

**Explanatory Session for the First Quarter Results
or Fiscal Year Ending March 2007**

August 2006

Leopalace21 Corporation

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

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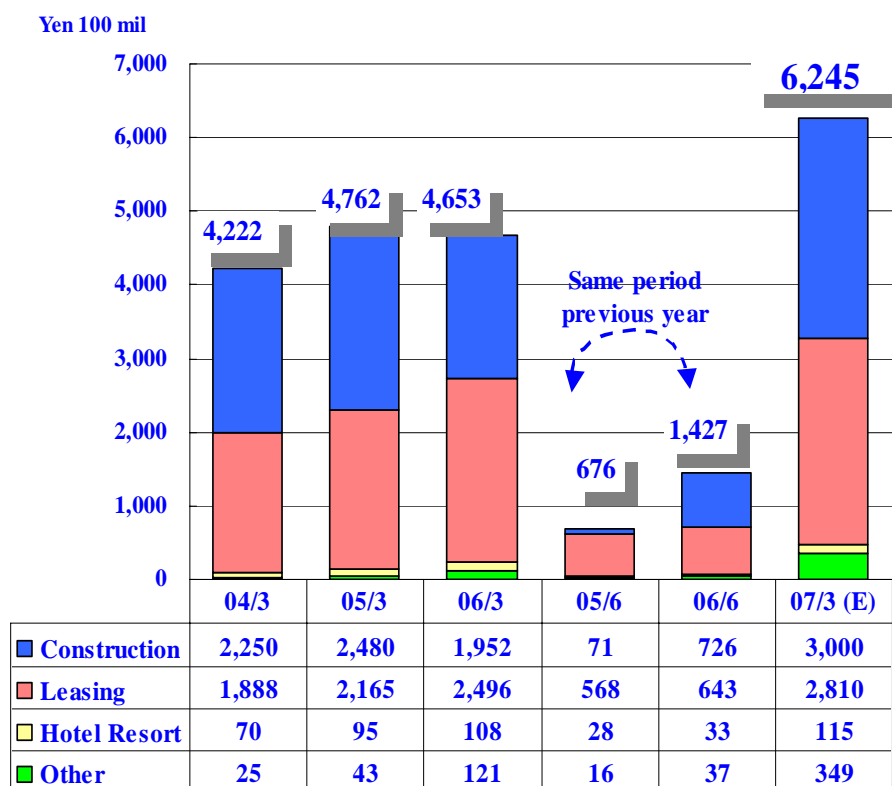
Results and Forecasts for Core Businesses



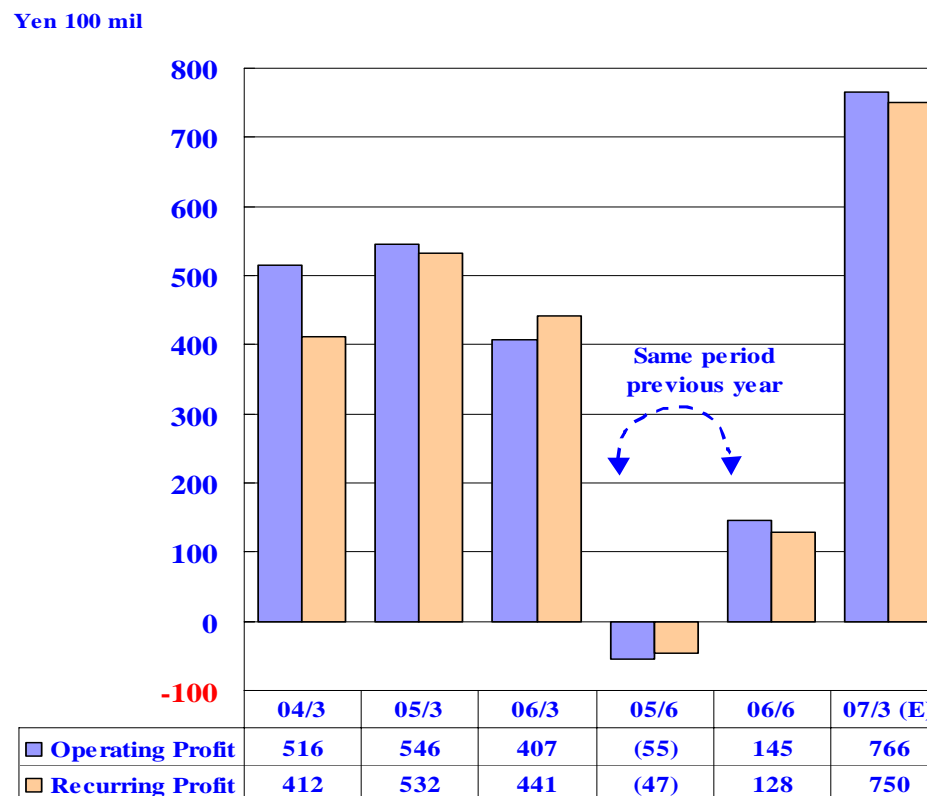
Results and Forecasts of Our Group (Consolidated)

- Revenues and profits were up sharply in 1st Q of FY 07/3 due to the posting of earnings from construction orders delayed from the previous period.

Actual Figures and Forecast for
Net Sales



Actual Figures and Forecast for
Operating Profit & Recurring Profit

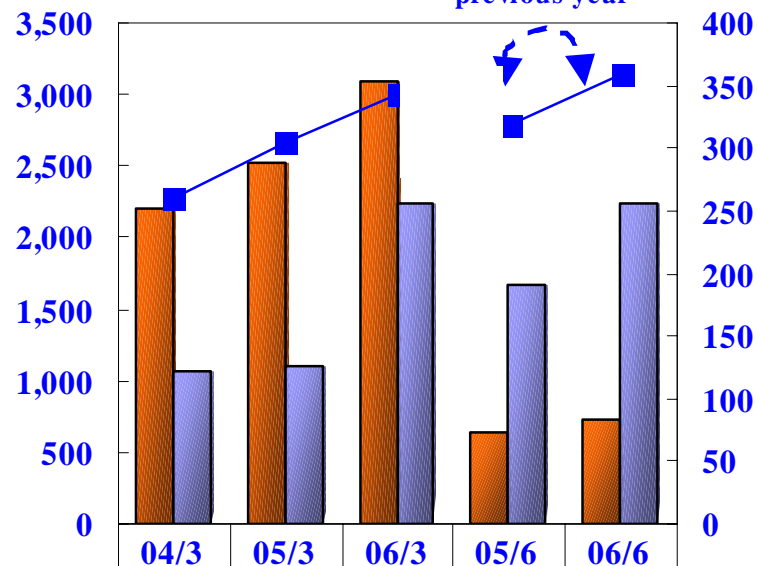


Actual Results and Forecasts in Construction & Leasing

Trend in Actual Results for Construction
1st Q FY 07/3

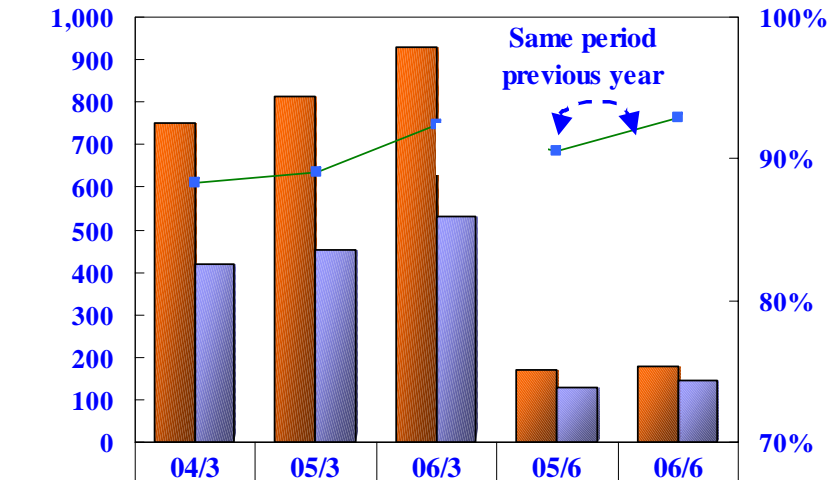
Trend in Actual Results for Leasing
1st Q FY 07/3

Yen 100 mil Same period X 1,000
previous year



Orders received	2,207	2,523	3,094	644	731
Orders received outstanding	1,058	1,100	2,241	1,673	2,247
Managed units	259.2	304.1	344.0	318.9	359.4

Yen 100 mil Same period
previous year



Month-to-month sales	750	812	928	171	180
Of which, repeat sales	419	452	530	128	145
Occupancy rate during FY	88.3%	89.1%	92.4%	90.5%	92.9%

Outline of the First Quarter Results



Highlights of the First Quarter Results (Consolidated & Non-Consolidated)

(Unit: Yen million)	Consolidated				Non-consolidated			
	June 2006 1st quarter	June 2005 1st quarter	Change in amount	Percentage change	June 2006 1st quarter	June 2005 1st quarter	Change in amount	Percentage change
Net sales	142,714	67,625	75,088	111.0%	140,613	65,446	75,167	114.9%
Gross profit	33,977	10,660	23,317	218.7%	34,355	10,543	23,811	225.9%
Gross profit ratio (%)	23.8%	15.8%	8.0%	-	24.4%	16.1%	8.3%	-
Selling, general & administrative expenses	19,441	16,207	3,234	20.0%	20,338	16,653	3,684	22.1%
Operating profit (loss)	14,535	(5,547)	20,083	-	14,017	(6,110)	20,127	-
Operating profit ratio (%)	10.2%	-8.2%	18.4%	-	10.0%	-9.3%	19.3%	-
Recurring profit (loss)	12,782	(4,707)	17,489	-	13,641	(6,517)	20,158	-
Recurring profit ratio (%)	9.0%	-7.0%	15.9%	-	9.7%	-10.0%	19.7%	-
Net income (loss)	6,422	(39,136)	45,558	-	7,490	(55,364)	62,855	-

Highlights of the First Quarter Results for Parent & Major Subsidiaries

(Unit: Yen million)		June 2006 1st quarter	June 2005 1st quarter	Change in amount	Percentage change	June 2006 depreciation expenses	June 2005 depreciation expenses
Leopalace 21 Corporation	Net sales	140,613	65,446	75,167	114.9%	637	665
	Recurring profit (loss)	13,641	(6,517)	20,158	-		
MDI Guam	Net sales	2,265	2,111	154	7.3%	420	380
	Recurring profit (loss)	(668)	1,536	(2,204)	-		
	Foreign exchange gain	(800)	1,302	(2,102)	-		
TPH	Net sales	513	440	73	16.6%	78	64
	Recurring profit (loss)	(102)	(157)	55	-		
Others & exclusion	Net sales	(677)	(372)	(305)	-	1	1
	Recurring profit (loss)	(89)	431	(520)	-		
Consolidated total	Net sales	142,714	67,625	75,088	111.0%	1,136	1,110
	Recurring profit (loss)	12,782	(4,707)	17,489	-		
	Foreign exchange gain	(972)	1,546	(2,518)	-		

(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 Sheet (Consolidated)

June 2006 1st Q Balance Sheet

(Unit: Yen million)	June 2006 1st quarter	June 2005 1st quarter	Change in amount	End March 2006
<Assets>				
Current assets	130,795	114,857	15,938	163,518
Cash & cash equivalents	48,729	26,602	22,126	44,612
Trade receivables & accounts receivable for completed projects	5,076	6,330	(1,253)	8,114
Operating loans	10,030	11,782	(1,752)	10,426
Payout for construction in progress	8,895	7,916	978	35,249
Fixed assets	249,242	240,379	8,863	249,128
Buildings & structures	82,122	82,653	(531)	83,666
Land	107,183	96,134	11,048	107,216
Construction in progress	3,181	6,558	(3,377)	1,964
Total assets	380,174	355,404	24,769	412,803
<Liabilities>				
Current liabilities	170,499	141,625	28,874	205,674
Long-term liabilities	54,572	87,848	(33,275)	55,855
Total liabilities	225,072	229,473	(4,401)	261,530
<Shareholders' equity>				
Share capital	—	55,640	—	55,640
Capital surplus	—	33,759	—	33,759
Retained earnings	—	30,569	—	53,123
Total shareholders' equity	—	108,284	—	133,622
Shareholders' equity ratio	—	30.5%	—	32.4%
< Shareholders' equity >				
Share capital	55,640	—	—	—
Capital surplus	33,759	—	—	—
Retained earnings	57,154	—	—	—
Total shareholders' equity	155,101	—	—	—
Shareholders' equity ratio	36.2%	—	—	—

Outline of Cash Flows (Consolidated)

June 2006 1st Q Cash Flows

(Unit: Yen million)	June 2006 1st quarter	June 2005 1st quarter
Cash flows from operating activities	(10,247)	(21,336)
Net income (loss) before taxes & adjustment	12,565	(65,624)
Depreciation expenses	1,136	1,110
Foreign exchange gain (loss)	970	(1,545)
Impairment loss	-	60,508
Decrease (increase) in assets receivable	11,436	55,966
Decrease (increase) in inventories	22,101	(5,740)
Decrease (increase) in long-term prepaid expenses	(2,871)	(2,130)
Increase (decrease) in accounts payable	(45,454)	(69,194)
Income taxes paid	(4,437)	(12,434)
Cash flows from investing activities	(1,282)	(2,747)
Payout for purchase & proceeds from sale of tangible assets	(1,678)	(1,423)
Payout for purchase & proceeds from sale of investment securities	69	(941)
Cash flows from financing activities	15,648	3,790
Proceeds from & payment of short-term debt	19,814	10,618
Proceeds from & payment of long-term debt	(1,549)	(4,214)
Dividends paid to minority shareholders	(225)	(225)
Dividends paid for shareholders	(2,390)	(2,388)
Net income in cash & cash equivalents	4,116	(20,250)
Cash & cash equivalents at end of 1st quarter	48,729	26,602

Profit/Loss for Major Segments (Consolidated)

(Unit: Yen million)	June 2006 1st quarter	Sales comparison	Forecast for FY2007	Sales comparison	Results for FY2006	Sales comparison
Construction Division						
Net sales	72,585		300,000		195,202	
Gross profit	24,381	33.6%	100,800	33.6%	65,805	33.7%
Operating profit	16,456	22.7%	69,200	23.1%	39,452	20.2%
Leasing Division						
Net sales	64,279		281,000		249,699	
Gross profit	9,981	15.5%	54,800	19.5%	46,031	18.4%
Operating profit	40	0.1%	11,700	4.2%	8,079	3.2%
Hotel Resort Division						
Net sales	3,274		11,500		10,869	
Gross profit	283	8.6%	1,150	10.0%	444	4.1%
Operating profit (loss)	(458)	-	(1,700)	-14.8%	(2,667)	-
Other Division						
Net sales	3,728		34,900		12,149	
Gross profit	487	13.1%	5,100	14.6%	1,707	14.1%
Operating profit (loss)	(220)	-	1,500	4.3%	(393)	-

*Values for each are before eliminations between segments.

Quarterly Data



Quarterly Data (Consolidated, cumulative)

Cumulative (Unit: Yen million)	06/03				07/03	
	1Q	2Q	3Q	4Q	1Q	FY Forecast
Net sales	67,625	230,418	309,419	465,386	142,714	624,500
Cost of sales	56,965	176,067	239,083	353,928	108,736	465,500
Gross profit	10,660	54,351	70,335	111,458	33,977	159,000
(%)	15.8%	23.6%	22.7%	23.9%	23.8%	25.5%
Selling, general & administrative expenses	16,207	33,972	51,280	70,683	19,441	82,400
(%)	24.0%	14.7%	16.6%	15.2%	13.6%	13.2%
Operating profit (loss)	(5,547)	20,378	19,055	40,775	14,535	76,600
(%)	-8.2%	8.8%	6.2%	8.7%	10.2%	12.3%
Recurring profit (loss)	(4,707)	(22,175)	22,012	44,151	12,782	75,000
(%)	-7.0%	9.6%	7.1%	9.5%	9.0%	12.0%
Net income (loss)	(39,136)	(24,321)	(25,286)	(16,582)	6,422	41,000
(%)	-57.9%	-10.6%	-8.2%	-3.5%	4.5%	6.6%
Orders received (Period total)	64,379	144,964	223,708	309,406	73,125	330,000
Orders received outstanding (End of period)	167,322	149,914	217,501	224,196	224,736	254,200
Managed units (End of period)	318,909	327,051	337,967	344,045	359,355	400,000
Occupancy rate (Period average)	90.5	91.6	91.9	92.4	92.9	92.6

Units

%

Quarterly Data (Consolidated, quarterly)

Quarterly (Unit: Yen million)	06/03				07/03
	1Q	2Q	3Q	4Q	1Q
Net sales	67,625	162,793	79,001	155,967	142,714
Cost of sales	56,965	119,101	63,016	114,845	108,736
Gross profit	10,660	43,690	15,984	41,124	33,977
(%)	15.8%	26.8%	20.2%	26.4%	23.8%
administrative expenses	16,207	17,764	17,307	19,403	19,441
(%)	24.0%	10.9%	21.9%	12.4%	13.6%
Operating profit (loss)	(5,547)	25,926	(1,323)	21,719	14,535
(%)	-8.2%	15.9%	-1.7%	13.9%	10.2%
Recurring profit (loss)	(4,707)	26,882	(144)	22,120	12,782
(%)	-7.0%	16.5%	-0.2%	14.2%	9.0%
Net income (loss)	(39,136)	14,815	(965)	8,704	6,422
(%)	-57.9%	9.1%	-1.2%	5.6%	4.5%
Orders received (Quarterly total)	64,379	80,585	78,743	85,698	73,125
Managed units (Quarterly average)	315,795	323,721	336,345	339,749	355,012
Occupancy rate (Quarterly average)	90.5	92.6	92.5	93.9	92.9

Units

%

Status of Major Strategic Business Ventures

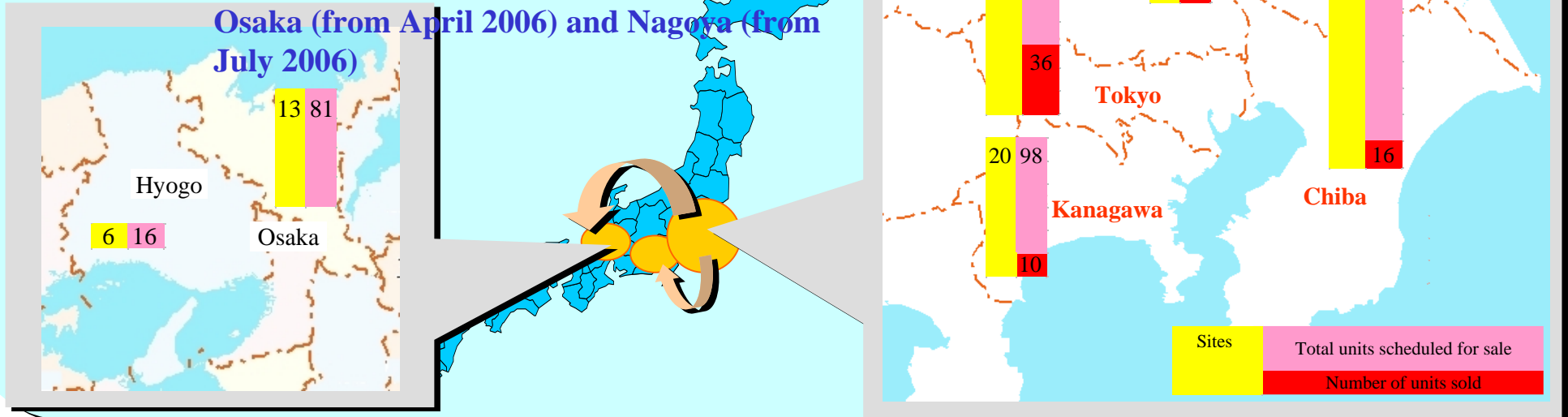


<Purchase and Sales Status as mo the End of June 2006>

Areas of operation

Tokyo metropolitan area (Tokyo, Saitama, Kanagawa and Chiba)

Osaka (from April 2006) and Nagoya (from July 2006)



"Lu Cerna Tsutsujigaoka," Chofu City, Tokyo

		Results for FY ended March 2006		Results for the 1st quarter for FY ending March 2007		Results for FY ending March 2007	
Purchasing	Purchase contracts	72	100 million yen	60	100 million yen	300	100 million yen
	Number of units scheduled for sale	300	units	210	units	1,500	units
Sales	Value of sales contracts concluded	16	100 million yen	14	100 million yen	180	100 million yen
	Of this, total revenues	8	100 million yen	10	100 million yen	150	100 million yen
	Units sold	42	units	32	units	460	units

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

<Business Plan for the Term Ending March 2007>

Areas of operation

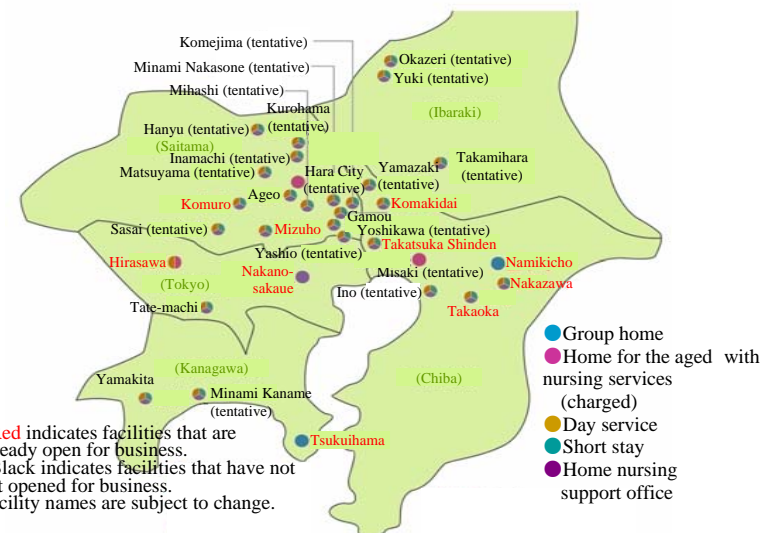
Kanto district (Tokyo, Saitama, Kanagawa, Chiba and Ibaraki)
Also scheduled to enter the Osaka market in October 2006, and the Nagoya market in April 2007.



“Azumien Hirasawa” (Akiruno City, Tokyo)



Units ordered as of the term ended June 2006

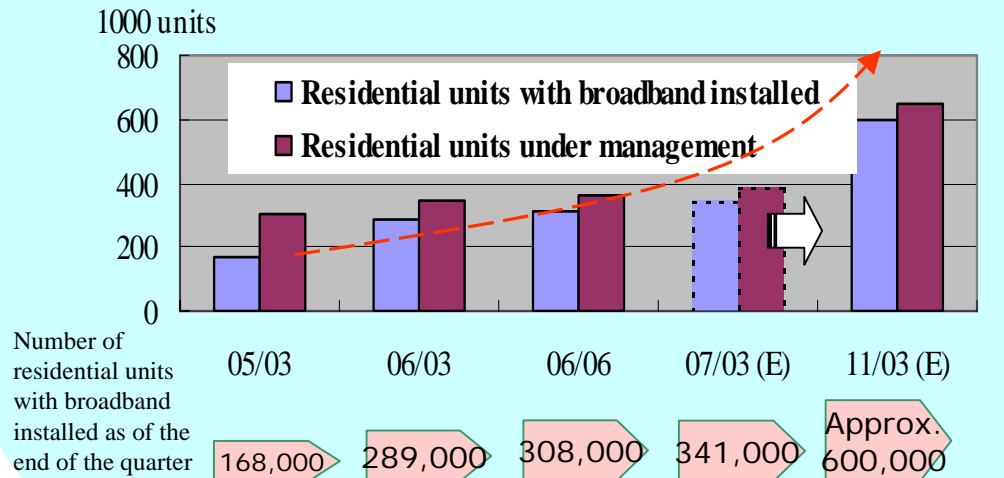


*Red indicates facilities that are already open for business.
*Black indicates facilities that have not yet opened for business.
Facility names are subject to change.

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

	Facility name	Location	Service Content	Date opened (scheduled)
1	Azumien Nakanosakaue	Nakano-ku, Tokyo	Residential	October 2005
2	Azumien Namikicho	Narita City, Chiba	GH	November 2005
3	Azumien Komakidai	Nagareya City, Chiba	SS+DS+residential	March 2006
4	Azumien Hirasawa	Akiruno City, Tokyo	Nursing home (charged)+DS	March 2006
5	Azumien Tsukuihama	Yokosuka City, Kanagawa	GH	March 2006
6	Azumien Takaoka	Sakura City, Chiba	SS+DS+residential	May 2006
7	Azumien Nakazawa	Tomisato City, Chiba	SS+DS+residential	May 2006
8	Azumien Takatsuka Shinden	Matsudo City, Chiba	SS+DS+residential	May 2006
9	Azumien Komuro	Kawagoe City, Saitama	SS+DS+residential	May 2006
10	Azumien Mizuho	Fujimi City, Saitama	SS+DS+residential	May 2006
11	Azumien Yamakita	Ashigarakami-gun, Kanagawa	SS+DS+residential	September 2006
12	Azumien Ageo	Ageo City, Saitama	SS+DS+residential	October 2006
13	Azumien Tate-machi	Hachioji City, Tokyo	SS+DS+residential	November 2006
14	Azumien Gamou	Koshigaya City, Saitama	SS+DS+residential	November 2006
15	Azumien Hanyu (tentative)	Hanyu City, Saitama	SS+DS+residential	January 2007
16	Azumien Komejima (tentative)	Kasukabe City, Saitama	SS+DS+residential	February 2007
17	Azumien Takamihara (tentative)	Tsukuba City, Ibaraki	SS+DS+residential	February 2007
18	Azumien Matsuyama (tentative)	Higashi Matsuyama City, Saitama	SS+DS+residential	March 2007
19	Azumien Ino (tentative)	Ino, Sakura City, Chiba	SS+DS+residential	April 2007
20	Azumien Sasai (tentative)	Sasai, Sayama City, Saitama	SS+DS+residential	April 2007
21	Azumien Inamachi (tentative)	Kitaadachi-gun, Saitama	SS+DS+residential	May 2007
22	Azumien Yuki (tentative)	Yuki City, Ibaraki	SS+DS+residential	May 2007
23	Azumien Mihashi (tentative)	Saitama City, Saitama	SS+DS+residential	May 2007
24	Azumien Yamazaki (tentative)	Noda City, Chiba	SS+DS+residential	June 2007
25	Azumien Misaki (tentative)	Funabashi City, Chiba	Nursing home (charged)	December 2007
26	Azumien Minami Nakasone (tentative)	Kasukabe City, Saitama	SS+DS+residential	-
27	Azumien Okazeri (tentative)	Chikuzei City, Ibaraki	SS+DS+residential	-
28	Azumien Yashio (tentative)	Yashio City, Saitama	SS+DS+residential	-
29	Azumien Minami Kaname (tentative)	Hiratsuka City, Kanagawa	SS+DS+residential	-
30	Azumien Yoshikawa (tentative)	Yoshikawa City, Saitama	SS+DS+residential	-
31	Azumien Hasuda (tentative)	Hasuda City, Saitama	GH+DS	-
32	Azumien Haraichi (tentative)	Ageo City, Saitama	Nursing home (charged)	-

<Business Expansion due to Installation of Broadband in Existing Units>



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

<Service Contents>

New services for residents

- CS pay television (CS plus) channels revised (service begins August 1)

NEW

WOWOW / Music on TV / GAORA (sports) / Midnight Blue (adult)

(This new line-up of channels reflects the results of a survey of residents already using regarding the channels LeoNet services they most wanted to have available)

- CS broadcasts to become recordable (service begins August 1)
(We have upgraded our STB to make it possible to record CS programs)

Reinforcement of external sales revenues not dependent on user base

- Begin VOD services for outside hotels
- Inauguration of services targeting nursing homes (as of the end of July 2006 our services were available at 9 nursing home facilities)

WOWOW

GAORA sports



MUSIC ON! TV



MIDNIGHT BLUE



Screen shot of services offered to outside hotels



Screen shot of services offered to nursing homes

Leopalace Resort Business

<Results for the first quarter (January – March 2006)>

Demand for sports training camps and golf

One of the goals of our Phase 2 construction plan was “Sports Paradise”, which has become the highest quality general sports facility in Guam. Taking advantage of Guam’s mild climate, we are actively promoting this facility as a training center for top athletes and as a golfing destination for tourists. As a result, average occupancy at Leopalace resorts during the first quarter of FY 2007 was 76% (an increase of 3.6 percentage points over the same term in FY 2006).

<Business forecast for the April – December term>

Individual tourism

We will try to attract more individual tourists and enhance our exposure in travel brochures by encouraging travel agencies to organize packaged tours during Golden Week and the summer vacation period.

Group tourism

Beginning in the fall months there is a rise in school graduation trips and company-sponsored incentive tours. To take advantage of these groups, from July we will begin marketing special “Rakuen-sai” tours that include a variety of events designed for the enjoyment of these types of groups.



Of which \$422.6 million is impairment loss.

(Units: 1,000 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.)	3Q (Jan. - Sep.)	FY 2006 Forecast (Jan. - Dec.)
FY 2006	Net sales	19,850	-	-	74,593
	Operating profit (loss)	1,189	-	-	1,497
	Depreciation expenses	3,665	-	-	13,826
	Occupancy rate (Leopalace Resort)	76.0%	64.5%	-	71.6%
	Occupancy rate (Westin)	62.4%	58.3%	-	65.8%

Appendix



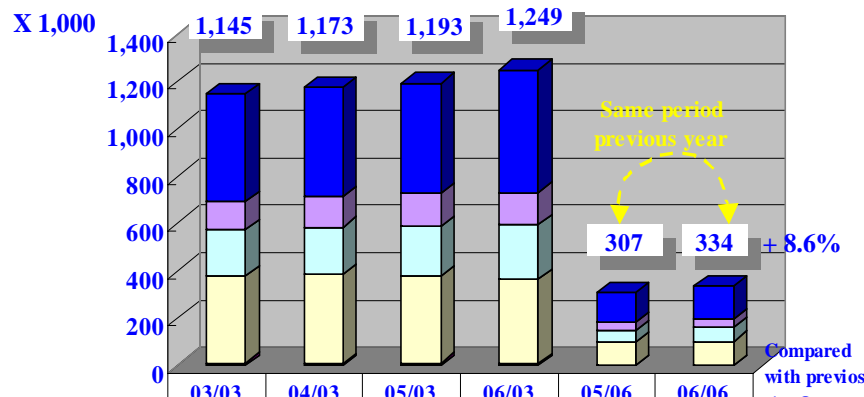
Supply – 1 (Market for Housing)

- New housing starts for the first quarter of FY 07 showed strong growth of 8.6% compared with the same period during the previous year, driven by continued strength in demand for residential leaseholds and apartments. In the area of rental housing (leaseholds), studios (those with floor space of 30 square meters or less) now comprise 23% of the total new construction, and the growth rate for studios (up 14.7% year on year) far exceeded the growth rate for leaseholds as a whole.

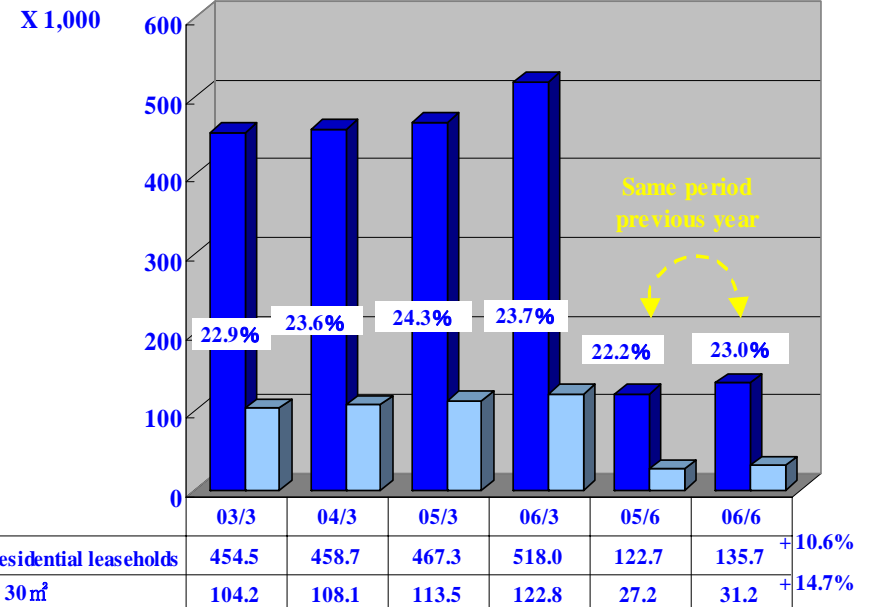
(Based on Housing starts statistics as of June 2006, Ministry of Land, Infrastructure & Transport)

Housing Starts
(No. by use breakdown)

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



	03/03	04/03	05/03	06/03	05/06	06/06	Compared with previous 1st Q:
■ Leased units	454,505	458,708	467,348	517,999	122,728	135,703	+ 10.6%
■ House with land (after subdivision)	115,584	129,327	139,430	137,815	35,288	34,793	- 1.4%
■ Apartments	198,432	202,376	207,442	230,674	51,683	61,979	+ 19.9%
■ Owner-occupied houses	365,507	373,015	367,233	352,577	95,860	98,833	+ 3.2%
■ Company housing	9,539	8,101	9,413	8,515	1,785	2,568	
■ Other	1,986	2,122	2,172	1,786	442	367	

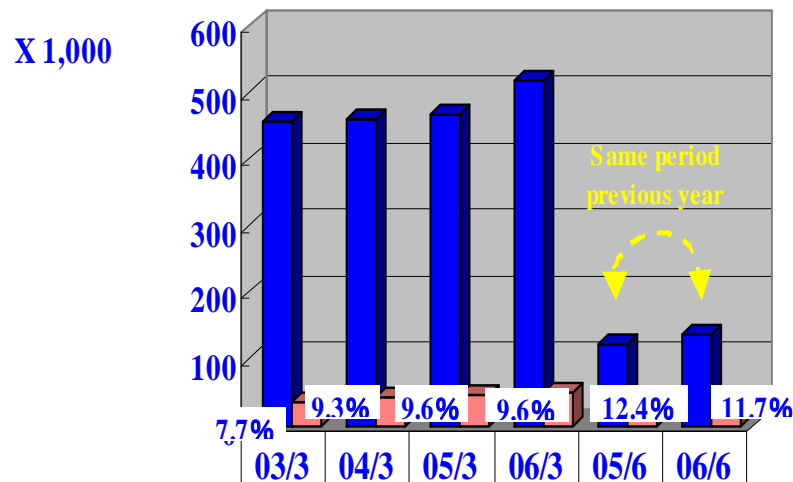


Supply – 2 (Market for Studios)

-The graph at the left shows the growth of the Company’s share of the market for construction of new residential leaseholds. The graph at the right shows the growth of the Company’s share of the market for construction of studio-sized new residential leaseholds with a total floor space of 30 square meters or less. During the first quarter our share of total supply held high due to seasonality.

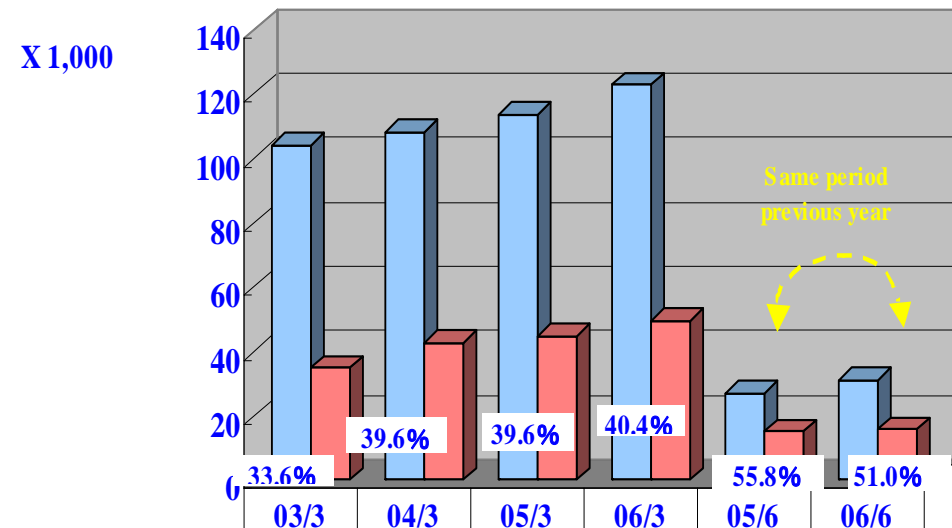
(Based on Housing starts statistics as of June 2006, Ministry of Land, Infrastructure & Transport)

Trend in No. of New Residential Leaseholds Overall & Our Market Share



■ New residential leaseholds	454.5	458.7	467.3	518.0	122.7	135.7
■ Our supply of units	35.0	42.8	44.9	49.7	15.2	15.9

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



■ Under 30m ²	104.2	108.1	113.5	122.8	27.2	31.2
■ Our supply of units	35.0	42.8	44.9	49.7	15.2	15.9

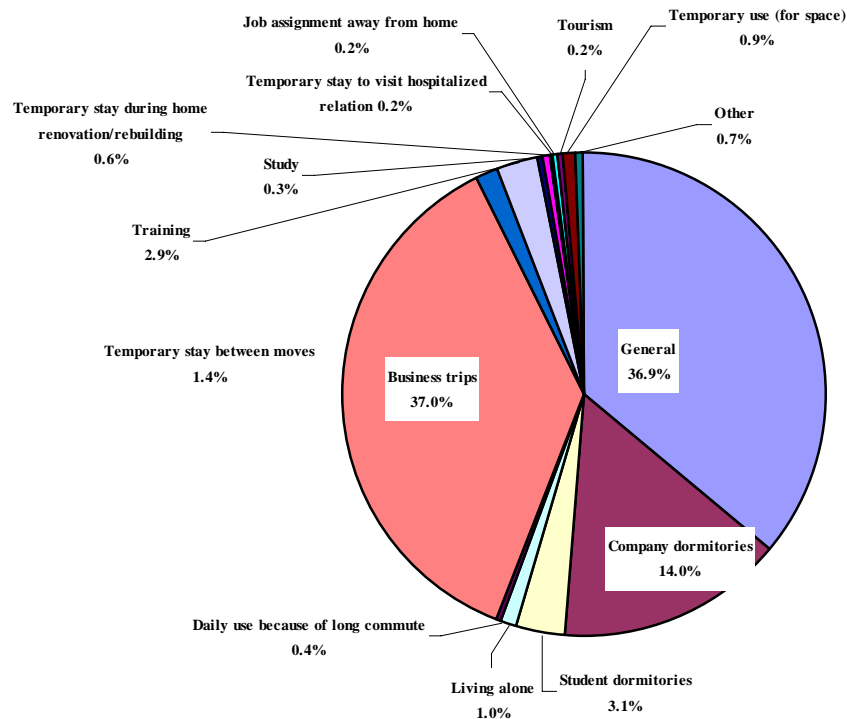
*Supply of units after FY 06/3 represents actual units sold.

Use (Studio Market)

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

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

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



No. of Tenants by Contract Type

