

Bridge Report Leoplace21 Corporation (8848)

 Eisei Miyama, President	Company	Leoplace21 Corporation	
	Code No.	8848	
	Exchange	Tokyo Stock Exchange 1 st Section	
	Industry	Real Estate	
	President	Eisei Miyama	
	HQ	Honcho 2-54-11, Nakano-ku, Tokyo	
	Business Description	Leoplace21 conducts “one stop shopping” services including construction, leasing, and sales of primarily apartments, condominiums, and other residential properties. The Company acts as property manager for 550,000 residential properties across Japan.	
	Year-end	March	
	URL	http://eg.leoplace21.com/	

— Stock Information —

Share Price	Shares Outstanding	Market Cap.	ROE (actual)	Trading Unit	
¥230	176,035,895 shares	¥40.488 billion	4.8%	100 shares	
DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER (Est.)	BPS (actual)	PBR (actual)
¥0.00	0.00%	¥31.24	7.4x	¥199.73	1.2x

* Stock price as of the close on November 15, 2012. Number of shares issued at the end of the most recent quarter excluding treasury shares.

ROE and BPS are based on the actual term end amounts..

— Consolidated Earnings Trends —

(Unit: Million Yen)

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS	Dividend (¥)
March 2009	733,235	50,156	46,785	9,951	63.54	30.00
March 2010	620,376	-29,727	-33,831	-79,075	-521.91	0.00
March 2011	484,390	-23,607	-31,808	-40,889	-261.03	0.00
March 2012	459,436	4,585	2,349	1,588	9.40	0.00
March 2013 Est.	463,900	8,000	6,100	5,500	31.24	0.00

* Estimates are those of the Company.

We present this Bridge Report introducing Leoplace21 Corporation.

1. Company Overview
2. Characteristics and Strengths
3. New Midterm Business Plan “Creating Future”
4. First Half Fiscal Year March 2013 Earnings Results
5. Fiscal Year March 2013 Earnings Estimates
6. Conclusions

Key Points

- Leopalace21 Corporation is the first company in the industry to offer “guaranteed leasing services” that integrate rental apartment and condominium construction, and management services after their construction to land owners. At the end of September 2012, the Company managed 551,287 rooms primarily in the three main metropolitan regions of Tokyo, Nagoya and Osaka. Leopalace21’s strengths include “strong product development capabilities” and “high quality studio type condominiums.”
- While earnings deteriorated in the aftermath of the Lehman Shock in 2008, restructuring of the main businesses including “contraction in construction business” and “reducing costs in leasing business,” contributed to a return to profits for the first time in three years in fiscal year March 2012. In response to this recovery, Leopalace21 established a New Midterm Business Plan in May 2012 with a basic policy of “establishing a stable earnings structure that strikes a balance between both businesses.”
- Because large increases in sales are not anticipated, a large improvement in profitability is necessary to achieve the targets in the final year of the New Midterm Business Plan. Therefore investors should pay close attention to Leopalace21’s ability to realize improvements in profitability. In addition, the Company’s efforts to come up with concrete services catering to senior citizens over the intermediate term should also be watched closely.

1. Company Overview

Leopalace21 was the first company in their industry to offer “guaranteed leasing services” that integrate rental apartment and condominium construction, and management services after their construction to land owners seeking to make effective use of their real estate. Sales are primarily the rental income fees received from residents of apartments, condominiums, and other residential properties and construction work to build apartments and condominiums. Leopalace21 managed 551,287 rooms as of the end of September 2012 located primarily in the three major metropolitan regions of Japan including Tokyo, Nagoya, and Osaka.

The Company decided to expand its leasing business to overseas markets (Korea) in November 2012.

<Corporate History>

August 1973:	Established Miyama Co., Ltd. to provide real estate brokerage services
July 1981:	Sales of single family homes started
April 1985:	Sales of urban type apartments called “Leopalace21” started
April 1986:	Leasing business established. Full scale launch of the real estate leasing business.
January 1988:	“Cube Club” membership residence system established, membership sales started “Miyama Guam, Inc.” (Currently Leopalace Guam Corporation) established as a 100% owned subsidiary
February 1989:	Shares listed on the Over the Counter Market
May 1989:	Hotel business established (Currently the hotel and resort business)
October 1989:	Name changed to “MDI Co., Ltd.”
March 1992:	New headquarters built at current location
March 1998:	Number of managed rooms reaches 100,000
October 1999:	“Monthly Leopalace” furnished monthly room rental sales started
July 2000:	Name was changed to “Leopalace Twenty One Corporation”
October 2002:	Number of managed rooms reaches 200,000
March 2004:	Shares moved to First Section of the Tokyo Stock Exchange



- January 2005: Establishment of the silver business (Senior citizen services)
- March 2005: Number of managed rooms reaches 300,000
- April 2005: The membership residence system revised to become the “Leopalace21 leasing system”
- November 2005: Group home “Azumien Namikicho” established as the first silver (senior citizen) business facility (Currently operates 58 facilities)
- June 2006: Name was changed to “Leopalace21 Corporation”
- June 2007: Number of managed rooms reaches 400,000
- April 2009: Number of managed rooms reaches 500,000
- March 2010: Number of managed rooms reaches 550,000
- April 2010: Leopalace Partners (Franchise office system) started
- April 2011: Sales of solar power generation systems, and security system for apartments and condominiums started
- December 2011: Sales of environmentally friendly home “Leco” started
- May 2012: “Room Customize” started

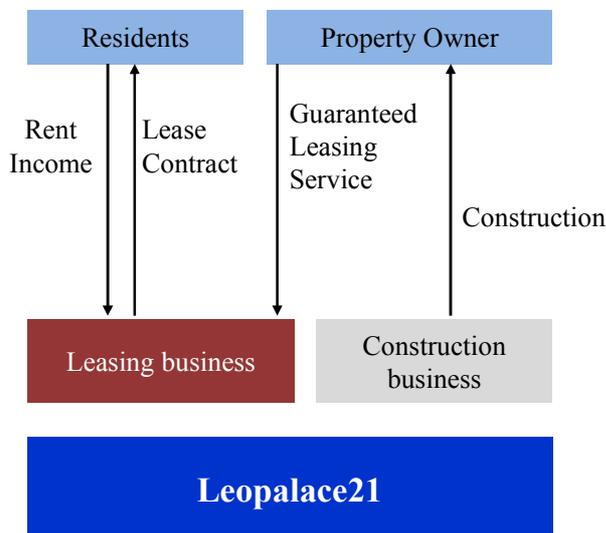
<Corporate Philosophy>

As its corporate slogan, Leopalace21 has adopted the term “Creating Future” as the title of its New Midterm Business Plan. This Plan entails a corporate philosophy that stresses the creation of new values along with customers with a view to the future.

<Business Model>

Leopalace21 offers “guaranteed leasing services” that integrate rental apartment and condominium construction, and management services after their construction to land owners seeking to make effective use of their real estate. The “guaranteed leasing services” is a comprehensive support system where management and operational services for leased residential properties are provided to owners of apartments and condominiums. This system is an outsourcing service designed to reduce the burden of and provide stable income to rental property owners, and includes the specific functions of finding tenants, payment of rent, and management and repair services which are normally undertaken by the property owner themselves.

Leopalace21 enters into a contractual relationship with property owners for terms as long as 30 years, under which they agree to pay the property owners a fixed amount of rent regardless of whether or not the properties are occupied or vacant. After the initial fixed period is completed, the contract will be negotiated every two years to reflect actual prices in the real estate market. Sales of the “leasing business” are the rents paid by residents, and payment of rent to property owners is booked as the cost of sales. The “construction business” is another main source of the Company’s revenues.



(Source: Leopalace21)

The potential for negative income may occur in the event that a higher than expected amount of vacancies occurs during the fixed rent period. Therefore holding down the amount of vacancies (Raising the resident occupancy rates), and acquiring an appropriate levels of rental income is the most important point for profitability of Leopalace21.

“Increasing the provision of residential income property construction by cultivating new property owners, and expanding stable rental income through the acquisition of tenants” were the main factors driving Leopalace21’s earnings growth. However in the wake of the Lehman Shock in 2008, corporations were forced to reduce staff due to the rapid deterioration in their earnings. Increases in cancelation of corporate contracts led to “negative income” and a deterioration in the profitability of the leasing business. Furthermore, the tightening of loan screening requirements led to a sudden decline in the supply of new residential properties constructed, which had a large impact upon and led to stagnation in profitability of the construction business.

Against this backdrop, Leopalace21 maintained its business structure based on this system of guaranteed leasing services while also implementing the following measures to convert its business into a “stock basis” to acquire stable earnings.

“Contraction in the construction business: Focus upon providing new supplies in regions expected to have high occupancy rates”

“Improve profitability of the leasing business: Reduce cost of leasing, realize appropriate levels of rent”

“Conduct construction work not linked to guaranteed leasing services”

“Raise the value addition of properties to increase resident satisfaction”

(Refer to section “3. New Midterm Business Plan”)

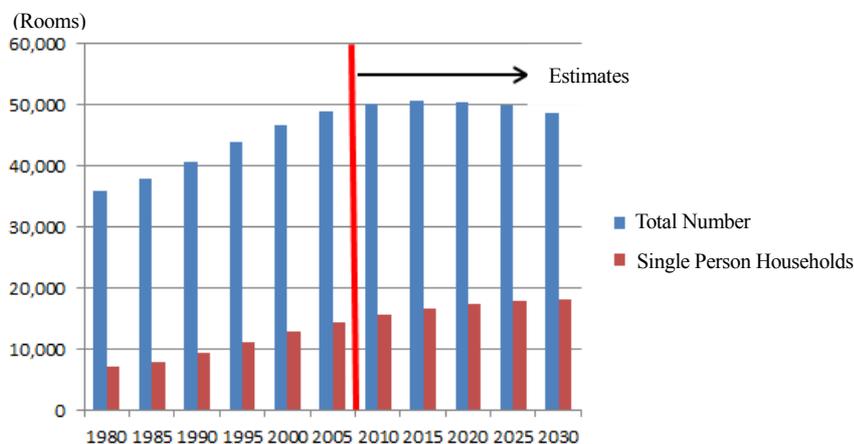
<Market Environment>

From the standpoint of demographic trends within Japan, the following two points are expected to have an influence upon the operating environment for Leopalace21.

① Number of Household Trends

According to the National Institute of Population and Social Security Research estimates, the number of Japanese households is expected to rise from 49.06 million in 2005 to a peak of 50.60 million in 2015, and thereafter decline to 48.80 million by 2030. The number of single person households is expected to rise from 14.46 million in 2005 to 18.24 million in 2030, and their share of total households is expected to rise from 29.5% to 37.4% over the same period.

<Trend in Number of Households in Japan>



(Source: March 2008 Report, National Institute of Population and Social Security Research)

A closer look at the growing share of single person households reveals that the share of single person households of those

less than 35 years of age accounted for 35.6% in 2005, and will decline to 18.7% in 2030. Over the same period the share of single person households of those between the ages of 35 to 64 will rise from 37.7% to 42.0%, and those over 65 years of age will grow from 26.7% to 39.3%.

② New Housing Starts

At the same time, it is clear that the number of new housing starts will decline. The peak in the number of total new housing starts reached 1.70 million in 1990, of which 850,000 were rental properties, but by 2011 these numbers had fallen to 830,000 and 280,000 respectively. The number of new housing starts is expected to recover to 900,000 in 2013 ahead of the implementation of hikes in the consumption tax, but is expected to continue to decline over the intermediate to long term.

The increase in the number of single person households can be viewed as a tailwind for Leopalace21, which has particular strengths in studio type one room apartments. A key to the Company's success may be its ability to expand the range of its products and services targeting single person households to include not only younger Japanese, but also older Japanese as well. At the same time, the difficulty in adopting an optimistic view of the operating environment surrounding Leopalace21 contributed to its creation of the "New Midterm Business Plan." Therefore the Company will strengthen its foundations based on this Plan, while also working to develop new growth strategies.

<Competitors>

The following list of companies may be considered to be competitors in the realm of the "guaranteed leasing services."

Company	Market	Market Capitalization	Sales	Operating Income	Net Income	Assets	PER	PBR
Token Corporation (1766)	TSE1 st	46,411	235,803	7,026	4,455	43,428	10.4	1.1
Daito Trust Construction Co., Ltd. (1878)	TSE1 st	640,852	1,166,900	84,000	51,200	166,008	12.5	3.9
Japan Property Management Center Co., Ltd. (3276)	JQ	9,024	23,723	834	493	1,800	18.3	5.0
Leopalace21 Corporation (8848)	TSE1 st	40,480	463,900	8,000	5,500	36,390	7.4	1.2

* Earnings are estimates of the companies. Net assets are as of end of the most recent quarter. Units are million yen. PER and PBR are ratios of the number of times. Market capitalization is based on November 15, 2012 closing share price.

While the "guaranteed leasing services" offered by the above mentioned companies are basically the same in function, the types of properties offered vary depending upon the company. Leopalace21 boasts of having a high degree of flexibility in the designs of the properties they offer with particular strengths in the realm of studio type single room condominiums and apartments. While Leopalace21 was able to return to profitability during the previous term, they recorded losses during the two terms preceding fiscal year March 2012. This maybe a reason for the relatively low valuation of its share price and new valuations of Leopalace21 may be warranted in the event that the current profitability can be maintained. At the same time, another potential issue is how Leopalace21 can improve its profitability relative to the industry's top seated company, Daito Trust.

<Business Description>

Leopalace21's businesses can be divided into the four segments of "leasing," "construction," "hotels and resort," and "elderly care and other" segments. The main businesses are the "leasing" and "construction" businesses and they account for 96% of total sales.

<Leasing Business>

Sales and Operating Profit of ¥191.545 and ¥4.166 Billion Recorded in First Half of FY3/13

Leasing is Leopalace21's main business, and it includes the guaranteed leasing services of apartments and condominiums constructed, leasing, and property management services. In the leasing services, two contract types are provided including the straight forward "lease contract" that reduces the initial expenses of monthly management fees, and the "monthly contract" that assumes all of the costs for furnishing and utilities in exchange for a single upfront fee payment to the property owner. In both these instances, Leopalace21 books the rent received from tenants as sales. Rents paid to landlords are booked as cost of sales.

<Construction Business>

Sales and Operating Loss of ¥19.993 and ¥0.596 Billion Recorded in First Half of FY3/13

Construction of apartments, condominiums and other structures is conducted in this business segment. In recent years, Leopalace21 has begun focusing upon construction work independent of the guaranteed leasing services, in addition to construction connected to these services. Furthermore, the Company has also begun construction of commercial and nursing home facilities which are not related to the guaranteed leasing services.

<Hotels and Resort Business>

Sales and Operating Loss of ¥3.147 and ¥0.434 Billion Recorded during First Half of FY3/13

The overseas subsidiary Leopalace Guam Corporation operates a comprehensive resort facility in Guam that includes a golf course, baseball field, and other sports facilities, in addition to a hotel and condominiums. Furthermore, Leopalace21 operates hotels at eight locations within Japan within this segment. This business is also considered to be a strong support function for its main business of leasing and construction. For example, the recognition of the hotel operations contributes to a sense of reassurance by customers. While losses are currently being realized at the operating level, there appears to be very little risk of impairment losses being booked and operating cash flow remains positive.

<Elderly Care and Other Business>

Sales and Operating Loss of ¥5.311 and ¥0.177 Billion Recorded in First Half of FY3/13

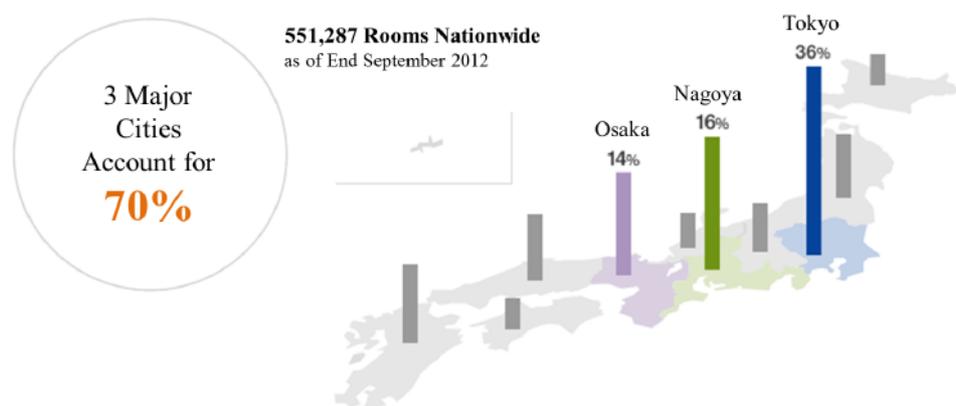
Leopalace21 operates 58 "nursing home," "day service," "short stay," and "group home" facilities around the Kanto region (Tokyo and six surrounding prefectures) under the brand name of "Azumi En." In addition, the Company provides dispatched care attendant and in-home care attendant support services as part of its efforts to firmly establish its nursing care business. Furthermore, short term insurance services are provided to residents as a means of reducing their household expenditures. The "Azumi En" service is expected to maintain its current facility numbers.

2. Characteristics and Strengths

<Focus Upon Three Main Metropolitan Areas>

Of the 550,000 rooms under management, 36% 16% and 14% are located in the greater Tokyo, Nagoya and Osaka regions, accounting for 70% of all rooms managed. In these three regions there is still an inflow of population, and by focusing on these regions Leopalace21 is able to maintain high occupancy rates.

Nationwide Map of Properties, Regional Distribution of Rooms



(Source: Leopalace21)



<Strong Product Development Capability>

Leopalace21 remains in step with market conditions by developing products and services that match market needs and it was the first in the industry to introduce “rooms with lofts,” “guaranteed leasing services,” “monthly rentals,” “broad band facilitated rooms,” and “furnished rooms”. Residents-oriented services and introduction of systems such as installation of furniture and home electrical appliances, room customization with “My Collection Plan”,and “Comfort Plan,” and installation of security system contributed to the improvement in occupancy rates.

My Collection plan, Decoration



(Source: Leopalace21)

<High Quality Studio Type Apartments>

Because higher rental income is derived from studio type one room apartments rather than single family homes for the same floor space and property size under conditions when stable occupancy rates can be achieved, most property owners choose to build studio type apartments. The Company provides effective solutions to property owners with the ability to flexibly build studio type one room apartments on properties in metropolitan areas where it would be difficult to build single family homes.

<Nationwide Business Deployment>

As of the end of October 2012, Leopalace21 operates 172 directly operated offices and some 202 franchised offices for a total of 374 offices throughout Japan. This network enables the Company to provide services and products to customers nationwide, including services to help students and employees find new conveniently located residences. Another characteristic of Leopalace21 is its bountiful database of nationwide information on owners of idle and utilized properties and the ability to propose effective solutions to these property owners.

3. New Midterm Business Plan, “Creating Future”

As described in the “business model” segment of this report, restructuring of the main businesses in response to the deterioration in earnings in the aftermath of the Lehman Shock in 2008 to resolve the “contraction in construction work” and “declines in rental costs” contributed to a return to profits for the first time in three years during fiscal year March 2012. Consequently, Leopalace21 established a New Midterm Business Plan entitled “Creating Future” in May 2012 with a basic policy of “establishing a stable earnings structure that strikes a balance between both of its main businesses.” This Plan covers the period from fiscal year March 2013 to 2015.

(1) Overview

Basic Policy	
“Balance Between Leasing and Construction Businesses to Create a Stable Earnings Structure”	
(1)	Convert its businesses into “stock basis” to create a stable earnings structure
(2)	Maximize Group earnings based on core businesses
(3)	Create an effective management structure for earnings of non-core businesses
(4)	Maintain low cost structure, strategic selection and concentration of costs
(5)	Implement measures to create new corporate value addition, pursue new businesses as growth drivers

(2) Empirical Targets

(Units: Billion Yen)

	FY3/12	FY3/13 Targets	FY3/14 Targets	FY3/15 Targets
Sales	459.4	463.9	467.4	476.5
Operating Income	4.5	8.0	14.1	16.9
Ordinary Income	2.3	6.1	12.2	15.1
Net Income	1.5	5.5	11.0	13.5
Net Assets	33.8	42.8	58.0	76.5
Equity Ratio	12.8%	17.0%	23.1%	29.5%
ROE	4.7%	14.3%	21.8%	20.0%
EPS (¥1)	¥9.0	¥29.2	¥54.2	¥62.4
ROA	0.6%	2.2%	4.4%	5.2%

(3) Action Plan

	Creating Foundations for Growth in FY3/13	New Stage of Growth, FY3/14 and FY3/15
	<ul style="list-style-type: none"> Fortify strengths in core businesses Efforts to develop new services and products in existing businesses 	<ul style="list-style-type: none"> Continued growth of core businesses New business efforts
Leasing Business	<p>Establish Earnings Structure</p> <ul style="list-style-type: none"> Fortify channels Establish profitability at operating level excluding reversals of vacancy reserves 	<p>New Development of High Profitability Business</p> <ul style="list-style-type: none"> Maximum number of managed rooms 570,000, improve competitive strength in managed properties Fortify services offered to residents Raise ratio of properties with security facilities to 35% (10% at end FY3/12) Facilitate nationwide office network to 400 (357 at end FY3/12)
Construction Business	<p>New Service and Product Efforts</p> <ul style="list-style-type: none"> Expand orders of buildings other than guaranteed leasing services Expand orders in high occupancy rate regions 	<p>Establish New Earnings Sources from Products, Businesses</p> <ul style="list-style-type: none"> Expand variation of construction (Energy conserving, senior citizen use, offices) Raise ratio of properties with solar power facilities to 30% (18% as of end FY3/12)
Other Related Business	<p>Securing Customers</p> <ul style="list-style-type: none"> Securing customers (promote usage, collaboration between businesses) 	<p>Maximize Earnings</p> <ul style="list-style-type: none"> Optimize operation, management structure, fortify collaboration to maximize earnings
Total	<p>Strategic Selection, Concentration of Costs/ Growth Strategy Efforts</p> <ul style="list-style-type: none"> Maintain low cost structure, consider introduction of strategic spending (Personnel, advertising, sales promotion related) New business ("Future Project") efforts 	

(4) Business Strategy

<Leasing Business>

(Units: Billion Yen)

	FY3/12	FY3/13 Target	FY3/14 Target	FY3/15 Target
Sales	380.3	386.6	389.0	391.5
Gross Income	38.6	45.2	51.6	53.3
Operating Income	5.2	9.5	15.0	16.1
Average occupancy Rates	81.2%	83.0%	85.0%	85.8%

* Assuming ¥2.5 billion in reversals from vacancy loss reserves per year

<What Are Vacancy Loss Reserves?>

Leopalace21 has established a reserve based on rational estimates of the potential amount of losses that may occur during a term in preparation for potential risk of losses resulting from an expansion in vacancies. This reserve is calculated based on the profitability of individual properties and reversals are conducted on a quarterly basis. Therefore reversals of these reserves are conducted in the event that profitability improves from increases in occupancy rates, securing of additional income, or reductions in costs (Reversals are booked as part of cost of sales).

1. Directly Operated, Partner Operated Franchise Office Development

In the future, Leopalace21 is expected to expand the number of directly operated offices in the Tokyo metropolitan region and partner operated franchised offices in outer lying regions. During the coming term, 13 directly operated and 30 partner operated franchised offices are expected to be opened, bringing the total number of offices to 400 including 8 overseas. However, in order to bring about a smooth expansion in the number of partner operated offices, improving service quality is recognized to be a crucial factor. Therefore a strategy of fortifying the training systems and scrap and build will be promoted.

2. Fortify Marketing to Corporate Clients

From the perspective of management efficiency, corporate demand for outsourcing the ownership, operation and management of corporate dormitories and housing is on the rise and Leopalace21 is striving to capture this demand. As of end March 2012, the Company provided services to 43,000 corporations for some 220,000 rooms. The fact that 78% of all publicly traded companies use Leopalace21's services is a reflection of its favorable evaluation by the market and a strength of the Company. The following measures will continue to be implemented to capture further demand from corporations.

- * Create a specialized marketing division targeting corporations
- * Fortify marketing function of each group company
- * Operate a website "LAM System" targeting collaborating corporations. This website will provide special request forms that comply with corporate regulations to employees seeking rooms.
- * Maintain strong relationships with existing clients
- * Developing new clients (Create a new division)

3. Capturing Needs of Residents

Expand services offered to residents in keeping with the theme of "Leopalace21 constantly promoting new rental solutions." "My Collection Plan" and security systems will be promoted to 1) capture long term residents, and 2) raise occupancy rates through differentiation. Product development, proposal capability, and creativity are major strengths of the Company, and there are few companies aside from Leopalace21 that provide services on a nationwide basis.

4. Measures for Foreign Students

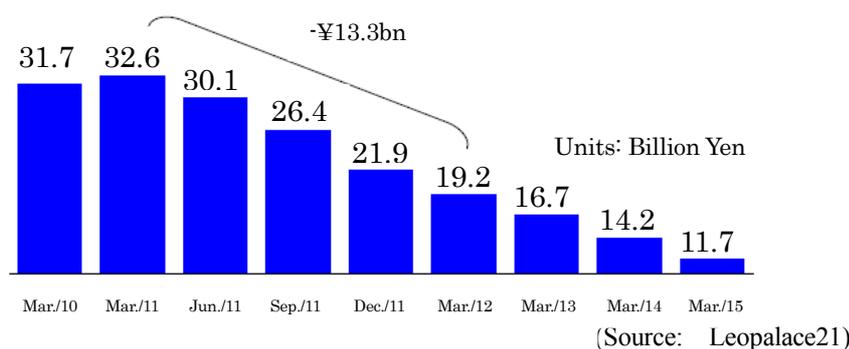
The number of foreign students using Leopalace21 facilities totaled 140,000 at the end of March 2012. According to the Japan Student Services Organization of the Ministry of Education, Culture, Sports, Science and Technology, approximately 80% of all foreign students take up residence at privately operated dormitories, apartments, and other residential facilities. Therefore Leopalace21 is promoting efforts including opening of overseas offices, call centers and LAM Schools to capture the growth in foreign students.

- The Ministry of Education, Culture, Sports, Science and Technology backs the "STUDY in Japan" plan to raise the number of foreign students studying in Japan to 300,000.
- A website called "LAM School" is operated. This website allows students at partnering schools to search for and sign contracts for rooms prior to coming to Japan.
- Currently Leopalace21 operates 4 offices in China, 3 in Korea, and 1 in Taiwan for a total of 8 overseas offices.

5. Reducing Cost of Leasing

One method of reducing costs are reversals of vacancy loss reserves. Declines in these reserves from ¥32.6 billion at the end of March 2011 to ¥13.4 billion at the end of March 2012 due to an improvement in profitability of managed properties and the passage of time for fixed rent payment contracts were a major reason for the improvement in profitability. According to the Company's Plan, improvements in profitability have not been included in the reserves as of the end of March 2012 and the normal annual portion of the reserve of only ¥2.5 billion, based on the average remaining period of subject apartments as of end March 2012 (¥7.5 billion over three years) is included.

Vacancy Loss Reserve Balance Trend and Plans



The reduction of another management cost is noted. Reviews to reduce management related costs through of review of routine tasks and paying appropriate rental prices to property owners through accurate assessment of conditions in surrounding rental properties are promoted.

<Construction Business>

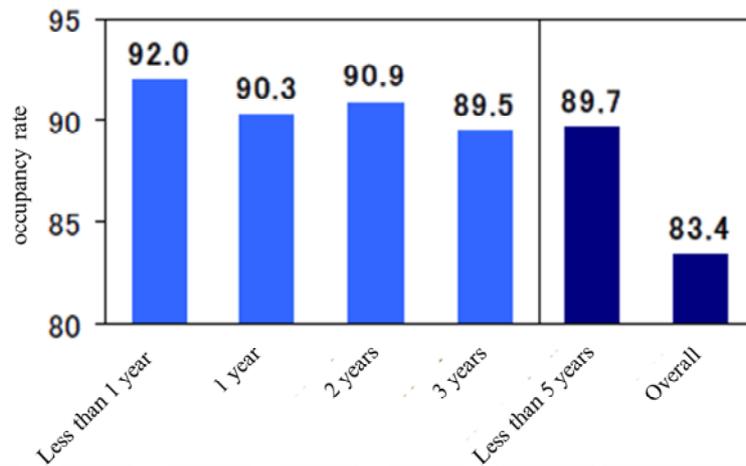
(Units: Billion Yen)

	FY3/12	FY3/13 Target	FY3/14 Target	FY3/15 Target
Sales	62.9	60.2	61.1	67.4
① Apartments, Condominiums	43.8	49.9	53.8	60.2
② Commercial Properties	0.6	2.8	5.1	6.1
③ Others (Solar Power, Others)	18.3	7.4	2.1	0.9
Gross Income	16.7	14.4	15.7	17.8
Operating Income	4.3	3.0	3.5	5.1
Orders	50.0	76.8	80.1	78.9

1. Apartment Supplies Based on Regional Strategies

While supplies of apartments will continue to be restrained, residences less than five years old boast of high occupancy rates of 90% and exceed the overall average of 83.4% by a large margin. Specifically, Leopalace21 will focus upon providing apartments in metropolitan areas including Tokyo, Osaka, Kanagawa, Saitama, Hyogo and other areas which boast of high occupancy rates of 93% to 95%.

Occupancy Rates According Structure Age (As of end March 2012)



(Source: Leopalace21)

2. Cutting Edge Product Development

In response to the needs of owners and residents, the following characteristics will be taken into consideration in the development of products.

“Small Property Products: LEFFECT J-Style”

This product is a home that can be built on a small foot print of no longer than one car parking space and is designed to capture strong demand for residences in urban areas.

“Environmentally Conscious Residences: Leco Model”

In response to the need to use cleaner energy sources, sales of “Leco Model,” which utilize solar power generation systems and storage batteries, have begun. Currently, rental housing called “Li-stage” and “Sky-stage,” and single family dwellings for sale called “Wi-stage” are being sold. Rental housing “Sky-stage” makes use of “passive ecological measures” including centrally located gardens, natural lighting and ventilation.

“Two Low Costs Spaces: DUAL-L”

Utilization of space is maximized through the use of “dual lofts” and closets.

3. High Quality Apartment, Condominium Construction

Leopalace21 is also focusing its efforts upon raising owner and resident satisfaction by making improvements in the living spaces they provide.

“Earthquake Resistance”

Leopalace21’s structures are designed to earthquake resistance class 2 rating (1.25 as strong as the building code), and not one of their structures collapsed during the Great East Japan Earthquake. Furthermore, the use of earthquake resistant bracing fortification enables the Company to make their structures up to earthquake resistance class 3 rating (Earthquake resistant brace fortification: Improving the earthquake resistance of their structures by using energy absorbing braces that absorb the shaking of earthquakes).

“Sound Proofing”

The new product DUAL-L uses “sound proofing” that helps to raise the acoustic transition loss valuation. Sound proof flooring is used in the second floor of homes to lessen the sound of people walking.

“Self Cleaning Siding”

Leopalace21 structures make use of siding materials which have self cleaning function (Artificial external wall materials

that are made of a combination of cement and wooden materials) that allows rain to wash off dirt and other stains naturally.

“Residential Property Performance Certification: Acquired Class 2 Deterioration Countermeasure”

Deterioration countermeasures focus upon reducing the deterioration in columns, joists, walls, and other structural frame materials and the certification system evaluates these measures. Class 2 certification is awarded to homes which have measures designed to allow them to remain standing for 50 to 60 years.

4. Reconstruction

The number of newly constructed homes is expected to decline in the future, but demand for reconstruction is anticipated to rise. Therefore Leopalace21 has identified some 29,000 homes that are over 15 years old which could be reconstruction candidates in the Tokyo, Kanagawa, Saitama, and Kinki regions. Given that occupancy rates are higher in newer properties, the Company expects to conduct reconstruction activities of these properties to include toilets and bathrooms, increasing the size of kitchens, facilitating security systems, and installation of sound proof flooring.

5. Commercial Use Facility Construction

Leopalace21 will fortify its order taking activities in the non-residential, commercial use facilities, which is expected to grow in the future. One of the areas that the Company will focus upon is facilities catering to senior citizens. Construction of structures is done on behalf of property owners and operators of nursing facilities are introduced based on the knowhow developed in the 58 “Azumi En” facilities in Leopalace21’s own elderly care business. The first facility was a nursing home completed in Setagaya Ward of Tokyo in February 2012 (The operator is a company listed on the Tokyo Stock Exchange).

Another area is stores and commercial facilities. Leopalace21 introduces property owners to operators looking for locations for restaurants, pharmacies, and other commercial facilities. In this area, the Company can leverage the 47,000 corporate clients with which it does business. The Company can also propose formats including individual stores and commercial facilities, and also one to two story facilities, high rise buildings with rental residences in upper floors, and a combination of stores and residential properties. This ability to propose a wide range of solutions based on its nationwide database of information of properties is one of the characteristics and strengths of Leopalace21.

6. Measures to Raise Value of Properties

An important issue in order to create conditions where demand exceeds supplies of residences, increase satisfaction of residents, and raise occupancy rates is the ability to raise the value addition of rental properties. Furthermore, raising rent prices by raising the value addition of properties is critical in improving profitability of the leasing business, and is the motivation for a focus upon not only reconstruction, but also features such as “solar power generation systems” and “security systems” to raise value addition of properties.

“Solar Power Generation Systems”

During the fiscal year March 2012, Leopalace21 began seriously focusing upon solar power generation systems with their installation of 3,814 units for total power generation of 30,000 kilowatts. These systems also contribute to the reduction of carbon dioxide output. The Company expects to install some 1,000 systems per year for a total of 3,200 systems over the next three years, bringing the total number of systems in operation to 7,000 and an installation rate of 30% by fiscal year March 2015.

“Security Systems”

During fiscal year March 2012, strong demand and aggressive proposal activities led to the installation of 60,000 security systems or an installation rate of 10.9%. Security systems are expected to continue to grow to 190,000 installed units for an installation rate of 35% by fiscal year March 2015. In the future, Leopalace21 is expected to install security systems as standard equipment at all of its facilities under management.

<Hotel, Resort Business>

(Units: Billion Yen)

	FY3/12	FY3/13 Target	FY3/14 Target	FY3/15 Target
Sales	6.2	6.6	6.7	6.8
Operating Income	-1.6	-1.0	-0.7	-0.6

(Domestic Hotels)

(Units: Billion Yen)

	FY3/12	FY3/13 Target	FY3/14 Target	FY3/15 Target
Sales	2.2	2.3	2.3	2.3
Operating Income	-0.3	-0.04	-0.1	0.02
Depreciation	0.52	0.43	0.37	0.33
Occupancy Rates	72.5%	73.8%	74.1%	74.6%

(Leopalace Guam)

(Units: Million Dollar)

	FY3/12	FY3/13 Target	FY3/14 Target	FY3/15 Target
Sales	57	63	66	66
Operating Income	-8	-1	2	3
Depreciation	15	15	13	12
Leopalace Guam Occupancy Rates	52.8%	70.1%	73.7%	73.7%
Westin Resort Guam Occupancy Rates	74.2%	74.0%	74.5%	74.8%

<Silver Business>

(Units: Billion Yen)

	FY3/12	FY3/13 Target	FY3/14 Target	FY3/15 Target
Sales	8.8	9.1	9.4	9.6
Operating Income	-0.8	-0.8	-0.7	-0.6
Day Service Utilization Rates	62.7%	66.2%	68.4%	70.2%
Short Stay Utilization Rates	96.6%	96.7%	96.7%	96.7%
Nursing Home Occupancy Rates	76.4%	84.7%	89.1%	91.9%

Leopalace21 seeks to make both businesses profitable at an early stage by cultivating clients, optimizing management and operations, and increasing collaboration.

(5) New Business “Future Project”

Leopalace21 has remained focused upon the theme of “Living” until now, and it will maintain this strategy by focusing upon growing this business.

In order to realize this basic strategy, Leopalace21 established a corporate planning division in April 2012 as a comprehensive planning division for the purpose of strengthening the planning function and developing new business ideas. This division will promote efforts to survey, consider and realize new businesses in keeping with the **“Future Project”** included in the New Midterm Business Plan.

Alliances and M&A measures designed to leverage the stock of 27,000 property owners and 550,000 rooms managed to pursue new business opportunities will be promoted as businesses in “1. realms related to existing businesses.” The “2. new businesses within the growth strategy” includes overseas deployment of the leasing business and conversion of renewable energy into business opportunities (Entry to the Korean market was undertaken as the first step in the overseas deployment of the leasing business.).

(6) Finance

- Focusing upon “return to a management strategy without ownership,” while also promoting management that is focused upon cash flow.
- Achieve positive operating cash flow in fiscal year March 2013, and targeting ¥13.3 billion in fiscal year March 2015.
- A third party private placement of stock options was issued in February 2012. ¥12.6 billion will be raised if all of these options are exercised. Because a minimum exercise price has been established, the maximum amount of dilution is 23.94%. Furthermore, Leopalace21 maintains the right to permit exercise of the options, and will carefully monitor movement in share prices before it allows London offices of Deutsche Bank AG, to which the options have been issued, to exercise the options.
- Leopalace21 will maintain its basic policy of “management without ownership” with regards to its capital investment strategy. The uses of the ¥12.6 billion in capital expected to be sourced from the stock options are described below.

“Backbone System Development Expense: ¥5.0 billion”

“Leasing business profitability improvement measures (M&A activities for office development, advertising and sales promotion investments, product and client cultivation activities): ¥5.0 billion”

“Capital investments in existing facilities in the leasing business (Including reconstruction, renewal, solar power systems, security systems): ¥2.6 billion”

- With regards to its dividend policy, management views the return of profits to shareholders as an important issue and seeks to reinstate dividend payments at an early stage. Despite the return to profitability for the first time in three years, management has decided to give priority to establishing a stable earnings structure, and replenish the retained earnings reserves which have turned negative.

4. First Half Fiscal Year March 2013 Earnings Results**(1) Consolidated Earnings**

(Units: Million Yen)

	1H FY3/12	1H FY3/13 Est.	1H FY3/13 Results	Divergence	YY Change
Sales	223,044	219,600	219,997	+0.2%	-1.4%
Gross Income	21,908	23,800	25,841	+8.6%	+18.0%
SG&A	24,100	25,400	23,943	-5.7%	-0.7%
Operating Income	-2,191	-1,600	1,897	—	—
Ordinary Income	-6,187	-2,600	-1,744	—	—
Net Income	-5,203	-2,900	-2,258	—	—

* 1H FY3/13 estimates were those announced by the Company in May 2012.

Higher Occupancy Rates Allow Profits to Improve Despite Lower Sales, Sales and Profits Exceed Estimates

While sales fell from the previous first half due to restraint in the construction business, they exceeded estimates by over ¥300 million. With regards to profits, improvements in occupancy rates in the leasing business contributed to a ¥2.3 billion increase in reversals of vacancy loss reserves to ¥3.6 billion and allowed gross income to rise by double digits. Furthermore reductions in selling, general and administrative costs allowed operating income to recover to profits. Losses were recorded at the ordinary and net income levels due in part to the unrealized foreign exchange losses of ¥2.6 billion arising from loans to the subsidiary in Guam and impairment losses of ¥300 million, but they still reflected improvements over estimates.

(2) Segment Earnings Trends

(Units: Million Yen)

	Sales			Operating Income		
	1H FY3/12	1H FY3/13	YY Change	1H FY3/12	1H FY3/13	YY Change
Leasing Business	184,194	191,545	+4.0%	-2,200	4,166	+6,366
Construction Business	30,885	19,993	-35.3%	2,352	-596	-2,949
Hotel, Resort Business	3,052	3,147	+3.1%	-696	-434	+262
Silver, Other Business	4,911	5,311	+8.1%	-378	-177	+201
Adjustments	0	0	-	-1,269	-1,060	-
1H Total	223,044	219,997	-1.4%	-2,191	1,897	+4,088

<Leasing Business>

- Sales grew on the back of improvements in occupancy rates and installation of security systems. A ¥2.3 billion improvement in reversals from vacancy loss reserves contributed to a large increase in operating income.
- The average occupancy rate target during the current fiscal year calls for a rise by 1.8% points from the previous fiscal year to 83.0%. The rate remained above the previous year's levels with an average of 82.54% until October. Occupancy rates in the months of August, September and October rose by over 2% from the previous year to 82.90%, 83.13% and 82.59% respectively. And while occupancy rates during the second quarter usually fall below first quarter levels, the measures to cultivate clients proved successful.
- The number of rooms managed declined by 3.6% year-over-year during the second quarter to 551,287, with 458,264 of these rooms contracted to residents. Within these contracted rooms, the number of rooms contracted to corporations rose by 6.2% year-over-year to 217,034 or 47.4% of the total (44.1% of the total in the previous first half) and reflects the successful efforts of the Company to fortify its corporate marketing function. Leopalace21 promoted a wide range of corporate marketing activities including those designed "to strengthen relationships with important customers" and "cultivate new customers," and to ensure that its portfolio of corporate customers is evenly balanced between manufacturing, service, and retail industries.
- At the same time, the Company will continue to expand its marketing efforts to individuals and students, to whom the number of rooms contracted fell by about 6% to 8% year-over-year.
- Leopalace21 strengthened marketing efforts to individuals by fortifying its franchise operated offices called "Leopalace Partners." As of October 2012 the number of directly operated offices within and outside of Japan stood at 172 and 8, and Partner franchised offices stood at 202, bringing the total number of offices to 382. With regards to the partner offices, Leopalace21 is now more focused upon improving the quality of services offered at its existing partner offices through strict training and instruction programs and implementing a "scrap and build" strategy than increasing their numbers as a means of increasing the number of contracts. Furthermore, the number of directly operated offices is being expanded in order to raise occupancy rates in the three major metropolitan regions. As of October 2012, 13 new offices were opened and further new office openings are also being considered.
- Television commercials have begun to be broadcast from November 5, 2012 as a measure to expand individual customers. A key theme used in the commercials is the acronym "ka-ka-se" (Meaning "cannot do without") which suggests factors that are critical in the search for homes, including "ka" which refers to furniture and home appliances (In Japanese "kagu" and "kaden"), customization (Pronounced "ka-su-ta-mization" in Japanese), and "se" refers to security (First vowel of the same Japanese word).
- Leopalace21 has begun a "Room Customize" service where residents can choose between 65 different designs of wallpapers. The Company also allows residents to customize their rooms by using nails to hang artwork and shelves, and paint interior walls as part of their "My Collection Plan" service, and provides residents with special wallpaper with self cleaning and odor reducing functions as part of its "Comfort Plan" service.
- As a means of increasing the value addition of its properties, Leopalace21 has been focusing upon the installation of security systems and the ratio of apartments with security systems installed rose to 100,393 or 17% of all apartments managed. During the first half, orders of ¥4.5 billion and sales of ¥4.6 billion had been targeted, but actual orders

and sales of ¥6.4 and ¥6.2 billion and were recorded respectively. In addition to increasing the number of female residents, security system installation also contributes to the interest of corporations to use rooms as corporate housing and dormitories.

<Construction Business>

- The narrowing of regional focus where marketing was conducted to capture orders for apartments, and restraint in supplies contributed to declines in both sales and profits. However both figures still managed to exceed estimates by large margins.
- Apartment and condominium construction declined by 1,582 units from the previous first half to 2,151, but 8 nursing homes and other commercial use facilities were completed, which compares with none in the previous first half. Leveraging the Company's strength of a nationwide database of information on property owners, Leopalace21 will promote construction of properties other than apartments and condominiums which are not provided under the guaranteed lease service.
- During the first half, 387 new orders for a total value of ¥31.6 billion were booked, exceeding the previous first half and reflecting the improved operating environment. However these figures represented only 90% of targets.
- The number of offices providing construction services on a nationwide basis rose by 1 from the end of the previous term to 52 as of end September 2012. The narrowing of order marketing area contributed to a high 76% share of construction sales derived from the three main metropolitan regions. In the future, Leopalace21 will focus its offices and order marketing activities in high occupancy rates areas.
- The sales of new products and services listed below have been started.

* In commemoration of the 40th year of operation, "DUAL-L" two story wooden structure rental homes with lofts were launched in May 2012

* Three story steel frame rental home "DUAL-ALTA" were launched in June 2012

* In commemoration of the 40th year of operation, "t-style" apartment with retail store facilities have been launched as the third product of the "Anniversary Model" series in August 2012

* "Li-stage" apartments with echelon balconies that protect the privacy of residents from their neighbors in December 2011

* "Sky-stage" passive ecology homes with balconies located in hall areas with high ceilings launched in April 2012

- Leopalace21 is also focusing upon the installation of solar power generation systems in order to raise the value addition of properties it constructs. As of the end September 2012, the number of solar power generation systems installed stood at 4,699 for a total power generation of 41 megawatts. According to the New Midterm Business Plan, the number of systems installed is expected to rise to 7,000 for an installation rate of 30% by the end of March 2015. The target for orders and sales during the first half were ¥4.0 and ¥4.5 billion, and actual orders and sales of ¥6.3 and ¥5.5 billion were recorded. As of July 1, 2012, an expansion of orders for large systems of over 10 kilowatt in capacity is being recorded due to the implementation of "fixed price purchase system derived from renewable energy sources."

<Hotels and Resort Business>

Earnings of the hotel and resort business segment, including domestic hotels and the Leopalace Guam Resort, are trending favorably with occupancy rates, sales and operating income exceeding both previous term results and estimates for the current term.

<Elderly Care Business>

Day care service, short stay, and nursing home facility services (Group homes included) also were able to record higher occupancy rates and sales than in the previous first half and those called for in estimates.

(3) Financial Conditions and Cash Flow

(Units: Million Yen)

	FY3/12 End	1H FY3/13 End		FY3/12 End	1H FY3/13 End
Cash, Equivalents	41,477	29,579	Payables	2,791	2,831
Receivables	4,541	3,700	Unpaid Construction Expenses	13,313	8,835
Outstanding Fees for Completed Construction	1,004	1,284	Short Term Interest Bearing Liabilities	46,265	46,462
Prepayments	18,997	15,862	Outstanding Payments	14,208	10,379
Current Assets	83,061	64,828	Prepayments Received	79,073	64,442
Buildings, Structures	55,116	54,141	Current Liabilities	166,295	143,266
Land	82,105	81,878	Long Term Interest Bearing Liabilities	2,040	1,760
Lease Assets	2,906	2,325	Retirement Reserves	8,041	8,360
Marketable Securities	6,489	6,323	Vacancy Loss Reserves	19,207	15,602
Long Term Expense Prepayments	18,295	12,152	Long Term Security Deposits	9,853	9,320
Fixed Assets	181,659	172,499	Long Term Prepayments Received	21,908	19,706
Total Assets	264,783	237,382	Fixed Liabilities	64,656	57,726
			Total Liabilities	230,951	200,992
			Net Assets	33,831	36,390
			Total Liabilities, Net Assets	264,783	237,382

	3/10 End	3/11 End	9/11 End	3/12 End	9/12 End
Equity Capital	70,979	33,040	31,304	33,381	36,390
Equity Ratio	17.9%	11.1%	11.6%	12.8%	15.3%
Interest Bearing Liabilities	56,481	39,888	48,310	48,305	48,222
Cash	72,431	40,674	29,854	41,477	29,579
NDE Ratio	-0.22	-0.02	0.59	0.20	0.51

* Interest bearing liabilities exclude lease liabilities. NDE Ratio = (Interest bearing liabilities - Cash) / Shareholders' Equity

(Units: Million Yen)

	1H FY3/12	1H FY3/13	YY Change
Operating Cash Flow	-15,430	-12,718	+2,712
Investing Cash Flow	-3,664	-121	+3,543
Free Cash Flow	-19,094	-12,839	+6,255
Financing Cash Flow	+7,857	+941	-6,916
Cash, Equivalents at Term End	29,154	28,979	-175

Operating cash flow remained negative due to the seasonal factor of a large number of apartments being completed at the end of March and payments to business partners in April. However during the second quarter, operating cash flow turned positive. Operating cash flow during the full year is expected to be positive.

5. Fiscal Year March 2013 Earnings Estimates

(1) Consolidated Earnings

(Units: Million Yen)

	FY3/12	Share	FY3/13 Est.	Share	YY Change
Sales	459,436	100.0%	463,900	100.0%	+1.0%
Operating Income	4,585	1.0%	8,000	1.7%	+74.4%
Ordinary Income	2,349	0.5%	6,100	1.3%	+159.6%
Net Income	1,588	0.3%	5,500	1.2%	+246.1%

Full Year Earnings Remain Unchanged, Small Rise in Sales with Large Increase in Profits Expected

While first half earnings estimates were revised upwards, full year estimates were left unchanged. The theme for this year of “Creating Future” was established as a means of “establishing the foundations for future growth”, and the promotion of measures described previously are being promoted as a means of realizing this large increase in profits. They will also help to put Leopalace21 firmly on the course of continued profitability.

(2) Topics: Deployment of Leasing Business in Korea

On November 1, 2012, a joint venture company “Woori & Leo PMC Co., Ltd.” was formed with Korea’s largest residential property management company “Woori Housing Operation and Management Company” for the provision of leasing business within Korea.

<Background>

Trends in the Korean residential property leasing market are described below.

(1) Increase in Number of Households despite Declining Birthrates

Just as in Japan, birthrates are on the decline in Korea. The Korean population (Currently about 50 million) is expected to begin declining from 2020 onwards, but the number of single or double person households is expected to increase particularly in the capital city of Seoul. Therefore demand for smaller residential properties is expected to increase going forward.

(2) “Chonse” and “Wolse” Type Contracts

In Korea, there are two types of leasing contracts called “chonse” and “wolse.” “Chonse” is a typical contract in Korea where the resident pays a large deposit (Between 50% to 70% of the value of the property) to the property owner in lieu of paying monthly rent. The full amount of this deposit is returned at the end of the contract term. This system is based on the ability of the property owner to use the deposit freely and on the assumption of an increase in property values. “Wolse” is similar to the leasing agreements found within Japan, where a deposit is paid in addition to monthly rent, with return of the deposit upon completion of the contract term. While “chonse” contracts had been popular and commanded a large share of the market due to the appreciation in real estate prices and high interest rates, stagnation in real estate prices, declines in interest rates, and increases in single or two person households has contributed to a gradual rise in the share of “wolse” contracts.

(3) Leased Housing and “Wolse” Contract Demand Increases

In Korea, waning expectations of higher real estate prices and declines in real estate investment demand have led to a shift within the residential market from a strategy based on capital gains to one based on income. Landlords have therefore adopted a more favorable disposition towards “wolse” contracts over “chonse” contracts. The share of “wolse” contracts in 2005 stood of 45.9% of the total market and has risen to 49.7% as of 2010. Furthermore their share is expected to continue to expand in the future.

<Objective of Joint Venture Establishment>

The increased demand for studio type one room condominiums in Korea is an opportunity for Leopalace21 to leverage its knowhow cultivated in these types of residential properties within Japan. Furthermore, the formation of a joint venture

business was deemed to be the best approach to take advantage of the lowering of the barriers to entry through the increase in “worse” contracts.

<Future Measures for Overseas Business Deployment>

The opening of overseas offices (4 in China, 3 in Korea, 1 in Taiwan) provides a key strategy for Leopalace21 to capture inbound demand for housing by presenting foreign students seeking to study in Japan with information about housing prior to their arrival. The Company will use its new joint venture in Korea as a foothold to strengthen its functions in Korea and other markets including the function of providing residential and other services to Japanese companies operating in those local markets as part of Leopalace21’s comprehensive outbound services in the real estate and other realms.

6. Conclusions

During the previous term, a return to profitability for the first time in three years and an increase in occupancy rates by over 2% points from the previous term were realized. In addition, Leopalace21 is implementing measures to improve near term earnings and firmly establish its long term earnings generating capability. However, the Company’s efforts to establish a “stable earnings cycle” business model is focused more upon restraining capacity and is therefore unlikely to lead to large increases in sales. One of the key issues that investors should keep a close watch on is the ability of Leopalace21 to realize large improvements in profitability needed to achieve the goals of “operating income margin of 3.5% and ROE of 20%” in the final year of the New Midterm Business Plan “Creating Future.” In particular, raising equity ratio along with ROE from 4% to 20% will necessitate drastic measures to bring about large improvements in profitability. Over the intermediate term, Leopalace21’s ability to leverage its strengths in product and planning capabilities to capture opportunities presented by the growing demand for residential properties from single residents and the growing segment of elderly Japanese relative to the overall market should also be watched closely.

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