



# **Explanatory Session for Interim Results for Fiscal Year Ending March 2006**

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**November 2005**  
**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.

# Contents

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## Market Environment and Interim Results

Market Environment	3
Interim Group Results	4
Interim Results for Construction & Leasing	5

## Outline of Interim Results

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

## Business and Financial Strategy for Second Half

Business Strategy for Second Half	12
Long Term Strategy for Core Business: ‘Dream Support Project’	13
Financial Strategy	14

## Status of Main Strategic Businesses

Broadband Business Management Policy	16
Midterm Plan for Broadband Business	17
Leopalace Resort Business	18
Status of New Businesses	19

## Appendix

Number of New Residential Constructions (According to Usage)	21
Number of New Rental Constructions and Our Market Share	22
The Two Boom Generations Predicted by Population Forecasts	23
Trends in Income, Savings and Home Ownership by Age Groups	24
Forecast Average Household Sizes by Family Type	25
Size of the Silver Market	26
Usage Patterns (Studio Market)	27
Shareholder Composition Trends	28

# Market Environment & Interim Results

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## DOMESTIC MARKET ENVIRONMENT

As at mid fiscal year, new residential construction statistics are continuing to show rapid growth!

See Appendix P21

In this first half, our market share in new rental constructions (less than 30m<sup>2</sup>) was 39%!

See Appendix P22

According to Japanese population forecasts:

After 2010 the baby boomers will constitute the 'silver market' and consumption and investment by the new silver market will rise!

After 2006 there will be a rapid switch by the 'baby boomer junior generation' from rented accommodation to home ownership!

See Appendix P23, P24, P25

Even after the April 2006 reform of the silver market's nursing care insurance scheme, total nursing care insurance benefits will be worth 9 trillion yen – that's a market of 6.4 million beneficiaries!

See Appendix P26



Narita Group Home 'Azumien'



'Lu Cerna' Western Tokyo



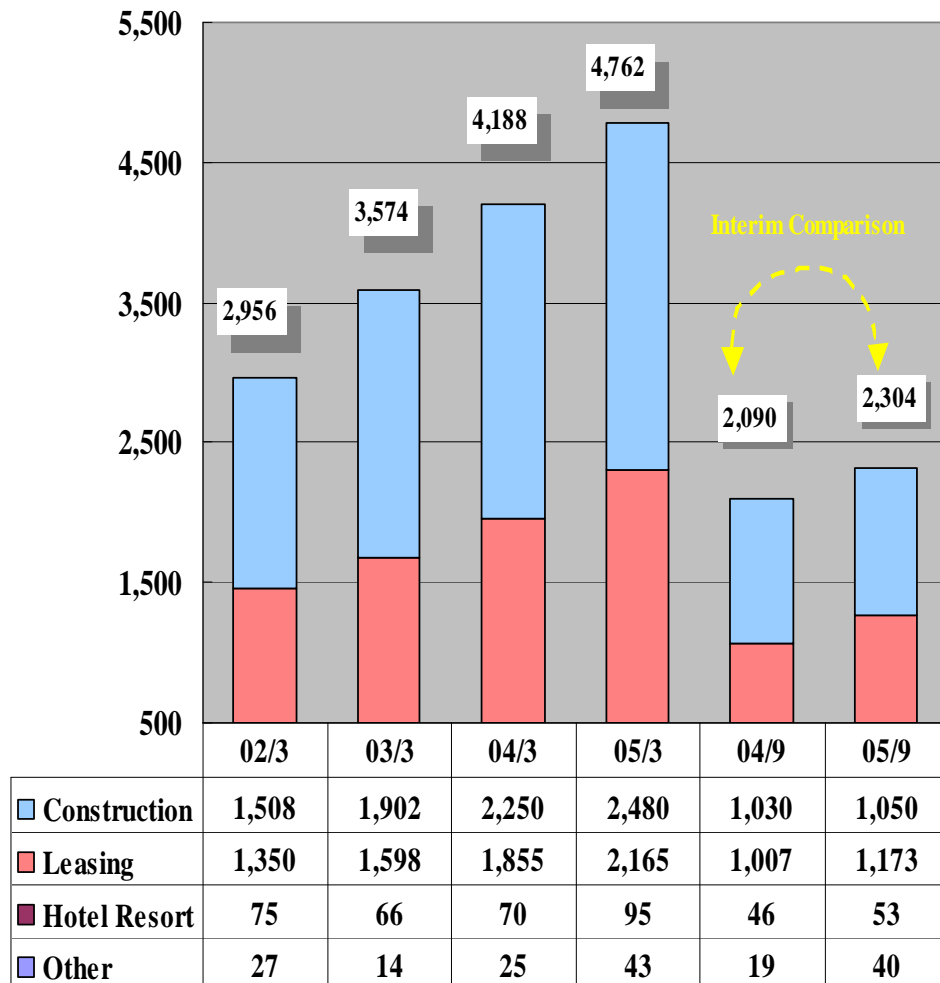
Leopalace21 Con Grazia

# Interim Group Results (Consolidated)

## Both Net Sales & Profits Are Proceeding According to Plan!

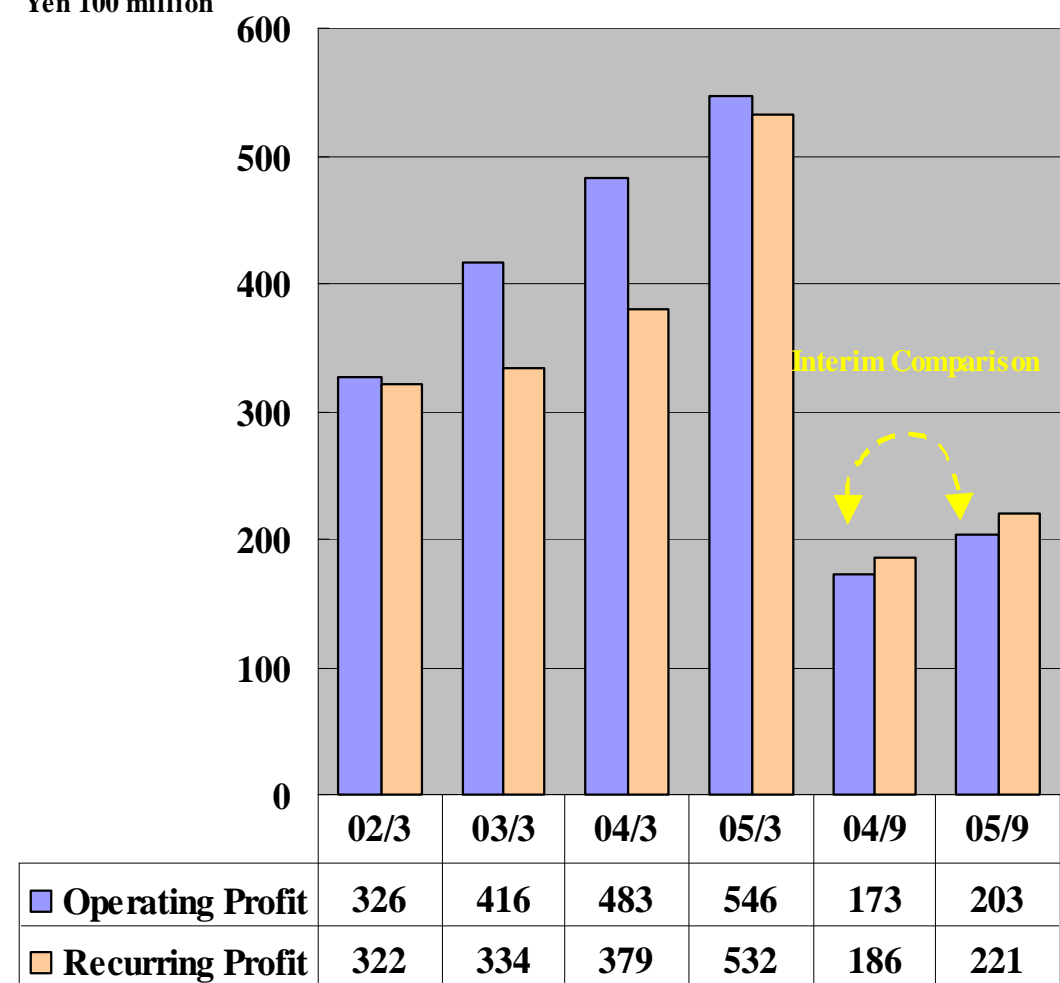
**Interim Net Sales Results**

Yen 100 million



**Interim Results for Operating Profit & Recurring Profits**

Yen 100 million

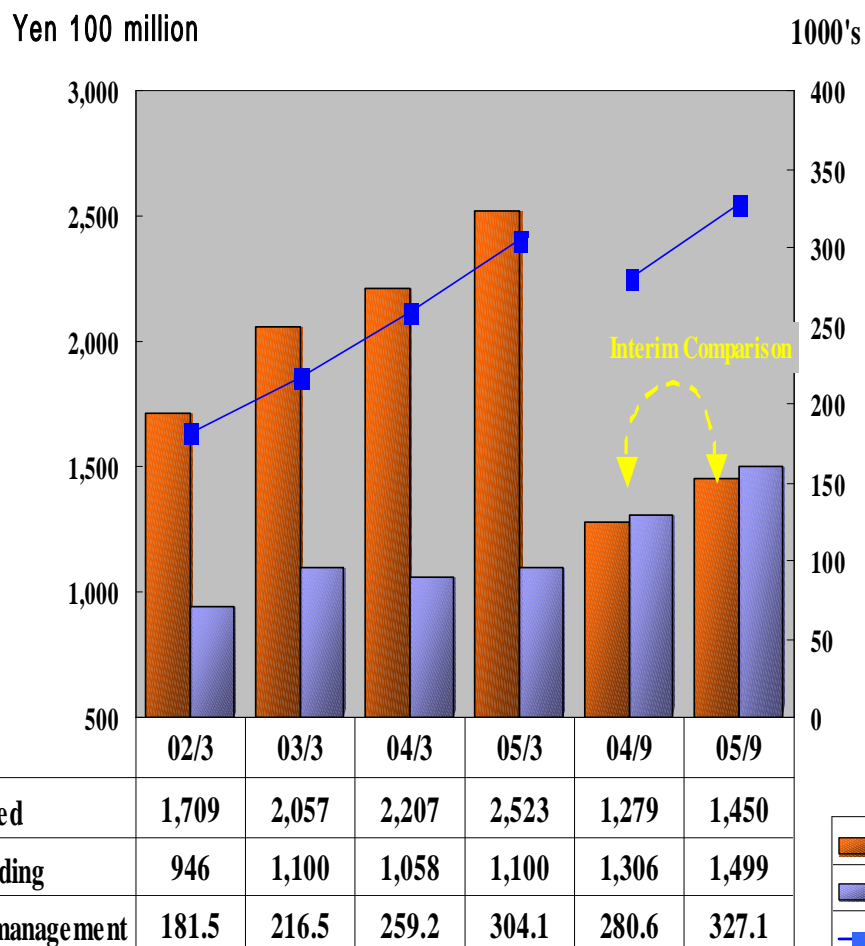


# Interim Results in Construction & Leasing

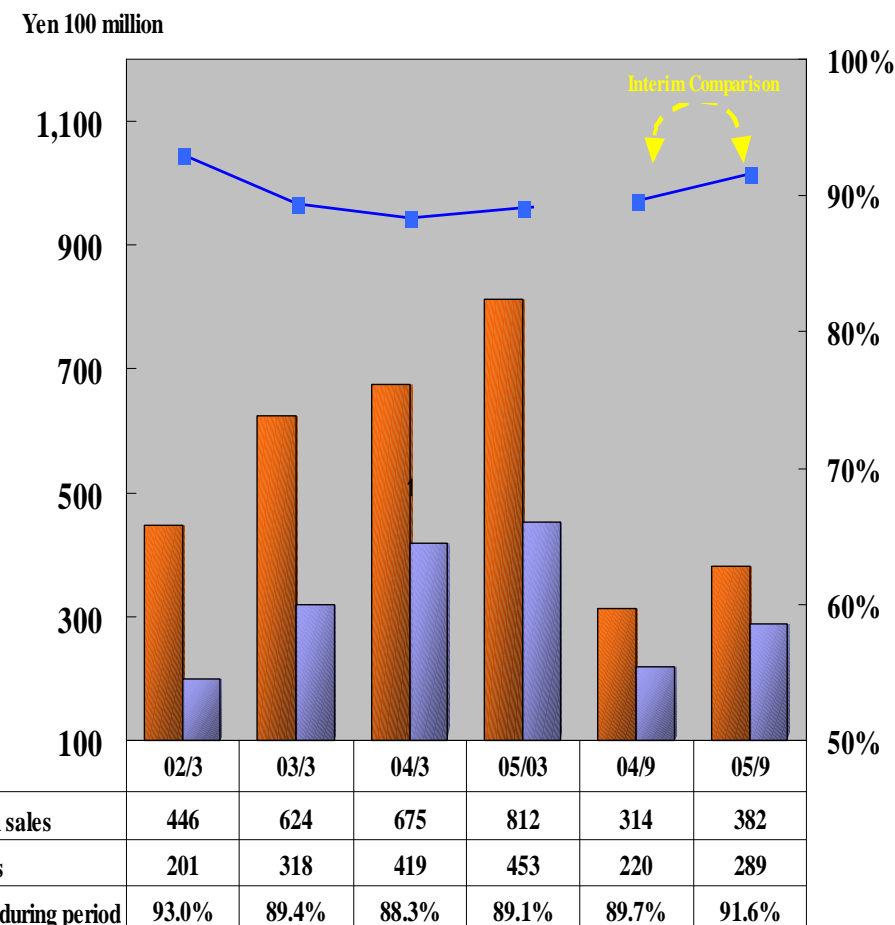
*The lull is over!* Value of new construction business orders up 13.4 % on last year's interim results

*Leasing is Revived!* Leasing business occupancy rates up 1.88P on last year's interim results

Trend in Actual Results for Construction



Actual Trend Results for Leasing



# Outline of Interim Results

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

(Unit:Yen million)	Consolidated				Non-consolidated			
	Sept 2005 Interim	Sept 2004 Interim	Change in amount	Percentage Change	Sept 2005 Interim	Sept 2004 Interim	Change in amount	Percentage Change
Net sales	230,418	209,062	21,356	10.2%	226,454	205,831	20,623	10.0%
Gross profit	54,351	49,522	4,829	9.8%	54,437	49,135	5,302	10.8%
Gross profit ratio(%)	23.6%	23.7%	-0.1%	-	24.0%	23.9%	0.2%	-
Sales,general & administrative expenses	33,972	32,188	1,784	5.5%	34,844	31,726	3,118	9.8%
Operating profit	20,378	17,334	3,044	17.6%	19,592	17,408	2,184	12.5%
Operating profit ratio(%)	8.8%	8.3%	0.6%	-	8.6%	8.5%	0.1%	-
Recurring profit	22,162	18,656	3,506	18.8%	18,920	15,795	3,125	19.8%
Recurring profit ratio(%)	9.6%	8.9%	0.7%	-	8.3%	7.7%	0.6%	-
Interim FY net income	-24,328	12,139	-36,467	-	-40,928	10,150	-51,078	-

## Highlights of Interim Results for Parent & Major Subsidiaries

(Unit: Yen million)		Sept 2005 Interim	Sept 2004 Interim	Change in amount	Percentage Change	Forecast for FY2006	Sept 2005 depreciation expenses	Sept 2004 depreciation expenses
<b>Leopalace21</b>	Net sales	226,454	205,831	20,623	10.0%	524,000	1,343	1,489
	Recurring profit	18,920	15,795	3,125	19.8%	55,400		
<b>MDI Guam</b>	Net sales	3,836	3,304	532	16.1%	7,800	771	1,297
	Recurring profit	2,291	1,159	1,132	97.7%	-900		
	Foreign Exchange gain / loss	2,238	2,129	109	5.1%	..		
<b>Torianon Palace</b>	Net sales	1,074	943	131	13.9%	2,200	128	124
	Recurring profit	-13	-157	144	-	0		
<b>Others and exclusions</b>	Net sales	-946	-1,016	70	-	-1,000	4	-6
	Recurring profit	964	759	205	-	1,800		
<b>Consolidated Total</b>	Net sales	230,418	209,062	21,356	10.2%	533,000	2,251	2,904
	Recurring profit	22,162	18,656	3,506	18.8%	56,900		
	Foreign Exchange gain / loss	2,730	2,694	36	1.3%			

(Note 1) MDI Guam: MDI Guam Corporation (Guam registered subsidiary company)

(Note 2) Torianon Palace: Torianon Palace Hotel, De Versailles S.A. (French registered subsidiary company)

## Overview of Balance Sheet and Cash Flows (Consolidated)

### Sept 2005 Interim Balance Sheet

(Unit: Yen million)	Sept 2005 Interim	Sept 2004 Interim	Change in amount	End March 2005
<b>Assets</b>				
<b>Current assets</b>	137,487	112,452	25,035	149,418
Cash & cash equivalents	27,718	28,037	-319	39,991
Trade receivables and accounts receivable for completed projects	29,538	26,441	3,097	41,588
Operating loans	11,190	14,611	-3,421	13,142
Payout for construction in progress	4,634	4,562	72	3,248
<b>Fixed assets</b>	242,533	291,357	-48,824	294,456
Building & structures	82,676	118,054	-35,378	117,004
Land	102,391	107,025	-4,634	109,740
Allowance for funds used during construction	2,425	15,052	-12,627	12,697
Total assets	380,197	404,136	-23,939	444,095
<b>Liabilities</b>				
<b>Current liabilities</b>	161,302	159,811	1,491	191,061
<b>Fixed liabilities</b>	81,851	101,350	-19,499	90,555
Total liabilities	243,154	261,162	-18,008	281,616
<b>Share holder's Equity</b>				
Share capital	55,640	55,640	0	55,640
Capital surplus	33,759	33,772	-13	33,759
Retained earnings	40,403	46,476	-6,073	67,123
Total shareholder's equity	119,179	125,097	-5,918	144,825
Shareholder's equity ratio	31.3%	31.0%	0.4%	32.6%

### Sept 2005 Interim Cash Flows

(Unit: Yen million)	Sept 2005 Interim	Sept 2004 Interim
<b>Cash flows from operating activities</b>	119	-8,358
Net income before taxes & adjustments	-40,184	17,601
Depreciation expense	2,251	2,904
Foreign exchange loss (gain)	-2,730	-2,694
loss due to impairment	61,298	· ·
Decrease(-increase) in accounts receivable	20,103	10,667
Decrease(-increase) in inventories	-3,925	-545
Increase(-decrease) in long-term prepaid expenses	-3,294	-4,485
Increase(-decrease) in accounts payable	-22,317	-12,595
Income taxes paid	-12,438	-16,765
<b>Cash flows from investing activities</b>	-4,923	-3,327
Payout for purchase & proceeds from sale of tangible assets	-3,574	-3,489
Payout for purchase & proceeds from sale of investment securities	-720	-434
<b>Cash flow from financing activities</b>	-7,543	8,885
Proceeds from & repayment of short-term debt	6,478	11,681
Proceeds from & repayment of long-term debt	-10,399	-34,549
Proceeds from shares issued	· ·	36,260
Dividends paid to minority shareholders	-225	-225
Dividends paid to shareholders	-2,377	-2,090
<b>Net increase in cash &amp; cash equivalents</b>	-12,272	-2,697
<b>Cash &amp; cash equivalents at end of interim period</b>	27,718	28,037

# Profit / Loss for Major Segments (Consolidated)

(\* Figures prior to exclusion of transactions between segments)

(Unit:Yen million)	Sept 2005 Interim	Sales comparison	Sept 2004 Interim	Sales comparison	Change in amount	Percentage Change	Forecast for FY2006
<b>Construction Division</b>							
Net sales	105,041		103,049		1,992	1.9%	250,000
Gross profit	35,644	33.9%	35,491	34.4%	153	0.4%	82,500
Operating profit	22,800	21.7%	21,670	21.0%	1,129	5.2%	55,900
<b>Leasing Division</b>							
Net sales	117,322		100,793		16,528	16.4%	254,500
Gross profit	19,501	16.6%	15,492	15.4%	4,008	25.9%	47,430
Operating profit	1,298	1.1%	573	0.6%	724	126.5%	9,700
<b>Hotel Resort Division</b>							
Net sales	5,304		4,687		616	13.2%	11,200
Gross profit	291	-	929	19.8%	-638	-	-80
Operating profit	-1,165	-	-1,982	-	816	-	-3,000
<b>Other Businesses</b>							
Net sales	4,046		1,937		2,108	108.9%	19,500
Gross profit	210	5.2%	-984	-	1,194	-	2,750
Operating profit	-669	-	-1,366	-	696	-	400

Construction Division: came in right on target in this first half. The second half should see an end to the lull with an increase in orders!

Leasing Division: Occupancy rates were successfully increased across the board. Average occupancy rates during first half 2006 were 91.6%(1.9P higher than the first half FY 2004).

Hotel Resort Division: Guam occupancy ratio up until end first half was 61.5%.

Other businesses: the broadband business achieved profitability during this first half and is expected to remain profitable in the second half also. Interim results for the housing business and silver business are proceeding as planned.

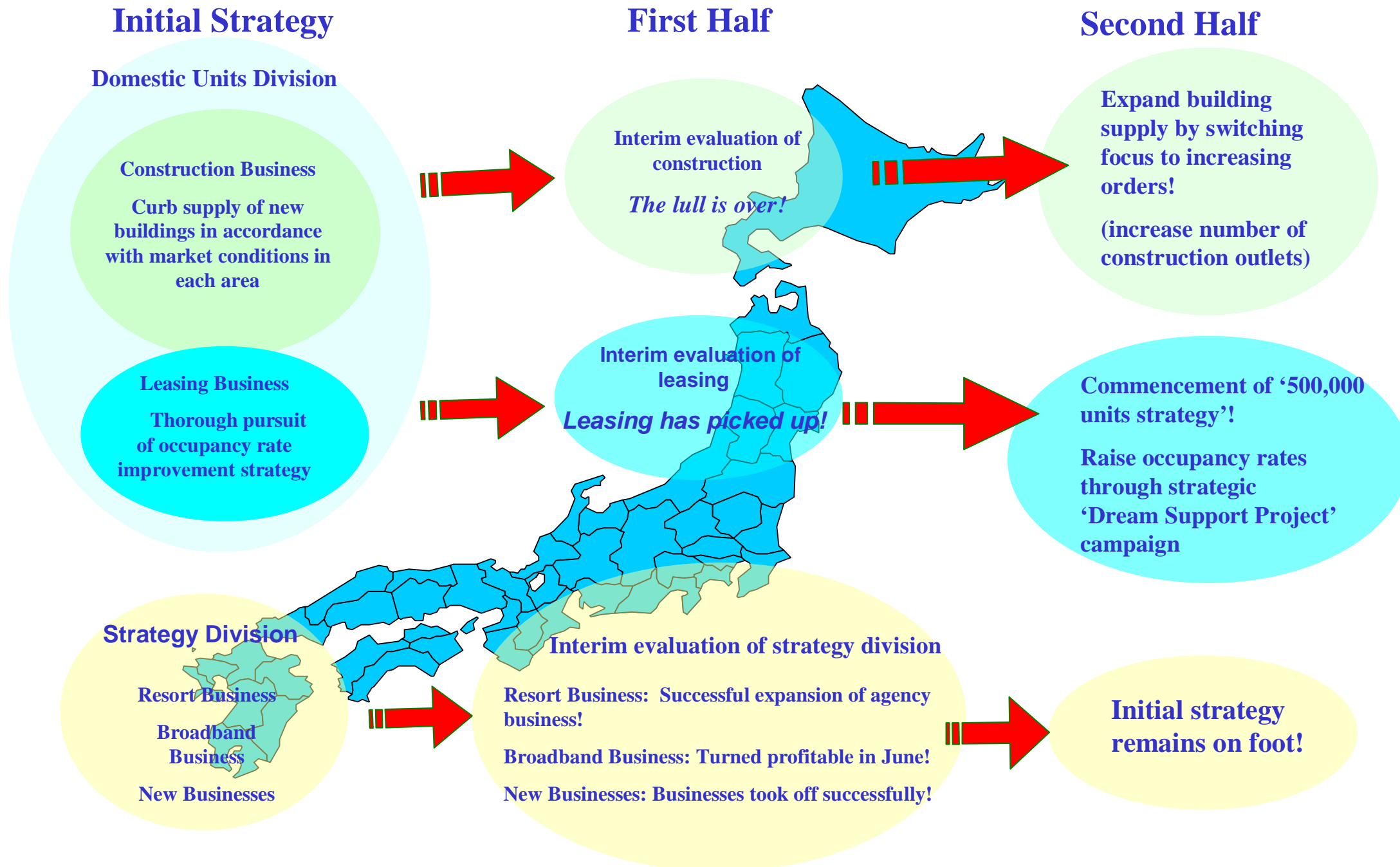
## **Business & Financial Strategy for Second Half FY2006**

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# Business Strategy



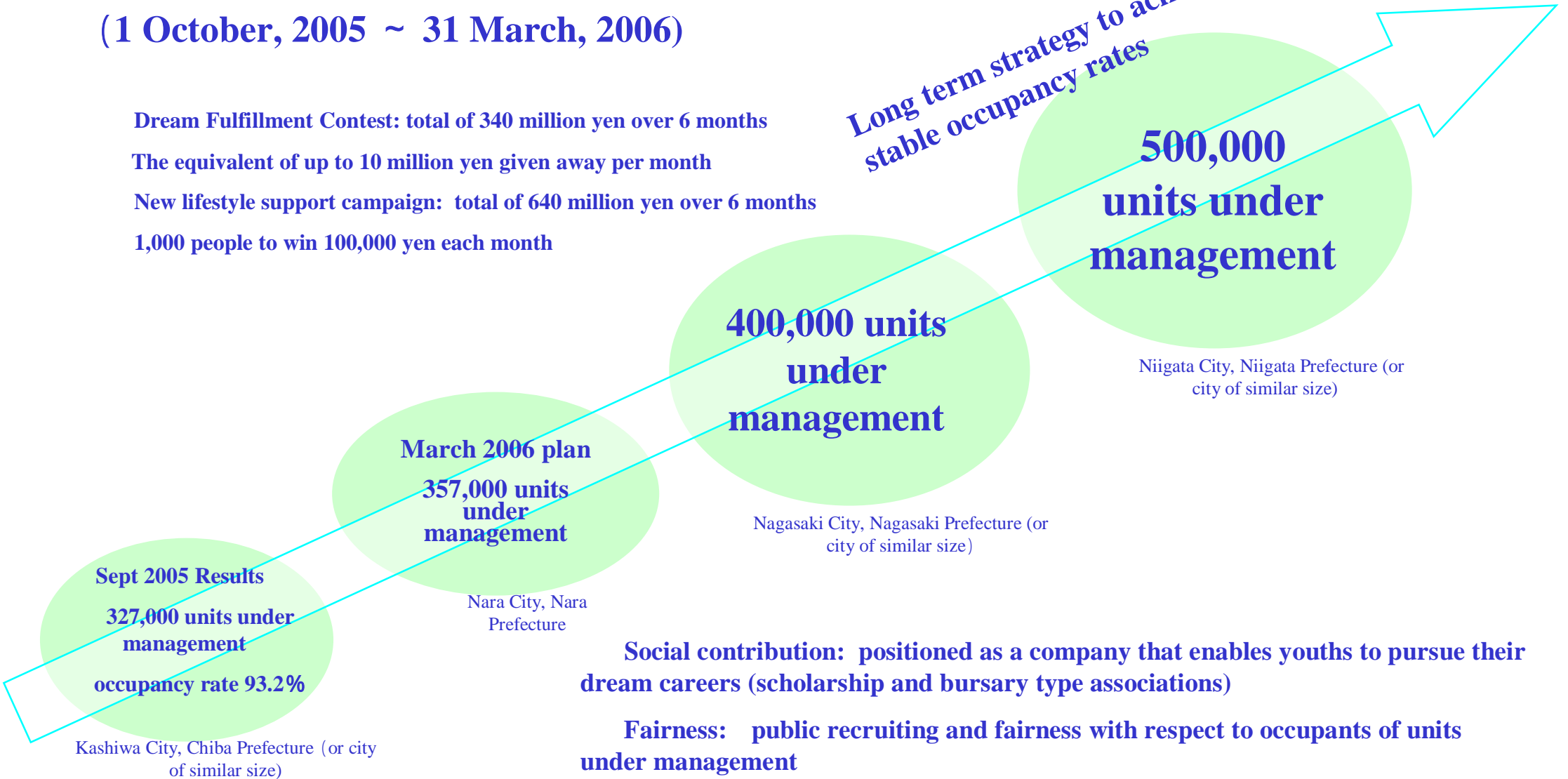
# Long Term Strategy for Core Business: ‘Dream Support Project’

## *Dream Support Project Begins!*

**(1 October, 2005 ~ 31 March, 2006)**

**Dream Fulfillment Contest: total of 340 million yen over 6 months**  
**The equivalent of up to 10 million yen given away per month**  
**New lifestyle support campaign: total of 640 million yen over 6 months**  
**1,000 people to win 100,000 yen each month**

*Long term strategy to achieve stable occupancy rates*



**Social contribution: positioned as a company that enables youths to pursue their dream careers (scholarship and bursary type associations)**

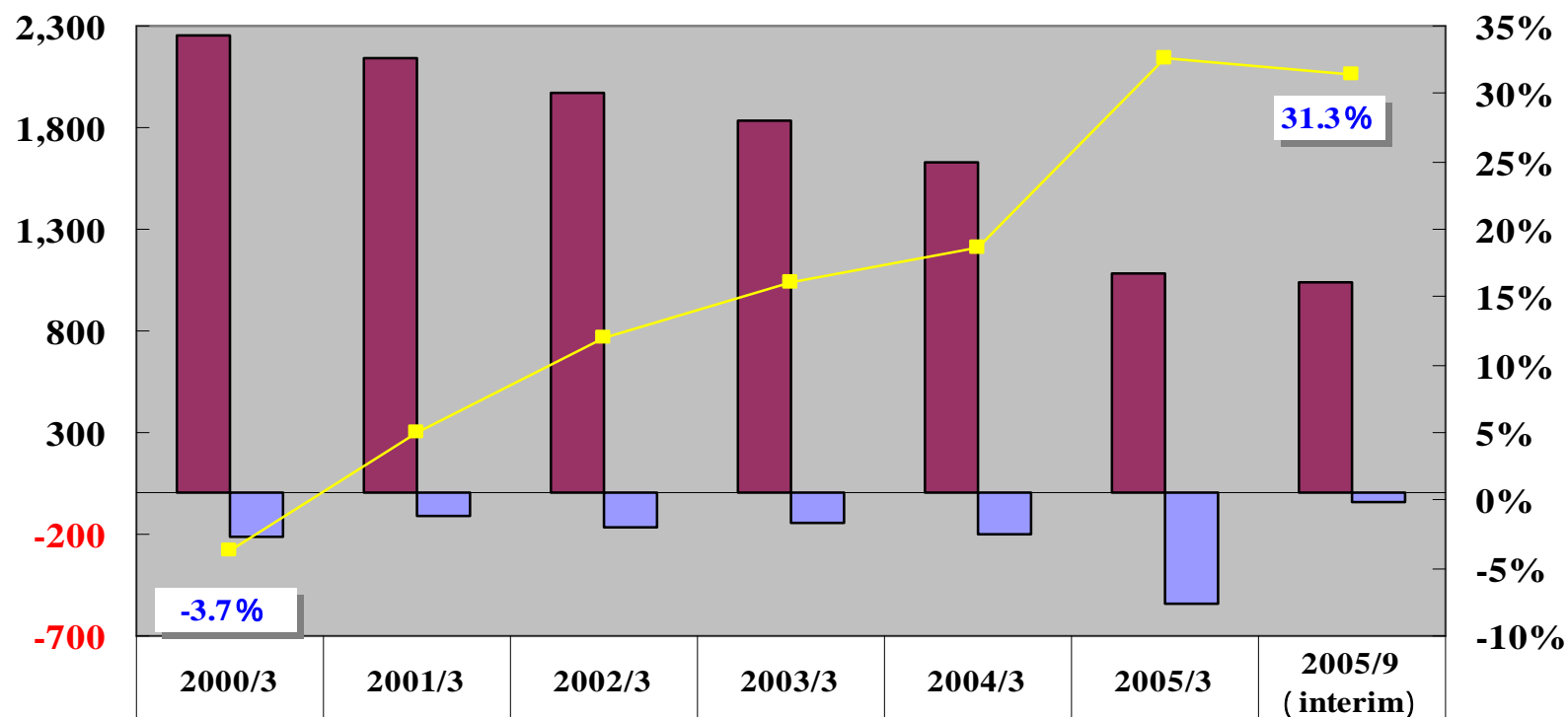
**Fairness: public recruiting and fairness with respect to occupants of units under management**

**Strategy: strategic differentiation from competitors' products**

# Financial Strategy (Interest-Bearing Liabilities & Net Worth Ratio)

Trend in Borrowings & Net Worth Ratio (Consolidated)

Yen 100 million



<b>Borrowings (incl.bonds)</b>	2,251	2,138	1,972	1,830	1,627	1,087	1,041
<b>(Year-on-year comparison for borrowings)</b>	-209	-113	-166	-142	-203	-540	-46
<b>Net worth ratio</b>	-3.7%	5.1%	12.0%	16.1%	18.6%	32.6%	31.3%

## Interest-bearing liabilities and net worth ratio

During the September 2005 interim period we repaid around 4.6 billion yen in loans using cash flows generated throughout the period, thus reducing total borrowings to 104.1 billion yen as at the end of the September period. Further, shareholders equity was down 1.3 points on the last period at 31.3% due to accounting for disposal of assets. We will continue to endeavor to reduce borrowings for the current fiscal year with the aim of bringing the total figure under 100 billion yen, the medium term goal, during this period.

# Status of Main Strategic Businesses

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 **Leopalace21**

## Management Policy

- Added value to rental units (services)
  - Differentiation from other properties ··· Rise in occupancy rates, full service
  - Development of existing units ········ Towards a broadband standard (both new and existing units)
  - Occupant services ···· All types of videos, campaigns, events
- Development of new revenue model (new external sales)
  - Installation Expansion Business ········ target hotels, hospitals, developers, etc.
  - Advertising Business ········ LEO-NET as a form of media  
- introduce all types of advertising
  - Tie-up Business ········ ASP (content provision) Business
- Change in management policy (from sales expansion to profitability)
  - This period (33<sup>rd</sup> period): achieve single year gross profit
  - Next period (34<sup>th</sup> period) achieve positive operating profit

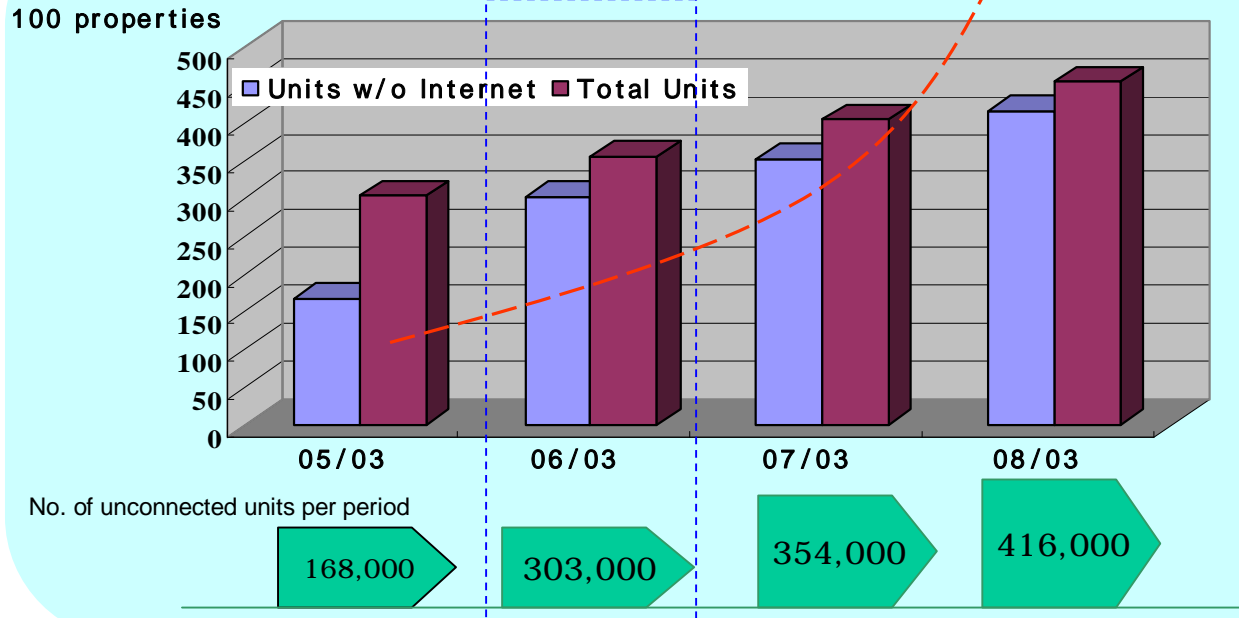


Unit: Yen 100 million

Plan	Base Price Sales (inc. rent)	Occupant Use Sales	External Sales	TOTAL Sales	Cost	Sales Gross profit
32nd period (FY ending March 2005) actual results	26.5	7.5	1.1	35.1	57.0	21.9
33 <sup>rd</sup> period (FY ending March 2006) actual interim results	25.8	4.4	2.9	33.1	33.1	0.0
33 <sup>rd</sup> period (FY ending March 2006) planned	57.1	10.1	2.4	69.6	69.0	0.6

# Interim Plan for Broadband

## 1. Plans for Expansion – Increasing the Scale of the Business



**Towards a Broadband Standard**

By the end of the FY 2008, around 416,000 out of the 450,000 properties under management will be connected to the internet (around 92%)

## 2. Sales Plan

Achieve an absolute number of users (around 80% of units under management) through development of existing properties

Revenues earned by packaging w/ rent .....

Increase in revenue earned from occupant usage

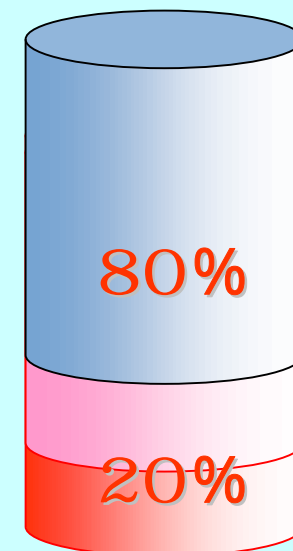
rental videos, CS + , product sales .....

Revenues independent of occupants: external sales

External system sales (hotels, hospitals, etc.) .....

Advertising business (LEO-NET as a form of media)'

Other businesses .....



# Leopalace Resorts Business

## The Guam Tourism Business to Achieve an Overwhelming Presence!

Hotel occupancy rates at mid fiscal year were 61.5%

An increase of 22.6% on last interim period, thanks to a rise in package tourists from major travel agents!

Creation of demand through newly constructed units with spa facilities

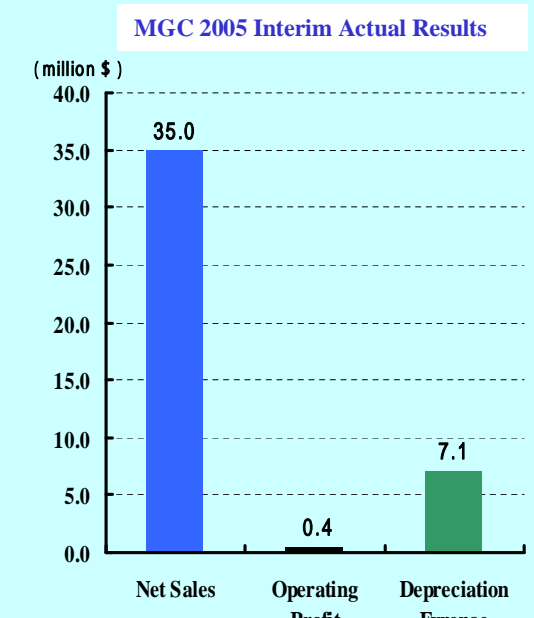
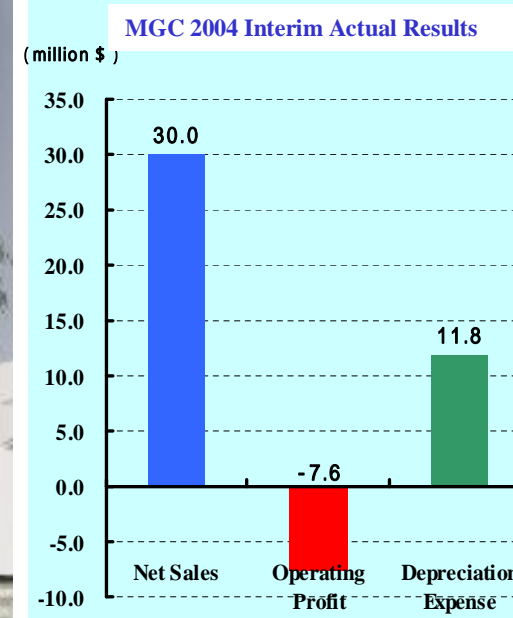
New tours have been formulated to exploit the popularity of the new spa facilities!

Proactive marketing of new package tours based on themes such as sports festivals

Direct sales of tours based on our extensive sports facilities, which are amongst the best facilities in Guam!



Leopalace Resort and Spa Facilities  
Grand Opening in December 2005



## Status of Housing Business at Interim Period

**Initial target: net sales of 10 billion yen**

**Interim period purchase contracts : 6 billion yen (256 houses)**

**Sales approach: 4 sales divisions, 8 retail outlets**

**Areas of activity: Tokyo, Chiba, Saitama, Kanagawa areas**



**Lu Cerna, Western Tokyo** due for completion in Jan – March 2006

## Status of Silver Business at Interim Period

**Initial target: net sales of 2 billion yen**

**Interim period basic contracts : 2.9 billion yen (10 facilities)**

**Facility opening schedule: First Narita (Group Home) facility scheduled to open Nov 2005, following which 7 other facilities are due for completion.**

**Nagareyama City in Chiba prefecture and Akiruno City in Tokyo**



**Narita Group Home Azumien** due for completion in October and to open in November

# Appendix

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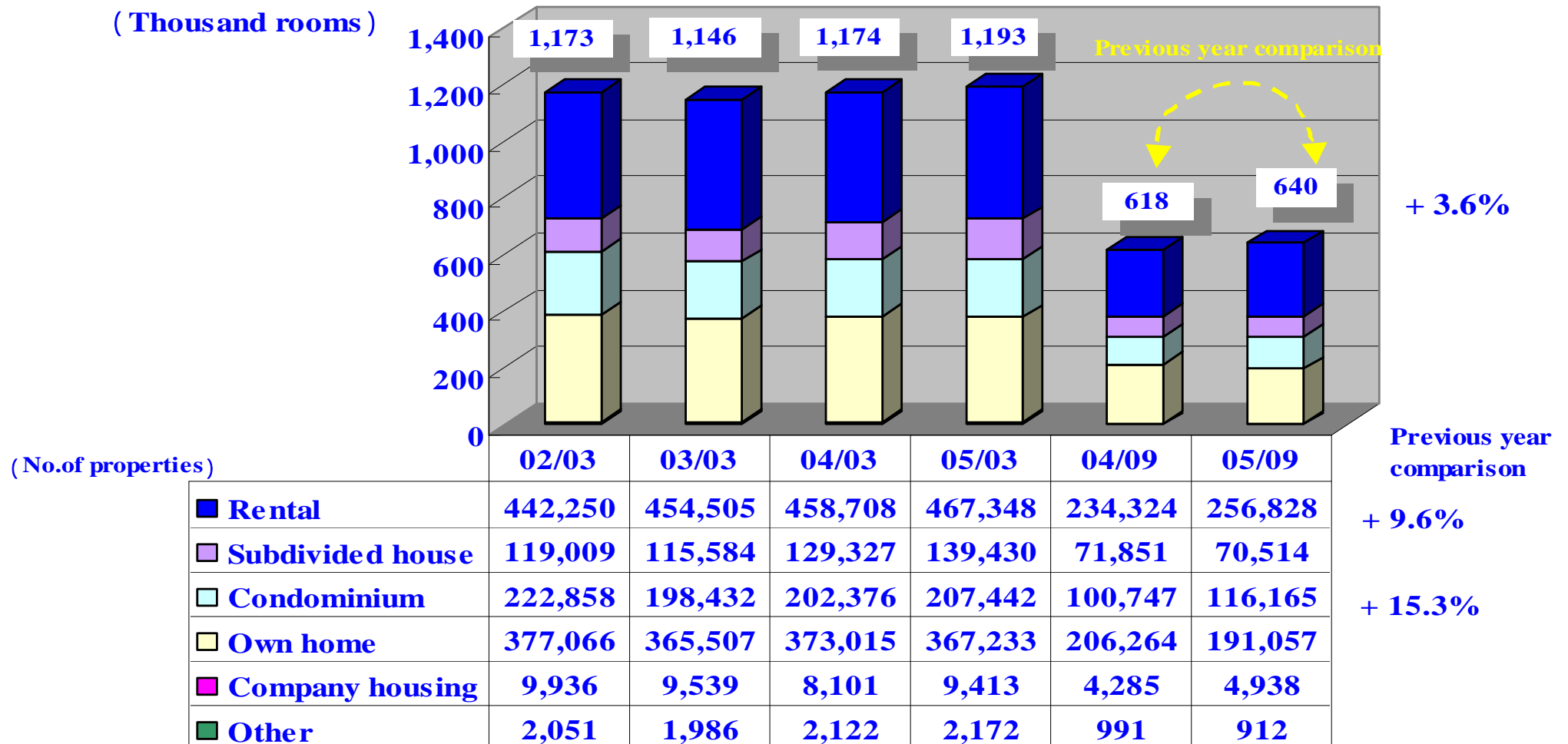


# New Residential Constructions (According to Use)

The number of new residential construction works commenced as at September 2005 was 3.6% up on last year. When analyzed by usage, rental properties rose by 9.6% and condominiums rose by 15.3%.

(Land, Infrastructure and Transportation Ministry statistics on new home constructions, 2005 )

**New Residential Constructions (by Usage)**



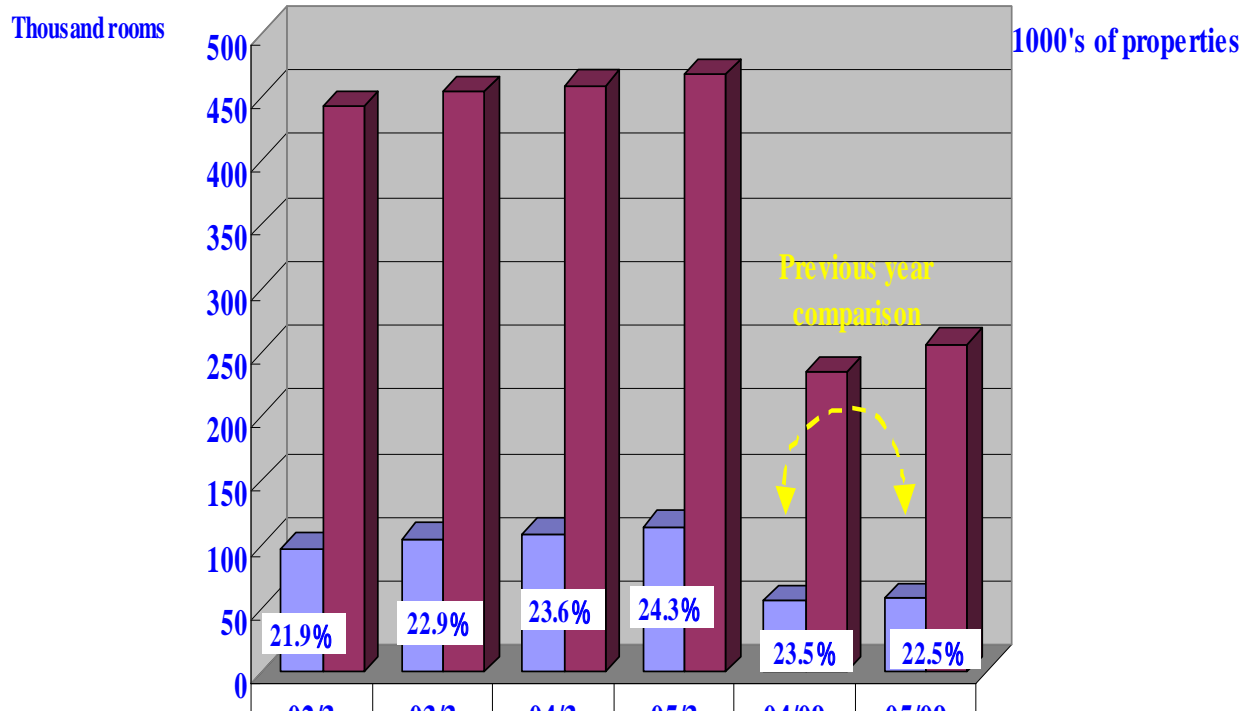
# New Rental Constructions and Our Market Share

As the graph below left indicates, the number of new rental constructions (including studio apartments under 30m<sup>2</sup>) has risen by 4.9%. This represents a 22.5% share of the total.

Below right is a graph showing the total number of new rental constructions under 30m<sup>2</sup>, together with the number of studio apartment constructions commenced by Leopalace (Leasing Business). As can be seen, we have maintained our market share of 39.6% throughout the current period.

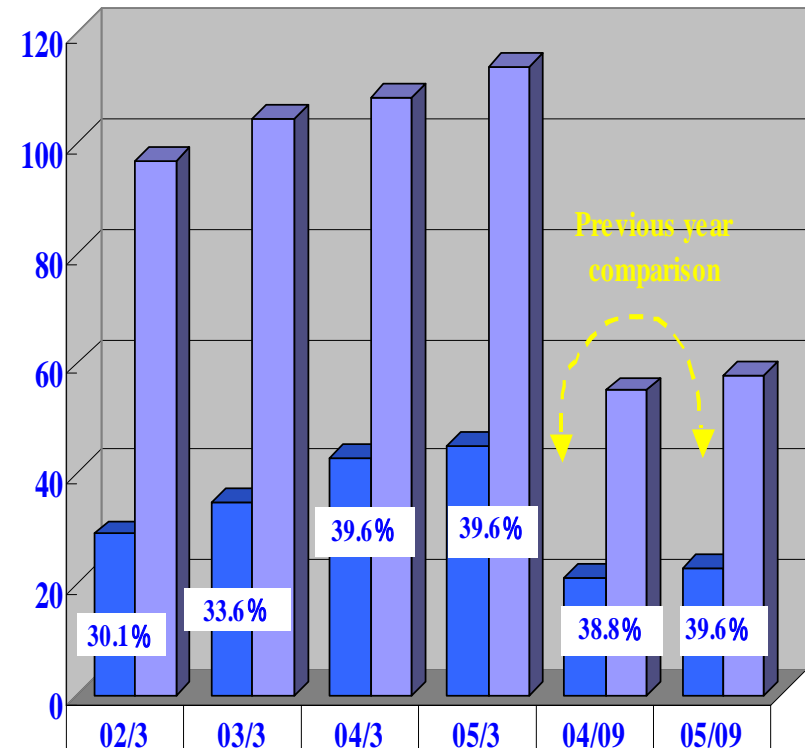
(Land, Infrastructure and Transportation Ministry statistics on new home constructions, 2005)

**New Rental Constructions: General and Under 30m<sup>2</sup>**



■ Under 30m <sup>2</sup>	96.7	104.2	108.1	113.5	55.1	57.9
■ Rental constructions	442.3	454.5	458.7	467.3	234.3	256.8

**New Rental Constructions Under 30m<sup>2</sup> : Total and Leopalace Market Share**



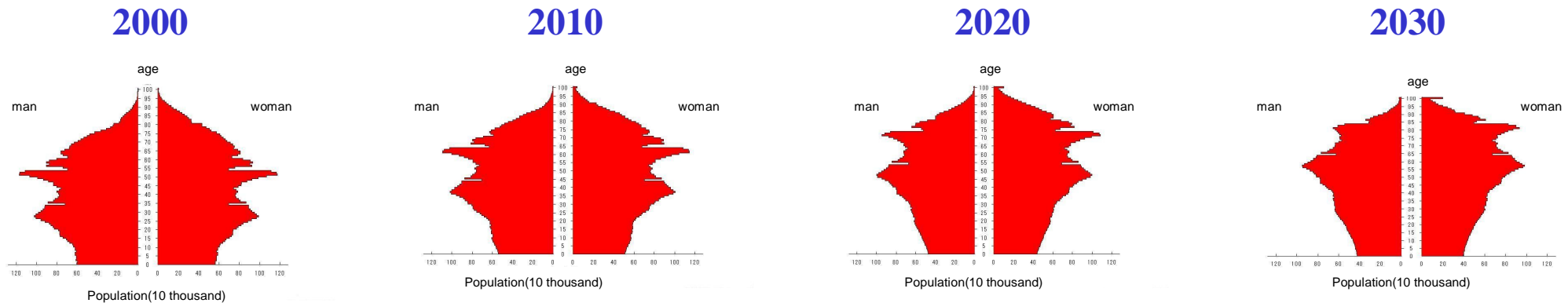
■ Leopalace Constructions	29.1	35.0	42.8	44.9	21.4	22.9
■ Under 30m <sup>2</sup>	96.7	104.2	108.1	113.5	55.1	57.9

# The 2 Boom Generations Predicted by Population Forecasts

Current population forecasts for Japan feature two large peaks. The first is the baby boomer generation (those born between 1947 and 1949) and the second is the generation after them (those born between 1971 and 1975). In the midst of Japan's rapidly aging society, these two generation groups will have a strong influence on future consumption and investment patterns.

Ministry of Internal Affairs and Communications Statistics Bureau 'Consensus Report' 2000: Age Structure of Population as Measured in Age Groups of 5 years - medium term projections (National Institute of Population and Social Security Research)

## Population Pyramid Trends



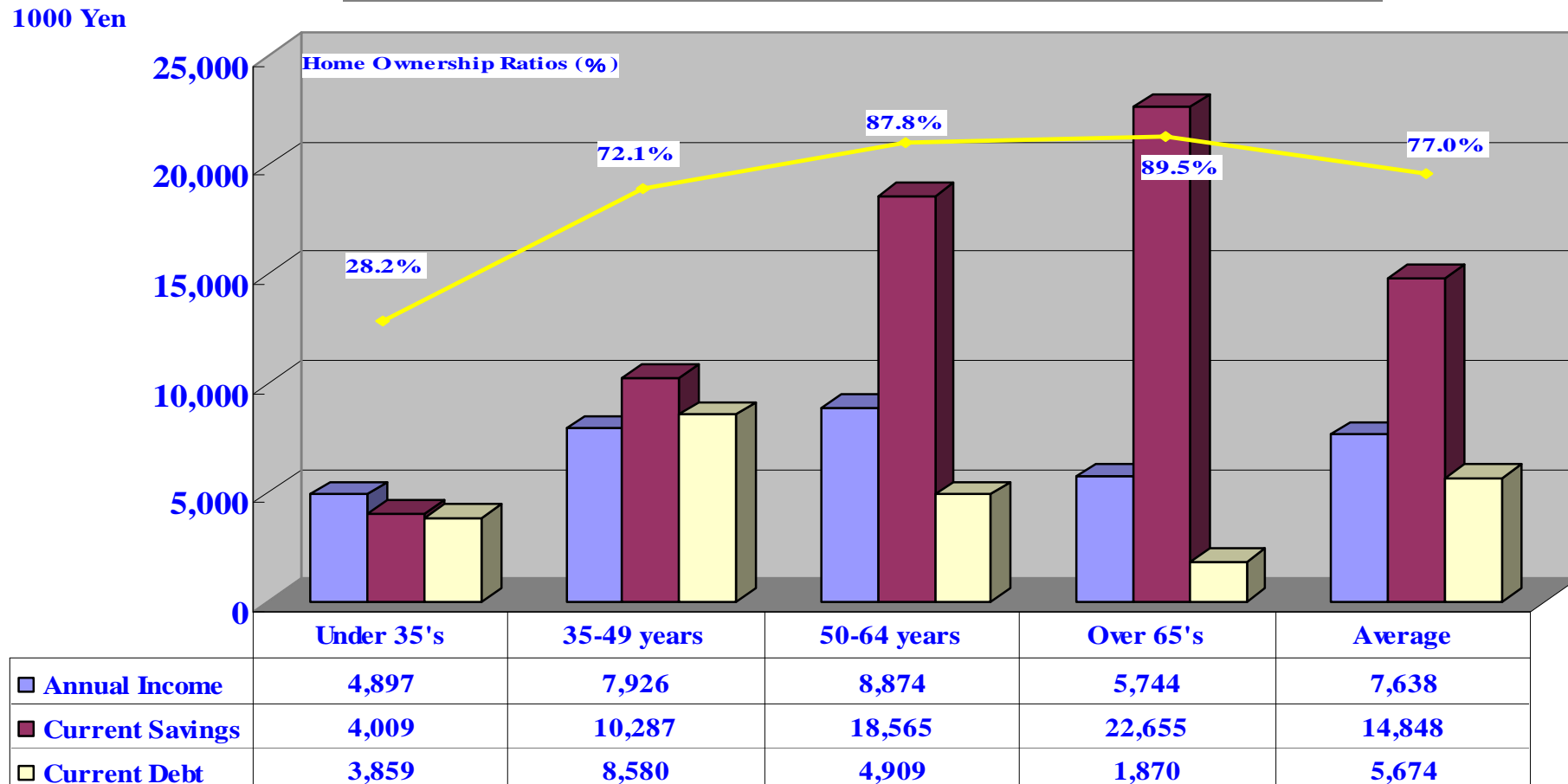
Population according to 5-year age groups at the time of the 2000 census (Units:1,000 people)				2005 Forecast		2010 Forecast		2020 Forecast		2030 Forecast		2040 Forecast	
Group	Composition of group	Population	%	Population	%	Population	%	Population	%	Population	%	Population	%
0 ~ 4		5,915	4.7	5,791	4.5	5,393	4.2	4,682	3.8	4,176	3.6	3,827	3.5
5 ~ 9		6,033	4.8	5,897	4.6	5,776	4.5	5,022	4.1	4,372	3.7	4,009	3.7
10 ~ 14		6,558	5.2	6,039	4.7	5,905	4.6	5,391	4.3	4,685	4.0	4,181	3.8
15 ~ 19		7,502	5.9	6,574	5.2	6,059	4.8	5,808	4.7	5,057	4.3	4,408	4.0
20 ~ 24	Post Baby Boomer Juniors(1976 and after)	8,438	6.7	7,546	5.9	6,641	5.2	6,016	4.9	5,513	4.7	4,813	4.4
25 ~ 29	Baby Boomer Junior Generation (born 1971 ~ 1975)	9,809	7.7	8,524	6.7	7,658	6.0	6,282	5.1	6,051	5.2	5,309	4.9
30 ~ 34	Middle Generation (born 1951 ~ 1970)	8,794	6.9	9,841	7.7	8,571	6.7	6,837	5.5	6,234	5.3	5,736	5.3
35 ~ 39		8,130	6.4	8,778	6.9	9,826	7.7	7,716	6.2	6,360	5.4	6,132	5.6
40 ~ 44		7,814	6.2	8,091	6.3	8,739	6.9	8,533	6.9	6,821	5.8	6,226	5.7
45 ~ 49	Middle Generation (born 1951 ~ 1970)	8,932	7.0	7,745	6.1	8,024	6.3	9,709	7.8	7,634	6.5	6,299	5.8
50 ~ 54	Baby Boomer Generation (born 1946 ~ 1950)	10,461	8.2	8,793	6.9	7,629	6.0	8,550	6.9	8,355	7.1	6,686	6.1
55 ~ 59	Baby Boomer Generation (pre 1945)	8,750	6.9	10,225	8.0	8,598	6.7	7,745	6.2	9,390	8.0	7,392	6.8
60 ~ 64		7,750	6.1	8,473	6.6	9,920	7.8	7,257	5.9	8,162	6.9	7,989	7.3
65 ~ 69		7,118	5.6	7,379	5.8	8,085	6.3	7,996	6.4	7,246	6.2	8,818	8.1
70 ~ 74		5,910	4.7	6,590	5.2	6,857	5.4	8,896	7.2	6,552	5.6	7,426	6.8
75 ~ 79		4,157	3.3	5,214	4.1	6,852	4.6	6,771	5.5	6,791	5.8	6,237	5.7
80 ~ 84		2,619	2.1	3,365	2.6	4,239	3.3	5,078	4.1	6,792	5.8	5,072	4.6
85 ~ 89		1,535	1.2	1,804	1.4	2,365	1.9	3,460	2.8	4,152	3.5	4,287	3.9
90 ~ 94		571	0.5	807	0.6	982	0.8	1,702	1.4	2,164	1.8	3,080	2.8
95 ~ 99		119	0.1	207	0.2	303	0.2	541	0.4	846	0.7	1,078	1.0
100 ~		12	0.0	27	0.0	51	0.0	114	0.1	226	0.2	335	0.3
<b>Total</b>		<b>126,926</b>	<b>100</b>	<b>127,708</b>	<b>100</b>	<b>127,473</b>	<b>100</b>	<b>124,107</b>	<b>100</b>	<b>117,580</b>	<b>100</b>	<b>109,338</b>	<b>100</b>

# Income, Savings and Home Ownership Trends by Age Group

According to data from the Ministry of Internal Affairs and Communications, Japanese home ownership rates rapidly escalate after the age of 35. Further, the elderly possess more savings than other age groups.

Ministry of Internal Affairs and Communications Survey on Savings Trends Report 2000

**Current Household Income, Savings and Debt Figures/Home Ownership Ratios, According to Age Group**

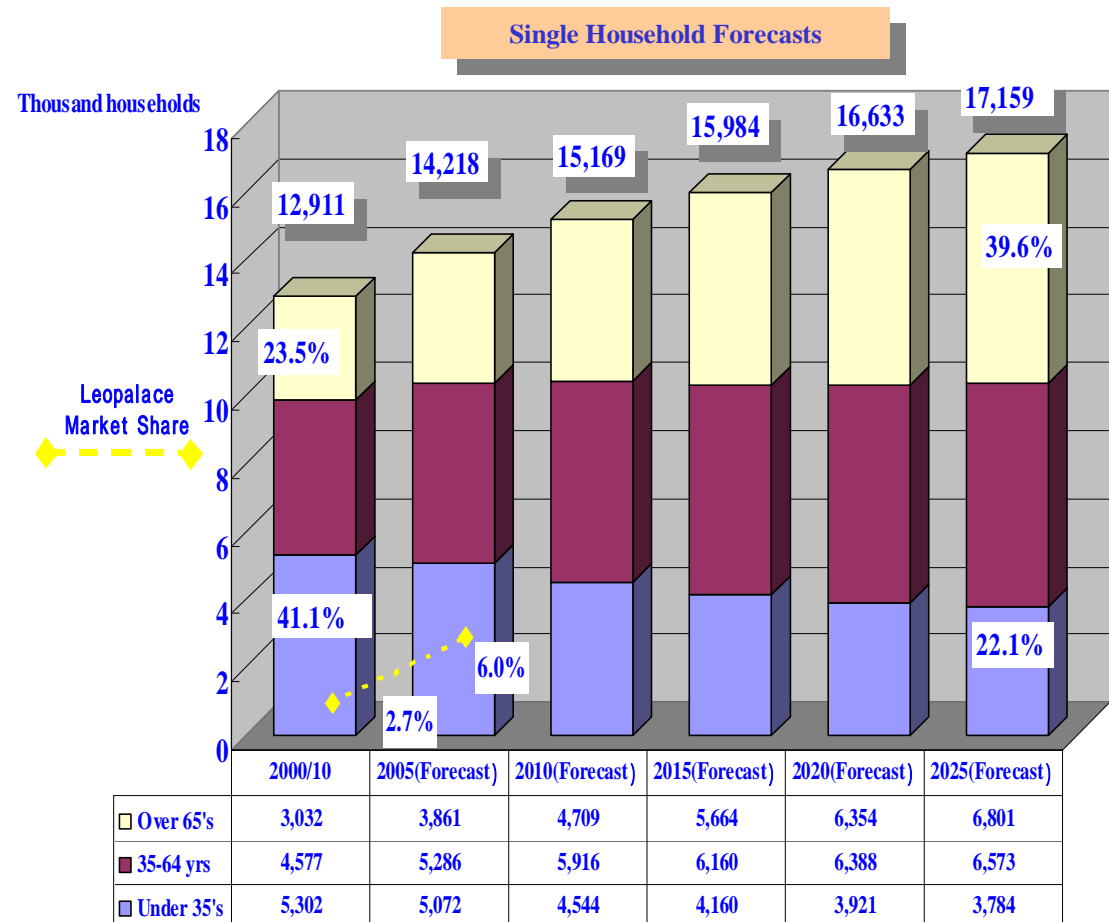
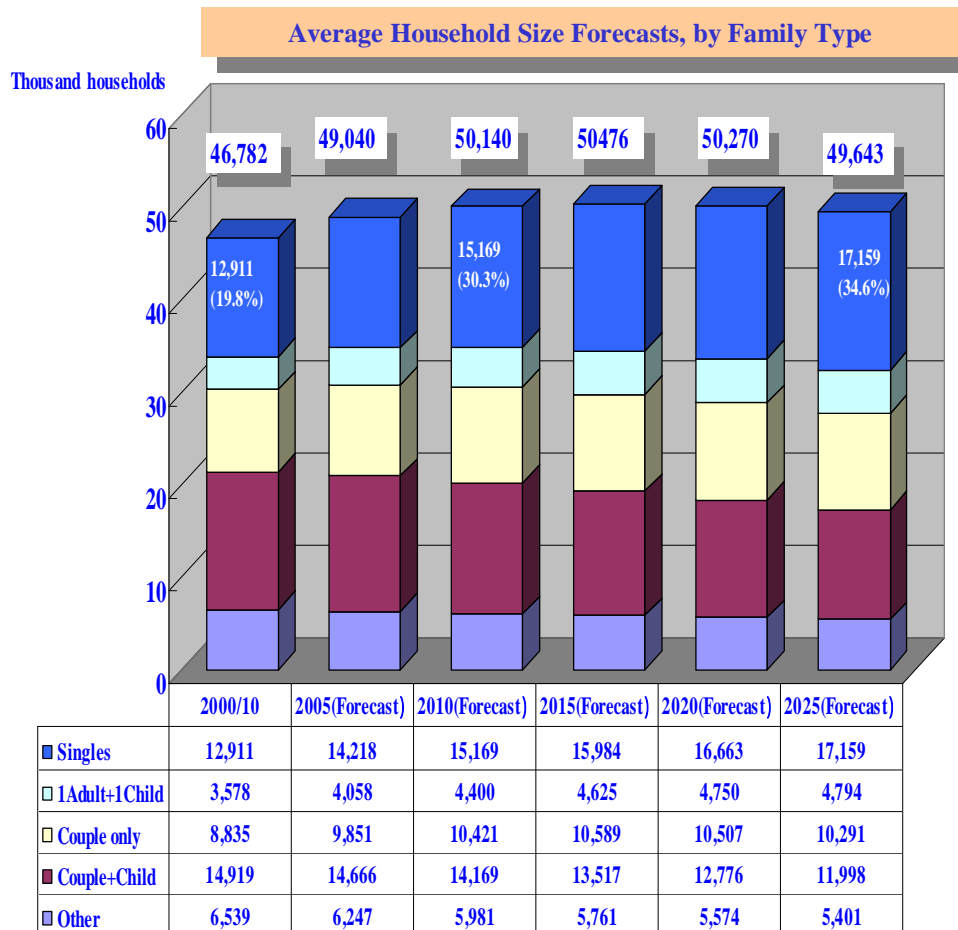


# Forecast Average Household Sizes by Family Type

Japan's population problem is characterized by a rapidly declining birthrate which is causing a decline in the total population and, consequently, an aging society. Analyzing Japanese population figures according to family type reveals that single person households, which represented 19.8% of all households in 2000 (10.291 million households) will have grown to make up more than 30.3% of all households (15.16 million households) by 2010. This trend is expected to continue, to the effect that in 2025 around 17.15 million households, or 34.6% of all households, will be single person households. The composition of Japan's population is thus rapidly changing to form an extremely large single person household segment.

Moreover, looking at the graph below right, where the single household segment is categorized according to age groups, it is hard not to notice the under 35's market, who are heavy users of the studio network, and the over 65's silver market, who have increasingly diverse accommodation needs arising from activities such as hobbies and nursing care. Our market share in the under 35's single household market was 2.7% in 2000 and 6% in 2005.

From the National Census 2000 and 'Household Sizes and Future Forecasts' by the Institute of Population Problems, 2003

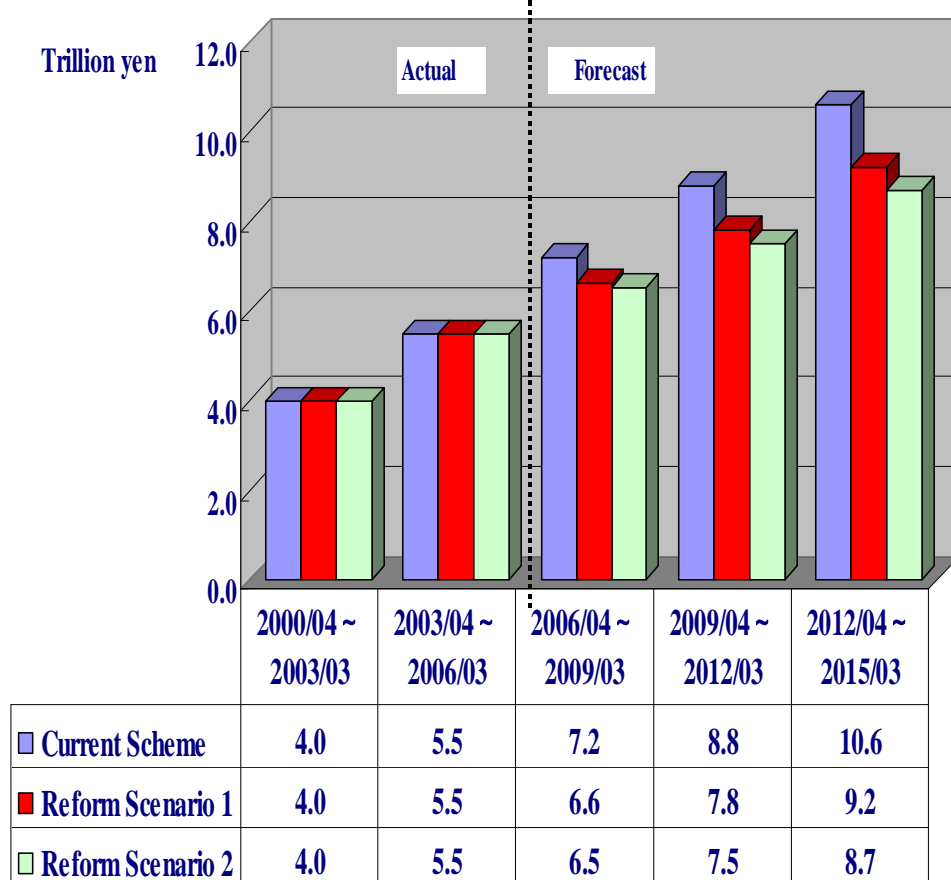


# Size of the Silver Market

Whilst it is expected that the nursing care insurance system will be reformed in October 2006 to streamline (reduce) the amount of benefits payable, the silver market will still be extremely large, and total benefits are expected to be in the vicinity of 9 trillion yen for 2015!

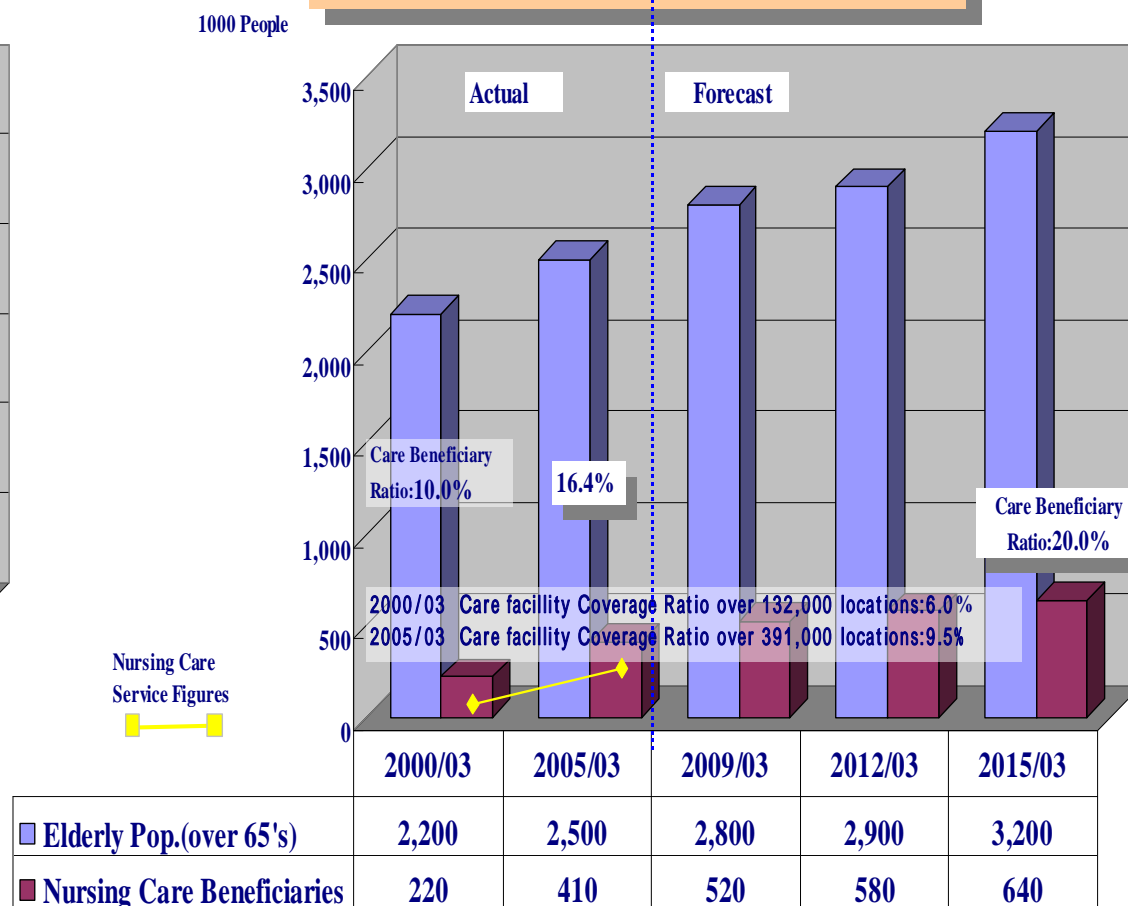
As at the time of the 2000 National Census the elderly population totaled around 22 million and nursing care beneficiaries totaled 2.2 million (10%). Nursing care service coverage ratios, however, were only 6% and failed to rise above around 9.5% in 2005.

**Forecasted Nursing Care Insurance Benefits**



Benefit Forecasts According to Nursing Care Insurance Scheme Scenarios. Health, Labor and Welfare Ministry October 2004

**Nursing Care Insurance Beneficiaries and Nursing Care Service Figures**



'Forecasted Future Population of Japan – January 2002' National Institute of Population and Social Security Research medium term forecasts

National Nursing Care Service documentation

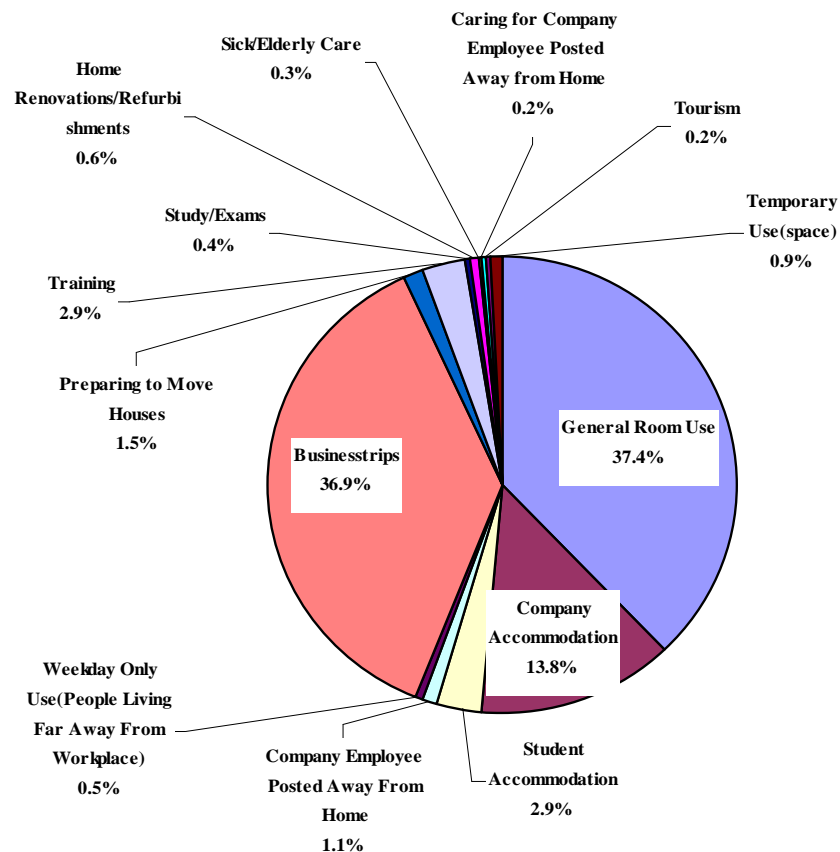
# Usage: The Studio Market

We are actively pursuing the new market opportunities that result from the increasingly diverse uses for our flagship offering, Monthly Leopalace Flat.

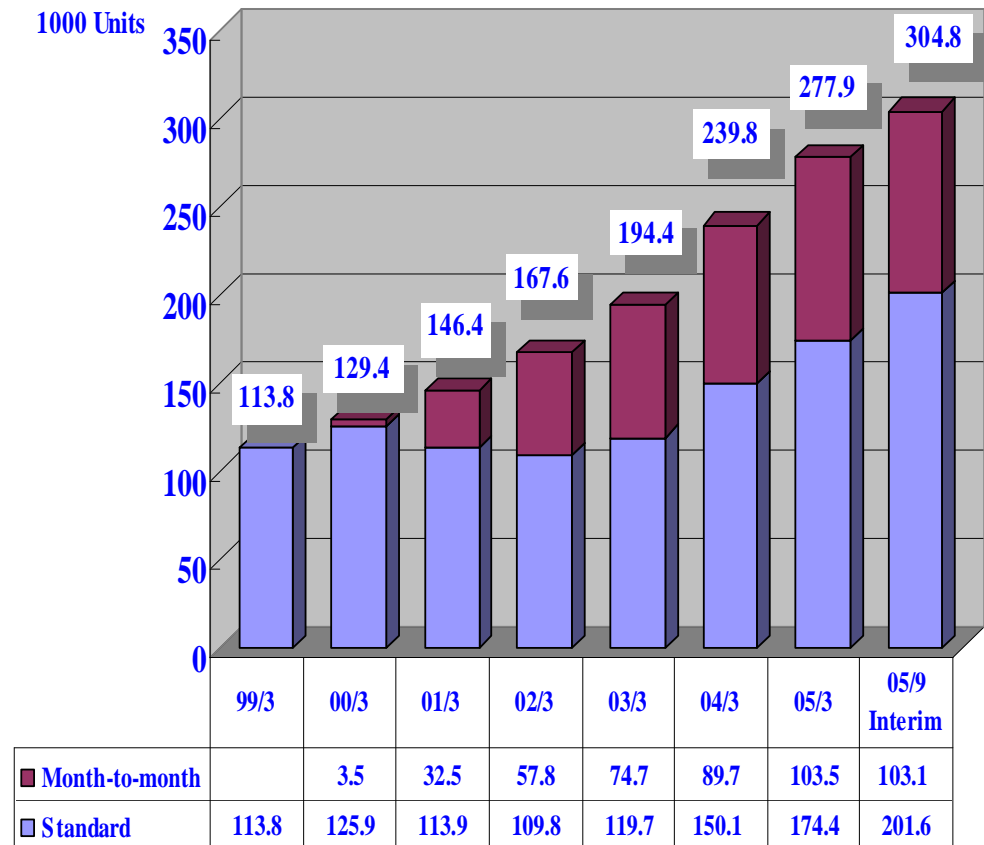
We are steadily identifying and targeting new user groups, each of which have differing needs.

(Company records, end September 2005)

**Composition of Monthly Users, by Reason for Use (Sept 2005)**

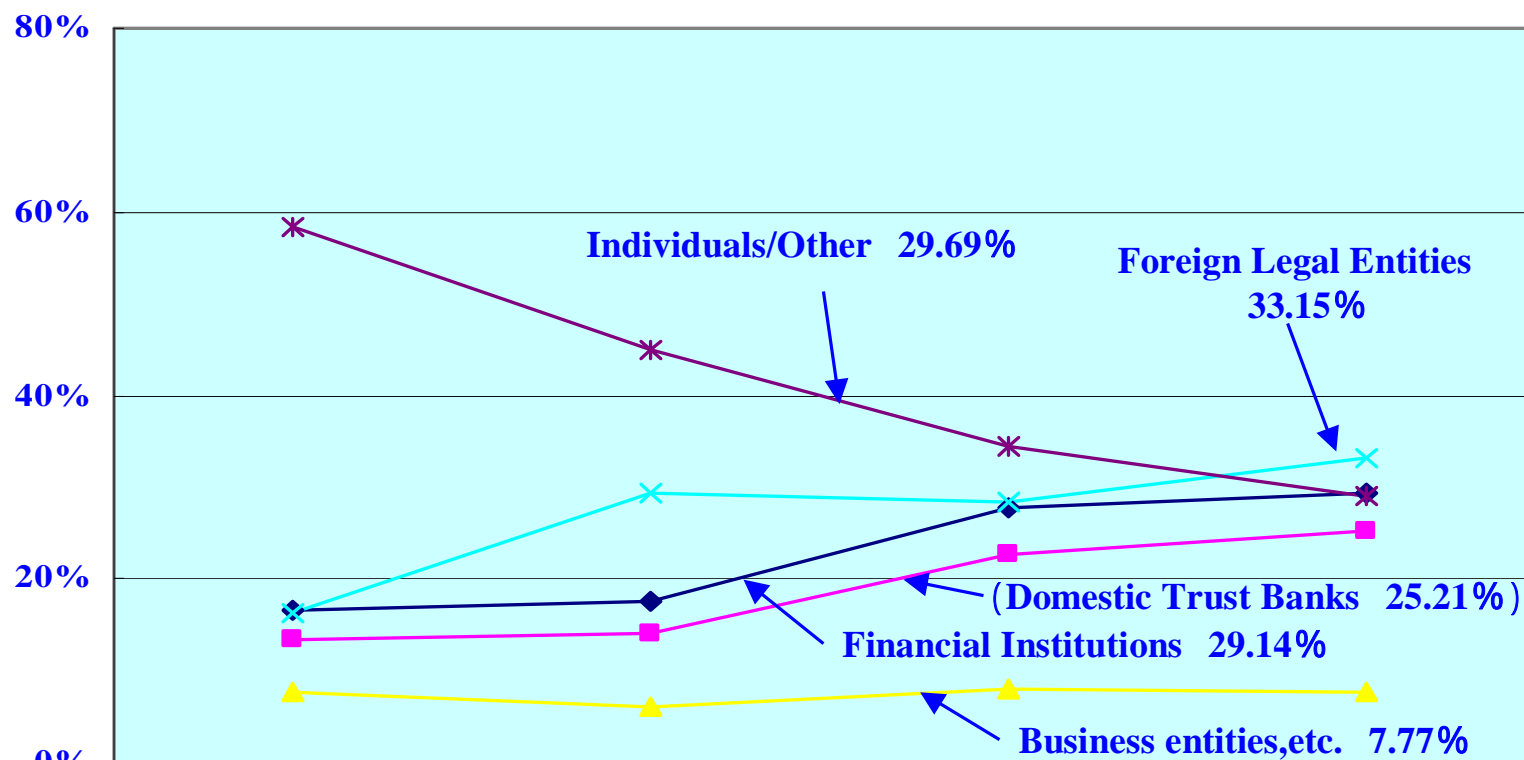


**Occupants by Contract Structure**



# Shareholder Composition Trends

**Shareholder Composition Trends**



	03/03	04/03	05/03	05/09
◆ Financial institutions	16.57%	17.48%	27.84%	29.39%
■ (Domestic Trust Banks)	13.39%	13.93%	22.72%	25.21%
▲ Business entities, etc.	7.68%	6.15%	8.12%	7.77%
✕ Foreign legal entities	16.19%	29.43%	28.46%	33.15%
* Individuals/other	58.42%	45.03%	34.35%	29.14%