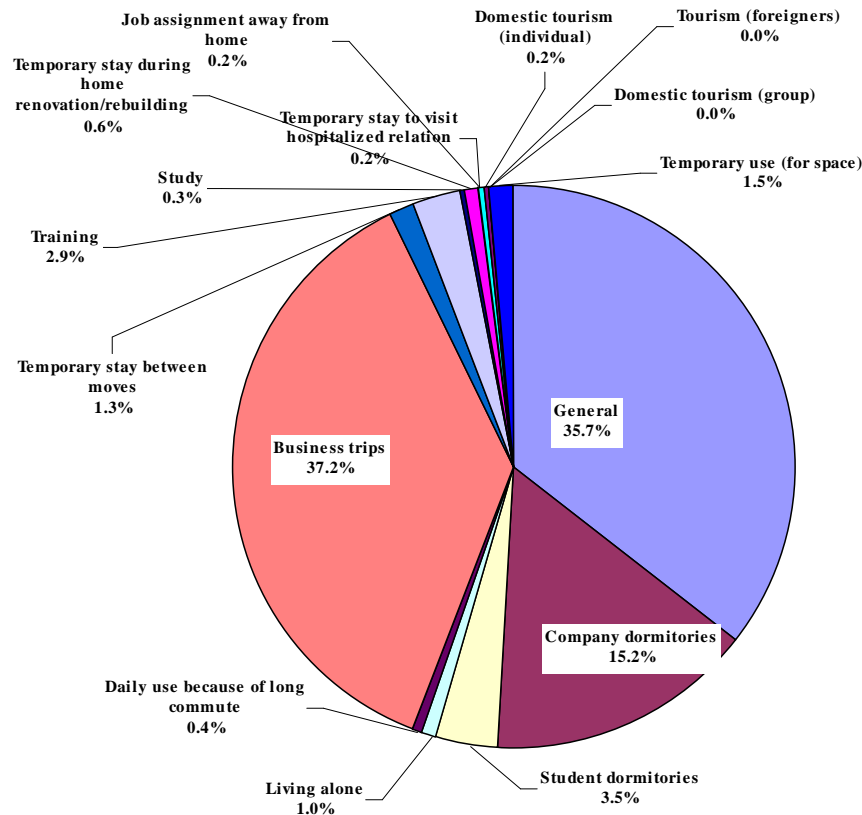
*Supply of units for FY 06/3 represents actual units sold

Use (Studio Market)

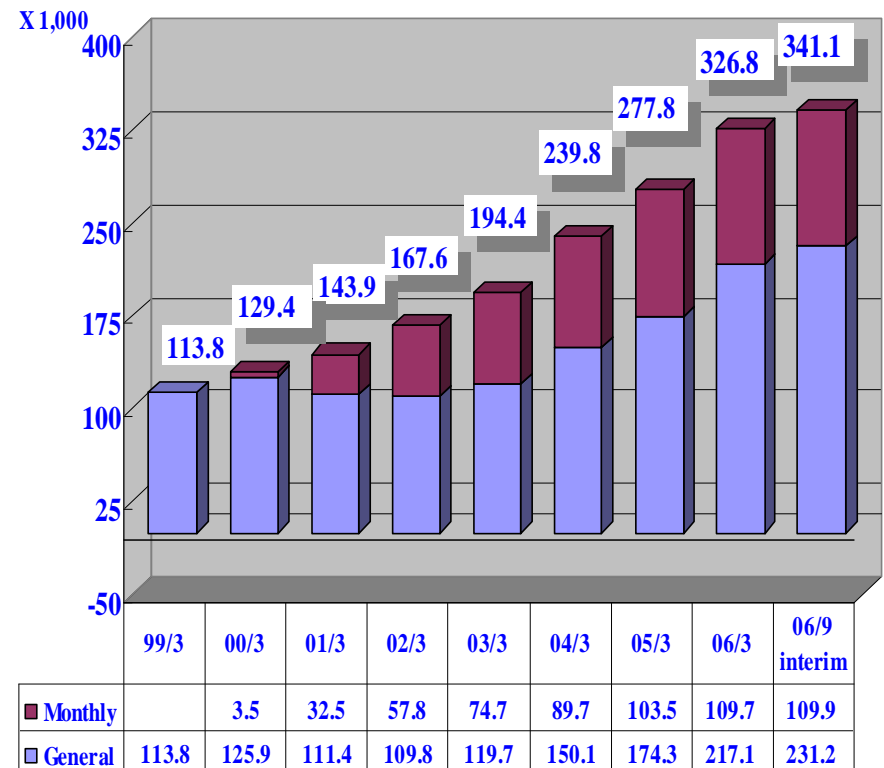
- As a result of an expansion in use of the Monthly Leopalace Flat, one of our main products, there is progress in cultivating a new market.
- Based on the diverse needs, new use segments are steadily expanding.

(Based on our company data, end-September 2006)

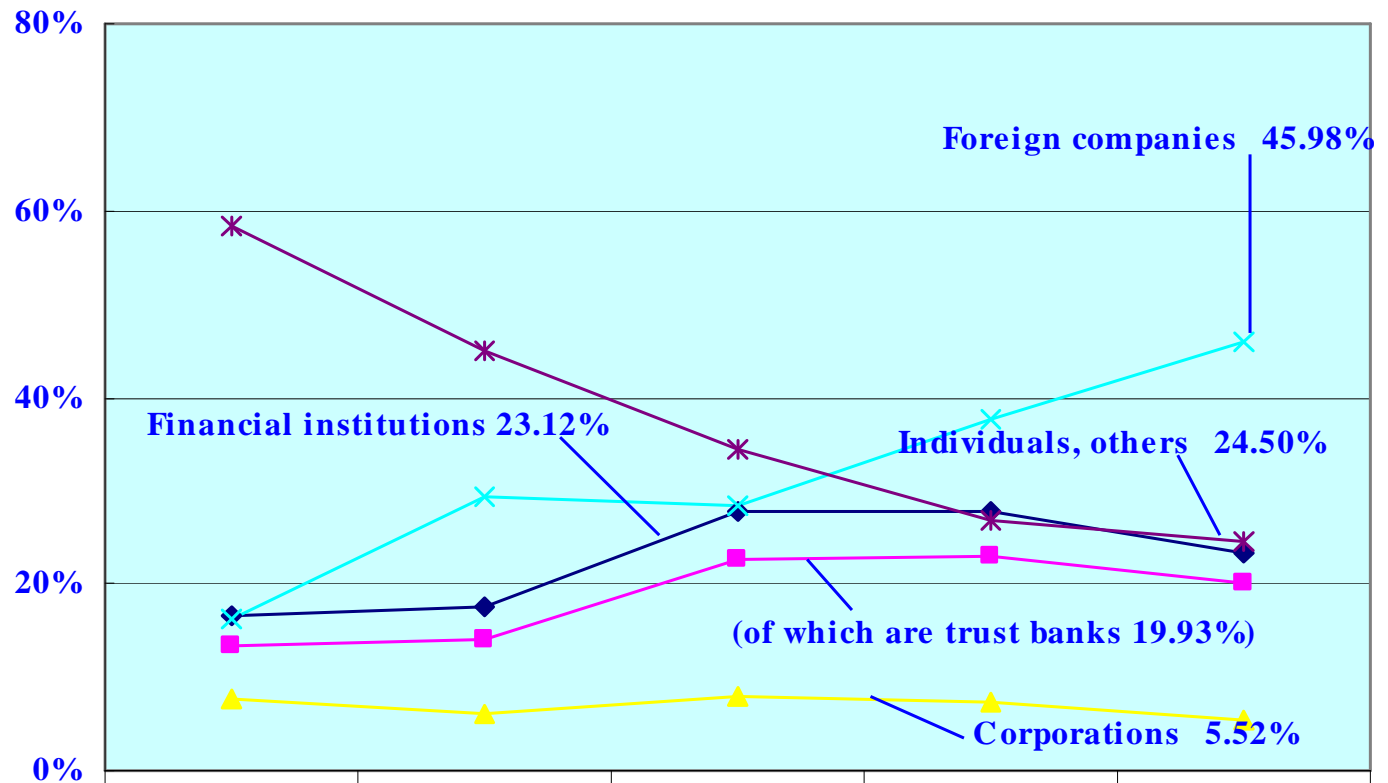
Breakdown of Users of Month-to-month Leases (September 2006)



No. of Tenants by Contract Type



Trend in Shareholders



	03/03	04/03	05/03	06/03	06/09
◆ Financial institutions	16.57%	17.48%	27.84%	27.61%	23.12%
■ (of which are trust banks)	13.39%	13.93%	22.72%	22.96%	19.93%
▲ Corporations	7.68%	6.15%	8.12%	7.43%	5.52%
✕ Foreign companies	16.19%	29.43%	28.46%	37.56%	45.98%
* Individuals, others	58.42%	45.03%	34.35%	26.88%	24.50%