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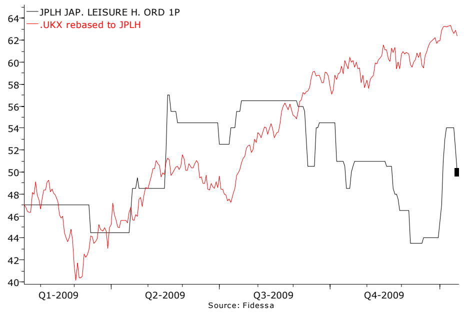
Japan Leisure Hotels Ltd 50p

Opportunity to Boost EPS by Acquisitions – a Compelling Industry Consolidation Play

12 February 2010

Share Price: 50p



12m High: 57.0p

12m Low: 43.5p

Market Cap: £28m

Shares in Issue: 44.1m undiluted

56.5m diluted, with in-the-money options

NAV/Share: 80p/share undiluted.

73p fully diluted on full exercise of warrants.

Gearing: Nil (£2.2m net cash)

Interest Cover: n.a.

EPIC Code: JPLH.L

Sector: Travel and Leisure

Market: London AIM

Broker: Shore Capital Stockbrokers Ltd

PR: Pelham Public Relations

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Website: www.japanleisurehotels.com

Description: Invests into the Japanese leisure hotel industry

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Two years after its arrival on AIM Japan Leisure Hotel shares are back trading at their original issue price.

Results, outwardly, have been unexciting, with little revenue growth and minimal pre-tax profits. At hotel level, however, there has been some interesting progress, with a six point improvement in the hotel level EBITDA/Revenue margin and cash generation.

JPLH's problem is lack of scale. The company was never intended to only have 242 hotel rooms – management had hoped to have over 1,000 by this time. Lack of funds has prevented this happening. The directors would now like to raise additional capital in order to boost the group size to a level where it can make sensible profits for shareholders.

In its favour are the following points:

- Acquisitions would boost the group's return on capital and enable shareholders to obtain a worthwhile return.
- The Japan Leisure Hotel industry is fragmented, even at its current size JPLH is one of the larger operators in the country. The benefits to be obtained from creating the industry's first 'brand' will be significant. There are economies of scale to be obtained, from bulk purchasing and marketing at group level through to the application of EPOS and financial/managerial control systems.
- Management – British and Australian by birth and education, but with over 15 years' residence and commercial experience in Japan – gives European shareholders the best of both worlds. Some Japanese managements have at times not been entirely at ease with the concept of outside shareholders, yet no ordinary non-Japanese management could make a success of this business in this very unusual country.

Current distressed market conditions give the company an interesting window for acquisitions that may not last long. A £30m share issue at 50p could be invested in freehold hotels to give an uplift to EBITDA of c. UK£5m and possibly boost eps by in the region of 60%

Y/E	Income	EBITDA	Adjusted Profit	Adjusted EPS	EV/EBITDA	P/E Ratio	Div	Yield
Dec	m	¥m	¥m	UKp.	X	X	¥.	%
2007A	-	-	-	-	-	-	0	-
2008A	1,180	234	28	0	17.5	-	0	-
2009E	1,174	229	0	0.1	15.5	-	1.0	2.0
2010E*	1,280	334	94	0.9	12.1	55.5	1.5	3.0
2111E*	1,391	422	172	1.7	9.6	29.4	2.0	4.0

* *Before possible acquisitions and associated issue of new equity*

STRENGTHS

- The industry appears to be largely recession proof. The trading patterns of the group have been better than might be expected given the performance of the Japanese economy.
- Management has a long and successful history in Japan, yet is British and Australian and therefore understands the need to treat outside shareholders fairly, unlike much of established indigenous Japanese industry.
- The shares are trading at well under NAV.
- Five of the six hotels in the group are in good condition, with only minor refurbishments and upgrades required; the sixth hotel is in need of a thorough refurbishment which is planned, in the budget and scheduled to take place imminently.
- For shareholders, a positive cash flow and an aggressive dividend policy should translate into an investment with a respectable yield despite operating in a country not renowned for dividend payments.
- Current timing, when there are distressed sellers in the marketplace, could be advantageous.

WEAKNESSES

- The Japanese economy has for many years now been low growth. This is not an investment in a 'tiger' economy.
- Long term demographics are against the company. Japan has one of the lowest birth rates, and one of the most rapidly ageing populations, of any major world country. The market to which JPLH caters is essentially a young person's market.
- Lack of profit to date. At present the group as a whole is bearing too many overheads for its size and is only marginally profitable.
- Will need to raise new funds to expand further.
- Japanese banks have shown a reluctance to lend to the industry. This cannot be entirely explained by the current very delicate state of the Japanese banking industry (the major Japanese banks have been very late in strengthening their balance sheets after the 2008/9 banking crisis).

OPPORTUNITIES

- There is no other quoted company operating in this industry. There are few other chains in this industry of any consequence.
- There is potential here to create a vehicle to consolidate the industry. There are considerable economies of scale to be gained from operating a hotel group of size, and also opportunities to create a brand in an industry that lacks brand recognition.
- Short term there are gains in profitability to be made from both refurbishment of the one remaining substandard hotel and from the introduction of modern control systems.
- There are opportunities to acquire assets from small financially distressed businesses that either have not invested sufficiently in upkeep or where owners are looking to exit.
- Consolidation will put a number of smaller operators out of business allowing for greater pricing power.
- Even though demographics are against the company it is acquiring a wider (and older) audience.

THREATS

- The biggest threat facing JPLH is the possible failure to obtain additional equity funding, because while the business is currently profitable, it is a long way short of its optimum size and needs to develop critical mass.
- There is always the possibility that some form of legislative action may be taken against the industry. However we see no evidence that either of the major Japanese political parties is either planning this or viewing it as likely. In any event any action and should be irrelevant to JPLH because its hotels are regulated just like Hilton and Four Seasons.

Background

When Japan Leisure Hotels floated on AIM, the bear market had already begun. In London the FTSE was already 9% off the cyclical peak established three months earlier, and sentiment in Japan was similarly trending strongly downwards. This, coupled with a lack of understanding of the company (equating Leisure Hotels aimed at the couples market with less acceptable types of organisations) meant that the share issue was a flop. Only UK£3m was raised, rather than the UK£50m that had been hoped for, and of this gross amount one third was soaked up by issue and other fundraising costs. JPLH had floated with the intention of operating 1,000 hotel rooms by the end of its first year. It had created a structure and an overhead base to match this ambition, yet only had funds to acquire 242 rooms in six hotels. At this size, it is the smallest hotel company on either of the two main London stock markets.

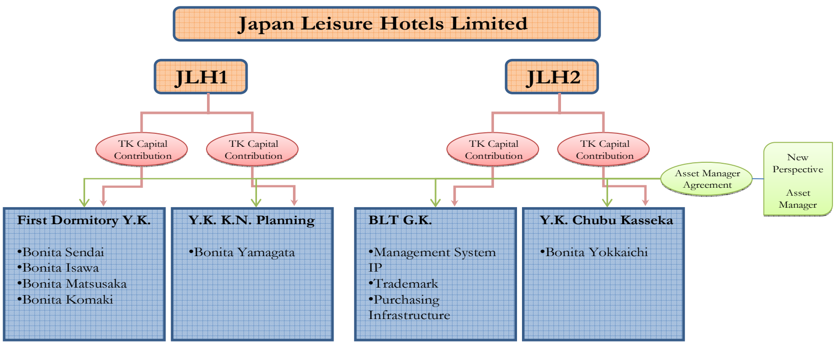
A further capital raising, in March 2009, was test marketed and then abandoned. JPLH was attempting to raise money in the final weeks of the last bear market; the timing was far from ideal.

Because it arrived with a corporate structure intended for a chain several times its current size, the company has been barely profitable at quoted company p & l level since then. However, strip out the excess overhead, untypical energy costs paid at the peak oil price and some currency translation items, and it can be seen that the company is operating satisfactorily. The Interim 2009 financial report (for the six months to June 2009) showed an EBITDA on sales of 39.7% for the five core hotels in the group (adding in the sixth, which was bought cheap because it is awaiting refurbishment, pushes down EBITDA to 29%). This is an improvement of six percentage points in EBITDA since flotation, and of 13 percentage points since 2006.

Equity markets worldwide have now improved, and JPLH is considering a further attempt to raise the capital it needs in order to reach a size that makes economic sense.

Structure

Japan Leisure Hotels is a Guernsey closed-ended company which was incorporated for the purposes of investing in the Japanese leisure hotel industry. The company has two subsidiaries, JLH1 Limited and JLH2 Limited which are the corporate entities through which the company's investments are made.



The hotels in which the company invests are owned by Japanese entities and JLH1 and JLH2 have entered into Tokumei Kumiai ("TK") agreements with each of the Japanese entities that own the hotels. In a TK agreement an investor provides capital to a TK operator in order for the operator to undertake an agreed business. The structure allows non-Japanese investors more favourable tax treatment than if the investor were to directly control the assets in which it is invested.

Under the terms of the TK agreements JPLH is responsible for committing 98% of the overall Group's capital and is entitled to receive 97% of the Group's profit and losses. New Perspective, which is the asset manager for the hotels, is responsible for the remaining 2% of capital commitments and is entitled to 3% of the Group's profit and losses. In addition, New Perspective receives an annual management fee of 2% of the net asset value of JLH plus a performance fee linked directly to absolute shareholder returns.

Five of the six hotels are operated under the Bonita brand name.

Dividend Policy

The group's policy is to determine its dividend distribution in relation to its cash flow rather than purely in relation to its pre-tax profits. The company considers all cash generated (effectively EBITDA) less reserves as distributable to shareholders. Included in the depreciation charge, of course, is depreciation on freehold buildings. JPLH considers replacement of a building to be an investment decision and is happy to distribute this part of EBITDA. The 'I' part of EBITDA is obviously not relevant because JPLH currently has no debt.

This distribution model copies that used by the property industry, where freehold properties are revalued each year therefore depreciation on freehold buildings is taken out of the equation. JPLH also revalues its properties every year and could easily incorporate the valuation figures in its balance sheet if it so wished.

No dividends have been declared to date because cash flow has been channelled towards hotel improvements. We expect the first dividend to be declared with the Full Year results announcement in early May 2010.

The Japanese Economy

Japan is the world's second largest economy, with total 2008 GDP of US$4.9 trillion. Since the 1990s the country has suffered from deflation with declining sales and falling prices, a situation which Japan's Cabinet Office publicly acknowledged in November of last year. This deflationary situation has led to a low level of domestic income, and pressure on Japan's economy is now exacerbated by a rising Yen, which recently reached a 14 year high against the dollar. Japan's population is also in decline with an estimated population base of circa 127 million expected to fall to 100 million by the year 2050. The country has a very low birth rate and an ageing population.

In an effort to reinvigorate the country's growth the Japanese government and the Bank of Japan implemented a zero interest rate policy in 2001. While the policy has now ended Japan still has the lowest interest rates in the developed world. The country still faces deflation and domestic demand remains weak. Any pickup in economic growth has reflected an increase in public spending. Most recently, the Bank of Japan has announced the launch of a ¥10 trillion lending facility in an attempt to boost liquidity and to reverse deflation.

Despite this poor economic situation the use of leisure hotels remains high.

Japan's Economy
v. The Other Major Industrialised Nations

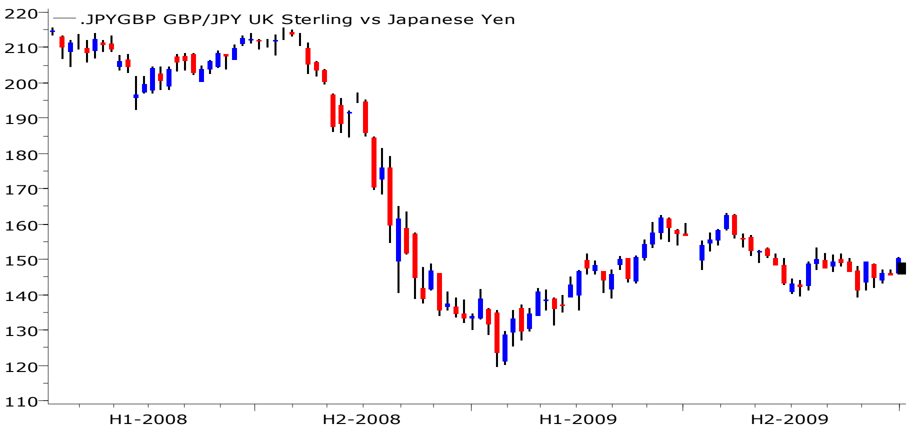
Japan	200	200	200	200	200	201
Gross domestic product - volume - market prices	1.9	2.0	2.3	-0.7	-5.3	1.8
Private final consumption expenditure - volume	1.3	1.5	0.7	0.6	-0.7	1.2
Government final consumption expenditure - volume	1.6	0.4	1.9	0.8	1.1	2.3
Gross fixed capital formation - total - volume	3.1	0.5	0.8	-5.0	-	-0.8
Final domestic expenditure - volume	1.8	1.1	0.9	-0.7	-3.2	1.0
Total domestic expenditure - volume	1.7	1.2	1.2	-0.9	-3.4	1.1
Exports of goods and services - volume - National Accounts basis	7.0	9.7	8.4	1.8	-	10.8
Imports of goods and services - volume - National Accounts basis	5.8	4.2	1.5	0.9	-	5.9
Gross domestic product - deflator - market prices	-1.2	-0.9	-0.7	-0.9	0.0	-1.7
Unemployment rate - as a percentage of labour force	4.4	4.1	3.9	4.0	5.2	5.6
General government financial balance - as a percentage of GDP	-6.7	-1.6	-2.5	-2.7	-7.4	-8.2
Short-term interest rate - per cent per annum	0.0	0.2	0.7	0.7	0.5	0.3
Consumer price index - percentage changes from previous year	-0.6	0.2	0.1	1.4	-1.2	-0.9
Current account balance - as a percentage of GDP	3.6	3.9	4.9	3.2	2.5	2.8

7 major OECD countries	200	200	200	200	200	201
Gross domestic product - volume - market prices	2.4	2.6	2.2	0.2	-3.4	2.0
Private final consumption expenditure - volume	2.5	2.4	2.0	0.2	-0.6	0.9
Government final consumption expenditure - volume	1.0	1.0	1.6	2.3	1.9	1.9
Gross fixed capital formation - total - volume	4.2	3.5	1.4	-2.7	-	0.9
Final domestic expenditure - volume	2.6	2.3	1.8	0.0	-2.5	1.1
Total domestic expenditure - volume	2.5	2.4	1.7	-0.2	-3.3	1.8
Exports of goods and services - volume - National Accounts basis	6.2	8.9	6.6	2.8	-	6.7
Imports of goods and services - volume - National Accounts basis	6.1	6.6	2.5	-1.3	-	5.3
Gross domestic product - deflator - market prices	2.1	2.1	2.2	1.8	0.9	0.5
Unemployment rate - as a percentage of labour force	6.1	5.8	5.4	5.8	8.0	8.9
General government financial balance - as a percentage of GDP	-3.6	-2.0	-2.2	-4.4	-9.1	-9.2
Current account balance - as a percentage of GDP	-1.9	-2.0	-1.3	-1.5	-1.2	-1.3

% Changes unless otherwise stated

Source: OECD

Japan – The Currency



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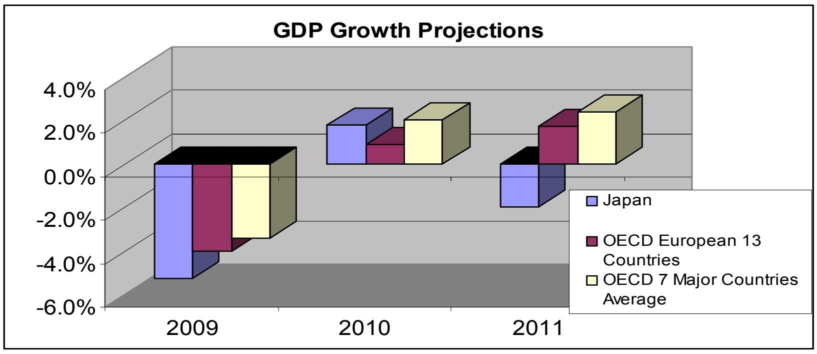
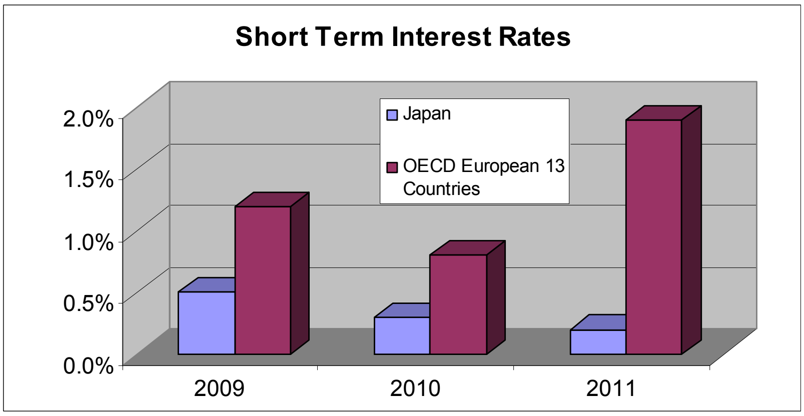
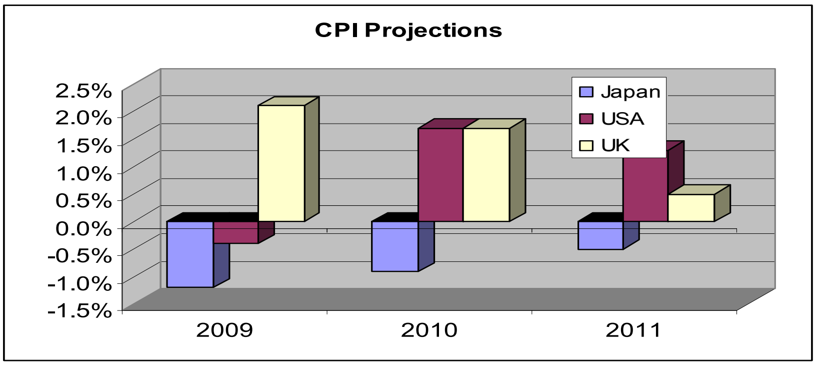
While since the early 'fifties the Japanese Yen has performed very strongly against both the UK Pound and the US Dollar, the movement has not been entirely one way. The Yen's strongest point against Sterling was reached in the first quarter of 2009, when it peaked at ¥120/UK£1. Then followed six consecutive months of decline against the Pound, bottoming at ¥158/UK£1. The 30% swing within a six month period and the 40% swing in the other direction over the previous six months are both symptomatic of the chaos in the world financial markets at the time, but do indicate why it is far better from the investment point of view to examine JPLH's financial performance in local currency rather than Pounds.

As JPLH earns all its profits and has all its assets in Japan, this has important advantages for UK based investment funds at a time of Sterling currency weakness.







Japan's economy is unusual, in that the value of money tends to rise each year, rather than to fall. It has deflation, and as a consequence very low interest rates. Mainstream Japanese quoted companies also are not renowned as great dividend payers. Against this backdrop, the dividend payments that JPLH is hoping to make seem rather more attractive than they would be in a country with higher inflation where high quoted company dividends are more common, such as the UK.

Japan's Leisure Hotel Industry

The "leisure hotel" is a concept found in many Asian countries including Japan, South Korea, Singapore, Taiwan and Hong Kong. The hotels are rented out for short periods of time, sometimes for periods of two or three hours, and are operated primarily for the purposes of providing couples with privacy. In Japan houses are in the main small and not well sound-proofed so privacy is generally lacking. The hotels tend to be located in central city districts or in industrial areas.

The industry's turnover is estimated at more than ¥4 trillion (UK£30 bn) per year. It has been claimed that circa 500 million visits are made each year with an estimated two million Japanese visiting one of Japan's 20,000-35,000 leisure hotels each day.

There are approximately 80,000 hotels of all categories in Japan. *Tokyo Journal* and other published sources generally quote 30,000 – 35,000 as falling broadly into the segment that might be termed a 'leisure' hotel. JPLH's hotels are among these; all of them are licensed in precisely the same manner as a hotel run by any of the major international chains.

There is a separate law that governs the more gaudy establishments that many people immediately associate with leisure hotels; these tend to be older establishments governed under the 1985 Entertainment Law. The number of hotels that fall under the 1985 law is dwindling – only c. 3,000 hotels currently appear to be licensed under this legislation; in other words less than 4% of the total hotel market and 10% of the leisure market (*Japanese Love Hotels: Legal Change, Social Change and Industry Change: West, MD: John M Olin Center for Law and Economics: University of Michigan: 2002 and others*). JPLH does not operate in this sector, but even here the tiny number of police prosecutions suggests that there are very few social issues.

The JPLH Strategy

The Japanese leisure hotel industry is highly fragmented with no single operator owning more than 100 hotels and 90% of owners having five or less hotels. The company plans to acquire existing leisure hotel properties in Japan which will then be refurbished and re-branded.

With many of Japan's leisure hotels family-owned businesses the poor economic conditions in Japan, combined with large mortgages entered into during the 1980s property boom, have led to a number of distressed sales in the industry, providing a company with sizeable cash resources an opportunity to buy assets on attractive terms. In order to exploit these opportunities JPLH is exploring the possibility of raising additional capital. The company believes that the current economic conditions present it with a unique opportunity to capture significant market share.

Operators of size and those with the cash resources to maintain their hotels at high standards are those most likely to benefit from the maturing of the industry and its expected consolidation.

Asset Manager – New Perspective

New Perspective is the Asset Manager of the hotels that JPLH invests into and is responsible for providing management services and for the strategic development of JPLH's property portfolio.

Stephen Mansfield : Chief Executive Officer
Stephen Mansfield co-founded New Perspective in 2002. Prior to this he was responsible for Citadel Investment Group's Asian private investment strategy, following six years working for Credit Suisse.

Robert Marshall : Chief Financial Officer
Robert Marshall joined New Perspective in 2003. He is a Chartered Accountant who has previously worked for both KPMG and for Arthur Andersen. During his time with

KPMG Mr Marshall specialised in the provision of tax advice to foreign financial institutions.

Both Mr Mansfield and Mr Marshall have spent many years in Japan, Mr Mansfield since 1994 and Mr Marshall since 1990.

JPLH Board of Directors

Alan Clifton : Non-Executive Chairman
Alan Clifton was previously the managing director of Morley Fund Management, the then asset management arm of Aviva plc, the UK's largest insurance group. He is currently chairman of JPMorgan Fleming Japanese Smaller Companies Investment Trust plc, of Schroder UK Growth Fund plc and a director of several other investment companies, including Macau Property Opportunities Fund Ltd. He is also a recent past Chairman of the Strategic Investment Board at the Ministry of Justice.

William Hunter : Non-Executive Director
William Hunter is president of USA Financial Group, where he manages a portfolio of high yield and distressed real estate investments. He has a long track record working in the real estate industry in a variety of functions, having most recently served as General Manager of Shinsei Bank in Tokyo, where he was responsible for managing a team of over 50 people that originated and managed a portfolio of over ¥700 billion of real estate transactions. Prior to that he worked at six different organisations across the United States in a variety of roles focused on the real estate sector. He holds a BA from Amherst College and an MBA from Stanford University.

Sarah Evans : Non-Executive Director
Sarah Evans is a Chartered Accountant with experience in a variety of accounting and finance roles. Most recently she was a treasury director for Barclays Group Treasury, which she left in 2001 to take a career sabbatical and devote time to fundraising for charity. In addition to having developed her own financial services consultancy, she has held senior positions with a number of other organisations including Kleinwort Benson. Sarah is a non-executive director of one other AIM listed fund, two main Stock Exchange listed funds and one unlisted fund of hedge funds. She is a graduate of Oxford University and a Guernsey resident.

The Hotel Portfolio

Hotel	No. Rooms	Annual Revenue 2008 ¥m	Daily REVPAR ¥
Isawa	26	122.4	12,898
Komaki	25	147.4	16,153
Matsusaka	41	283.8	18,964
Sendai	80	519.8	17,801
Yamataga	23	110.1	13,115
Yokkaichi*	47	34.1	
Group	**242**	**1217.6**	

** Purchased in August 2008 – a part period.*

JPLH is currently invested in six hotels targeted at the middle to upper end of the Japanese leisure hotel market.

Bonita Yamagata is a 23 room, 4 storey hotel with 27 car parking spaces. The hotel's total site area is approximately 1,616m² and the building's total gross floor area is approximately 1,344m². The hotel, which was built in 1987, was purchased by JPLH in February 2005 and re-opened under the Bonita brand in August 2005. It is situated in Higashine in Yamagata Prefecture.

Bonita Isawa is a 26 room, 5 storey hotel with 29 car parking spaces. The hotel's total site area is approximately 1,548m² and the building's total gross floor area is approximately 1,233m². The hotel, which was built in 1992, was purchased in March 2005 and re-opened under the Bonita brand in August 2005. The hotel is situated in Fuefuki, Yamanashi Prefecture.

Bonita Sendai comprises a 3 storey hotel and a 9 storey hotel for a total of 80 rooms and 30 car parking spaces. The hotel's total site area is approximately 822m² and the building's total gross floor area is approximately 3,502m². The 3 storey hotel was built in 1976 while the 9 storey hotel was built in 1987. The properties were purchased in February 2006 and re-opened in December 2006 under the Bonita brand. It is situated in Aoba-ku, Sendai City in southern Miyagi Prefecture.

Bonita Komaki is a 25 room, 5 storey hotel with 32 car parking spaces. The hotel's total site area is approximately 522m² and the building's total gross floor area is approximately 1,488m². The hotel, which was built in 1995, was purchased in January 2005 and re-opened in April 2005 under the Bonita brand. The hotel is situated in Komaki city in Aiichi prefecture.

Bonita Matsusaka is a 41 room, 4 storey hotel with 42 car parking spaces. The hotel's total site area is approximately 2,837m² and the building's total gross floor area is approximately 4,875m². The hotel, which was built in 1984, was purchased in June 2005 and re-opened in December 2005 under the Bonita brand. It is situated in Matsushaka-shi in Mie prefecture.

JPLH's sixth hotel, the ***Yokkaichi Hotel***, was acquired in August 2008. The hotel is yet to be refurbished to a similar standard of JPLH's Bonita hotels and renovations are expected to commence in the first quarter of 2010. Following the renovation of the Yokkaichi Hotel, the hotel will be brought into the Bonita branded portfolio.

Value of the Hotels

JPLH's property portfolio was valued by Colliers International (Hong Kong) as at 31 December 2008 at ¥5.0bn.

The initial five hotels were purchased for UK£19m, payable in the form of shares in JPLH. This payment was equivalent to ¥4.4bn at the then exchange rate of ¥230/UK£1. This was a discount of 10% to a valuation undertaken by Colliers International, which placed the value of the hotels at ¥4.8bn, or UK£21m. Since then ¥0.4bn has been spent on the purchase of a sixth hotel, the Yokkaichi. Adjusting for this suggests a very slight decline (of 4%) in the value of the hotels in local currency terms. Comparing the actual purchase price with the last Colliers International valuation suggests a capital appreciation of 4%.

The fall of the UK£ compared to the Japanese Yen means that in British currency terms investors are significantly better off. Investors have seen a capital appreciation of 63%.

We have not found many comparisons in the Japanese hotel market, but those that are available corroborate the Colliers valuation. A capsule hotel is currently for sale in Tokyo Ueno, for example, at an asking price of ¥18m per room. The JPLH portfolio, with clearly superior room size and quality (although in provincial centres rather than the capital) is valued at the equivalent of ¥21m per room by Colliers International and by the stock market at ¥12m (UK£80,000) per room. A 'distressed world class' 185 room hotel in Tokyo's Shinjuku district has been on the market at ¥33m a room.

Comparing this with valuations in the UK is interesting. Last year Peel Hotels paid 3.0X annual revenues for the freehold Norfolk Royal Hotel in Bournemouth, which is AA rated 4 Star and considered a prime property. The deal represented 11.7X historic EBITDA, with a considerable number of bedrooms out of operation in the period due to refurbishment. This refurbishment, also, cost over £1m, and was completed and paid for by the vendors, so in effect Peel bought the property with its upgrade completed.

Prices in the Far East can be high – Millennium & Copthorne's aborted sale of the Seoul Hilton was to have taken place on a p/e ratio of 28 (no revenue or EBITDA figures were revealed). But the fact that this deal failed to complete, and the hotel has not been sold since, may be significant. UK hotel valuations on sale of £100,000 - £200,000 a room are commonplace.

The Yokkaichi Hotel Purchase

In the light of comparative deals, the Japan Leisure Hotels purchase of the Yokkaichi Hotel in September 2008 appears at first sight to be fair value. The company paid 2.8X annual revenue, and 11.8X historic EBITDA. However, since its purchase, the Yokkaichi hotel has performed poorly. The June 2009 group interim accounts showed revenue for the hotel of only ¥50m for the six months January-June, compared to annual sales of ¥162m during the twelve months to May 2008 (i.e. a fall in the rate of annual sales from ¥162m to ¥100m). Also the hotel only operated at breakeven at 'hotel level' before central costs.

We expect a further, and significant, reduction in revenues from the Yokkaichi in H1 2010 because of the important refurbishment work to be undertaken to bring the rooms up to the standard of the other hotels in the group. This will lead to a reduction in the number of rooms available to let. Just bringing the Yokkaichi hotel up to the group average in terms of REVPAR and EBITDA Margin would make a significant difference.

Hotel Refurbishments

One of the costs of operating a hotel chain is general upkeep, and the need to refurbish both common parts and individual rooms on a regular basis in order to keep a hotel 'fresh', encourage repeat business and keep customers satisfied. All except one of JPLH's hotels have experienced a full refurbishment/refit during the past five years.

Hotel Refurbishment History

Hotel	No. of Rooms	Last Refurbished
Isawa	26	Aug-05
Komaki	25	Apr-05
Matsusaka	41	Dec-05
Sendai	80	Dec-06
Yamataga	23	Aug-05
Yokkaichi	47	Current

Refurbishment can have a dramatic effect on both occupancy rates and the charge-out rate. After renovating the Sendai hotel during 2006, revenue from its highest grossing room rose by 48%. As part of the renovation process JPLH was able to increase the number of rooms from 78 to 80, which may not appear dramatic but can have a significant impact on the p & l account.

The Yokkaichi Refurbishment

Yokkaichi will be closed for its refurbishment/rebuilding for approximately four months from the middle of February. This will cost ¥420m – almost as much as the hotel cost to purchase originally. This is equivalent to approximately ¥10m (UK£67,000) a room. The refurbishment will have a significant impact on the group p & l account, both immediately and in the medium term, but the impact on the bottom line will be limited because taking the Yokkaichi out of action for four months is removing unprofitable capacity.

In the first half of 2010 this will reduce the number of available room nights by 13%, from 44,165 to 39,400. Revenue per room in the Yokkaichi hotel is so low, however, that the group will lose only 6% of its turnover. To some extent this will be offset by modest growth at the other five hotels. REVPAR for the group will rise on a smaller number of available rooms.

The impact on the p & l account is interesting also. Since it purchased the Yokkaichi, JPLH's management has done some good work in cutting the fixed cost base; this was reduced by 26% between H2 2008 and H1 2009. Four months' worth of fixed costs at the Yokkaichi amount to ¥12m, but most of the variable costs will be eliminated until the refurbishment is over.

Only a small part of the refurbishment cost will be expensed. The largest part of the value is in buildings and large pieces of equipment that are typically depreciated over 15 to 30 years. Most of the hotel operating equipment is depreciated over ten years. The in-room entertainment equipment is written off over five years. All the depreciation is straight line to zero. This is standard industry practice for hotel groups worldwide. The Yokkaichi refurbishment will absorb most of the group's remaining cash reserves, even allowing for the cash generation of the remainder of the business over the next six months. However, it will have very little impact upon group profits for H1 2010.

H2 2010 will be a different matter, however. Pulling the Yokkaichi hotel up to the level of occupancy of the other hotels, and a higher room rates should boost profits. H2 2010 will only see a limited benefit from this because JPLH will be in effect marketing a new hotel and building a new customer base. 2011 will look very good indeed however, and by H1 2011 we expect JPLH to have revenue growth of 24% over H1 2009; 24% growth over two years in a zero inflation and low/zero growth economy will be hugely impressive if our estimates are correct.

The impact on the bottom line will be almost as impressive. The two negatives will be an extra ¥34m a half year on the depreciation charge and the elimination of interest income/addition of a possible small interest charge because the refurbishment cost is slightly greater than the cash JPLH had available in the latest accounts. But if the Yokkaichi hotel were pulled up to the group average, that might mean for a six month period an improvement of ¥100-125m on the group EBITDA, a gain of 17-20%.

Further Refurbishment

The next hotel due for a refurbishment/upgrade is the Komaki. This is the oldest property in the group, and it is also one of the smallest. Because of its small size, it is currently not particularly profitable, so it can be taken out of use with little impact upon immediate profitability. Work on the Komaki hotel will not start until the work on the Yokkaichi is finished, and the impact of the investment there can be assessed.

Performance to Date

Profit & Loss

HY/E June	2009	2008	Change
(Japanese Yen '000)	Actual	Actual	%
Turnover	590.7	563.6	+4.8
Variable Operating Expenses	(305.1)	(300.5)	+1.5
Fixed Operating Expenses	(118.8)	(109.3)	+8.7
Operating EBITDA*	166.8	153.8	+8.4
EBITDA pre exceptional**	128.1	114.6	+11.8
EBIT pre exceptional**	13.2	8.8	+50.0
Profit Before Tax	14.1	802.9	-98.2
Profit After Tax	(16.0)	802.8	
Adjusted Diluted EPS	(0.31)	0.01	

** Excludes asset management fees*
***Exceptional item of 801.5m Japanese yen reflects an adjustment for negative goodwill*

At ¥590.7m (£4.0m) total turnover from JPLH's six hotels was 4.8% higher than that earned in 2008, however 2008 turnover revenue does not include income from JPLH's hotel in Yokkaichi which was acquired in August 2008. On a like for like basis sales at the Bonita branded hotels were down 3.5% year-on-year.

Variable operating expenses of ¥305m (£2.1m) were marginally higher than the operating expenses in 2008. However, variable operating expenses included an additional ¥32m incurred in running the Yokkaichi hotel. On a like for like basis variable operating expenses were down 9.2%.

The lower variable operating expenses reflects several factors, including more efficient procurement of food, beverages and other consumables, a shift to a centralised inventory management system, a greater quantity of laundry being done in-house, a tighter system of working shifts, and lower energy costs.

Fixed operating expenses, while reportedly 8.7% higher, were again lower on a like for like basis, by 6.9%.

Operating EBITDA of ¥166.8m (£1.1m) was 8.4% higher than operating EBITDA earned in the six months to 30 June 2008. Despite the addition of the hotel in Yokkaichi which appears to be generating lower revenue than the Bonita hotels and had significantly higher operating expenses, the overall operating EBITDA margin of JPLH's portfolio improved over the period, from 27.3% to 28.2%.

Reported EBITDA, pre-exceptionals, of ¥128.1m (£875k) was 11.8% higher than in the half year to June 2008.

EBIT in the half year was ¥13.2m (£90k) while profit before tax was ¥14.2m (£97k). The higher level of profit reflects interest income of ¥217k and a foreign currency gain of ¥681k. A loss after tax of ¥16.0m (£109k) was recorded. A tax charge of ¥30.0m Japanese yen (£204k) was levied – this charge relates in the main to withholding tax.

Adjusted fully diluted EPS in the period, after allowing for minority interests were (0.31) Japanese yen. The weighted average number of shares in issue during the period was 44.1m. A further 12.4m warrants are in issue. 12.2m warrants were issued at the time of JPLH listing on AIM. Each of these warrants, exercisable up until 31 January 2013, entitles the shareholder to subscribe for one new share at 45p. A further 220,500 warrants have been issued to Shore Capital in part payment of fees. In total there are a potential 56.5m shares in issue.

Taxation

The company operates in a relatively low tax environment. There is a withholding tax on profit distribution in Japan of 20%. Other than that, corporation tax is not applicable to this company. By payment of a small fixed fee, the Guernsey companies (which include JPLH) do not pay corporation tax in Guernsey either.

Occupancy Rates & Revenue Per Room

A key indicator of performance is the amount of revenue generated per room and the hotels' occupancy rate.

Y/E June	HY 2009	FY 2008	Change
(Japanese Yen)	Actual	Actual	%
Revenue Per Room*	15,401	16,206	-5.0
Occupancy Rate	243%	257%	-14.0

**Bonita hotels only*

Revenue generated per room in the Bonita hotel portfolio was down 5% in the half year to 30 June 2009 when compared to revenue earned in the 2008 full year and down 7% on the 2007 year. Some of the fall in revenue can be attributed to slightly lower occupancy rates – 243% in the half year to 30 June 2009 compared to 257% in the full year to 31 December 2008. The decline is very much in line with the fall in Japanese national GDP over the period.

Balance Sheet

As at 30 June 2009 JLH had total assets of ¥5.4bn (£36.8m). ¥5.0bn (£34.1m) of this represents the Group's property portfolio. Cash held at bank and within the Group's hotels was ¥327m (£2.2m).

Net assets as at the period end totalled ¥5.2bn (£35.5m). Based on the current number of shares in issue (44.1m) this translates into a net asset value of 80p per share. On the potential number of shares in issue, including warrants that convert out at 45p/share, with the conversion money the diluted nav per share would be 73p.

Cash Flow and Depreciation

Cash inflow from operating activities in the period ended 30 June 2009 was ¥118.6m (£809k). The high inflow, despite a reported operating loss, reflects the significant level of depreciation recorded each year on the Group's property portfolio.

The depreciation charge in calendar year 2008 was ¥216m, which is equivalent to ¥0.9m per room. The charge was split ¥106m for the buildings and structures, ¥110m for equipment, fixtures and fittings. The freehold land is not subject to depreciation.

There is a difference, however, between the book depreciation charge and the amount the group believes is correct to reserve, which is a little over ¥0.3m per room. If a reserving rate at this level were substituted for the official depreciation charge in the accounts, it would significantly increase declared profits. However, the current depreciation policy is very much in line with that of the major hotel operators internationally – Whitbread for example.

Opportunities for Profit Improvement

There are several reasons why an improvement in profitability can be anticipated in 2010, even before bringing in new hotels to the group by acquisition;

- Much attention has been paid over the past eighteen months to improving management systems and controls that are standard for most hotel chains worldwide, such a barcoding, EPOS systems, and more reliable central reporting systems.
- The Japanese economy is starting to turn upwards once more and there will be a greater amount of disposable income available for potential customers.
- The 2008 and H1 2009 profit figures were affected by very high energy costs. Because of their very high occupancy rates, the hotels have a high energy requirement for whirlpool baths, saunas, etc. At the time, because of the extraordinarily rapid rise in energy costs, JPLH was unable to recover the increase fully in its room charges. Energy costs are now lower, and this is no longer an issue.
- There is scope for increasing the amount customers spend on items additional to the straight room fee.

Potential For Uplift In Rates

While this does not at present form part of JPLH's business plan, we have examined the potential for the company to raise the charges for its hotel rooms.

At present, JPLH has a fee structure where the shortest time slot, 2 hours, is charged out at ¥2,900; this is equivalent to UK£20, or UK£10 per hour, and in our opinion is exceptionally good value. There are three basic charging patterns, short stay, free time and overnight. There is no enforced departure time; if customers stay longer he/she/they are merely charged for the next increment of time they spend in the room.

When looked at from this point of view, it can be seen that the ¥16,000 REVPAR for the five Bonita hotels is actually very good, because it suggests 12 hours per day occupancy even before allowing for the cheaper hourly rates charged for longer, overnight stays. Given that rooms need to be cleaned and linen changed between visits, and the average room is used between 2 and 3 times per day, this is fairly close to capacity.

Other successful hotels in this sector charge a great deal more. The leading industry guide book used by customers, "*Tokyo ii Mise, ii LoveHo",* quotes rates from ¥4,600 for two hours at The Rock, one of its recommended state-of-the-art hotels at Takasaki, 100km North of Tokyo. The Rock charges ¥7,600 for an overnight stay. The Rock is owned by Total Well Co. Ltd. There is considerable differentiation in price between the hotels in Tokyo and those in provincial cities. There may be scope for JPLH to increase rates, but perhaps not to the level charged by some of the hotels that top the guide book ratings.

At present, no JPLH hotel is has been given a top guide book/newspaper recommendation.

Likely Impact Of Acquisitions

It is abundantly clear from the accounts that JPLH could benefit hugely from economies of scale. The costs of operating the Guernsey base, the main board and the AIM quote, amount to approximately ¥70m. This would not change if the company were double, or ten times its current size.

Additional shares would need to be issued to raise capital for any deal. Here, the discount to asset value at which JPLH is trading means that management will have to exercise care in how much it pays for any acquisition.

The JPLH management expects to pay ¥10m to ¥12m per room for a successful hotel that is performing well. There are assets available for purchase at this price. For this, management would expect to acquire ¥15,000 to ¥16,000 REVPAR and an EDITDA of around 40% - in other words REVPAR that is approximately the current JPLH average but with an EBITDA that is slightly better than the group has been achieving to date.

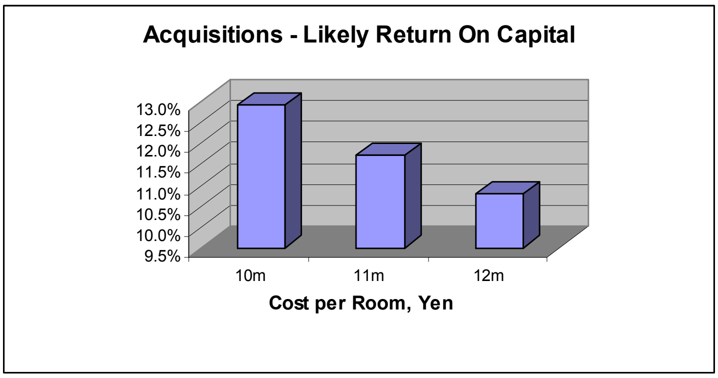
Hotels that are in need of refurbishment will be acquired more cheaply.

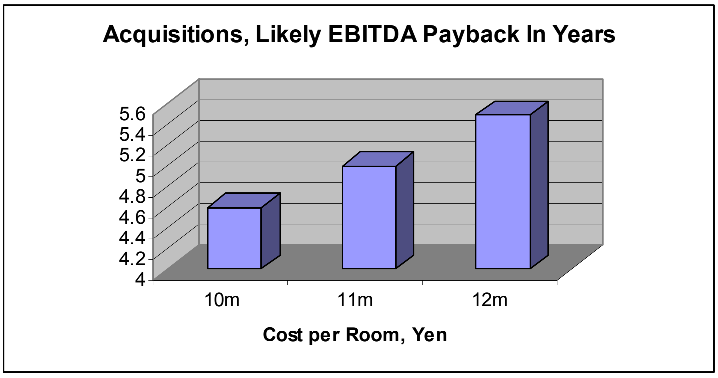
The returns need to be viewed in the context of a freehold property base and the very low to non-existent interest rates in Japan's deflationary economy.

We expect acquisitions to be earnings enhancing.

Precisely how beneficial the acquisitions will be depends on a number of key variables:

- Costs of raising equity finance. The company believes that it should be possible to keep the costs of raising fresh equity (i.e. broking commission, documentation and legal fees etc) down to 5% of the issue. In our calculations therefore we have assumed that 95% of the money raised in a new equity issue will become available for hotel purchases.
- The cost per room purchased. We have produced calculations (see chart below) based upon ¥10m, ¥11m and ¥12m per room. Obviously the return drops the more per room that is paid.
- The REVPAR achievable. We have based our calculations upon a REVPAR of ¥15,000. This is actually a little less than the group is currently obtaining from its Bonita branded hotels. It translates to a 40% EBITDA return.
- The depreciation charge. In our Return on Capital calculations we have matched the depreciation charge per room to that charged in the JPLH 2009 Annual Report. However, this includes depreciation on freehold buildings (although not the land component). We are aware that an argument can be advanced that freehold buildings should not be depreciated, in other words treating the buildings as an asset to be annually valued in much the same way as a REIT, for example the AIM quoted Japan Residential Investment Company, does. Also we are aware that hotel purchases are at times carried out on a price/cash flow or price/EBITDA basis. For this reason we have produced a range of Price/EBITDA calculations that are illustrated in the second chart below.





These calculations suggest that JPLH ought to be able to purchase hotels on an after tax Return on Capital basis of between 11% and 13%, or ignoring depreciation on an EBITDA payback of between 4.6 and 5.5 years. If depreciation of freehold buildings were ignored and only depreciation of fixtures and fittings is included, then a Return on Capital of greater than 15% can be calculated.

This is not dramatic, but needs to be viewed in the context of a freehold property base and the very low to non-existent interest rates in Japan's deflationary economy.

Returns to shareholders would be improved once JPLH is big enough to negotiate sensibly with the banks or the fixed interest market, by adding debt. This is the only hotel group we know of that operates totally without gearing. By industry standards, a return on capital for freehold hotels of 12% - 15% is not unusual.

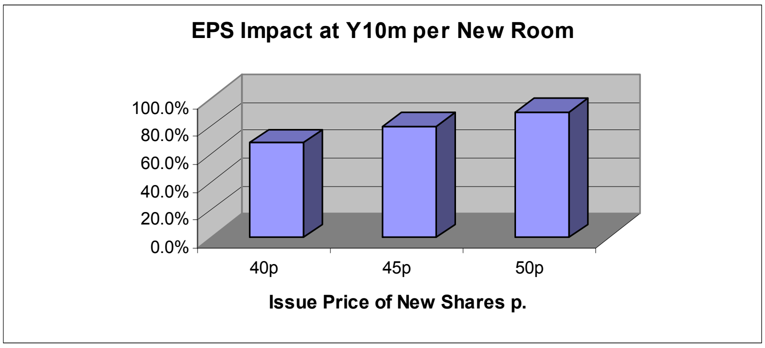
Adding 50% debt to equity ratio, at a 5% interest rate, suggests after tax return on equity of 16% - 21%. Figures such as these start to get exciting.

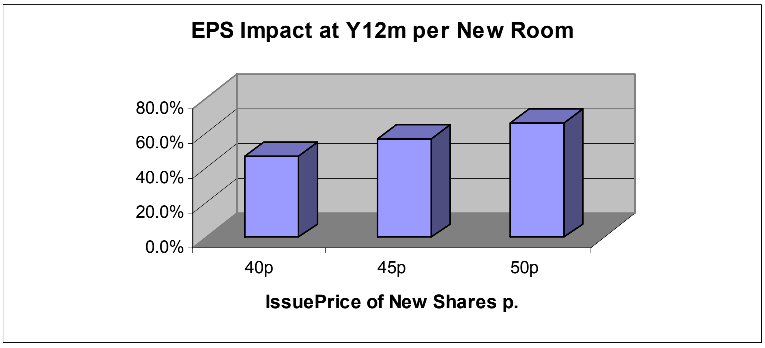
Possible Impact Upon Earnings per Share

With returns such as these, the impact on the JPLH share price will be beneficial. The precise impact will depend upon the price at which new shares are issued, and also – critically for existing shareholders – whether there are pre-emption rights.

If JPLH raises UK£30m and pays ¥10m per room, there could be an uplift of as much as 90% to EPS over and above our 2011 earnings estimate if new shares are issued at 50p/share. If JPLH has to pay ¥12m per room, there could be a 66% uplift in eps. If the shares need to be issued at a discount to the current market price, there will still be uplift in eps, but it will be less dramatic.

A new share issue at 45p or 50p when the existing share price is 50p may seem unusual, and it would be. Most new capital raisings on equity markets over the past twelve months have taken place at a heavy discount to the existing share price. However the company's management and its advisers between them are convinced that they have a good case to present for additional investment.





Conclusion

The quoted company life of Japan Leisure Hotels has to date not been tremendously exciting. The reason for this lies in the fact that it has operated throughout this period with an equity capital base that is considerably smaller than originally intended, so that its structure is unbalanced. This is the main reason for the apparently uninspiring earnings record in the short time since the float – if the money had been available to refurbish the Yokkaichi hotel immediately on purchase, for example, shareholders would be seeing the benefits flow through to the p & l account already. Also the shares trade at a substantial discount to Net Asset Value.

To make sense of JPLH as a quoted company, additional capital is needed. This has to be equity rather than debt because the Japanese banks have neither the appetite nor the inclination to gear up this company to the level required for acquisitions. JPLH is also too small to be able to negotiate good loan terms.

The company's management and its advisers between them are convinced that they have a good case to present for additional investment.

On a successful raising of equity capital, this could become an exciting vehicle, and in turn successful application of additional capital would make for a compelling industry consolidation argument. The very fact that the company has come through a financial crisis that has crippled a number of other hotel companies and seen a 5% reduction in GDP in its country of operation argues for some interesting defensive characteristics also.

This company deserves to be bigger, and it deserves to do well.

Japan Leisure Hotels

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P & L ACCOUNT

6m to ¥m	**6/08A**	**12/08A**	**6/09A**	**12/09E**	**6/10E**	**12/10E**	**6/11E**	**12/11E**
No. of Hotels	5	6	6	6	6	6	6	6
No. of Rooms	195	242	242	242	242	239	239	239
Room Days Available	35,588	43,100	44,165	44,165	39,400	43,617	43,617	43,617
Average Letting Rate	6,260	5,515	5,504	5,077	5,882	6,320	6,235	6,275
Add On Revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Revenue - Actual	**563.6**	**620.4**	**590.7**	**583.0**	**591.0**	**689.1**	**693.5**	**697.9**
REVPAR ¥	15,837	14,394	13,375	13,200	15,000	15,800	15,900	16,000
Bonita units REVPAR	15,949	16,375	15,401					
Occupancy % FROM CO DOCUMENTS	253%	261%	243%	260%	255%	250%	255%	255%
Hotel EBITDA	153.9	144.1	166.8	157	165	255	270	276
EBITDA - Group p & l Account	**114.6**	**119.0**	**128.1**	**132**	**128**	**207**	**215**	**220**
EBITDA Difference	39.3	25.1	38.7	25.7	37.8	48.2	55.5	55.8
Hotel EBITDA Margin	*26.4%*	*28.6%*	*27.3%*	*27.0%*	*28.0%*	*37.0%*	*39.0%*	*39.5%*
EBITDA Margin - Group p & l Account	*20.3%*	*19.2%*	*21.7%*	*22.6%*	*21.6%*	*30.0%*	*31.0%*	*31.5%*
Operating expenses of the Guernsey cos	39.3	29.7	35.7	25.0	30.0	30.0	30	30
Guernsey expenses as % of Revenue	7.0%	4.8%	6.0%	4.3%	5.1%	4.4%	4.3%	4.3%
Other Operating Costs								
Hotel Operating Costs	-138.8	-150.0	-135.8	-141.0	-130.0	-140.0	-140.0	-140.0
Asset Manager's Fees	-33.5	-53.4	-53.0	-55.0	-53.0	-55.0	-58.0	-58.0
Professional Services	-28.5	-27.2	-21.7	-24.0	-28.0	-28.0	-28.0	-29.0
Auditor's Remuneration	-6.6	-5.0	-6.8	-7.0	-7.0	-7.0	-7.0	-7.0
Administrator's Fees	-8.9	-6.7	-7.0	-7.0	-7.0	-7.0	-7.0	-7.0
Directors' Fees	-8.6	-8.3	-7.6	-8.0	-8.0	-9.0	-9.0	-9.0
Other Expenses	-33.3	-40.8	-38.2	-45.0	-45.0	-50.0	-50.0	-50.0
TOTAL 'Other Operating Costs'	-258.2	-291.4	-270.1	-287.0	-278.0	-296.0	-299.0	-300.0

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6m to ¥m	**6/08A**	**12/08A**	**6/09A**	**12/09E**	**6/10E**	**12/10E**	**6/11E**	**6/11E**
Revenue	**563.6**	**620.4**	**590.7**	**583.0**	**591.0**	**689.1**	**693.5**	**697.9**
Raw Materials/Consumables	-58.6	-66	-55.3	-55.0	-50.0	-52.0	-50.0	-50.0
Personnel Costs	-132.2	-144	-137.2	-140.0	-135.0	-135.0	-135.0	-135.0
Depreciation/Amortisation	-105.8	-111.3	-114.9	-115.0	-115.0	-125.0	-125.0	-125.0
Other Operating Costs	-258.2	-291.4	-270.1	-287.0	-278.0	-296.0	-299.0	-300.0
Total Expenses	-554.8	-612.7	-577.5	-597	-578	-608	-609	-610
Operating Profit	8.8	7.7	13.2	-14.0	13.0	81.1	84.5	87.9
Operating Margin %	*1.6%*	*1.2%*	*2.2%*	*-2.4%*	*2.2%*	*11.8%*	*12.2%*	*12.6%*
EBITDA	***114.6***	***119.0***	***128.1***	***101.0***	***128.0***	***206.1***	***209.5***	***212.9***
Interest Income (-=Expense)	8.6	2.9	0.2	0.2	0.1	0	0	0
Adjusted Pre-tax Profit	**17.4**	**10.6**	**13.4**	**-13.8**	**13.1**	**81.1**	**84.5**	**87.9**
Tax Charge %	0.6%	15.1%	224.6%	0.0%	20.0%	20.0%	20.0%	20.0%
Tax Charge Ym	-0.1	-1.6	-30.1	0	-2.6	-16.2	-16.9	-17.6
After Tax Profit	17.3	9	-16.7	-13.8	10.48	64.91888	67.60824	70.2976
Minority Interests	-1.3	-0.9	-1.5					
For Ordinary Shareholders	16.0	8.1	-18.2	-13.8	10.5	64.9	67.6	70.3
Cost of Dividends	0.0	0.0	0.0	-6.4	-6.4	-12.8	-9.6	-19.2
Retained Earnings	16.0	8.1	-18.2	-20.2	4.1	52.1	58.0	51.1
Average No. Shares Fully Diluted m.	52.9	56.5	56.5	56.5	56.5	56.5	56.5	56.5
eps fully diluted ¥	0.3	0.1	-0.3	-0.2	0.2	1.1	1.2	1.2
Exchange Rate ¥/£ (Average)	205	170	150	150	145	145	145	145
eps fully diluted UK£	**0.15**	**0.08**	**-0.21**	**-0.16**	**0.13**	**0.79**	**0.82**	**0.86**
Dividend per share Ukp				**0.10**	**0.10**	**0.20**	**0.15**	**0.30**
Dividend Cover X								
Quoted Company EBITDA	114.6	119	128.1	100.978	128	206.1486	209.5103	212.872
EBITDA/Revenue %	*20.3%*	*19.2%*	*21.7%*	*17.3%*	*21.7%*	*29.9%*	*30.2%*	*30.5%*
Revenue	563.6	620.4	590.7	583.0	591.0	689.1	693.5	697.9
Hotel Variable Expenses	300.5	337.6	305.1	320.0	290.0	310.0	315.0	315.0
As % of Revenue	*53.3%*	*54.4%*	*51.7%*	*54.9%*	*49.1%*	*45.0%*	*45.4%*	*45.1%*
Hotel Fixed Expenses	109.3	142.1	118.8	118.00	120.00	120.00	120.00	120.00
As % of Revenue	*19.4%*	*22.9%*	*20.1%*	*20.2%*	*20.3%*	*17.4%*	*17.3%*	*17.2%*
Total Expenses	409.8	479.7	423.9	438	410	430	435	435
EBITDA at Hotel Level	153.8	144.2	166.8	144.978	181	259.1486	258.5103	262.872
Hotel EBITDA, %	*27.3%*	*23.2%*	*28.2%*	*24.9%*	*30.6%*	*37.6%*	*37.3%*	*37.7%*

Japan Leisure Hotels

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CASH FLOW

6m to ¥m	6/08A	12/08A	6/09A	12/09E	6/10E	12/10E	12/10E	12/10E
(Loss)/Profit for the Period	802.8	-24.0	-16.0	-13.8	13.1	81.1	84.5	87.9
Depreciation/Amortisation	105.8	111.3	114.9	115	115	115	115	115
Loss on Disposal of Assets	0.0	3.1	0.0	0.0	0.0	0.0	0.0	0.0
Cost of Warrants	2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax	0.1	1.6	30.1	0.0	0.0	0.0	0.0	0.0
Increase in deferred income	0.0	6.6	-1.0	0.0	0.0	0.0	0.0	0.0
Negative Goodwill	-801.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Changes in working Capital	-2.3	6.8	22.3	0.0	0.0	0.0	0.0	0.0
Tax paid	-0.1	-0.1	31.7	0.0	-2.6	-16.2	-16.9	-17.6
Cash Inflow from Operational Acitivites	**107.2**	**105.6**	**118.6**	**101.2**	**125.5**	**179.9**	**182.6**	**185.3**
Purchase of Intangible Assets	0.0	0.0	-20.9	0.0	0.0	0.0	0.0	0.0
Purchase of Freehold Land	0.0	0.0	-10.8	0.0	0.0	0.0	0.0	0.0
Purchase of equipment, f & f etc	-22.9	-451.3	-23.5	-50.0	-400.0	-50.0	-50.0	-50.0
Cash acquired on acquisition etc.	91.7	-0.2	0.2	0.0	0.0	0.0	0.0	0.0
Net Investment	**68.4**	**-451.0**	**-55.0**	**-50.0**	**-400.0**	**-50.0**	**-50.0**	**-50.0**
Raised from equity issues- gross	655.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Issue Costs	-222.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Raised from equity issues - net	433.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Paid to Shareholders in Dividends	0.0	0.0	0.0	-6.4	-6.4	-12.8	-9.6	-19.2
Net increase in cash etc.	**608.9**	**-345.4**	**63.6**	**44.8**	**-280.9**	**117.1**	**123.0**	**116.1**

Japan Leisure Hotels

1.2.2010

KEY BALANCE SHEET ITEMS

	6/08A	12/08A	6/09A	12/09E	6/10E	12/10E	6/11E	12/11E
Freehold land		1163	1173	1173	1173	1173	1173	1173
Freehold buildings and structures		3008	2953	2953	2953	2953	2953	2953
Equipment fixtures and fittings		884	849	784.0	1069.0	1004.0	939.0	874.0
Intangible Assets		4	26	26	26	26	26	26
Other		3	3	3	3	3	3	3
Total Non-Current Assets		**5062**	**5004**	**4939**	**5224**	**5159**	**5094**	**5029**
Inventory		18	22	22	22	22	22	22
Trade Receivables		63	15	15	15	15	15	15
Cash		263	327	372	91	208	331	447
Total Current Assets		**344**	**364**	**409**	**128**	**245**	**368**	**484**
Total Assets		**5406**	**5368**	**5348**	**5352**	**5404**	**5462**	**5513**
Current Liabilities (trade payables etc)		145	121	121	121	121	121	121
Short term loans		0	1	1	1	1	1	1
Longer term loans		0	1	1	1	1	1	1
Shareholders' Funds		**5234**	**5217**	**5319**	**5323**	**5375**	**5433**	**5484**
Minority Interests		28	29	29	29	29	29	29
Total Equity		5262	5246	5348	5352	5404	5462	5513
Gearing	nil	nil	nil	nil	nil	nil	nil	nil
No. of Shares Fully Diluted m.		56.5	56.5	56.5	56.5	56.5	56.5	56.5
n.a.v. per share ¥, ex intangibles*		10688	10619	10800	10807	10899	11002	11092
n.a.v. per share Ukp, ex intangibles		63	71	72	75	75	76	76

**Includes warrant subscription cash*

Management	Major Shareholders

Chief Executive Officer: Stephen Mansfield **Chief Financial Officer:** Robert Marshall **Non-executive Directors**: - Alan Clifton - Sarah Evans - William Hunter	Goldman Sachs Securities (Nominees) Ltd 82.6% Credit Suisse Client Nominees (UK) Ltd 5.0% OMX Securities Nominees Ltd 3.4%
Key Dates	**Key Milestones**
Next Final Results: May 2010 **AGM:** June 2010 **Next Interim Results**: September 2010	**2008:** JPLH lists on AIM and invests in a portfolio of five hotels, subsequently branded under the name Bonita JPLH invests in the Yokkaichi hotel.

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